

YOUR SUPER JOHN WASILIEV

Top-ups an option after retirement

Retirees are able to make contributions to DIY funds after they retire, as long as they're still under 65 and they stick by the ATO's rules.

A number of recent developments have created an interest in superannuation pensions being paid from self-managed super funds. One is the entitlement since July 1 to make contributions to your super after you have retired, so long as you are still under 65. Another is the introduction of the new market-linked pensions, also described as term allocated pensions, by financial organisations that offer commercial versions that you can buy like a retirement income product.

It's the first entitlement that interests a reader with a self-managed super fund that is already in the allocated pension phase, paying pensions to himself and his spouse.

His spouse turns 65 during the first half of next year and they have some money outside super that they are interested in putting

into their fund as an undeducted contribution. Undeducted means the money received no 15 per cent contributions tax deduction when it entered the fund.

The couple would like to start another allocated pension with this money.

Can they do this from within their existing fund?

It's certainly a possibility, subject to the contribution rules, says Peter Crump, a pensions specialist and chief executive of Adelaide-based financial planners Portfolio Planning Solutions. To make a contribution, you have to be eligible to do so under the superannuation regulations. Someone who is under 65 – the spouse in this case – is eligible to make contributions under the post-retirement-but-still-less-than-65 rule.

With this established, there are two choices: one is having a separate pension with just the undeducted money and the other



The ATO needs to know if your RBL status changes. Photo Tamara Voninski

is merging the existing pension and the extra contribution.

You can contribute the money into a separate savings account in the fund and treat it as a distinct accumulating superannuation benefit, paying tax on any investment earnings until you are ready to start the new pension. The only condition is that you must start the separate pension by the time you are 65 if you are not working. Crump says a DIY fund can pay several pensions to the same member, so long as you are aware you will have to keep records for each separately. There is extra paperwork in keeping track of the separate pension balances and the amounts withdrawn to ensure they are within the minimums and maximums for allocated pensions.

This shouldn't be too hard, says Crump. Only one group certificate is required for tax purposes because having more than one pension is no different to having an employer pay you a bonus and a salary, he adds.

It might cost you a bit extra in the way of accounting work, and you need to check this with your fund accountant or administrator.

On the issue of minimum and maximum withdrawals, these apply in isolation to the pensions individually. "You can take the maximum from one allocated pension and the minimum from another," says Crump. Not that there is any special benefit in this. Taking the minimum from one and the maximum from another would achieve exactly the same outcome as taking somewhere between the

maximum and minimum in a combined pension.

The other choice for the reader is looking to add the undeducted contribution to the existing allocated pension and creating a combined pension. This raises the question of whether a capital amount from which a pension is already being paid can be added to, or topped up.

Interestingly, it's a question the Tax Office, as regulator of self-managed super funds, addressed earlier this year in an interpretive decision. These are Tax Office opinions that can be used as guidelines so long as your circumstances are pretty much the same as what is outlined in the decision.

In the interpretive decision (ATO ID 2004/304), the issue was whether the capital backing a superannuation pension or annuity can be added to or topped up after that pension commenced. The decision states that you can't do this, although it does offer a suggestion on how a pension can be combined with an extra contribution. The original allocated pension must be commuted back to a capital amount and this amount must be reported to the Tax Office.

The reason you can't just add to your existing pension is all to do with the Tax Office wanting to know whether these contributions will change your reasonable benefit limit (RBL) status. Your RBL is the amount of super you can accumulate over your life with tax concessions. If you accumulate more than your RBL, the extra reduces your entitlement to tax concessions. In the case of a superannuation pension, the concession that is reduced is the 15 per cent tax rebate on income tax levied pensions paid from a capital amount that is within the RBL.

To check your RBL and then start a new pension, the ATO wants two RBL reports: one that deals with the commutation of the existing pension and a second that covers the refreshed allocated pension with a higher amount due to the extra contribution. As commutation is likely to be an increasingly relevant issue given the right that under-65s have to make extra contributions as well as strategies involving the new market-linked pension, I'll elaborate on this in next weekend's column.

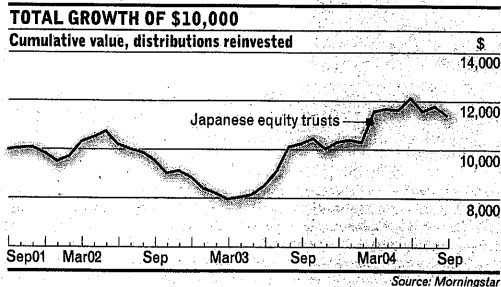
Any comments to wasiliev@magna.com.au

THIS WEEK'S CHART

If you want to know the pros and cons of investing in Japanese equities, take a look at this chart – it pretty much sums it up. \$10,000 invested in the average Japanese equities trust available to Australian investors would have dropped, then climbed, then plunged down to less than \$8000 by March 2003 before soaring to over \$12,000 by June this year. Since then it's been heading down again and would by now be worth just over \$11,400, meaning the investor has netted just under 5 per cent growth per year for their trouble.

Those who want a calm and measured performance from their managed funds probably don't want to go too near Japan, but its prospects do look better than they have for more than 10 years. Its banks are sorting out their bad loan problems, its real estate sector is finally finding its feet and it has a bit of economic momentum about it after more than a decade of stagnation.

There are 11 Japan-specific managed funds open to retail investors in Morningstar's database.



MORTGAGES – WHAT'S ON OFFER*