STRATEGY 1 SUPER TIPS FOR RETIREMENT.

CommInsure Guaranteed Annuity Strategy Series

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AT A GLANCE

This strategy focuses on the opportunities which may be available for retirees to turn non-super money (personal savings) into a tax free income stream.

Clients who have money in other types of investments, for example bank accounts or term deposits, can face tax problems because they're taxed at their marginal tax rate, (up to 49% inclusive of Medicare Levy) on any income generated from these assets.

In retirement, clients have a great opportunity to turn their non-super money into a form of tax free income. By contributing personal savings into their super account, (subject to contributions cap) retirees aged 60 or over can receive a tax free income if that super money is then invested in an account based pension or guaranteed annuity and does not exceed their general transfer balance cap.[1]

The added benefit of this is that for Age Pension Income Test any non-concessional (post-tax) contributions will increase the deductible amount when an income stream is started from the super fund. This will then reduce the overall amount assessed under the Age Pension Income Test.

Sounds too good to be true.

There are contribution rules for transferring non-super money into a super fund and you must make your client aware of them.

- Clients under 65 years can make non-concessional contributions of up to $100,000 per year, or $300,000 over 3 years.
- Those aged 65–74 have the same opportunity to make non-concessional contributions but they must first satisfy a 'work test'. This assessment asks clients to show they've worked for at least 40 hours over a consecutive 30 day period in the financial year.
- There is a minimum withdrawal amount each year, as per the minimum standards.

MEET JOHN 64, ANGELA 64

John and Angela both plan to retire at 65 so they can spend more time with their son and four grandchildren in Darwin. They've committed to saving for their retirement for the last 15 years and recently sold a one bedroom investment property. They have net proceeds from the sale totalling $450,000, which is currently in a term deposit[2], with an annual return of 4.5%.

John and Angela met with an adviser to discuss their upcoming retirement and the adviser recommended they contribute their $450,000 into a super fund. This means they're able to take advantage of tax free[3] benefits on this money as well as invest in a guaranteed income stream to receive a substantial yearly income.

By following their adviser's recommendation and investing in a Lifestream Guaranteed Long Term Annuity over a 20 year term, John and Angela receive a tax free income[3] of $24,865[4] in the first year. In each subsequent year, they receive the same amount indexed at three per cent per annum.

Summary

Clients who want a tax free[5] income in retirement can achieve this by contributing their personal savings into super and then using that super to purchase a guaranteed annuity.

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1 The general transfer balance cap of $1.6 million is designed to limit the total amount of superannuation savings that can be transferred from accumulation phase into a tax free retirement account.

2 Any income earned from a term deposit is generally assessable.

3 Assumes John and Angela have not exceeded their general transfer balance cap.

4 Based on nil adviser service fee, nil Residual Capital Value and a projected yield of 3.70%. Rates are illustrative only. For current rates please call us on 1800 624 100 between 8.30 am and 6 pm (Sydney time), Monday to Friday.

5 From 1 July 2017 the total amount of superannuation that can be transferred into retirement phase will be capped at $1.6 million. The cap will be indexed in $100,000 increments in line with the consumer price index (CPI).

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