



# argentis

strategic financial advice

what if... analysis

advice given on a fee for service basis



understanding income streams  
how can an income stream work for me?

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# Agenda

- Getting access to my superannuation and some brief facts
- Different types of Private Pensions and how they work
- Private Pension Rules, Tax and Centrelink Assessment
- Case Studies
  - Using property to create a retirement income stream
  - Pensions, tax planning, cash flow and debt management
- Summary



## Access to your Superannuation – Getting \$ out of Super

Benefits preserved until

- Retirement from the workforce after your preservation age
- Age 65
- Death/TPD/Terminal Illness (prior to 65)





## Preservation age

<b>If you are born...</b>	<b>Your preservation age is...</b>
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60



# Superannuation Funds

- **Taxed\***

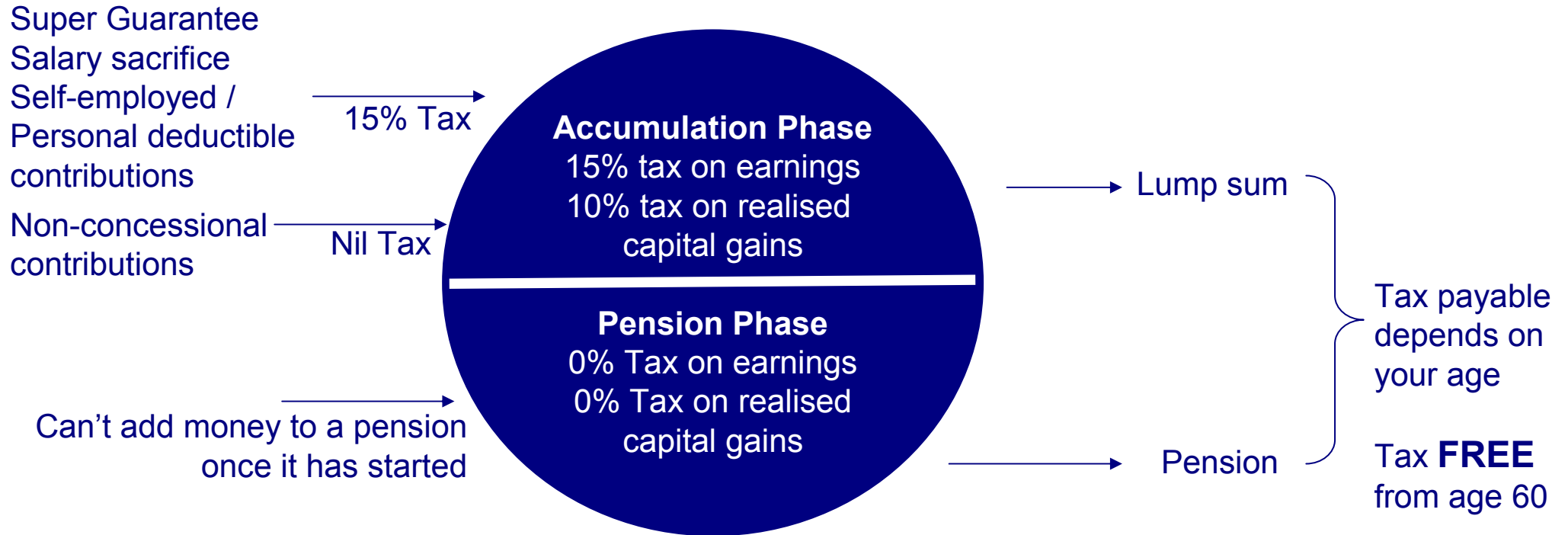
- **Most superannuation funds in Australia are taxed**  
(You and others put money into your fund and it is allocated to your account).  
**Money is actually paid into your account**

- **Untaxed**

- **Mainly government superannuation funds**  
(Benefits are paid out of government revenue)  
**No money is actually paid into your account – accounting only**

\* Unless otherwise stated, information in this presentation is focused on Taxed funds

# Superannuation system



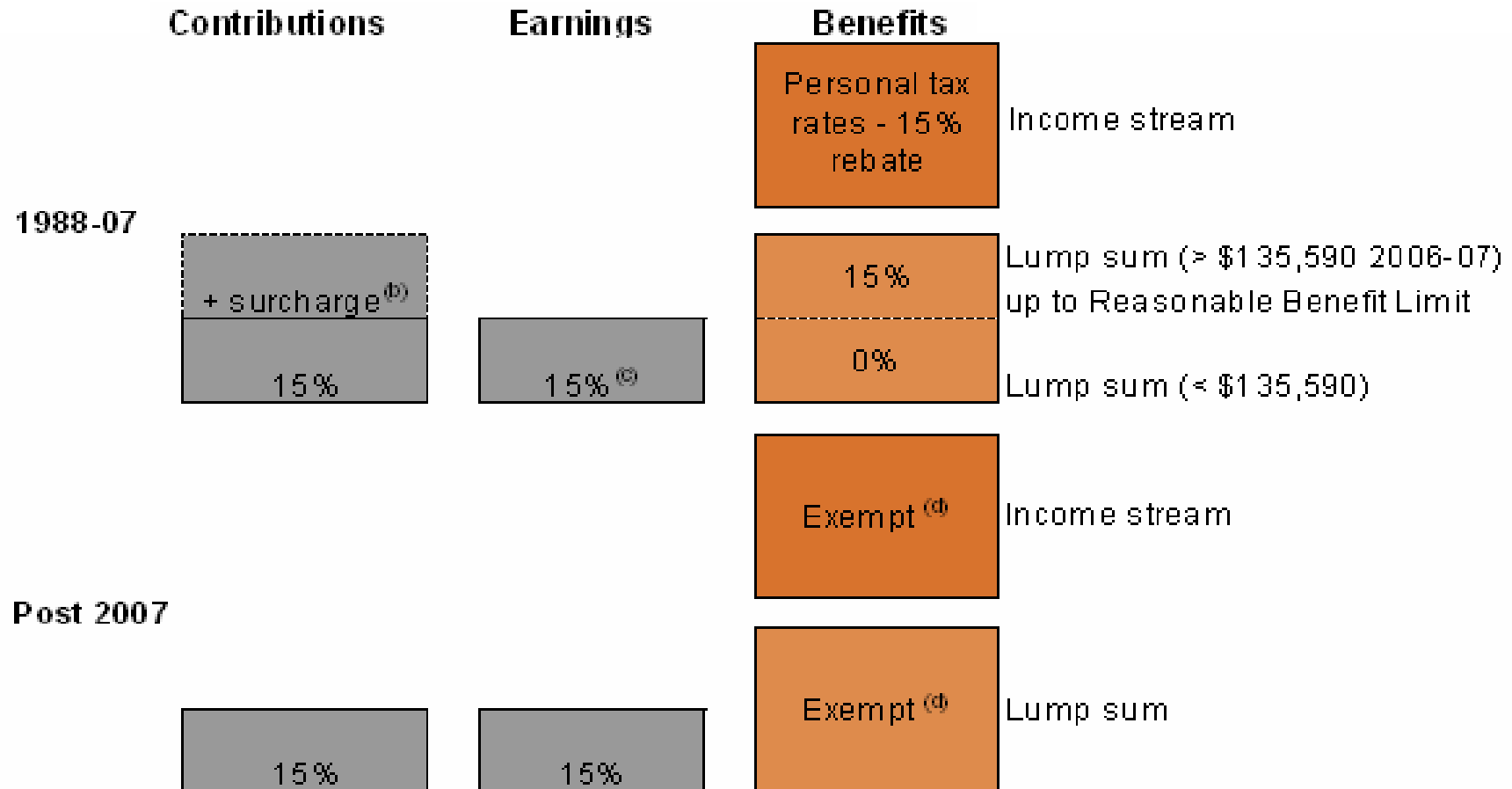
Super is not an investment - it is a structure for holding assets

# Taxation of superannuation - History

	Contributions	Earnings	Benefits
Pre 1983	0%	0%	Personal tax rates Income stream
			5% of amount at personal tax rates Lump sum <sup>(a)</sup>
1983-88	0%	0%	Personal tax rates Income stream
			30% Lump sum (> \$50,000 indexed)
			15% Lump sum (< \$50,000)

a. This resulted in an effective tax rate no greater than 3 per cent depending on the individual's personal tax rate.

# Taxation of superannuation - History



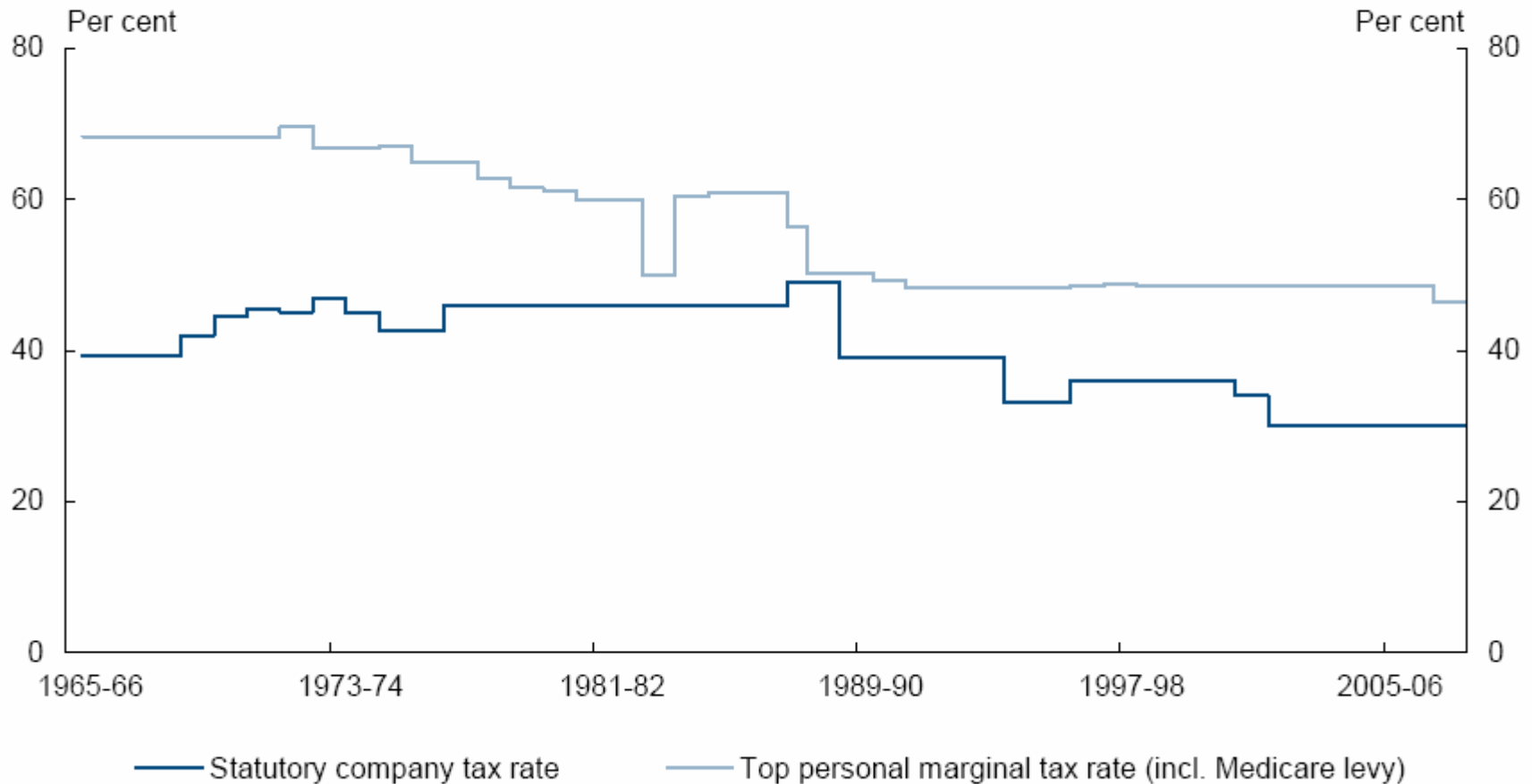
b. The surcharge applied between the 1997-98 and 2004-05 income years.

c. Earnings on income stream assets were exempt. Capital gains are taxed at an effective rate of 10 per cent.

d. Different rates apply to people who take their benefits before age 60 years and payments from funds that have not paid tax on their contributions and earnings.

# Personal income tax and company tax - History

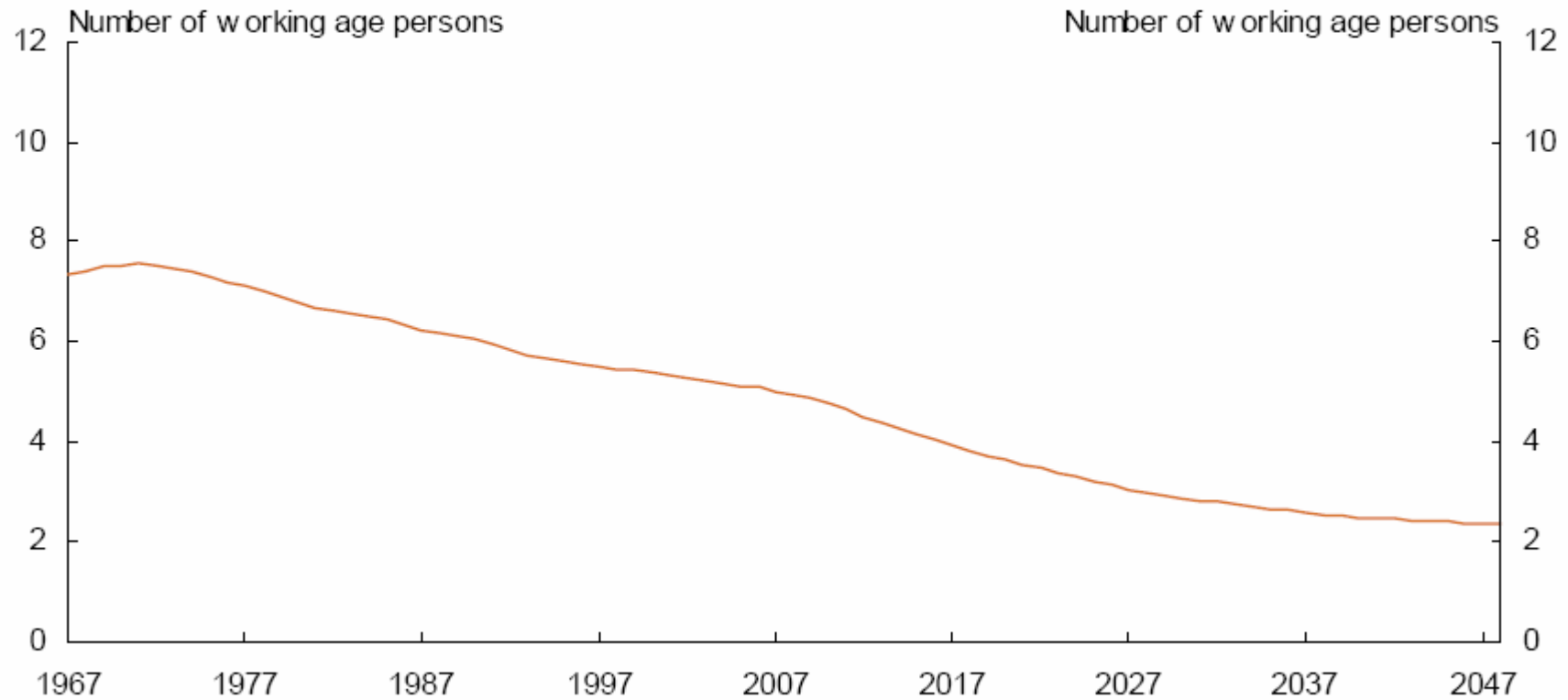
Chart 4.2: Top personal income tax rate and company tax rate (1965-66 to 2007-08)



Source: Australian Treasury estimates.

# Australia's aging population

**Chart 6.2: Number of working-age individuals per individual aged 65 years or older**



Source: Australian Government (2007).

# Private Pensions – Types

Mostly superannuation based

- Allocated Pension (AP)
- Account Based Pension (AP)
- Non-Commutable Account Based Pensions (NCAP)
- Term and Lifetime Annuities (Non-Super)
- Old types of Pensions
  - Term Allocated Pension / Growth Pension
  - Complying Pension



## Account Based Pensions

### The most popular retirement income stream. WHY?

- The ability to invest the gross amount of the superannuation lump sum without any lump sum tax implications
- No tax is payable by the fund on investment earnings
- For those aged between 55 and 59 (inclusive), favourable taxation treatment of income drawn from the pension, with a 15 per cent tax offset generally available on the taxable pension income. A tax-free amount may also be available

## Account Based Pensions

### The most popular retirement income stream. WHY?

- For those aged 60 and over, **ALL** income drawn from the pension is tax **FREE**
- In addition to flexibility and taxation benefits, the allocated pension provides favourable Centrelink treatment. For the purposes of the income test, **only a portion** of the actual income received from the allocated pension will be assessed
- The ability to vary the level of income annually adds flexibility to the income options and allows you to make adjustments to the income should your circumstances and income requirements change

## Account Based Pensions

The most popular retirement income stream. WHY?

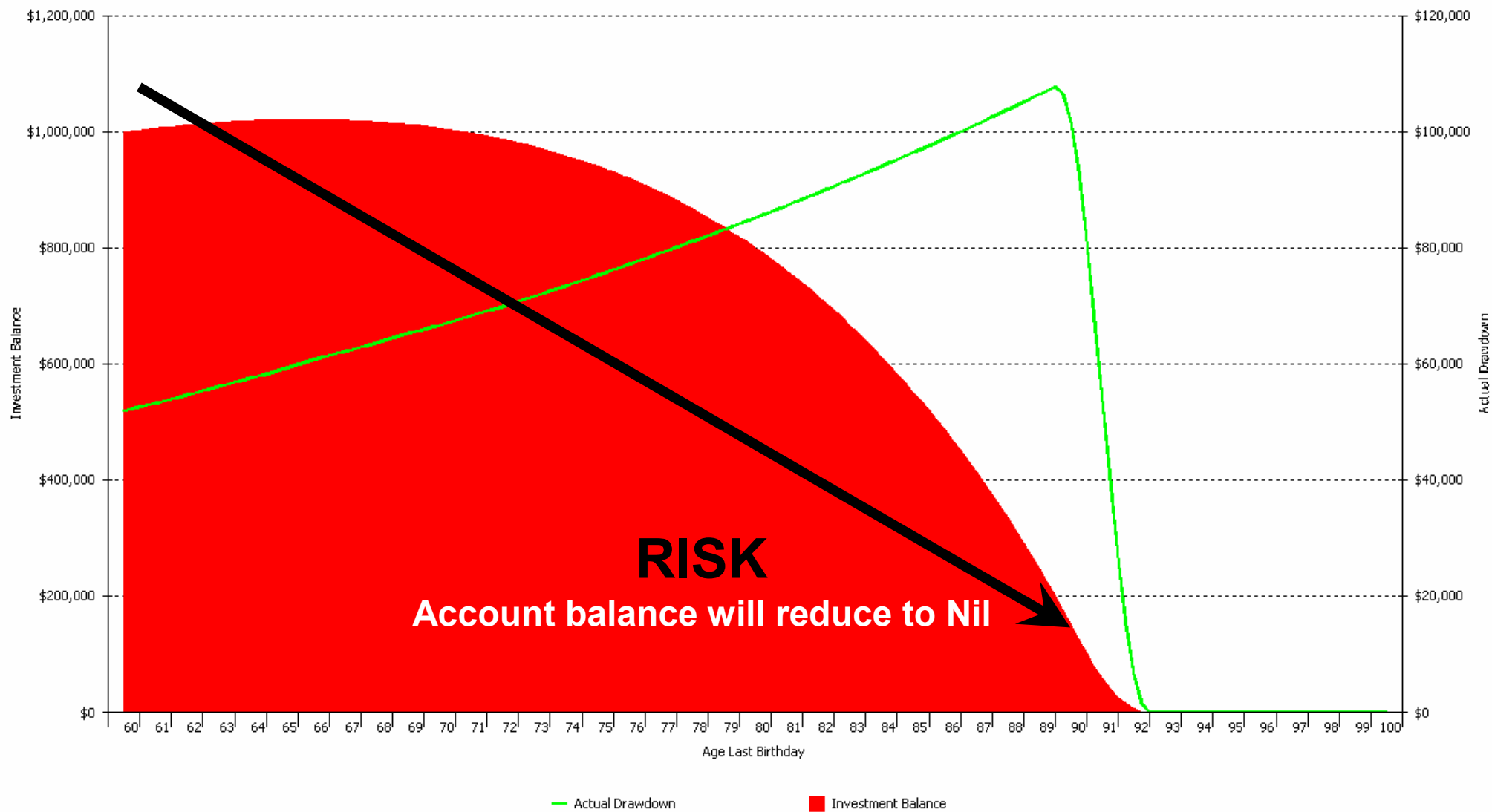
- The capital remains under your control, with the ability to withdraw lump sum amounts, and
- The ability to elect a reversionary beneficiary, so that in the event of your death, the income can continue to be paid to the reversionary pensioner and the pension will not form part of your estate.

# Account Based Pensions

## Disadvantages

- Eventually, the account balance can be exhausted and then income payments will cease
- Investment returns on the invested capital will depend on the investment options selected and market conditions. This can have a major bearing on how long the capital will last, as well as the minimum and maximum annual payment amounts. This may create an element of uncertainty with respect to annual income payments.
- Account based pensions cannot be purchased with ordinary (**non-superannuation**) money. This means that you need to have existing superannuation funds or be able to make a contribution to superannuation prior to starting the pension.

Projection of Investment Balance and Actual Annual Drawdown (assuming 6.0% return)



# Superannuation components

- At age 60, superannuation is **Tax FREE**
  - If taken as a Lump sum or as a Pension

## Components

- **Tax FREE component.** Not assessable and not included in your income tax return.
- **Taxable component - Pre age 60.** Assessable and included in your income tax return. – **15% Rebate applies (from preservation age)**

Untaxed funds – Assessable and included in your income tax return. – **10% Rebate applies (from age 60)**

## Limits on pensions

- No maximum limit on your pension <sup>1</sup>
- Must take a minimum. Limits based on age: <sup>2</sup>
  - 4 per cent of balance if you're age 64 or below
  - 5 per cent of balance if you're aged between 65 and 74
  - 6 per cent of balance if you're aged between 75 and 79
  - 7 per cent of balance if you're aged between 80 and 84
  - 9 per cent of balance if you're aged between 85 and 89
  - 11 per cent of balance if you're aged between 90 and 94
  - 14 per cent of balance if you're aged 95 or more

<sup>1</sup> Special rules apply to **Non-Com**mutable **A**ccount based **P**ensions (**NCAP**'s)

<sup>2</sup> A press release on 18 February 2009 announced the minimum amounts would be halved for 2008/2009 Financial Year. 2009 Budget extended this to 2009/2010 Financial Year

A decorative header bar with a dark blue background. It features a grid of 20 circular icons in a lighter blue color. The icons represent various concepts: a train, a suitcase, a clock, a person, a key, a truck, a car, a laptop, an airplane, a person with a briefcase, a hanger, a person climbing stairs, a martini glass, a dollar sign, a person with a tool, a medical symbol, two people walking, a person on a horse, a house, a person on a horse, a person with a laptop, a sun, a person with a laptop, a person sitting at a desk, a padlock, a fork and knife, and a tent.

## Superannuation components

- The components of an account based pension are established on a **per payment basis**.
- The split of the pension payments between the **Tax FREE** and **Taxable** components are based on their proportions when the pension is commenced.

# Superannuation components

## Example

- Carmela is aged 57 and has \$300,000 in superannuation, consisting of \$100,000 **Tax FREE** component and \$200,000 **Taxable** component. She starts an account based pension with her full account balance and elects to take a pension payment of \$30,000.
- **Tax FREE** component =  $\$100,000 / \$300,000 = 33.33\%$
- Carmela's **Taxable** component of her pension is:-  
 $\$30,000 \times (100\% - 33.33\%) = \$20,000 (66.67\%)$

## Limits on pensions

- Pensions paid after 1 July and before 1 June of a financial year
  - Minimum amount can be **Pro-Rata** in that year for the number of days
  - Maximum is the full years pension

**Example** – Alice (aged 66) purchases an account based pension on 1 August 2009 for \$100,000

- Minimum payment in the first year is as follows:-
- $\$100,000 \times 5\% = \$5,000$
- **Pro-Rata.**  $\$5,000 \times 334/365 = \$4,580$  (rounded to the nearest \$10)

## Centrelink treatment of income

- Income assessed by Centrelink =  
Annual payment –  $\frac{(\text{Purchase Price}^* - \text{Commuted Amounts})}{\text{Life Expectancy}^*}$
- Example – Income Test
  - Steve, (65) has an account based pension with a balance of \$250,000
  - Steve's life expectancy is 18.54
  - Steve elects to receive an annual payment of \$25,000

Centrelink **only assess \$11,515** of the \$25,000 pension for the Income Test:-

$$\$25,000 - \frac{(\$250,000 - \$0)}{18.54} = \$11,515$$

\*The Purchase Price and Life Expectancy are those relevant at the date of purchase  
New tables applied from 1 January 2010



## Centrelink treatment of income

- Where amounts above the annual minimum payment are taken, **you can nominate** these excess payments as **lump sum commutations** for Centrelink purposes.
- Lump sum commutations are generally **not assessed** as income for the Centrelink Income Test.
- Any partial commutation from a pension **may alter future amounts assessed** by Centrelink under the Income Test.

## Centrelink treatment of income

- Income assessed by Centrelink =  
Annual payment –  $\frac{\text{Purchase Price}^* - \text{Commuted Amounts}}{\text{Life Expectancy}^*}$
- **Example** – Income Test
  - Steve, (65) has an account based pension with a balance of \$250,000
  - Steve's life expectancy is 18.54
  - Steve elects to receive an annual **MINIMUM** payment of \$10,000

Centrelink **will assess NONE** of the \$10,000 pension for the Income Test:-

$$\$10,000 - \frac{(\$250,000 - \$0)}{18.54} = -\$3,484.36$$

\*The Purchase Price and Life Expectancy are those relevant at the date of purchase  
New tables applied from 1 January 2010

## Centrelink treatment of income

- Steve can take a lump sum of \$15,000 and this will not be counted as income
- The lump sum of \$15,000 however is a commuted amount and thus this will **alter future amounts assessed** by Centrelink under the Income Test.
- Income assessed by Centrelink =  
Annual payment –  $\frac{\text{Purchase Price}^* - \text{Committed Amounts}}{\text{Life Expectancy}^*}$

\*The Purchase Price and Life Expectancy are those relevant at the date of purchase  
New tables applied from 1 January 2010

## Centrelink treatment of capital / value of your pension

- **100% of monies** in an income stream (private pension) commenced on or after 20 September 2007 is included in the Assets Test
- Assets test taper rate\* was reduced from \$3 to \$1.50 per fortnight for every \$1,000 in assessable assets above the relevant threshold from 20 September 2007.

What does this mean?

# Centrelink changes

	Home Owner*		Non-Home Owner*	
Family Situation	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink
Single	\$178,000	\$626,000	\$307,000	\$755,000
Couple (combined)	\$252,000	\$928,000	\$381,500	\$1,057,000

Based on the rates and thresholds as at 1 January 2010.  
 Transitional thresholds and rates may apply to pensioners receiving payments at 19 September 2009.

# Centrelink changes

	Home Owner*		Non-Home Owner*	
Family Situation	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink
Single	\$178,000	\$626,000	\$307,000	\$755,000
Couple (combined)	\$252,000	\$928,000	\$381,500	\$1,057,000

Was \$343,750  
Pre 20/9/2007

Was \$464,750  
Pre 20/9/2007

Based on the rates and thresholds as at 1 January 2010.  
Transitional thresholds and rates may apply to pensioners receiving payments at 19 September 2009.

# Centrelink changes

Family Situation	Home Owner*		Non-Home Owner*	
	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink	For <b>FULL</b> aged pension from Centrelink	For <b>PART</b> aged pension from Centrelink
Single	\$178,000	\$626,000	\$307,000	\$755,000
Couple (combined)	\$252,000	\$928,000	\$381,500	\$1,057,000

Was \$531,000  
Pre 20/9/2007

Was \$652,000  
Pre 20/9/2007

Based on the rates and thresholds as at 1 January 2010.  
Transitional thresholds and rates may apply to pensioners receiving payments at 19 September 2009.



# A guide to Australian Government payments

on behalf of the  
Department of Families,  
Housing, Community  
Services and Indigenous  
Affairs and the  
Department of Education,  
Employment and  
Workplace Relations

1 January – 19 March 2010

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## Chart A and B—Assets test for pensions or allowances and Austudy

### Chart A

#### Assets test for homeowners

Family situation	For full pension/ allowance*	For part pension#
Single**	up to \$178 000	less than \$626 000
Partnered (combined)	up to \$252 500	less than \$928 000
Illness separated (couple combined)	up to \$252 500	less than \$1 148 500
One partner eligible	up to \$252 500	less than \$928 000

#### Transitional Homeowner

Family situation	For full pension/ allowance*	For part pension#
Single	\$178 000	less than \$594 750
Partnered (combined)	\$252 500	less than \$925 500
Illness separated (couple combined)	\$252 500	less than \$1 086 000
One partner eligible	\$252 500	less than \$925 500

# Property as a retirement income stream

## Advantages

- Property is a tangible asset that can be seen and touched, unlike other financial assets.
- Rental incomes are broadly linked to inflation and, while property is tenanted, are reasonably certain due to the existence of lease agreements.
- Capital appreciation over the longer term is likely to keep pace with or exceed the rate of inflation, depending on location and physical condition.
- Tax deductible expenses may include claims for depreciation, repairs, maintenance, insurance and financing costs.

A decorative header bar with a dark blue background. It features a grid of 20 circular icons in a lighter blue color, arranged in two rows of ten. The icons represent various concepts such as a train, a briefcase, a clock, a person, a key, a truck, a car, a laptop, an airplane, a person with a magnifying glass, a hanger, a person climbing stairs, a martini glass, a dollar sign, a person with a wrench, a person with a backpack, a person with a laptop, a sun, a person with a laptop, a person sitting at a desk, a padlock, a fork and knife, and a tent.

## Case Study – Property as a retirement income stream Peter and Samantha

- Both aged 60
- Children have left home
- Both recently retired
- They want \$50,000 p.a for living and lifestyle needs, increasing by 3% p.a for inflation

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## Case Study – Property as a retirement income stream Peter and Samantha

- Have used negative gearing over the past 20 years to buy two investment properties
- Cashed up the little superannuation they had to pay off their debts and to do some improvement to their own home.
- They have \$50,000 in the bank in joint names
- Their home is worth \$600,000

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## Case Study – Property as a retirement income stream Peter and Samantha

- Both properties are in joint names
- Both properties cost \$200,000 and are now worth \$500,000 each
- Both properties are subject to CGT
- Rent of \$400 per week for each property. Assume 48 weeks rent p.a

## Case Study – Property as a retirement income stream Peter and Samantha

- Expenses. Rates -\$1,300, Insurance -\$500, Maintenance & other expenses, -\$2,500. Total of -\$4,300
- $(\$400 \times 48) - \$4,300 = \$14,900$ .  $\$14,900 / \$500,000 = 3\%$
- Assume properties increase in value by 5% p.a
- Assume that the Net rent = 3% of the increasing value of the properties
- Assume they live until age 90

VisiModelPlan for Client Group Example, John ...Scenario (100303 Property Retirement Income)

File Scenario Edit Data Assumptions Joint Tools View Print Help

Data Entry... Strategy Wizard... Summary... View 30 Graphs... Save Scenario Projections... Last

Client Partner Joint Trust Company Superfund Combined

Key Date 01/Jul/09  
 Projection Year  
 Jun/2010 1 Jun/2011 2 Jun/2012 3 Jun/2013 4 Jun/2014 5

**INCOME SUMMARY**

	Sum	1	2	3	4	5
Income Received	2,032,272	32,500	33,106	34,325	35,979	37,715
Less income tax	206,477	375	166	349	597	857
Less transfers	926,623	16,063	16,850	17,519	18,222	18,960
<b>Net Income</b>	<b>899,172</b>	<b>16,063</b>	<b>16,090</b>	<b>16,457</b>	<b>17,160</b>	<b>17,898</b>
Less estimated current expenses	2,378,771	50,000	51,500	53,045	54,636	56,275
<b>Surplus/deficit income</b>	<b>(1,479,599)</b>	<b>(33,938)</b>	<b>(35,410)</b>	<b>(36,588)</b>	<b>(37,477)</b>	<b>(38,378)</b>

**CASHFLOW POSITION**

	Sum	1	2	3	4	5
Surplus/Deficit income	(1,479,599)	(33,938)	(35,410)	(36,588)	(37,477)	(38,378)
<b>Bank Transactions (EOY)</b>						
Net transfers from Spouse	926,623	16,063	16,850	17,519	18,222	18,960
<b>Sub Total</b>	<b>926,623</b>	<b>16,063</b>	<b>16,850</b>	<b>17,519</b>	<b>18,222</b>	<b>18,960</b>
<b>Surplus/deficit cashflow</b>	<b>(552,976)</b>	<b>(17,875)</b>	<b>(18,560)</b>	<b>(19,069)</b>	<b>(19,254)</b>	<b>(19,418)</b>

**INVESTMENTS**

	Max	1	2	3	4	5
Bank Account Balance	32,125	32,125	13,565	(5,503)	(24,758)	(44,175)
Principal Residence	2,593,165	630,000	661,500	694,575	729,304	765,769
Investment Properties	4,321,942	1,050,000	1,102,500	1,157,625	1,215,506	1,276,282
<b>Total Investments</b>	<b>6,412,131</b>	<b>1,712,125</b>	<b>1,777,565</b>	<b>1,846,697</b>	<b>1,920,052</b>	<b>1,997,875</b>
Present Day Value Total Investments		1,646,274	1,643,459	1,641,707	1,641,269	1,642,108

**Problem**

(5,503) (24,758) (44,175)

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## Case Study – Property as a retirement income stream Peter and Samantha

- Problem!
- Can't eat a house
- Can't just sell a bedroom off at a time
- Must sell one of the investment properties so that they have cash to pay their bills as and when they fall due and to provide them with the lifestyle they want.

## Case Study – Property as a retirement income stream Peter and Samantha

- Timing! Is it a good time to be selling?
- Do they get a loan in the meantime?
- On sale they must pay capital gains tax
- Let's assume they decide to sell one of their investment properties
- Assume sale price of \$551,250, given growth in value
- Real estate agents commission of approximately \$15,650
- Legal fee and other costs of approximately \$2,500

Client	Partner	Joint	Trust	Company	Superfund	Combined						
Key Date 01/Jul/09 Projection Year							Jun/2010 1	Jun/2011 2	Jun/2012 3	Jun/2013 4	Jun/2014 5	
<b>INCOME SUMMARY</b>							<b>Sum</b>					
Income Received							1,328,885	32,500	33,106	43,871	41,026	41,130
Social security pension entitlements							239,798	0	0	0	0	0
<b>Sub Total</b>							<b>1,568,683</b>	<b>32,500</b>	<b>33,106</b>	<b>43,871</b>	<b>41,026</b>	<b>41,130</b>
Less income tax							116,990	375	166	64,256	1,681	1,594
Less transfers							717,139	16,063	16,850	0	19,590	19,597
<b>Net Income</b>							<b>734,554</b>	<b>16,063</b>	<b>16,090</b>	<b>(20,385)</b>	<b>19,755</b>	<b>19,939</b>
Less estimated current expenses							2,378,771	50,000	51,500	53,045	54,636	56,275
<b>Surplus/deficit income</b>							<b>(1,644,217)</b>	<b>(33,938)</b>	<b>(35,410)</b>	<b>(73,430)</b>	<b>(34,881)</b>	<b>(36,337)</b>
<b>CASHFLOW POSITION</b>							<b>Sum</b>					
Surplus/Deficit income							(1,644,217)	(33,938)	(35,410)	(73,430)	(34,881)	(36,337)
<b>Bank Transactions (SOY)</b>												
Investment Redemptions							551,250	0	0	551,250	0	0
Less sale costs of investment property							(18,150)	0	0	(18,150)	0	0
<b>Sub Total</b>							<b>533,100</b>	<b>0</b>	<b>0</b>	<b>533,100</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>												
Net transfers from Spouse							717,139	16,063	16,850	0	19,590	19,597
<b>Sub Total</b>							<b>717,139</b>	<b>16,063</b>	<b>16,850</b>	<b>0</b>	<b>19,590</b>	<b>19,597</b>
<b>Surplus/deficit cashflow</b>							<b>(393,978)</b>	<b>(17,875)</b>	<b>(18,560)</b>	<b>459,670</b>	<b>(15,291)</b>	<b>(16,739)</b>
<b>INVESTMENTS</b>							<b>Max</b>					
Bank Account Balance							473,235	32,125	13,565	473,235	457,944	441,205
Principal Residence							2,593,165	630,000	661,500	694,575	729,384	765,769
Investment Properties							2,160,971	1,050,000	1,102,500	578,813	607,753	638,141
<b>Total Investments</b>							<b>4,410,159</b>	<b>1,712,125</b>	<b>1,777,565</b>	<b>1,746,623</b>	<b>1,795,001</b>	<b>1,845,114</b>
Present Day Value Total Investments							1,646,274	1,643,459	1,552,741	1,534,374	1,516,550	

Problem fixed

Client	Partner	Joint	Trust	Company	Superfund	Combined						
Key Date 01/Jul/09							Jun/2010	Jun/2011	Jun/2012	Jun/2013	Jun/2014	
Projection Year							1	2	3	4	5	
<b>INCOME SUMMARY</b>							<b>Sum</b>					
Income Received							1,328,885	32,500	33,106	43,871	41,026	41,130
Social security pension entitlements							239,798	0	0	0	0	0
<b>Sub Total</b>							<b>1,568,683</b>	<b>32,500</b>	<b>33,106</b>	<b>43,871</b>	<b>41,026</b>	<b>41,130</b>
Less income tax							116,990	375	166	64,256	1,681	1,594
Less transfers							717,139	16,063	16,850	0	19,598	19,597
<b>Net Income</b>							<b>734,554</b>	<b>16,063</b>	<b>16,090</b>	<b>(20,385)</b>	<b>19,755</b>	<b>19,939</b>
Less estimated current expenses							2,378,771	50,000	51,500	53,045	54,636	56,275
<b>Surplus/deficit income</b>							<b>(1,644,217)</b>	<b>(33,938)</b>	<b>(35,410)</b>	<b>(73,430)</b>	<b>(34,881)</b>	<b>(36,337)</b>
<b>CASHFLOW POSITION</b>							<b>Sum</b>					
Surplus/Deficit income							(1,644,217)	(33,938)	(35,410)	(73,430)	(34,881)	(36,337)
<b>Bank Transactions (SOY)</b>												
Investment Redemptions							551,250	0	0	551,250	0	0
Less sale costs of investment property							(18,150)	0	0	(18,150)	0	0
<b>Sub Total</b>							<b>533,100</b>	<b>0</b>	<b>0</b>	<b>533,100</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>												
Net transfers from Spouse							717,139	16,063	16,850	0	19,590	19,597
<b>Sub Total</b>							<b>717,139</b>	<b>16,063</b>	<b>16,850</b>	<b>0</b>	<b>19,590</b>	<b>19,597</b>
<b>Surplus/deficit cashflow</b>							<b>(393,978)</b>	<b>(17,875)</b>	<b>(18,560)</b>	<b>459,670</b>	<b>(15,291)</b>	<b>(16,739)</b>
<b>INVESTMENTS</b>							<b>Max</b>					
Bank Account Balance							473,235	32,125	13,565	473,235	457,944	441,205
Principal Residence							2,593,165	630,000	661,500	694,575	729,304	765,769
Investment Properties							2,160,971	1,050,000	1,102,500	578,813	607,753	638,141
<b>Total Investments</b>							<b>4,410,159</b>	<b>1,712,125</b>	<b>1,777,565</b>	<b>1,746,623</b>	<b>1,795,001</b>	<b>1,845,114</b>
Present Day Value Total Investments							1,646,274	1,643,459	1,552,741	1,534,374	1,516,550	

Tax Paid

Client	Partner	Joint	Trust	Company	Superfund	Combined					
<b>Key Date 01/Jul/09</b>							<b>Jun/2018</b>	<b>Jun/2019</b>	<b>Jun/2020</b>	<b>Jun/2021</b>	<b>Jun/2022</b>
<b>Projection Year</b>							<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>
<b>INCOME SUMMARY</b>											
Income Received							41,461	41,475	41,531	41,553	41,575
Social security pension entitlements							0	1,616	1,672	2,432	3,503
<b>Sub Total</b>							<b>41,461</b>	<b>43,091</b>	<b>43,204</b>	<b>43,985</b>	<b>45,077</b>
Less income tax							0	0	0	0	0
Less transfers							20,302	21,164	21,274	21,764	22,441
<b>Net Income</b>							<b>21,159</b>	<b>21,927</b>	<b>21,930</b>	<b>22,221</b>	<b>22,636</b>
Less estimated current expenses							63,339	65,239	67,196	69,212	71,288
<b>Surplus/deficit income</b>							<b>(42,179)</b>	<b>(43,311)</b>	<b>(45,266)</b>	<b>(46,991)</b>	<b>(48,652)</b>
<b>CASHFLOW POSITION</b>											
Surplus/Deficit income							(42,179)	(43,311)	(45,266)	(46,991)	(48,652)
<b>Bank Transactions (SOY)</b>											
Investment Redemptions							0	0	0	0	0
Less sale costs of investment property							0	0	0	0	0
<b>Sub Total</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>											
Net transfers from Spouse							20,302	21,164	21,274	21,764	22,441
<b>Sub Total</b>							<b>20,302</b>	<b>21,164</b>	<b>21,274</b>	<b>21,764</b>	<b>22,441</b>
<b>Surplus/deficit cashflow</b>							<b>(21,878)</b>	<b>(22,148)</b>	<b>(23,992)</b>	<b>(25,227)</b>	<b>(26,211)</b>
<b>INVESTMENTS</b>											
Bank Account Balance							364,105	341,958	317,965	292,739	266,528
Principal Residence							930,797	977,337	1,026,204	1,077,514	1,131,389
Investment Properties							775,664	814,447	855,170	897,928	942,825
<b>Total Investments</b>							<b>2,070,566</b>	<b>2,133,742</b>	<b>2,199,339</b>	<b>2,268,181</b>	<b>2,340,742</b>
Present Day Value Total Investments							1,454,752	1,441,479	1,428,648	1,416,699	1,405,789

Age pension starts

Client	Partner	Joint	Trust	Company	Superfund	Combined					
<b>Key Date 01/Jul/09</b>							<b>Jun/2029</b>	<b>Jun/2030</b>	<b>Jun/2031</b>	<b>Jun/2032</b>	<b>Jun/2033</b>
<b>Projection Year</b>							<b>20</b>	<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>
<b>INCOME SUMMARY</b>											
Income Received							42,228	42,396	42,590	44,600	46,794
Social security pension entitlements							11,354	12,528	13,710	14,905	16,066
<b>Sub Total</b>							<b>53,583</b>	<b>54,924</b>	<b>56,300</b>	<b>59,505</b>	<b>62,859</b>
Less income tax							459	537	808	1,694	2,726
Less transfers							27,891	28,097	27,978	29,164	30,313
<b>Net Income</b>							<b>25,232</b>	<b>26,289</b>	<b>27,513</b>	<b>28,646</b>	<b>29,820</b>
Less estimated current expenses							87,675	90,306	93,015	95,805	98,679
<b>Surplus/deficit income</b>							<b>(62,443)</b>	<b>(64,016)</b>	<b>(65,501)</b>	<b>(67,159)</b>	<b>(68,860)</b>
<b>CASHFLOW POSITION</b>											
Surplus/Deficit income							(62,443)	(64,016)	(65,501)	(67,159)	(68,860)
<b>Bank Transactions (SOY)</b>											
Investment Redemptions							0	0	0	0	0
Less sale costs of investment property							0	0	0	0	0
<b>Sub Total</b>							<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>											
Net transfers from Spouse							27,891	28,097	27,978	29,164	30,313
<b>Sub Total</b>							<b>27,891</b>	<b>28,097</b>	<b>27,978</b>	<b>29,164</b>	<b>30,313</b>
<b>Surplus/deficit cashflow</b>							<b>(34,552)</b>	<b>(35,919)</b>	<b>(37,523)</b>	<b>(37,994)</b>	<b>(38,546)</b>
<b>INVESTMENTS</b>											
Bank Account Balance							51,930	16,011	(21,512)	(59,507)	(98,053)
Principal Residence							1,591,979	1,671,578	1,755,156	1,842,914	1,935,060
Investment Properties							1,326,649	1,392,981	1,462,630	1,535,762	1,612,550
<b>Total Investments</b>							<b>2,970,557</b>	<b>3,080,570</b>	<b>3,196,274</b>	<b>3,319,169</b>	<b>3,449,557</b>
Present Day Value Total Investments							1,355,723	1,351,857	1,348,685	1,346,674	1,345,746

**Problem again**

Client	Partner	Joint	Trust	Company	Superfund	Combined					
<b>Key Date 01/Jul/09</b>						<b>Jun/2030</b>	<b>Jun/2031</b>	<b>Jun/2032</b>	<b>Jun/2033</b>	<b>Jun/2034</b>	
<b>Projection Year</b>						<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>	
<b>INCOME SUMMARY</b>											
Income Received						42,396	67,950	53,963	52,816	51,601	
Social security pension entitlements						12,528	15,660	29,017	32,443	36,007	
<b>Sub Total</b>						<b>54,924</b>	<b>83,610</b>	<b>82,981</b>	<b>85,259</b>	<b>87,608</b>	
Less income tax						537	270,322	10,119	10,879	11,663	
Less transfers						28,097	0	36,439	37,083	37,772	
<b>Net Income</b>						<b>26,289</b>	<b>(186,712)</b>	<b>36,422</b>	<b>37,298</b>	<b>38,174</b>	
Less estimated current expenses						90,306	93,015	95,805	98,679	101,640	
<b>Surplus/deficit income</b>						<b>(64,016)</b>	<b>(279,727)</b>	<b>(59,383)</b>	<b>(61,382)</b>	<b>(63,465)</b>	
<b>CASHFLOW POSITION</b>											
Surplus/Deficit income						(64,016)	(279,727)	(59,383)	(61,382)	(63,465)	
<b>Bank Transactions (SOY)</b>											
Investment Redemptions						0	1,392,982	0	0	0	
Less sale costs of investment property						0	(50,000)	0	0	0	
<b>Sub Total</b>						<b>0</b>	<b>1,342,982</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Bank Transactions (EOY)</b>											
Net transfers from Spouse						28,097	0	36,439	37,083	37,772	
<b>Sub Total</b>						<b>28,097</b>	<b>0</b>	<b>36,439</b>	<b>37,083</b>	<b>37,772</b>	
<b>Surplus/deficit cashflow</b>						<b>(35,919)</b>	<b>1,063,255</b>	<b>(22,944)</b>	<b>(24,299)</b>	<b>(25,694)</b>	
<b>INVESTMENTS</b>											
Bank Account Balance						16,011	1,079,266	1,056,322	1,032,023	1,006,329	
Principal Residence						1,671,578	1,755,156	1,842,914	1,935,060	2,031,813	
Investment Properties						1,392,981	0	0	0	0	
<b>Total Investments</b>						<b>3,080,570</b>	<b>2,834,422</b>	<b>2,899,236</b>	<b>2,967,083</b>	<b>3,038,142</b>	
Present Day Value Total Investments						1,351,857	1,196,000	1,176,297	1,157,523	1,139,658	

**Problem fixed**

Client	Partner	Joint	Trust	Company	Superfund	Combined					
<b>Key Date 01/Jul/09</b>						<b>Jun/2030</b>	<b>Jun/2031</b>	<b>Jun/2032</b>	<b>Jun/2033</b>	<b>Jun/2034</b>	
<b>Projection Year</b>						<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>	
<b>INCOME SUMMARY</b>											
Income Received						42,396	67,950	53,963	52,816	51,601	
Social security pension entitlements						12,528	15,660	29,017	32,443	36,007	
<b>Sub Total</b>						<b>54,924</b>	<b>83,610</b>	<b>82,981</b>	<b>85,259</b>	<b>87,608</b>	
Less income tax						537	270,322	10,119	10,879	11,663	
Less transfers						28,097	0	36,439	37,083	37,772	
<b>Net Income</b>						<b>26,289</b>	<b>(186,712)</b>	<b>36,422</b>	<b>37,298</b>	<b>38,174</b>	
Less estimated current expenses						90,306	93,015	95,805	98,679	101,640	
<b>Surplus/deficit income</b>						<b>(64,016)</b>	<b>(279,727)</b>	<b>(59,383)</b>	<b>(61,382)</b>	<b>(63,465)</b>	
<b>CASHFLOW POSITION</b>											
Surplus/Deficit income						(64,016)	(279,727)	(59,383)	(61,382)	(63,465)	
<del>Bank Transactions (EOY)</del>											
Investment Redemptions						0	1,392,982	0	0	0	
Less sale costs of investment property						0	(50,000)	0	0	0	
<b>Sub Total</b>						<b>0</b>	<b>1,342,982</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Bank Transactions (EOY)</b>											
Net transfers from Spouse						28,097	0	36,439	37,083	37,772	
<b>Sub Total</b>						<b>28,097</b>	<b>0</b>	<b>36,439</b>	<b>37,083</b>	<b>37,772</b>	
<b>Surplus/deficit cashflow</b>						<b>(35,919)</b>	<b>1,063,255</b>	<b>(22,944)</b>	<b>(24,299)</b>	<b>(25,694)</b>	
<b>INVESTMENTS</b>											
Bank Account Balance						16,011	1,079,266	1,056,322	1,032,023	1,006,329	
Principal Residence						1,671,578	1,755,156	1,842,914	1,935,060	2,031,813	
Investment Properties						1,392,981	0	0	0	0	
<b>Total Investments</b>						<b>3,080,570</b>	<b>2,834,422</b>	<b>2,899,236</b>	<b>2,967,083</b>	<b>3,038,142</b>	
Present Day Value Total Investments						1,351,857	1,196,000	1,176,297	1,157,523	1,139,658	

Property sold

Client	Partner	Joint	Trust	Company	Superfund	Combined					
<b>Key Date 01/Jul/09</b>							<b>Jun/2030</b>	<b>Jun/2031</b>	<b>Jun/2032</b>	<b>Jun/2033</b>	<b>Jun/2034</b>
<b>Projection Year</b>							<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>
<b>INCOME SUMMARY</b>											
Income Received							42,396	67,950	53,963	52,816	51,601
Social security pension entitlements							12,528	15,660	29,017	32,443	36,007
<b>Sub Total</b>							<b>54,924</b>	<b>83,610</b>	<b>82,981</b>	<b>85,259</b>	<b>87,608</b>
Less income tax							537	270,322	10,119	10,879	11,663
Less transfers							28,097	0	36,439	37,083	37,772
<b>Net Income</b>							<b>26,289</b>	<b>(186,712)</b>	<b>36,422</b>	<b>37,298</b>	<b>38,174</b>
Less estimated current expenses							90,306	93,015	95,805	98,679	101,640
<b>Surplus/deficit income</b>							<b>(64,016)</b>	<b>(279,727)</b>	<b>(59,383)</b>	<b>(61,382)</b>	<b>(63,465)</b>
<b>CASHFLOW POSITION</b>											
Surplus/Deficit income							(64,016)	(279,727)	(59,383)	(61,382)	(63,465)
<b>Bank Transactions (SOY)</b>											
Investment Redemptions							0	1,392,982	0	0	0
Less sale costs of investment property							0	(50,000)	0	0	0
<b>Sub Total</b>							<b>0</b>	<b>1,342,982</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>											
Net transfers from Spouse							28,097	0	36,439	37,083	37,772
<b>Sub Total</b>							<b>28,097</b>	<b>0</b>	<b>36,439</b>	<b>37,083</b>	<b>37,772</b>
<b>Surplus/deficit cashflow</b>							<b>(35,919)</b>	<b>1,063,255</b>	<b>(22,944)</b>	<b>(24,299)</b>	<b>(25,694)</b>
<b>INVESTMENTS</b>											
Bank Account Balance							16,011	1,079,266	1,056,322	1,032,023	1,006,329
Principal Residence							1,671,578	1,755,156	1,842,914	1,935,060	2,031,813
Investment Properties							1,392,981	0	0	0	0
<b>Total Investments</b>							<b>3,080,570</b>	<b>2,834,422</b>	<b>2,899,236</b>	<b>2,967,083</b>	<b>3,038,142</b>
Present Day Value Total Investments							1,351,857	1,196,000	1,176,297	1,157,523	1,139,658

**Tax Paid**

Key Date 01/Jul/09  
 Projection Year

Jun/2037  
28

Jun/2038  
29

Jun/2039  
30

<b>INCOME SUMMARY</b>		<b>Sum</b>			
Income Received		1,322,240	47,530	46,024	44,439
Social security pension entitlements		429,152	47,577	51,742	56,069
<b>Sub Total</b>		<b>1,751,392</b>	<b>95,107</b>	<b>97,766</b>	<b>100,508</b>
Less income tax	<b>Tax Paid over 30 years</b>	443,208	14,166	15,054	15,971
Less transfers		759,019	40,128	41,015	41,956
<b>Net Income</b>		<b>549,166</b>	<b>40,813</b>	<b>41,696</b>	<b>42,582</b>
Less estimated current expenses		2,378,771	111,064	114,396	117,828
<b>Surplus/deficit income</b>		<b>(1,829,605)</b>	<b>(70,251)</b>	<b>(72,700)</b>	<b>(75,247)</b>
<b>CASHFLOW POSITION</b>		<b>Sum</b>			
Surplus/Deficit income		(1,829,605)	(70,251)	(72,700)	(75,247)
<b>Bank Transactions (50Y)</b>					
Investment Redemptions		1,944,232	0	0	0
Less sale costs of investment property		(68,150)	0	0	0
<b>Sub Total</b>		<b>1,876,082</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bank Transactions (EOY)</b>					
Net transfers from Spouse		759,019	40,128	41,015	41,956
<b>Sub Total</b>		<b>759,019</b>	<b>40,128</b>	<b>41,015</b>	<b>41,956</b>
<b>Surplus/deficit cashflow</b>		<b>805,496</b>	<b>(30,123)</b>	<b>(31,685)</b>	<b>(33,291)</b>
<b>INVESTMENTS</b>		<b>Max</b>			
Bank Account Balance		1,079,266	920,472	888,787	855,496
Principal Residence		2,593,165	2,352,077	2,469,681	2,593,165
Investment Properties		1,392,981	0	0	0
<b>Total Investments</b>		<b>3,448,661</b>	<b>3,272,550</b>	<b>3,358,468</b>	<b>3,448,661</b>
Present Day Value Total Investments			1,091,322	1,076,898	1,063,287

# Property as a retirement income stream

## Disadvantages

- Research – the decision to invest in property is research intensive.
- Transaction costs – These are usually quite high relative to other financial assets.
- All rental income is assessed as income by Centrelink
- Ongoing costs – These are usually quite high relative to other financial assets.
- Ongoing capital expenditure – capital expenditure will usually be required every 3-5 years to keep a property up to date.
- Liquidity – Property is an illiquid asset (that is, can not be sold quickly).
- The possibility of the property being untenanted at a time when you are fully or partially dependent on that rental income (for example, in retirement) needs to be considered.

# Property as a retirement income stream

## Disadvantages

- Divisibility – It is usually impossible and/or costly to sell a portion of it.
- Management – unlike other asset classes, direct property investment is very management intensive. Management involvement extends to the procurement of tenants, collection of rent, physical repairs to the property, improvements to the property etc.
- Valuation – property valuation is more of an art than a science. Many judgmental decisions are required to arrive at an assessed value, which ultimately can only provide a guide to whether a given property is good or poor value relative to the asking price. Even professional valuer judgments should only be taken as an estimate.



## Case Study – retirement income stream via superannuation Peter and Samantha

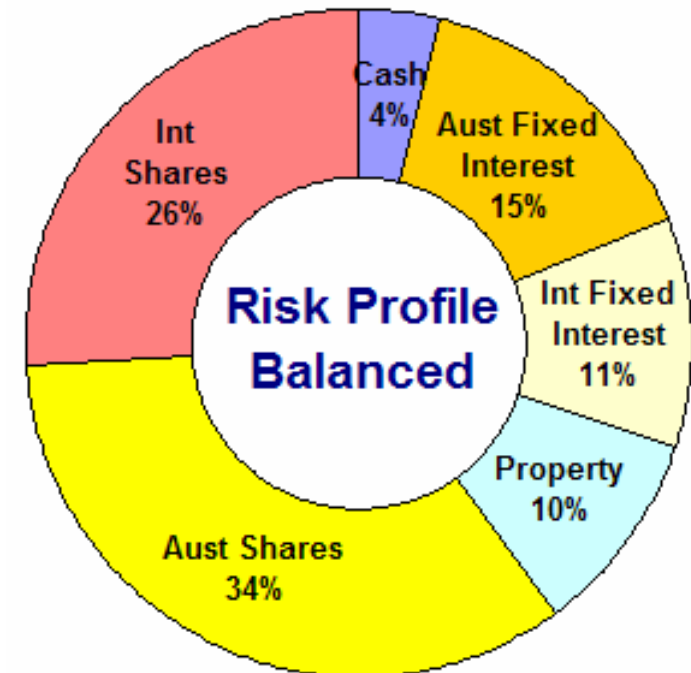
- Both aged 60
- They want \$50,000 p.a for living and lifestyle needs, increasing by 3% p.a for inflation
- They both start an Account Based Pension (ABP) with \$500,000 each in superannuation
- They have \$50,000 in the bank in joint names
- Their home is worth \$600,000

# Case Study – retirement income stream via superannuation Peter and Samantha

- Just like property, ABP's have some problems
- As the cash and fixed interest investments within an ABP are depleted they will need to be replenished

- Asset allocation

Where is the money invested?





## Case Study – retirement income stream via superannuation Peter and Samantha

- Investment mix needs to change over time
- Dividends and other income receipts will help, but ultimately the account will have to be topped up by selling some of the longer-term assets
- Consider cash reserving
  - Holding a number of years pension payments in cash
  - Risk management NOT market timing
  - Based on Prices and Values

Key Date 01/Jul/09 Projection Year		Jun/2037 28	Jun/2038 29	Jun/2039 30
<b>INCOME SUMMARY</b>		<b>Sum</b>		
Income Received	2,971,665	186,837	188,366	189,834
Less transfers	1,398,340	82,960	81,830	80,710
<b>Net Income</b>	<b>1,573,325</b>	<b>103,877</b>	<b>106,536</b>	<b>109,124</b>
Less estimated current expenses	2,378,771	111,064	114,396	117,828
<b>Surplus/deficit income</b>	<b>(805,446)</b>	<b>(7,187)</b>	<b>(7,860)</b>	<b>(8,704)</b>
<b>CASHFLOW POSITION</b>		<b>Sum</b>		
Surplus/Deficit income	(805,446)	(7,187)	(7,860)	(8,704)
<b>Bank Transactions (EOY)</b>				
Net transfers from Spouse	1,398,340	82,960	81,830	80,710
<b>Sub Total</b>	<b>1,398,340</b>	<b>82,960</b>	<b>81,830</b>	<b>80,710</b>
<b>Surplus/deficit cashflow</b>	<b>592,894</b>	<b>75,773</b>	<b>73,970</b>	<b>72,006</b>
<b>INVESTMENTS</b>		<b>Max</b>		
Bank Account Balance	642,894	496,918	570,888	642,894
Principal Residence	2,593,165	2,352,077	2,469,681	2,593,165
Allocated Pensions	1,867,321	1,816,867	1,792,156	1,767,786
<b>Total Investments</b>	<b>5,003,846</b>	<b>4,665,863</b>	<b>4,832,725</b>	<b>5,003,846</b>
Present Day Value Total Investments		1,555,960	1,549,620	1,542,779

**No tax paid**  
**No social security received**  
**And net assets are higher after 30 years**



# Retirement income stream via superannuation

## Retirement income stream via property

### Which one is best?

- You can have both via a Self Managed Superannuation Fund
- Having investments (property, shares, managed funds, etc) outside of the superannuation system can mean that you pay more tax
  - More income tax, even with tax credits like imputation credits
  - More Capital Gains Tax (CGT)
- It's your choice, but before you decide ...

# Financial Modeling

We do the “What if” analysis.

You could do many things



## **But, what should you do?**

- Crunch the numbers, compare, take into account your circumstances, get advice, make a decision and **START**

Client	Partner	Joint	Trust	Company	Superfund	Combined	Jun/2007	Jun/2008	Jun/2009	Jun/2010	Jun/2011	Jun/2012	Jun/2013	Jun/2014	
Key Date 01/Jul/06							1	2	3	4	5	6	7	8	Key Results
Projection Year							1	2	3	4	5	6	7	8	Income
Projection Age							61.1	62.1	63.1	64.1	65.1	66.1	67.1	68.1	Expenditure
<b>INCOME SUMMARY</b>															Joint Dis.Inc
<b>Sum</b>															Tax
Income Received	853,400	94,133	97,073	100,106	103,237	106,468	7,383	7,752	8,140						Joint WCA
Less income tax	(20,379)	15,338	16,135	16,957	18,073	19,256	(2,224)	(2,335)	(2,452)						Bank Account
Less superannuation contributions	38,698	7,289	7,508	7,733	7,965	8,204	0	0	0						Investments
Less regular loan repayments	791,205	40,402	40,402	40,402	40,402	40,402	40,402	40,402	40,402						Cash/Fixed Interest
<b>Net Income</b>	<b>43,876</b>	<b>31,104</b>	<b>33,028</b>	<b>35,014</b>	<b>36,797</b>	<b>38,606</b>	<b>(30,795)</b>	<b>(30,315)</b>	<b>(29,810)</b>						Trust/Property Trust
Less estimated current expenses	357,713	56,000	57,400	58,835	60,306	61,814	63,359	0	0						Share/Savings Plan
<b>Surplus/deficit income</b>	<b>(313,837)</b>	<b>(24,896)</b>	<b>(24,372)</b>	<b>(23,821)</b>	<b>(23,509)</b>	<b>(23,207)</b>	<b>(94,154)</b>	<b>(30,315)</b>	<b>(29,810)</b>						Investment Properties
<b>CASHFLOW POSITION</b>															Superannuation
<b>Sum</b>															RO - RBL
Surplus/Deficit income	(313,837)	(24,896)	(24,372)	(23,821)	(23,509)	(23,207)	(94,154)	(30,315)	(29,810)						ETP Withdrawals
<b>Bank Transactions (EOY)</b>															RO Income Inv.
Net transfers from Spouse	198,830	37,354	38,067	38,803	39,562	40,345	98	103	109						Allocated Pensions
Loan proceeds/repayments	(71,465)	(16,224)	(12,290)	(13,275)	(14,303)	(15,373)	0	0	0						Commutations
<b>Sub Total</b>	<b>127,365</b>	<b>21,130</b>	<b>25,777</b>	<b>25,528</b>	<b>25,259</b>	<b>24,972</b>	<b>98</b>	<b>103</b>	<b>109</b>						Bonds
<b>Surplus/deficit cashflow</b>	<b>(186,473)</b>	<b>(3,766)</b>	<b>1,405</b>	<b>1,707</b>	<b>1,750</b>	<b>1,765</b>	<b>(94,055)</b>	<b>(30,211)</b>	<b>(29,702)</b>						Investment Loans
<b>INVESTMENTS</b>															Home
<b>Max</b>															Age Pension
Bank Account Balance	7,862	1,234	2,639	4,346	6,097	7,862	(86,194)	(116,405)	(146,106)						DVA
Other Investments / Entities	1,250,122	303,713	318,898	334,843	351,585	369,164	387,623	407,004	427,354						Newstart
Principal residence	570,579	321,300	327,726	334,281	340,966	347,785	354,741	361,836	369,073						FTB
Rollover & Superannuation A/C	4,196,068	520,792	576,778	637,269	702,598	773,122	827,241	885,148	947,108						Entities
Mortgage Owning	(428,009)	(428,009)	(406,851)	(383,267)	(357,048)	(327,972)	(312,289)	(295,536)	(277,642)						
<b>Total Investments</b>	<b>5,592,297</b>	<b>719,029</b>	<b>819,190</b>	<b>927,472</b>	<b>1,044,198</b>	<b>1,169,961</b>	<b>1,171,122</b>	<b>1,242,046</b>	<b>1,319,786</b>						
Present Day Value Total Investments		701,492	779,717	861,250	945,992	1,034,075	1,009,855	1,044,890	1,083,210						
<b>SUPERANNUATION INVESTMENTS</b>															
<b>Initial</b>															
Total incl DIY Superfund Cap Acct	469,000	520,792	576,778	637,269	702,598	773,122	827,241	885,148	947,108						
<b>RBL Status at Start of Period</b>															
Under/(Over) L/S RBL		209,149	184,483	156,708	125,556	90,740	51,950	30,834	7,250						
Under/(Over) Pension RBL		887,291	889,751	890,186	888,374	884,070	877,013	888,900	899,639						

### Your starting point

Establish your current financial position

### Your destination

Identify your life aims and prioritise what you'd like your money to do or buy

### Getting there

Construct a financial plan to attain your goals, minimise the effect of roadblocks and achieve your destination

#### **Goals**

- Retraining or further education
- Start or strengthen a relationship
- Buy home
- Raise children
- Investment property
- Travel
- Retirement
- Care for parents

#### **Roadblocks**

- Injury to partner
- Personal illness
- Unemployment
- Illness of parent
- Economic downturn/recession
- Relationship breakdown
- Business expenses

**Starting point**

**Destination**





## NCAP's - Overview

- **Problem** – how to boost your superannuation as you **T**ransition **T**o **R**etirement (**TTR**) without lowering your current income
- **Solution** – a strategy based around accessing your super through a **N**on-**C**ommutable **A**ccount based **P**ension (**NCAP**)
- **Action steps**
  - Continue to work
  - Boost your super with salary packaging / sacrifice payments
  - Maintain current income with an **NCAP**
- **Result** – have your cake and eat it too with more super for your retirement



## NCAPs in a nutshell

- NCAPs can only be started once you reach your preservation age\*
- Purchased with superannuation money
- No work test
- Prescribed limits
- Lump sum withdrawals (commutations) generally not allowed

\*You can also start a pension at any time if you have **Unrestricted Non-Preserved** monies in your superannuation fund



## How to have your cake and eat it too

- Once you've reached your preservation age, continue to work at your present level
- Purchase an NCAP with your superannuation money
- Salary package/sacrifice into your super account (your employer must agree)
- Maintain current income by drawing a pension from your NCAP
- The tax advantages mean your income stays the same but your super may receive a growth boost



## Transition to retirement

- The pension must be non-commutable to access super under transition to retirement rules.
- This means that you **cannot make lump sum withdrawals**. You receive income payments only
- However, once you are retired, or reach age 65, you will have full access to your super



## Transition to retirement strategy

- Non-commutable pension can be used even if you don't intend to reduce working hours
- By salary packaging / sacrificing a large component of your salary and making up the shortfall with a non-commutable pension, you may increase your superannuation due to tax benefits
- You need to crunch the numbers before implementing this strategy to make sure you are better off
- Given most taxpayers are on the 30% MTR most will be better off, so long as they can salary package / salary sacrifice



## Transition to retirement

- You must take at least a Minimum amount
- You cannot take more than 10% p.a
- Minimum amounts are determined by a table of

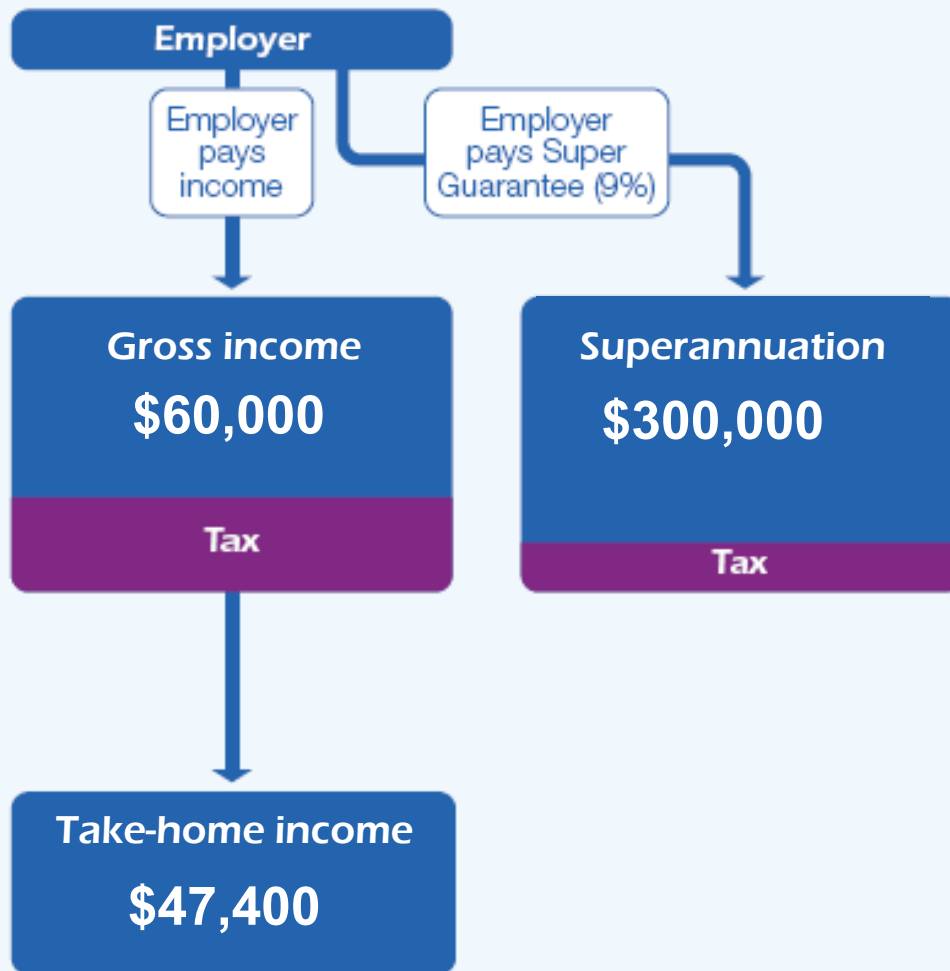
**P**ension **V**aluation **F**actors

## Peter's story

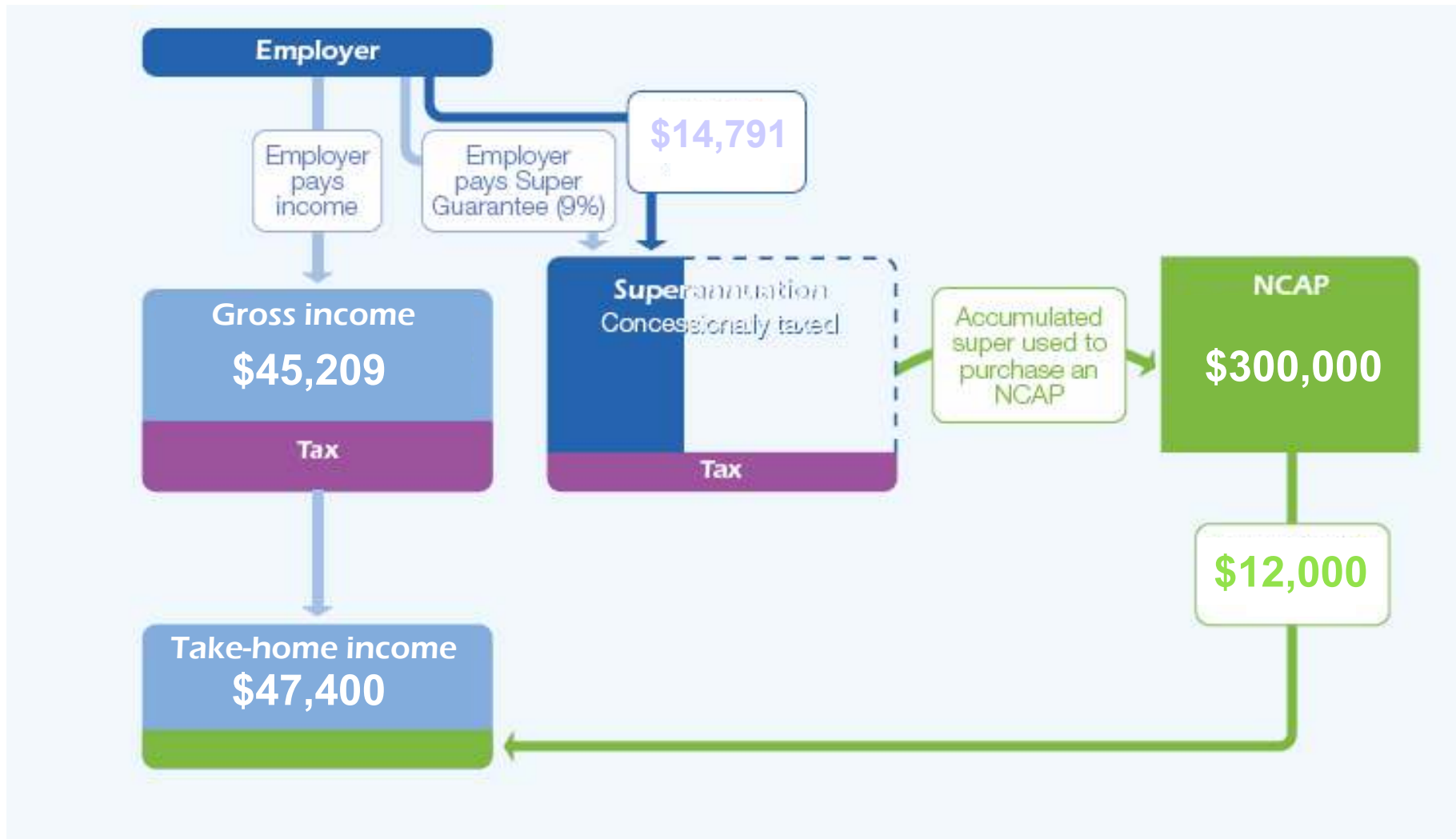
- Peter, 55, wants to retire at 65 and work full-time until then
- He earns \$60,000 per year - \$47,400 after tax and Medicare levy
- Peter has \$300,000 in super
- On 1 July 2009 Peter rolls over all his super into an NCAP and chooses a pension payment of \$12,000 (Year 1)
- He salary packages/sacrifices \$14,791 (Year 1) into super and receives the same net income of \$47,400 after tax and the Medicare levy

*The projections in this strategy are based on various assumptions, including but not limited to: maximum pension payment = \$30,000 in year 1; salary sacrifice = \$14,791 in year 1; no change in take-home pay before/after strategy; no change in risk profile; estimated income return of 7%; all investment earnings figures are after tax and after fees; no change in Super Guarantee contributions, ie 9% of \$60,000.*

# Peter's position without the strategy



# An NCAP gives Peter a super boost



	<b>Option A</b>
Tax Free component percentage	0.00%
Salary	\$60,000
NCAP Income	\$0
<b>Total Income</b>	<b>\$60,000</b>
Less salary sacrifice	\$0
Less DA on NCAP	\$0
<b>Total deductions</b>	<b>\$0</b>
<b>Taxable Income</b>	<b>\$60,000</b>
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	<b>-\$11,850</b>
Less Rebate - ETP Annuity/Super. Pensions	\$0
Less Low Income Rebate	-\$150
<b>Total Rebates &amp; Credits</b>	<b>-\$150</b>
Tax Payable after Rebates & Credits	-\$11,700
Add Medicare Levy	-\$900
<b>Net tax</b>	<b>-\$12,600</b>
<b>Cash Flow after tax</b>	<b>\$47,400</b>
Tax on super contributions	\$0
Superannuation balance in Accumulation Phase	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%
Tax on superannuation income in Accumulation Phase	-\$3,150
<b>Total taxes</b>	<b>-\$15,750</b>
<b>Tax saved COMPARED TO Option A</b>	<b>\$0</b>

	Option A	Option C
Tax Free component percentage	0.00%	0.00%
Salary	\$60,000	\$60,000
NCAP Income	\$0	\$12,000
<b>Total Income</b>	\$60,000	\$72,000
Less salary sacrifice	\$0	-\$14,791
Less DA on NCAP	\$0	\$0
<b>Total deductions</b>	\$0	-\$14,791
<b>Taxable Income</b>	\$60,000	\$57,209
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,013
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$1,800
Less Low Income Rebate	-\$150	-\$262
<b>Total Rebates &amp; Credits</b>	-\$150	-\$2,062
Tax Payable after Rebates & Credits	-\$11,700	-\$8,951
Add Medicare Levy	-\$900	-\$858
<b>Net tax</b>	-\$12,600	-\$9,809
<b>Cash Flow after tax</b>	\$47,400	\$47,400
Tax on super contributions	\$0	-\$2,219
Superannuation balance in Accumulation Phase	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0
<b>Total taxes</b>	-\$15,750	-\$12,028
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,722

	Option A	Option B	Option C
Tax Free component percentage	0.00%	0.00%	0.00%
Salary	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791
Less DA on NCAP	\$0	\$0	\$0
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800
Less Low Income Rebate	-\$150	-\$206	-\$262
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951
Add Medicare Levy	-\$900	-\$879	-\$858
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400
Tax on super contributions	\$0	-\$1,109	-\$2,219
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722

50% of Minimum due to  
2009 Budget announcement

50% x 4% = 2%  
2% x \$300,000 = \$6,000

	Option A	Option B	Option C	Option D
Tax Free component percentage	0.00%	0.00%	0.00%	0.00%
Salary	\$60,000	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000	\$30,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000	\$90,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791	-\$36,977
Less DA on NCAP	\$0	\$0	\$0	\$0
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791	-\$36,977
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209	\$53,023
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013	-\$9,757
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800	-\$4,500
Less Low Income Rebate	-\$150	-\$206	-\$262	-\$429
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062	-\$4,929
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951	-\$4,828
Add Medicare Levy	-\$900	-\$879	-\$858	-\$795
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809	-\$5,623
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400	\$47,400
Tax on super contributions	\$0	-\$1,109	-\$2,219	-\$5,547
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028	-\$11,170
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722	\$4,580

	Option A	Option B	Option C	Option D	Option E
Tax Free component percentage	0.00%	0.00%	0.00%	0.00%	50.00%
Salary	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000	\$30,000	\$30,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000	\$90,000	\$90,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791	-\$36,977	-\$41,623
Less DA on NCAP	\$0	\$0	\$0	\$0	-\$15,000
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791	-\$36,977	-\$56,623
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209	\$53,023	\$33,377
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013	-\$9,757	-\$4,107
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800	-\$4,500	-\$2,250
Less Low Income Rebate	-\$150	-\$206	-\$262	-\$429	-\$1,215
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062	-\$4,929	-\$3,465
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951	-\$4,828	-\$642
Add Medicare Levy	-\$900	-\$879	-\$858	-\$795	-\$335
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809	-\$5,623	-\$977
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400
Tax on super contributions	\$0	-\$1,109	-\$2,219	-\$5,547	-\$6,243
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028	-\$11,170	-\$7,220
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722	\$4,580	\$8,530

Limited to new Caps from 1 July 2009

\$50,000, including employer contributions

E.g: 9% x \$60,000 = \$5,400

\$50,000 LESS \$5,400 = \$44,600

	Option A	Option B	Option C	Option D	Option E	Option F
Tax Free component percentage	0.00%	0.00%	0.00%	0.00%	50.00%	100.00%
Salary	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000	\$30,000	\$30,000	\$30,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000	\$90,000	\$90,000	\$90,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791	-\$36,977	-\$41,623	-\$42,176
Less DA on NCAP	\$0	\$0	\$0	\$0	-\$15,000	-\$30,000
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791	-\$36,977	-\$56,623	-\$72,176
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209	\$53,023	\$33,377	\$17,824
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013	-\$9,757	-\$4,107	-\$1,774
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800	-\$4,500	-\$2,250	\$0
Less Low Income Rebate	-\$150	-\$206	-\$262	-\$429	-\$1,215	-\$1,350
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062	-\$4,929	-\$3,465	-\$1,350
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951	-\$4,828	-\$642	-\$424
Add Medicare Levy	-\$900	-\$879	-\$858	-\$795	-\$335	\$0
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809	-\$5,623	-\$977	-\$424
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400
Tax on super contributions	\$0	-\$1,109	-\$2,219	-\$5,547	-\$6,243	-\$6,326
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0	\$0	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028	-\$11,170	-\$7,220	-\$6,750
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722	\$4,580	\$8,530	\$9,000

	Option A	Option B	Option C	Option D	Option E	Option F	Option G
Tax Free component percentage	0.00%	0.00%	0.00%	0.00%	50.00%	100.00%	100.00%
Salary	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000	\$30,000	\$30,000	\$30,000	\$6,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000	\$90,000	\$90,000	\$90,000	\$66,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791	-\$36,977	-\$41,623	-\$42,176	-\$44,600
Less DA on NCAP	\$0	\$0	\$0	\$0	-\$15,000	-\$30,000	-\$6,000
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791	-\$36,977	-\$56,623	-\$72,176	-\$50,600
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209	\$53,023	\$33,377	\$17,824	\$15,400
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013	-\$9,757	-\$4,107	-\$1,774	-\$1,410
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800	-\$4,500	-\$2,250	\$0	\$0
Less Low Income Rebate	-\$150	-\$206	-\$262	-\$429	-\$1,215	-\$1,350	-\$1,350
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062	-\$4,929	-\$3,465	-\$1,350	-\$1,350
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951	-\$4,828	-\$642	-\$424	-\$60
Add Medicare Levy	-\$900	-\$879	-\$858	-\$795	-\$335	\$0	\$0
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809	-\$5,623	-\$977	-\$424	-\$60
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400	\$21,340
Tax on super contributions	\$0	-\$1,109	-\$2,219	-\$5,547	-\$6,243	-\$6,326	-\$6,690
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028	-\$11,170	-\$7,220	-\$6,750	-\$6,750
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722	\$4,580	\$8,530	\$9,000	\$9,000

MAX

	Option A	Option B	Option C	Option D	Option E	Option F	Option G	Option H
Tax Free component percentage	0.00%	0.00%	0.00%	0.00%	50.00%	100.00%	100.00%	100.00%
Salary	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
NCAP Income	\$0	\$6,000	\$12,000	\$30,000	\$30,000	\$30,000	\$6,000	\$6,000
<b>Total Income</b>	\$60,000	\$66,000	\$72,000	\$90,000	\$90,000	\$90,000	\$66,000	\$66,000
Less salary sacrifice	\$0	-\$7,395	-\$14,791	-\$36,977	-\$41,623	-\$42,176	-\$44,600	-\$30,000
Less DA on NCAP	\$0	\$0	\$0	\$0	-\$15,000	-\$30,000	-\$6,000	-\$6,000
<b>Total deductions</b>	\$0	-\$7,395	-\$14,791	-\$36,977	-\$56,623	-\$72,176	-\$50,600	-\$36,000
<b>Taxable Income</b>	\$60,000	\$58,605	\$57,209	\$53,023	\$33,377	\$17,824	\$15,400	\$30,000
<b>Tax Payable BEFORE Rebates &amp; Credits</b>	-\$11,850	-\$11,431	-\$11,013	-\$9,757	-\$4,107	-\$1,774	-\$1,410	-\$3,600
Less Rebate - ETP Annuity/Super. Pensions	\$0	-\$900	-\$1,800	-\$4,500	-\$2,250	\$0	\$0	\$0
Less Low Income Rebate	-\$150	-\$206	-\$262	-\$429	-\$1,215	-\$1,350	-\$1,350	-\$1,350
<b>Total Rebates &amp; Credits</b>	-\$150	-\$1,106	-\$2,062	-\$4,929	-\$3,465	-\$1,350	-\$1,350	-\$1,350
Tax Payable after Rebates & Credits	-\$11,700	-\$10,326	-\$8,951	-\$4,828	-\$642	-\$424	-\$60	-\$2,250
Add Medicare Levy	-\$900	-\$879	-\$858	-\$795	-\$335	\$0	\$0	\$0
<b>Net tax</b>	-\$12,600	-\$11,205	-\$9,809	-\$5,623	-\$977	-\$424	-\$60	-\$2,250
<b>Cash Flow after tax</b>	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400	\$47,400	\$21,340	\$33,750
Tax on super contributions	\$0	-\$1,109	-\$2,219	-\$5,547	-\$6,243	-\$6,326	-\$6,690	-\$4,500
Superannuation balance in Accumulation Phase	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Superannuation income rate on \$ in Accum Phase	7.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax on superannuation income in Accumulation Phase	-\$3,150	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total taxes</b>	-\$15,750	-\$12,314	-\$12,028	-\$11,170	-\$7,220	-\$6,750	-\$6,750	-\$6,750
<b>Tax saved COMPARED TO Option A</b>	\$0	\$3,436	\$3,722	\$4,580	\$8,530	\$9,000	\$9,000	\$9,000



## NCAP's – A Summary

- Once you've reached your preservation age, a transition to retirement strategy can potentially boost your super as you transition to retirement without lowering your current income.
- It involves
  - continuing to work
  - rolling existing super into an NCAP
  - boosting your super with salary sacrifice payments
  - maintaining current income with an NCAP pension stream
- And as a result you can have your cake and eat it too with more super for your retirement



## Non-Commutable Allocated Pensions – Practical Issues

- Consider a NCAP if you are 55 or older and still working
- Does your superannuation fund allow you to start a NCAP?
  - Some superannuation funds do not
  - Consider rolling over your superannuation into a fund that does allow a NCAP
  - Consider getting a short term loan to start a NCAP
- Issues with converting defined benefit funds to accumulation plans
- Consider salary packaging more of your taxable salary once you start a NCAP

# More information



**fido** Australian Securities & Investments Commission  
financial tips and safety checks



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## Retirement income terms

The language of retirement incomes can sometimes be a bit puzzling. Here are some terms you're likely to read or hear.

### TIP!

Some financial institutions use different words to describe their products. Make sure you are comparing like with like. Ask questions until you are sure you understand.

### Annuities

A stream of regular payments purchased from a life insurance company using superannuation money, or in some cases, other savings to provide an income. Payment amounts depend on the lump sum, expected future investment return, frequency of payments, expenses and the life expectancy of the individual purchaser or the term, if it is a fixed-term annuity.

### Beneficiary

A beneficiary is someone who receives a payment from a superannuation fund, who can either be the member or his/her beneficiaries dependants in the event of death.

### Commutation and non-commutable

Commutation is the technical term used to describe withdrawing some or all of your money in a retirement income stream in the form of a lump sum. Some retirement income streams do not allow you to withdraw money, which is known as non-commutable.

### 'Complying' income streams

'Complying' income streams were retirement income stream products (that is, pensions or annuities) that met certain requirements relevant before 20 September 2007. Given the changes, it is possible that complying income stream products will disappear from the market after 20 September 2007, as they will no longer have any use. However, existing holders of complying income streams will not be able to commute their benefits and transfer to a new pension.

# More information

## Exit Fees

Some funds charge exit fees usually as a percentage of the amount withdrawn. The fee generally varies from between 0 - 5%. This may apply on all withdrawals or to withdrawals made during a specified number of years. Exit fees do not generally apply when entry fees have been charged.

## Switching Fees

A manager may charge a fee when unit holders request changes to their investment options e.g capital secure to balanced etc. This may be a set dollar amount per transaction or a percentage of the amount switched.

## Management Expense Ratio (MER)

Managed funds incur ongoing administration costs which are paid out of the fund. The management expense ratio (MER) indicates the percentage of the average balance the investment fund needed to cover fees and charges (including the annual management fees). The MER aims to show what extra costs are incurred in using a managed fund structure instead of direct investments by the investor. This ratio can be used to compare the costs of similar funds with different product providers. It is not an additional fee.

## Other Costs

A fee is payment to the product provider for their service while charges refer to costs imposed on them by other organisations - eg. tax. Following the introduction of GST some duties

and taxes were abolished. Other services may attract fees and together with any charges imposed are recovered from the investors.

## Commissions

Initial and trailing commissions may be paid to financial planners by product providers from the entry or management fees collected. These can be negotiable or rebates offered. Refer to NICRI booklet *A Guide to the Financial Planning Process* for further details on fees received by financial planners.

## Investing With Safety

Remember all product providers need to charge fees to cover costs and be profitable. Compare similar investments and their net return. Be cautious and check for hidden fees. A choice of how fees are charged may be available. The final cost may be very similar no matter the fee structure chosen. Always read all documents carefully and thoroughly. Fees on different investment types vary. Refer to NICRI's leaflets on the relevant product type.

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<http://redundancy.nicri.org.au>

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National Information Centre on Retirement Investments Inc.

# Investment Fees



[www.nicri.org.au](http://www.nicri.org.au)

<http://moneymap.nicri.org.au>

# More information




www.centrelink.gov.au

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## Payments for your retirement

- > [Age Pension](#) - for retired people to ensure an adequate income in retirement.
- > [Widow Allowance](#) (no new grants after 1 July 2005 unless born on or before 1 July 1955) - for older widowed, divorced or separated women without recent work experience.
- > [Partner Allowance](#) (no new grants from 20 September 2003) - for people with no recent work experience whose partner gets a payment.
- > [Wife Pension](#) (no new grants from 1 July 1995) - for the female partner of a Disability Support Pensioner or Age Pensioner.
- > [Widow 'B' Pension](#) (no new grants from 20 March 1997) - for older widows without the financial support of their partner.
- > [Pension Loans Scheme](#) - for people of Age Pension age whose capital is tied up in assets.
- > [Pension Bonus Scheme](#) - for people who defer claiming Age Pension and continue to work.
- > [Pension Bonus Bereavement Payment](#) - for the surviving partner of a deceased Pension Bonus Scheme member who did not make their claim for Age Pension and Pension Bonus before they died.

# More information



Australian Government  
Department of Families,  
Housing, Community Services  
and Indigenous Affairs

## ▶ Retirement Income Streams

### Contents

- ▶ Retirement Income Streams
- ▶ Budgeting for Retirement
- ▶ Types of Income Streams - Account Based
- ▶ Account Based Market Linked Income Streams
- ▶ Types of Income Streams - Non Account Based
- ▶ Comparison of different types of income stream products
- ▶ What are the Tax Rules?
- ▶ Social Security Rules
- ▶ Retirement Income Stream Estate Planning Issues

## Retirement Income Streams

[www.fahcsia.gov.au](http://www.fahcsia.gov.au)

### Information to help you plan your retirement years

Having an adequate income throughout your retirement years is a fundamental part of enjoying retirement as a way of producing regular income payments throughout retirement.

Gaining a good knowledge of retirement income streams involves understanding:

- what they are;
- how they work;
- what types there are;
- who provides them;
- what the risks are;
- how they are taxed; and
- how they are counted for the social security means tests.

You can then work out what retirement income stream suits your needs.

On 9 May 2006, in the context of the 2006 Budget, the Australian Government announced its i peoples' superannuation benefits. These were very significant changes for retirees and retirer

### What are Retirement Income Streams?

During working life, and certainly well before retirement, we become used to earning a regular or wage which is paid at least monthly.

Because of the regularity of income during our working life, we usually adapt our spending to f

# More information

**FOR RETIREMENT**

**[www.bankers.asn.au](http://www.bankers.asn.au)**



## TYPES OF RETIREMENT INCOME PRODUCTS



When you reach retirement, you have a choice of how you will take the funds you have accumulated over your working life.

You might choose to:

- Access your super as a lump sum payment, or
- Roll it over to a pension or annuity product which will provide you with an income stream, or
- A combination of the two.

Up until the age of 60, you will pay tax on any pension you draw, but you will receive a 15% tax rebate. For many people, once you reach the age of 60, funds withdrawn from your super are tax-free, whether you take them as a lump sum, or in the form of a regular income.

There are tax benefits in place to encourage you to convert your super into a retirement income stream. For example, if you convert your accumulated super into a pension or annuity product, there is no tax on the earnings from the assets supporting the pension/annuity.

Compare this to taking your super as a lump sum and investing it outside the super environment, in which case earnings on those investments would be taxed at your marginal tax rate.

There is a range of products to choose from that provide you with an income stream. These include:

- account-based pensions and annuities
- lifetime pensions and annuities
- life expectancy pensions and annuities, and
- fixed term pensions and annuities.

# Summary

- Getting access to my superannuation and some brief facts
- Different types of Private Pensions and how they work
- Private Pension Rules, Tax and Centrelink Assessment
- Case Studies
  - Using property to create a retirement income stream
  - Pensions, tax planning, cash flow and debt management





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strategic financial advice

what if... analysis

advice given on a fee for service basis



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## Case Study – Tony & Mary

- Both aged 47
- Have two children, aged 11 & 9
- Earn \$65,000 p.a and \$30,000 p.a
- Salaries expected to go up by 3% p.a
- Mortgage of \$300,000 @ 7.49% interest rate. Making minimum repayments of \$1,020 p.f
- Living expenses of \$40,000 increasing by 2.5% p.a
- Employer contributes 9% p.a of salary to superannuation
- Current superannuation balances of \$60,000 and \$20,000 earning 7.49%
- Want to retire at age 55

# Case Study – Tony & Mary

At age 55, their financial position is estimated to be:-

	Option A What if, all excess cash flow went to repay home loan?
Principal residence (Growth of 3% p.a)	\$506,708
Superannuation	<b>\$225,991</b>
Mortgage Owing	<b>-\$137,317</b>
<b>Total Assets at end of year</b>	<b>\$595,382</b>
<b>Difference compared to Option A</b>	N/a
<b>Present Day Value Total Assets</b>	\$488,658
<b>Difference compared to Option A</b>	N/a

# Case Study – Tony & Mary

At age 55, their financial position is estimated to be:-

	Option A What if, all excess cash flow went to repay home loan?	Option B What if, all excess cash flow went to salary package into super for Tony. Super earning <b>7.49%</b> ?
Principal residence (Growth of 3% p.a)	\$506,708	\$506,708
Superannuation	<b>\$225,991</b>	<b>\$372,623</b>
Mortgage Owing	<b>-\$137,317</b>	<b>-\$255,710</b>
<b>Total Assets at end of year</b>	<b>\$595,382</b>	<b>\$623,622</b>
<b>Difference compared to Option A</b>	N/a	<b>\$28,240</b>
<b>Present Day Value Total Assets</b>	\$488,658	\$511,835
<b>Difference compared to Option A</b>	N/a	<b>\$23,177</b>

# Case Study – Tony & Mary

At age 55, their financial position is estimated to be:-

	<b>Option A</b> What if, all excess cash flow went to repay home loan?	<b>Option B</b> What if, all excess cash flow went to salary package into super for Tony. Super earning <b>7.49%</b> ?	<b>Option C</b> What if, all excess cash flow went to salary package into super for Tony. Super earning <b>9%</b> ?
Principal residence (Growth of 3% p.a)	\$506,708	\$506,708	506,708
Superannuation	<b>\$225,991</b>	<b>\$372,623</b>	<b>401,180</b>
Mortgage Owing	<b>-\$137,317</b>	<b>-\$255,710</b>	<b>-255,710</b>
<b>Total Assets at end of year</b>	<b>\$595,382</b>	<b>\$623,622</b>	<b>652,178</b>
<b>Difference compared to Option A</b>	N/a	<b>\$28,240</b>	<b>\$56,796</b>
<b>Present Day Value Total Assets</b>	\$488,658	\$511,835	535,273
<b>Difference compared to Option A</b>	N/a	<b>\$23,177</b>	<b>\$46,615</b>

# Case Study – Tony & Mary

At age 55, their financial position is estimated to be:-

	<b>Option A</b> What if, all excess cash flow went to repay home loan?	<b>Option B</b> What if, all excess cash flow went to salary package into super for Tony. Super earning <b>7.49%</b> ?	<b>Option C</b> What if, all excess cash flow went to salary package into super for Tony. Super earning <b>9%</b> ?	<b>Option D</b> What if, home loan is increased to about 80% of home valuation (for 4 years) to salary package more into super for Tony. Super earning <b>9%</b> ?
Principal residence (Growth of 3% p.a)	\$506,708	\$506,708	506,708	\$506,708
Superannuation	<b>\$225,991</b>	<b>\$372,623</b>	<b>401,180</b>	<b>\$558,947</b>
Mortgage Owning	<b>-\$137,317</b>	<b>-\$255,710</b>	<b>-255,710</b>	<b>-\$365,983</b>
<b>Total Assets at end of year</b>	<b>\$595,382</b>	<b>\$623,622</b>	<b>652,178</b>	<b>\$699,674</b>
<b>Difference compared to Option A</b>	N/a	<b>\$28,240</b>	<b>\$56,796</b>	<b>\$104,292</b>
<b>Present Day Value Total Assets</b>	\$488,658	\$511,835	535,273	\$574,255
<b>Difference compared to Option A</b>	N/a	<b>\$23,177</b>	<b>\$46,615</b>	<b>\$85,597</b>

## Case Study – Tony & Mary

- If they use any and all excess cash flow to **repay their mortgage.**

At age 55, their financial position is estimated to be:-

End of year	1	2	3	4	5	6	7	8
Age at end of year	48	49	50	51	52	53	54	55
<b>ASSETS</b>								
Principal residence (Growth of 3% p.a)	\$412,000	\$424,360	\$437,091	\$450,204	\$463,710	\$477,621	\$491,950	\$506,708
Superannuation (Earning 7.49% p.a)	\$93,260	\$107,730	\$123,509	\$140,701	\$159,420	\$179,785	\$201,929	<b>\$225,991</b>
Mortgage Owing	-\$287,546	-\$273,208	-\$256,808	-\$238,152	-\$217,030	-\$193,251	-\$166,760	<b>-\$137,317</b>
<b>Total Assets</b>	\$217,714	\$258,882	\$303,792	\$352,753	\$406,099	\$464,155	\$527,118	<b>\$595,382</b>
<b>Present Day Value Total Assets</b>	\$212,404	\$246,408	\$282,101	\$319,577	\$358,932	\$400,240	\$443,446	\$488,658

## Case Study – Tony & Mary

- If they use any and all excess cash flow to **salary package into super** for Tony. At age 55, their financial position is estimated to be:-

End of year	1	2	3	4	5	6	7	8
Age at end of year	48	49	50	51	52	53	54	55
<b>ASSETS</b>								
Principal residence (Growth of 3% p.a)	\$412,000	\$424,360	\$437,091	\$450,204	\$463,710	\$477,621	\$491,950	\$506,708
Superannuation (Earning 7.49% p.a)	\$103,502	\$130,121	\$160,135	\$193,848	\$231,585	\$273,701	\$320,576	<b>\$372,623</b>
Mortgage Owing	-\$295,801	-\$291,275	-\$286,399	-\$281,143	-\$275,479	-\$269,376	-\$262,798	<b>-\$255,710</b>
<b>Total Assets</b>	\$219,702	\$263,206	\$310,827	\$362,908	\$419,815	\$481,946	\$549,728	<b>\$623,622</b>
<b>Present Day Value Total Assets</b>	\$214,343	\$250,523	\$288,634	\$328,777	\$371,055	\$415,580	\$462,467	\$511,835

## Case Study – Tony & Mary

- If they use any and all excess cash flow to **salary package into super earning 9%** for Tony. At age 55, their financial position is estimated to be:-

End of year	1	2	3	4	5	6	7	8
Age at end of year	48	49	50	51	52	53	54	55
<b>ASSETS</b>								
Principal residence (Growth of 3% p.a)	\$412,000	\$424,360	\$437,091	\$450,204	\$463,710	\$477,621	\$491,950	\$506,708
Superannuation (Earning 9% p.a)	\$104,710	\$133,001	\$165,239	\$201,829	\$243,211	\$289,871	\$342,334	<b>\$401,180</b>
Mortgage Owing	-\$295,801	-\$291,275	-\$286,399	-\$281,143	-\$275,479	-\$269,376	-\$262,798	<b>-\$255,710</b>
<b>Total Assets</b>	\$220,910	\$266,085	\$315,931	\$370,889	\$431,441	\$498,115	\$571,485	<b>\$652,178</b>
<b>Present Day Value Total Assets</b>	\$215,522	\$253,264	\$293,373	\$336,007	\$381,331	\$429,523	\$480,771	\$535,273

## Case Study – Tony & Mary

- If they increase their home loan to about 80% of home valuation (in first 4 years) and **salary package more into super earning 9%** for Tony.

At age 55, their financial position is estimated to be:-

End of year	1	2	3	4	5	6	7	8
Age at end of year	48	49	50	51	52	53	54	55
<b>ASSETS</b>								
Principal residence (Growth of 3% p.a)	\$412,000	\$424,360	\$437,091	\$450,204	\$463,710	\$477,621	\$491,950	\$506,708
Superannuation (Earning 9% p.a)	\$128,418	\$183,068	\$244,569	\$313,595	\$365,036	\$422,660	\$487,074	<b>\$558,947</b>
Mortgage Owing	-\$313,411	-\$328,283	-\$344,736	-\$362,903	-\$363,589	-\$364,328	-\$365,125	<b>-\$365,983</b>
<b>Total Assets</b>	\$227,007	\$279,146	\$336,924	\$400,896	\$465,158	\$535,954	\$613,901	<b>\$699,674</b>
<b>Present Day Value</b>								
<b>Total Investments</b>	\$221,470	\$265,695	\$312,867	\$363,192	\$411,132	\$462,151	\$516,453	\$574,255