

Allocated pensions

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What do you need to know?

- How can you get money into super?
- Your choices at retirement
- Why invest in an allocated pension?
- Case study

How can you get money into super?

- Employer contributions
- Salary sacrifice
- Personal contributions
- Spouse contributions
- Rollover of proceeds from sale of small business

Employer contributions

- Superannuation guarantee
- Currently 8%
- Increasing to 9% in July 2002
 - taxed at 15-30%
 - preserved until retirement
- This may not be enough

Salary sacrifice

- Salary sacrifice contributions
 - forgo “in the hand” salary for additional super contributions
 - taxed at 15-30%
 - preserved
 - amount restricted to age based tax deductions

Personal contributions

- May be eligible to claim tax deduction for contributions
 - taxed at 15-30%
 - preserved
 - deduction limited to age based limits
- Substantially self employed
- Retired or unemployed

Personal contributions

- Made from post tax “in the hand” earnings
 - known as “undeducted contributions
- Must be eligible
 - worked in last two years if under 65
 - currently working 10 hours per week if over 65
 - generally not allowed over 70

Personal contributions

- Unlimited
- Preserved
- Generates “tax free” retirement income
- Self employed people can also make personal contributions

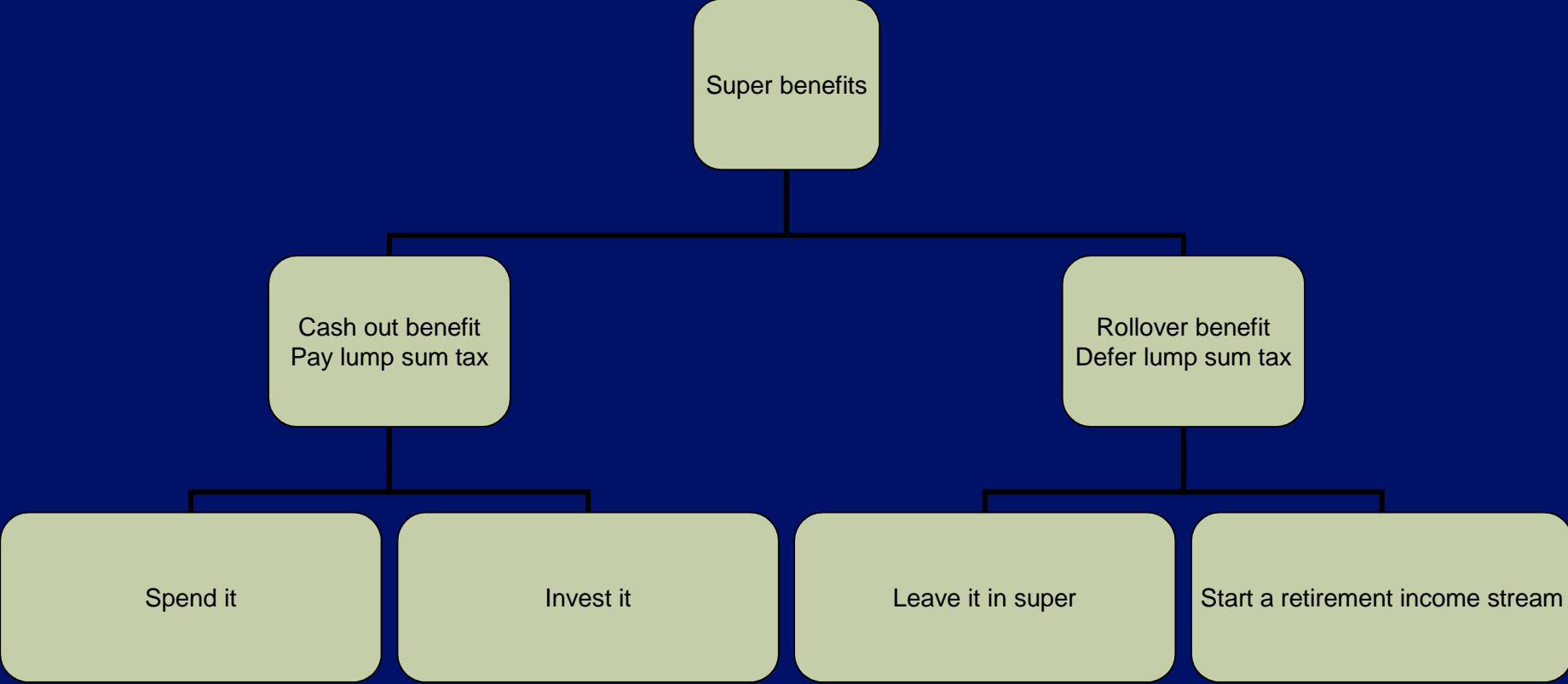
Spouse contributions

- Allows contribution to be made for the spouse of a person regardless of the work test
 - treated as an undeducted contribution
 - person must be under 65
 - unlimited
- Preserved
- Generates tax free retirement income

Sale of small business

- Capital gains generated from sale of a small business can be put into super free of tax
- Treated as undeducted contribution
- Generates tax free retirement income

Choices at retirement



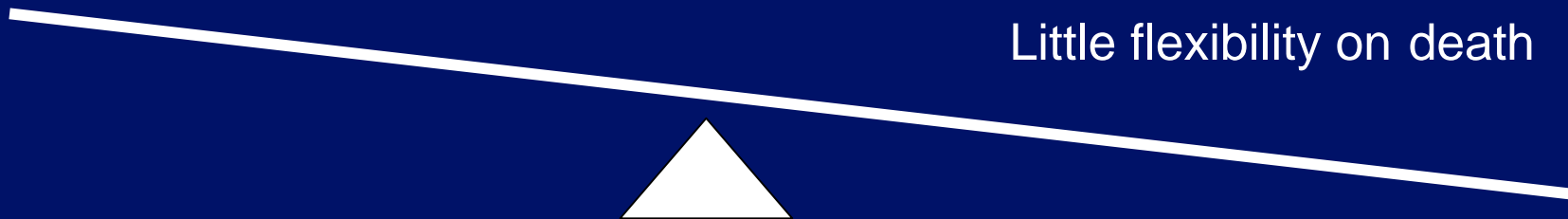
Income stream choices

Allocated pensions

1. Defer lump sum tax
2. Investment choice
3. Flexible payments
4. Tax-effective income
5. Full access to capital
6. Social security 'friendly'
7. Flexible estate planning

Traditional income streams

- Defer lump sum tax
- No investment choice
- Fixed payments
- Tax-effective income
- Limited access to capital
- Social security 'friendly'
- Little flexibility on death



Case study

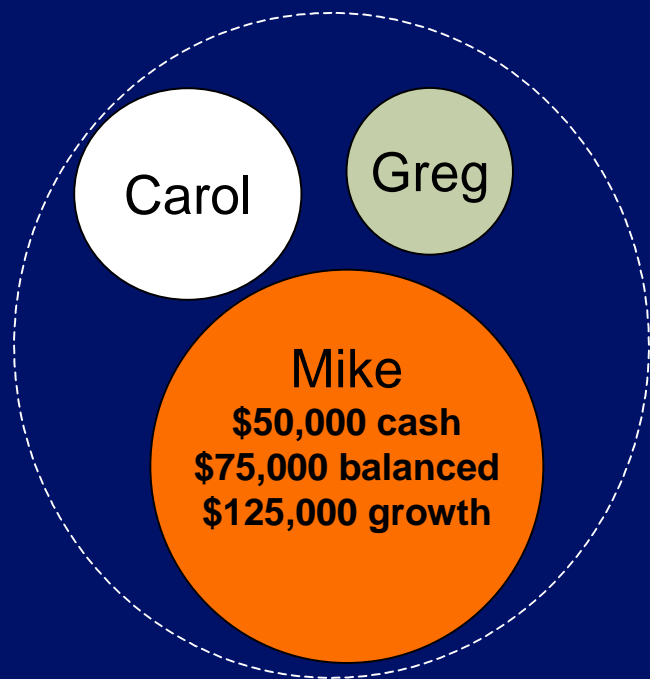
- Mike is retiring at age 65
- His wife Angela, age 63, doesn't work
- Mike's super benefit is \$250,000
- He also has other assets:
 - \$30,000 term deposit
 - \$20,000 car
 - \$20,000 home contents
- How is an allocated pension a good retirement choice for Mike?

1. Defer lump sum tax

- If Mike cashes out
 - Own after-tax contributions tax-free
 - First \$112,405 also tax-free
 - Pays lump sum tax of \$14,938
 - \$235,062 to invest
- If Mike rolls over
 - No lump sum tax
 - Full \$250,000 to invest

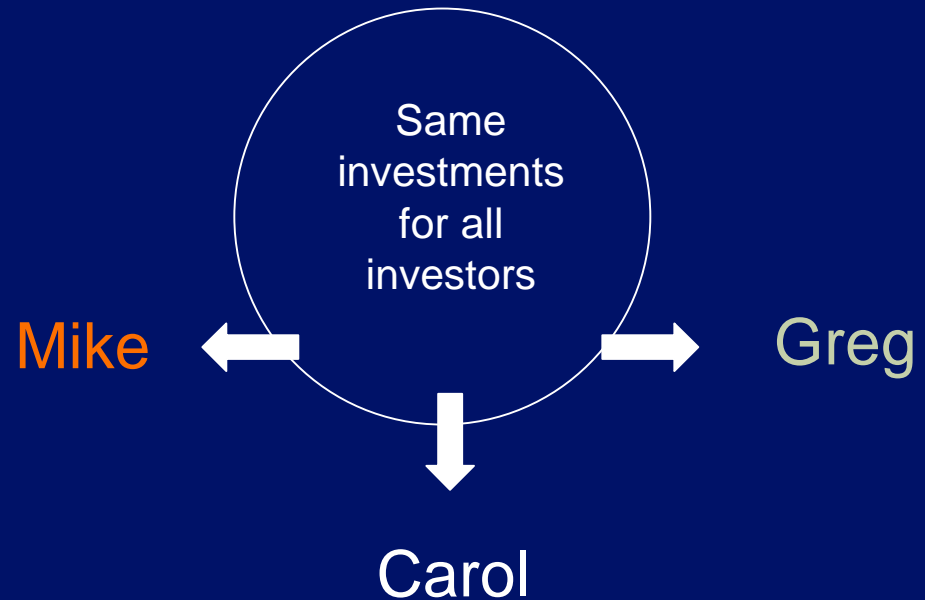
2. Investment choice

Allocated pensions - Allocated Pool



When the market outperforms
– so do you

Traditional income streams – Unallocated Pool



Locked into a fixed rate of return

3. Flexible income payments

- Mike can choose his starting income payment
 - Minimum of \$15,920
 - Maximum of \$30,860

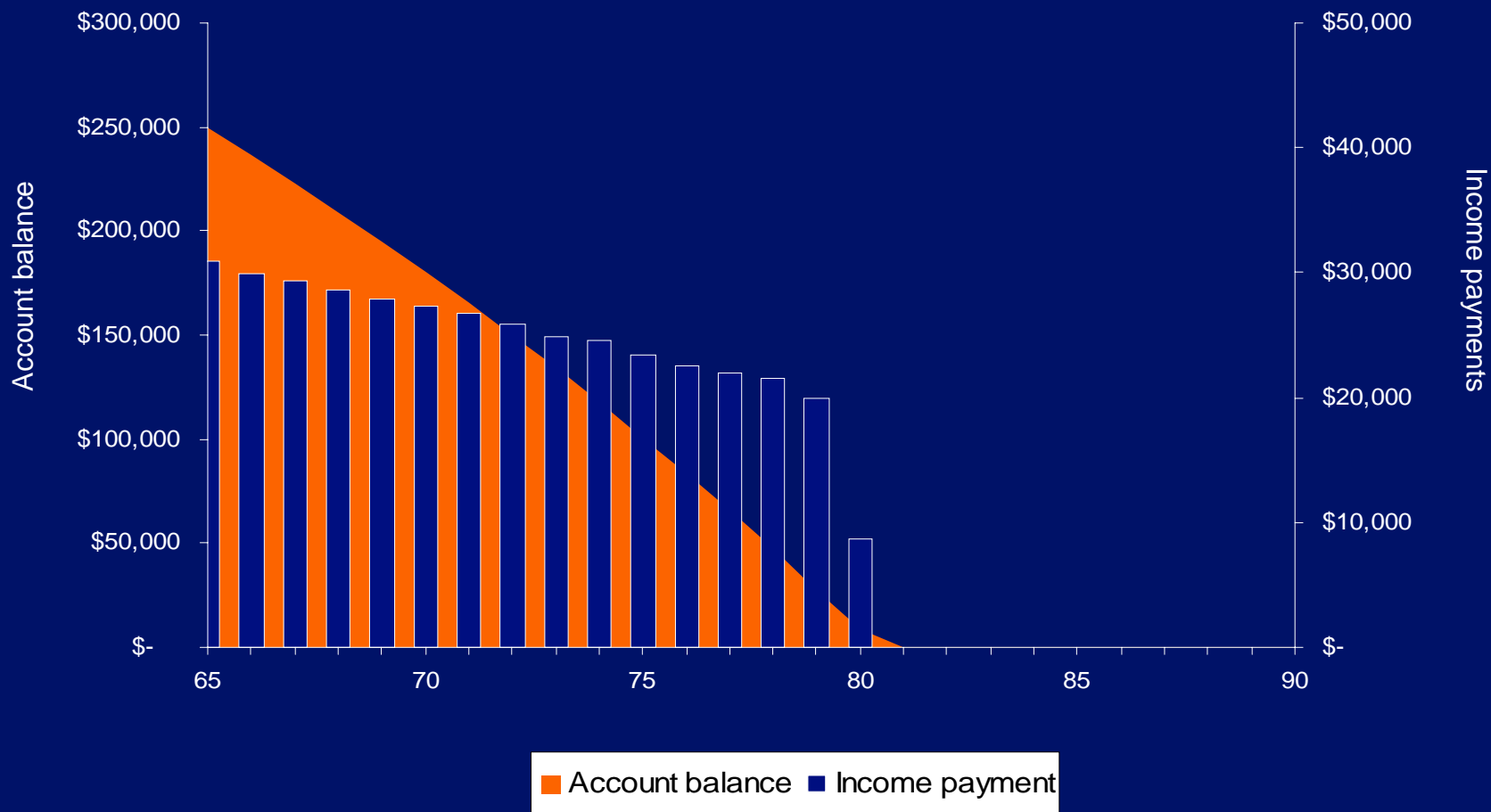
PLUS he can

- Change the amount at any time
- Vary the frequency of payment

- If Mike invested in a traditional income stream, his choice is
 - Fixed income payments
 - Income payments indexed to inflation

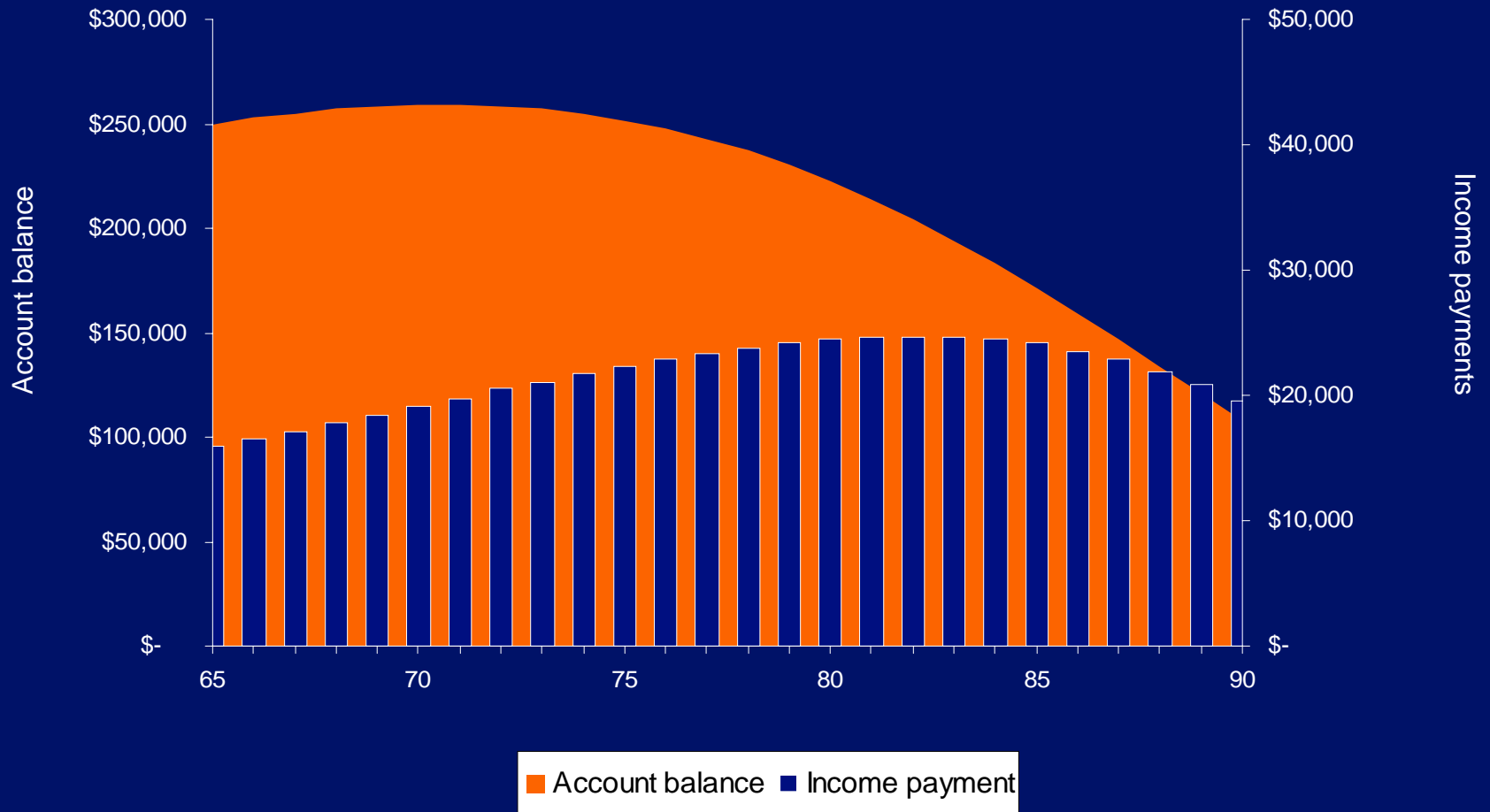
3. Flexible income payments

Taking maximum pension - reducing account balance



3. Flexible income payments

Taking minimum pension – income can last longer



4. Tax- effective income

Allocated pension payment	\$25,000
Bank interest	\$1,200
TOTAL GROSS INCOME	\$26,200
Tax free allocated pension income	\$1,850
Taxable income	\$24,350
Final tax bill	NIL*
TOTAL NET INCOME	\$26,200
Effective tax rate	0%

* Medicare levy of \$365.25 payable

4. Tax- effective income

- Pension and annuity payments taxed like your salary
- Part of each income payment is tax free
 - Return of certain amounts over the life of the pension or annuity
 - Mike's benefit includes \$30,000 of his own after-tax contributions
- 15% tax offset to reduce tax on the taxable amount
 - Can also reduce tax on other income
- Investment earnings in the fund are tax free

5. Social security friendly

Means test	Allocated pension – Centrelink treatment
Income Test	Only part of your income assessed \$15,422 of Mike's income not counted each year
Assets Test	Account balance fully assessed

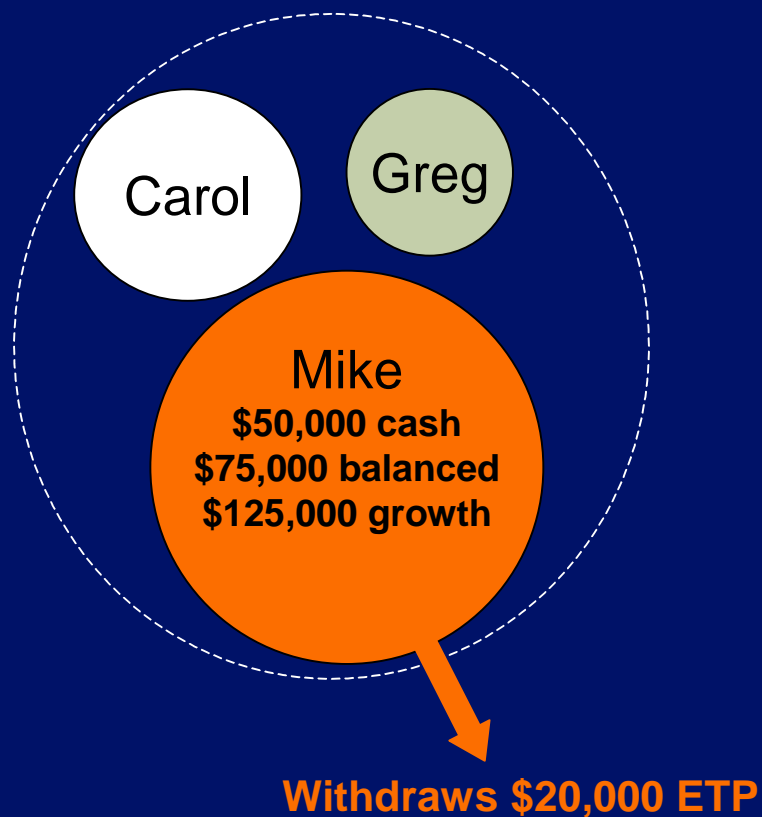
Mike receives total income* of –
\$ 1,050 bank interest
\$25,000 allocated pension
\$ 9,935 age pension #
\$35,985 TOTAL INCOME

* Pre-tax income

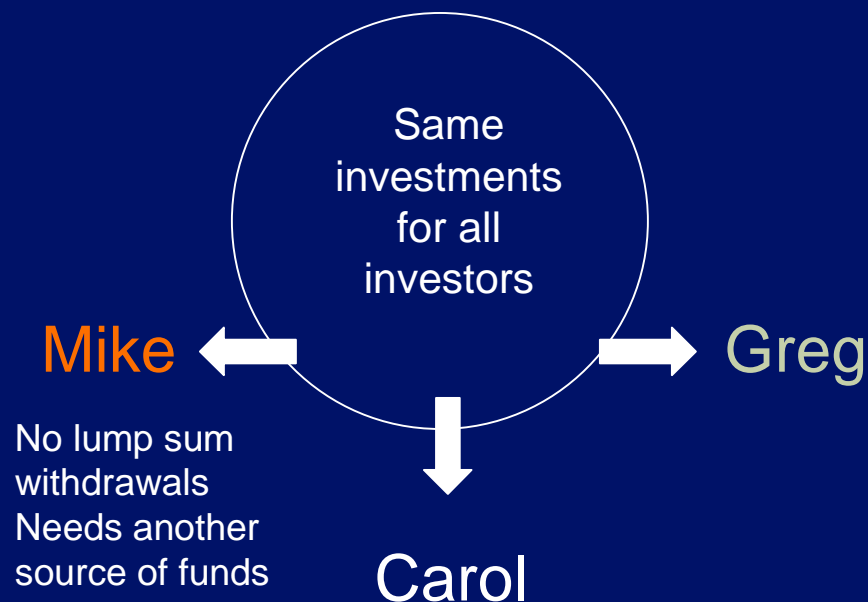
Couple age pension, rates current as at February 2003

6. Access to capital

Allocated pensions - Allocated Pool



Traditional income streams – Unallocated Pool



7. Flexible estate planning

- Mike wants to ensure Angela is financially secure after his death

Estate planning features	Allocated pension
Death benefit amount	Remaining account balance*
Payment options	Beneficiary continues pension Beneficiary takes a lump sum
Beneficiaries	Spouse, children or estate

* Lump sum tax or excess benefits tax may apply

7- point checklist

- Do you want to defer lump sum tax?
- Is investment choice in retirement important to you?
- Do you want to be able to set and change your income payments?
- Is tax-effective income important to you?
- Do you want your retirement investments to help with your age pension eligibility?
- Do you want access to your capital?
- Is flexible estate planning important to you?

Summary

- Identify your choices in retirement
- Find the product that will best suit your needs
- Use our 7-point checklist to help you decide
- Have a financial plan to guide you
- Simple solutions – like allocated pensions – often the best

Disclaimer

This information has been prepared without taking into account your particular financial situation. Before making an investment decision based on this advice, you should assess your own position, and if appropriate, seek the assistance of your financial adviser.