

# A guide to term allocated pensions

*You've accumulated a healthy balance in your superannuation account and are looking forward to those retirement years you've been dreaming about. But what happens now? How do you ensure you are going to get the most out of your superannuation?*

*Simplicity*



*Freedom*

One option is to purchase a term allocated pension with your super, to provide you with a regular and tax-effective income stream during your retirement years.

## What is a term allocated pension?

A term allocated pension is a superannuation account that provides for your super to be paid to you as regular income for a fixed period, after your retirement from the workforce. The pension payments made to you are set each year based on your Account balance and the term remaining on your pension.

Term allocated pensions are 50% exempt from the Social securities assets test, which may help you qualify for the Social Security age pension or Veterans Affairs pension.

Term allocated pensions can provide access to the pension RBL, which is significantly higher than the lump sum RBL.

You can hold a range of assets in your term allocated pension account, including shares, managed investments, fixed interest and cash, depending on the investment strategy you are comfortable with, and the investments offered by your pension provider.

A term allocated pension account can also provide you with major tax savings.

## Tax benefits

- No tax is paid on any returns earned by the investments in your account. These tax-free earnings remain in your account to increase the value of your investment, so you can potentially receive more income with each payment from your term allocated pension.
- Investing your superannuation straight into a term allocated pension enables you to defer the payment of lump sum tax, possibly indefinitely.
- Payments from your term allocated pension account are assessed at ordinary marginal tax rates, but if you are over 55 or permanently incapacitated, you are also entitled to a tax rebate of up to 15%. So a pensioner on a 30% marginal rate pays only 15% tax on income received, plus the Medicare levy.
- Undeducted contributions are returned to you tax-free over the life of your pension. These are contributions that you or your spouse made into superannuation on your behalf and for which no tax deduction was claimed.
- Generally, Centrelink treats only part of the income received from a term allocated pension as income so you may still be eligible for social security payments.
- Investments in your superannuation account with large unrealised gains may be able to be rolled into your term allocated pension account. No tax is payable upon rolling over, and the investment can later be sold free of tax.

## Flexibility

- Choose your investments with your adviser, according to your personal risk profile. By investing in long-term growth assets, any returns made should, over time, result in an increase in the value of your investment.
- Vary the frequency and timing of each payment, depending on your changing needs. This is useful if you are balancing your term allocated pension income against other income sources.

## Estate planning

A term allocated pension can run for a nominated term (subject to there being sufficient capital available to fund all payments) or revert to a beneficiary (generally your spouse) after your death.

Term allocated pensions are a good way to secure an income stream for your spouse, giving you peace of mind.

## Restrictions

While Term Allocated Pensions have a number of advantages, it is important to remember that access to your money will be subject to certain restrictions:

Pension payments from a Term Allocated Pension are set. They are calculated according to a formula which is based on the chosen life expectancy and the balance in the account, and cannot be adjusted.

Generally speaking, no lump sum withdrawals are permitted from a Term Allocated Pension Account.

If a spouse's life expectancy was used to establish the Term Allocated Pension, the pension must revert to the spouse upon the death of the original recipient. In this case, the pension cannot be commuted until the death of both the original recipient and the spouse.

### Case study:

Tim, aged 65 has just retired with \$1,230,000 in superannuation. After meeting with his financial adviser, Tim was provided with a couple of options. The first option involved placing his entire superannuation savings into an allocated pension. Under this option, Tim would have the ability to draw a pension income of between \$78,340 and \$151,850 in the first year.

Let's assume Tim needs \$85,000 of income each year. At marginal rates, this would result in an income tax liability (including Medicare) of \$26,937. However, Tim will be entitled to a partial superannuation pension rebate of \$6,915, reducing his overall tax liability \$20,022 – an overall effective tax rate of 23.55%.

Alternatively, Tim's financial adviser recommends a strategy of incorporating an allocated pension together with a term allocated pension in retirement. If he places at least half of his superannuation monies (\$615,000) in the term allocated pension, Tim will be able to access the pension Reasonable Benefit Limit and achieve a more tax-effective income in retirement. Tim's financial adviser informed Tim that if he wishes to pursue this option, he will be relinquishing access to the \$615,000 of capital that is placed in the term allocated pension.

Under the second strategy, Tim will need to determine the term of his term allocated

pension. As a 65 year old male, the Government's Life Expectancy tables say that Tim's life expectancy is 17.7 years\*. This provides Tim with the ability to choose a term allocated pension of 18 years. However, he also has the option to choose a term based on the life expectancy of someone up to 5 years younger. The life expectancy for a 60 year old male is 21.66 years – meaning Tim has the ability to choose a term of between 18 and 22 years.

If Tim chooses a term allocated pension with a term of 21 years, his first year's income payment from the term allocated pension will be \$41,840. If he needs \$85,000 of income, he can draw an income of \$43,160 from the remaining \$615,000 placed in the allocated pension.

The initial tax payable (including Medicare) on the \$85,000 income is \$26,937. However, Tim is now entitled the full 15% superannuation pension rebate on the income – a rebate of \$12,750. This reduces Tim's actual tax liability to \$14,187 – an overall effective tax rate of 16.69%.

In order to achieve this result, Tim has to agree to relinquish access to \$615,000 of capital. However, this capital (plus earnings) is paid back to Tim over the term of the term allocated pensions. If Tim had chosen the initial option of utilising just an allocated pension, he could have retained access to all of his capital, but would have been subject to tax of up to 48.5% on half of his superannuation monies if withdrawn as a lump sum.

Tim also has a benefit from the term allocated pension in that when he passes away, the remaining capital in the term allocated pension (together with any capital remaining in his allocated pension) can be paid to his dependents (or estate) in a tax-effective manner.



### Steve Waugh chooses ASGARD – here's why you should too:

- You'll have the peace of mind that comes from knowing your money is in safe hands – ASGARD is part of the St. George Group, Australia's 15th largest company.
- You'll have the freedom to choose from more than 200 leading managed investments along with more than 300 shares.
- Maintain control over your investments. Choose from a range of pre-set portfolios or create your own portfolio.
- Save money and minimise paperwork by keeping your investments in one place.
- You'll receive excellent service. ASGARD is Australia's most awarded investment platform and currently administers more than \$17 billion for over 200,000 investors.



Investment. Superannuation. Retirement.

\* assuming the use of the latest life tables which are compulsory from 1 Jan 2005.

#### IMPORTANT INFORMATION

This information was prepared by ASGARD Capital Management Limited ABN 92 009 279 592 Australian Financial Services Licence Number 240695. To the extent permitted by law, no liability is accepted for loss or damage as a result of reliance on this information.

The investment information or general advice provided in this publication does not take into account any person's personal objectives, financial situation or needs and because of that a person should consider the appropriateness of the information or advice having regard to these factors.

In deciding whether to open, or to continue to hold, an ASGARD Account, you should consider the relevant Product Disclosure Statement or Financial Services Guide for that Account issued by ASGARD. Copies can be obtained from ASGARD or a financial adviser.