

# Plan ahead before setting up a lifetime pension

Important decisions need to be made before you lock in to one of these pensions.

**T**he government's announcement in the past week that it will give itself until the end of this year to reconsider its ban on defined-benefit lifetime pensions in self-managed superannuation funds gives six months breathing space to trustees.

Before the announcement it looked like there might be a late rush to set up life pensions before June 30, says Peter Crump, a superannuation pensions specialist and chief executive of Adelaide financial planning firm Portfolio Planning Solutions.

Many people were waiting for the government review, first promised in April. While the

review has been completed, Assistant Treasurer Mal Brough says, the government is still considering its findings.

A decision to set up a lifetime pension should not be rushed – a pension in a DIY fund must include the majority of retirement savings and there is no access to capital once a pension has been running for six months.

There are several issues that need to be considered. High up the list is what happens if a member dies with money left in a pension.

Crump says many DIY fund members are unlikely to know that when you start a lifetime pension your super transfers into a fund reserve account from which the pension is paid. Unlike super during the saving phase or in an allocated pension, lifetime pensions do not come from individual accounts.

Some accountants might

continue to say that a pension reserve is a member's account balance but that is not the case. If a member dies while there is still money in the reserve, it must be dealt with under either the rules of the fund or the superannuation industry supervision legislation.

"If a trustee deed doesn't have a provision that says what happens to reserves, the trustee can't do

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anything about it without amending the deed," Crump says.

It would be very poor form for a lifetime pension to be established within a DIY fund without the fund having the ability to deal with reserves. Most trustee deeds, says

Crump, allow any remaining pension capital to be directed to existing members. Up until June 30 this year, such distributions can result in superannuation surcharge consequences for remaining members. But after June 30, when the surcharge is scrapped, there will be no such liability.

An alternative to distributing pension capital among remaining members in a fund is setting up the lifetime pension with a guaranteed payment period. The rules permit this period to be either the life expectancy of the member or 20 years, whichever is the shorter.

If a lifetime pension has a guaranteed period, which will probably mean a reduction in income of about 5 per cent, the fund can pay beneficiaries of the member an amount of the pension multiplied by either 20 years or their life expectancy.