

Super lesson No. 1: Walk, don't run

New rules will benefit older workers, but if you qualify, you should check the details first.

Interest is growing in a new strategy promoted as a great way to enhance your superannuation as you approach retirement.

The strategy, which was first discussed in this column three weeks ago, involves a recent government innovation - available since July 1 - that allows anyone aged over 55 to take a pension income stream from their super even if they have not retired.

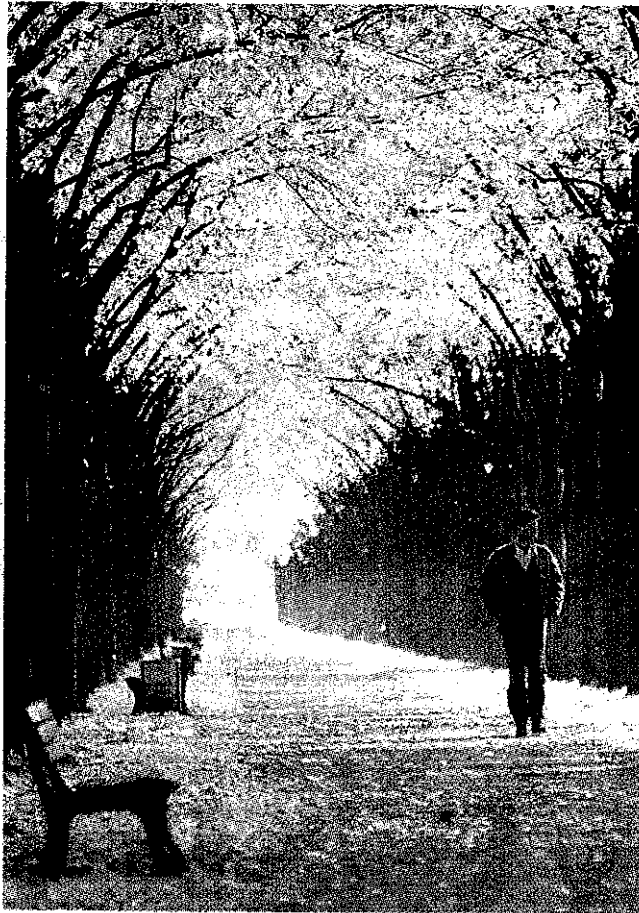
The strategy comes into play when this is combined with the well-established practice of salary sacrifice, which allows workers to increase tax-deductible super contributions by contributing more salary to super.

The new strategy replaces this salary with income from a pension income stream.

It is suggested that people who qualify for the strategy can structure a plan that gives them the same income to live off as their wages but at the same time increases their superannuation.

In DIY super, you would split your super into two separate accounts, one that pays you a pension and one that accepts and accumulates new contributions. Your overall super is beefed up as you not only increase salary sacrifice contributions but also pay no tax on the investments paying the pension. When there is no tax to pay, the investments will earn higher returns.

Investments in the account that accepts contributions are taxed on earnings and profits at superannuation concessional rates. In addition, actual pension income is concessional tax through an entitlement to a 15 per cent rebate.



Don't rush into any new strategies without understanding all the implications.

Photo: AP

The combination of higher returns and tax savings gives your super a boost. And some people reckon the boost could be as much as 2 per cent a year. If you have savings of \$500,000, this translates into an extra \$10,000 a year.

If you can do that for four or five years before you retire, it becomes at least another \$50,000.

Financial planner and superannuation specialist Peter Crump, of Adelaide-based Portfolio Planning Solutions, says it sounds interesting but that people should not rush into it without understanding all the implications.

You need to be mindful, for

instance, that when you start a pension you must notify the Australian Taxation Office, which then records and compares the amount of super you commit to the pension against your reasonable benefits limit.

The RBL is the maximum super and job-termination payments qualifying for tax concessions that you are allowed to accumulate.

Everyone with super has two RBLs. The lower RBL (popularly described as the lump-sum RBL) applies if you want to take an allocated pension.

The higher RBL (which is twice the lower RBL) is used if you are prepared to divide your super evenly between an allocated pension and a pension that has no lump-sum withdrawal entitlement.

Under the new rules that allow a worker over 55 to draw down superannuation, you cannot withdraw a lump sum from an allocated pension.

This feature is one of the most popular drawcards of an allocated pension, so think carefully before giving up that right.

If you go ahead, you will probably have to reorganise your super before you move into permanent retirement if you want to satisfy the higher RBL rules.

The main concession you will be seeking is that all your super pension income will be entitled to the 15 per cent tax rebate.

A reorganisation of your super is likely to include commuting enough of the pre-retirement allocated pension back into your super fund to satisfy the higher RBL requirement that half your super in permanent retirement is in a non-commutable pension.

The process of commuting a pension is in itself an interesting exercise and worth examining in some detail.

Under the new rules, you cannot withdraw a lump sum from an allocated pension.
