

SMART MONEY

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Changes on the way for lifetime pensions

The grace period is running out for small funds to set up pensions by the old rules.

Stability in superannuation rules is an ever-wished-for but always elusive eventuality. However, it now looks likely that by the end of June the retirement income alternatives available to small super funds will have been sorted out.

It is nearly a year since the government created a stir with its overnight ban on small funds establishing lifetime pensions within their structures.

It did so on the grounds that many people were allegedly setting up these pensions within small funds for tax-planning and estate-planning reasons rather than for retirement income purposes. Under current rules, for instance, it is possible to accumulate significantly more than superannuation benefit limits if you choose to use such pensions.

After public protests, the prohibition was relaxed and a period of transition was allowed until the end of June. In this time, existing small funds that wished to



Photo Virginia Star

use these pensions could do so under the old rules.

In the interim, the government has been reviewing the role of lifetime and similar pensions and considering alternatives and suggestions. There are some who believe its conclusions could be unveiled next month, on budget night 2005, the anniversary of its original decision.

Superannuation pensions specialist Peter Crump, chief executive of Adelaide financial planner Portfolio Planning Solutions, says that whatever the government decides, it is certain that the current rules will not exist after the end of June.

This view is reinforced by an

apparent consensus in the superannuation industry that complaints the government has about lifetime pensions should be addressed and corrected.

These complaints include the flexible rules that allow accumulated super greater than the maximum savings limits (known as the reasonable benefit limits or RBLs) to be compressed so they are within the limits. Superannuation savings greater than RBLs should technically be more highly taxed.

But the way lifetime pensions are currently structured means that super savings are accumulated without any worry about the tax consequences.

in their current form, they should act before there is any change. However, if they have no plans either to take a lifetime pension or retire this year, it's a much more complicated consideration. It involves weighing up the financial merits of premature retirement against any potential taxation savings that might be derived from using a lifetime pension compression strategy.

Other issues also need to be understood, such as potential problems for future beneficiaries who may inherit a lifetime pension under a reversionary arrangement. There are some possible future legislative risks in running lifetime pensions set up during this transitional period that must be understood, says Crump.

While lifetime pensions have not been a major part of the superannuation retirement incomes system, Crump says anyone who started one a couple of years ago would have done so with a genuine belief that the concessions – including the compression feature – were government-endorsed given that they were well-known benefits associated with these pensions.

While these concessional features will go, there is still an opportunity until the end of June for people to set up old-style lifetime pensions. These may be people who have not worried about accumulating excess super because they had planned to set up a lifetime pension under the current rules.

Crump says that some people who have sought to maximise their super are asking whether they should have their retirement affairs in order before budget night 2005 in case the Treasurer acts.

The response to such questions, says Crump, is that if the individual wants to retire and was planning to use lifetime pensions