

Door closes on favoured DIY pension option

The government has decided to go ahead with its ban on defined-benefit lifetime pensions.

The big news of the past week for self-managed superannuation funds has been the government's decision to proceed with the elimination from January 1 next year of defined-benefit lifetime pensions from the retirement income choices available to small super funds.

While the announcement will be disappointing for those who hoped for something different, it has confirmed that any further tax concessions or super savings incentives for those who provide for their own retirement through small funds are not on this government's agenda.

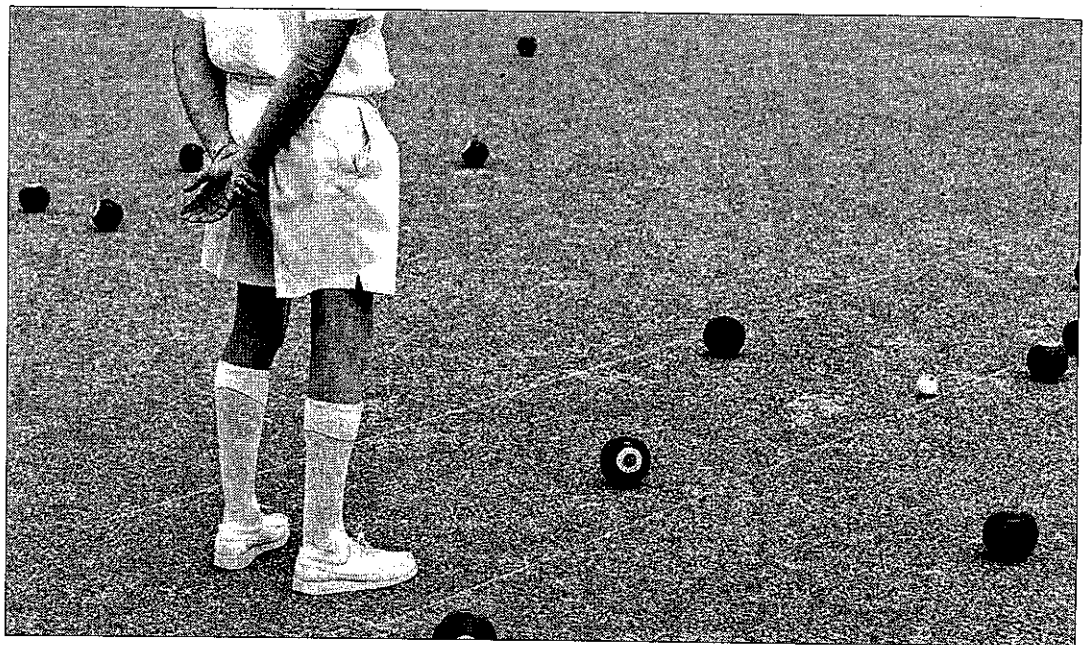
It means, says actuary and do-it-yourself super specialist Peter Crump, chief executive of Adelaide-based Portfolio Planning Solutions, that a feature that was unique to DIY super funds is no longer available. "There are no longer any favours being given to people with self-managed super funds in relation to pension or tax strategies," he says.

A major attraction of lifetime pensions has been an opportunity to save more through super than reasonable benefits limits permit.

Organising your super so that you receive a pension that will either be the same each year or will increase annually at a predetermined rate, such as the rate of inflation, is the goal of defined-benefit lifetime pensions.

Where they are different from other pensions, such as the popular allocated pensions and the market-linked or term-allocated pension introduced last year, is that the income promised by a defined-benefit lifetime pension is backed by money in a reserve that can be drawn on if needed. This reserve amount is not counted against your RBL.

The confirmation this week that the government will proceed with its ban on DIY funds establishing defined-benefit lifetime pensions was accompanied by proposed modifications to market-linked pensions. The elimination of defined-benefit life pensions,



People who want one of the affected pensions may decide to take early retirement.

Photo Jim Rice

however, is of greater significance.

"The main feature of the proposed modifications, which extend the term of market-linked or term-allocated pensions so they can last until a retiree reaches 100, is that it will result in a maintenance of capital within a self-managed

savings or payments that are in excess of the RBL. Excessive benefits are taxed at normal income tax rates which, in the context of superannuation, give them the appearance of penalty taxes. From January 1, this is what anyone who has saved super or received payments greater than their RBL will face.

government initially banned them overnight in the 2004 federal budget. But such was the strength of the negative public response, it postponed the decision pending a review.

The unique feature of defined-benefit lifetime pensions in DIY funds is the scope to exceed your RBL and still receive the tax rebate on your income. "You've been able to jump over your RBL," says Crump.

"The new market-linked or term-allocated pensions can't provide the same certainty of income as a defined-benefit pension."

He likens the latest super development to the unbundling of life insurance policies more than 20 years ago that led to the focus on investment-linked policies where you got what you saved.

Under defined-benefit lifetime pensions, the income is determined by how much of your super you commit to the pension. The reserve is there to act as a buffer in case the savings are not able to deliver the promised benefit.

While it is there for the pension to draw on, it is not assessed against your RBL when you start the pension.

(The column promised for this week on combining allocated pensions and social security pensions will be run next week.)

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super fund for an extended period of time," says Crump.

There is nothing unique in this for DIY funds, he says, and it is no substitute for what defined-benefit lifetime pensions are currently entitled to.

The main tax concession that all superannuation pensions can receive is a 15 per cent tax rebate on income that flows from super that is counted as being within your RBL.

Your RBL sets a monetary limit on the super you can accumulate with tax concessions and then take as either a further concessionally taxed private pension or lump sum.

If you save or receive (in job termination payments) more than your RBL, which isn't illegal, the pension rebate tax concessions granted to benefits are not available on those

Currently, if they set up a lifetime pension, excess RBL savings can go into the reserve.

John Randall, a partner in superannuation with Deloitte, says the decision to go ahead with the lifetime pensions ban for DIY funds is likely to see some people, who have been planning to take such a pension, opt for early retirement.

To start a pension, you must be over the age of 55 and be prepared to retire permanently from work. You must also have had been operating a DIY fund on May 11, 2004.

"Some have been doing this anyway over the past few months, just to resolve the uncertainty of waiting for the government's decision," he says.

The future of defined-benefit lifetime pensions in DIY funds has been up in the air since the