

# Superannuation and Pension – what you should know

As you near an age where you are eligible to retire or if you are permanently incapacitated and looking to access your superannuation (super), it is likely you will start to hear about income streams and the range of pension products available. If you don't know much about financial products it may be confusing.

This fact sheet is designed to provide you with information on the differences between super and pension products. This information can assist you in your retirement planning, including letting you know about a tax effective strategy that you could adopt while you are still working, which involves having active super and pension accounts.

## 1. What is super?

Super is money put aside to help you save for retirement. Saving into super is compulsory and most people will start a super account when they commence their first job. Employers are required to pay a minimum 9 per cent of before-tax salary into a super account<sup>1</sup> (Superannuation Guarantee (SG) contributions). You may also make voluntary before or after tax contributions to increase your super savings for retirement.

Access to your super funds is restricted to circumstances referred to as 'conditions of release', they include:

- permanently retiring from the workforce on or after reaching your preservation age (Preservation age is currently 55 for individuals born prior to 1 July 1960);
- leaving employment after age 60;
- reaching age 65; or
- becoming permanently incapacitated or terminally ill.

## 2. Getting ready for retirement

If you are still working at age 55 you may wish to adopt a strategy called Transition to Retirement (TTR). This strategy could boost your super savings and create a pathway for managing your finances leading into retirement. The TTR Pension strategy works through a Salary Sacrifice arrangement. It allows you to continue saving into your super while receiving a non-commutable pension of between 2<sup>2</sup> to 10 per cent of your super account balance as an income stream.

The tax advantage of TTR Pension payments varies with your age:

- aged 55 to 59, pension payments are taxed at your marginal tax rate less a 15 per cent tax rebate on the taxable portion. You may also have a component which is received tax free; and
- aged 60 or more, no tax applies to pension payments.

When you meet a 'condition of release', for example retirement or you turn age 65, the TTR Pension will automatically convert to an Allocated Pension. This pension will operate in a similar way although the 10 per cent maximum pension cap is lifted and you will be able to make lump sum withdrawals.

## 3. What is an Allocated pension?

A pension can provide an income stream in retirement. IOOF offers an Allocated Pension through three different products – Pursuit Core, Pursuit Select and the IOOF Portfolio Service. An Allocated Pension is a retirement income stream. It provides you with flexible and regular pension payments each year from your super savings, when you have retired or when you have met a 'condition of release'. In addition, it provides full access to your capital.

The Government Age Pension provides a safety net for people who cannot fully provide for themselves financially in retirement. Age pension rates depend on whether you are single or have a partner, whether you have dependent children and the level of your income and assets. See the Centrelink website [www.centrelink.gov.au](http://www.centrelink.gov.au) for details of current pension rates and the Income and Assets test criteria.

You may be eligible to receive both Pensions, the Government Age Pension and an Allocated Pension. Even if you do not qualify to receive the full Age Pension, you may still be eligible to receive a partial pension.

<sup>1</sup> This only applies for full time, part time and casual employees who earn more than \$450 per month and are aged between 18 to 69.

<sup>2</sup> For the 2010/2011 financial year, the Commonwealth Government have extended the pension drawdown relief provisions whereby the minimum pension has been reduced from 4 to 2 per cent.

## Understanding the difference between Super Accumulation, a TTR Pension and an Allocated Pension

	Super Accumulation	TTR Pension	Allocated Pension
<b>Product Options</b>	Employer or Personal Superannuation Product	Employer or Personal Superannuation Product which includes a non-commutable Allocated Pension (known as a TTR Pension).	Allocated Pension Product
<b>What is it?</b>	Funds saved for retirement	An employed person aged 55 to 65, salary sacrificing their income into super and at the same time, replacing that income by drawing an Allocated Pension.	A regular income stream when you have retired.
<b>When can I access my super?</b>	<ul style="list-style-type: none"> <li>Upon permanently retiring from the workforce on or after reaching your Preservation age (currently between the ages of 55 and 60);</li> <li>leaving employment after age 60;</li> <li>reaching age 65; or</li> <li>becoming permanently incapacitated or terminally ill.</li> </ul>	When you are aged 55 or over you can access your super through the non-commutable Allocated Pension that is established as a part of the strategy. A maximum annual pension of 10 per cent of the account balance is accessible. No lump sum withdrawals are available under a TTR Pension.	You can make a full or partial cash lump sum withdrawal from your pension account at any time.
<b>Do I incur fees when I make switches or transfers?</b>	No, but buy/sell spreads and capital gains tax may apply		
<b>Can I continue to work?</b>	Dependant on the 'conditions of release' used		
<b>Can I continue to boost my super?</b>	Yes	Yes	Yes
<b>Tax payable, tax differs depending on the type of transaction:</b>	<ul style="list-style-type: none"> <li>Tax on contributions – 15%</li> <li>Tax on Earnings – 15%</li> <li>Tax on withdrawals – 15% up to age 60. Over 60 tax free</li> </ul>	<ul style="list-style-type: none"> <li>Tax on Earnings – No</li> <li>Tax on pension payments – Depends on age. Concessional tax rate ages 55-59, after age 60 no tax applies.</li> </ul>	<ul style="list-style-type: none"> <li>Tax on Earnings – No</li> <li>Tax on pension payments – Depends on age Concessional tax rate ages 55-59, after age 60 no tax applies.</li> </ul>
<b>How can I keep track of my account?</b>	Through your Annual Member Statement posted at the end of every financial year.	Through your Annual Member Statement and your Pension Pack posted at the end of every financial year.	Through your Annual Member Statement and Pension Pack posted at the end of every financial year.
<b>Can I view my account online at <a href="http://www.portfolioonline.com.au">www.portfolioonline.com.au</a>?</b>	Yes	Yes	Yes

## Where to go for more information?

To learn more about these strategies or if you have any questions about your IOOF super or pension account, please speak with your employer or financial adviser. Alternatively, IOOF has a dedicated Client Services Team available to speak with you Monday to Friday between 8.30am – 6.00pm. Phone us on **1800 062 963** (for personal super members) or **1800 653 894** (for employer and corporate super members) email [clientservices@ioof.com.au](mailto:clientservices@ioof.com.au) or visit our website [www.ioof.com.au](http://www.ioof.com.au)

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