The retirement years

We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular wealth advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

Financial priorities: Maximise retirement savings

Life motto: Life begins at 60

Retirement is a time to reap the benefits of your working life. For some it may be time to devote to the house, gardening and lawn bowls. For others it may be time to explore the world, follow your passions and take on new challenges.

Whatever your plans, maximising your retirement savings is essential, and the way you structure your finances can greatly affect your overall retirement income.

Case study: John and Susan Grant

Profile: John is retiring in 3 months when he turns 65, Susan is 64

Children: Emily aged 38 and married, and Nathan aged 34

Assets:

Home	$400,000
Cash account	$20,000
John's super	$400,000
Managed funds (in Susan's name)	$ 75,000
Personal assets (car, home contents, etc.)	$15,000

Debts: None

Financial goals: John and Susan want $35,000 p.a. (after tax) to live on in retirement. They want to be able to provide for their aged care needs, and have something left for their children.

Strategy

John's adviser recommends that upon retirement, he takes a lump sum superannuation benefit of $150,000. Because he's over 60 John does not have to pay tax on the benefit.

Susan is under age 65, so she's able to make a non-concessional (after tax dollars) contribution to superannuation. Susan and John decide to sell their managed fund investment for $75,000. There is some capital gains tax liability, but as Susan pays tax at no more than 15% and has a partially unused low tax rate threshold, as well as being eligible for the low income earners tax offset, she will actually have to pay very little tax.

Susan makes use of the 'bring forward' rule for non-concessional contribution caps, and makes a non-concessional contribution to super of $225,000.

Susan then commences an account based pension using the $225,000 she has in superannuation. The minimum pension she can take in the first year is 4% (i.e. $9,000). However, working with their adviser Susan elects to take a larger amount of $11,000 p.a.

What is wealth advice?

Wealth advice is support and guidance on the best way to manage all your finances. Whether it's adjusting your debts to minimise repayments, saving for a home or a holiday, investing money, planning for your retirement, maximising pension entitlements or ensuring your family are protected if something happens to you, the right advice from the right people will help you achieve your goals faster and more effectively.

John also commences an account based pension using the $250,000 he has remaining in super. The minimum pension for John is 5% (i.e. $12,500) and he elects to receive this amount of pension.

Because John and Susan are both over 60 the pension payments from their account based pensions are not taxed and do not have to be included in their tax returns.

There is also no tax payable on the investment income or on realised capital gains for the assets backing the account based pensions.

John and Susan have nominated each other as their reversionary pensioner, so their pensions will revert to one spouse on the death of the other.

John and Susan are also eligible for a Centrelink age pension.

Centrelink assesses the amount of age pension available using both the assets test and income test. The test that results in the lower age pension is the pension payable.

John and Susan's Centrelink assessable assets and income in retirement will be:

Assets

John's pension account	$250,000
Susan's pension account	$225,000
Cash account	$20,000
Non-financial assets	$15,000

(Their home is not assessed by Centrelink while it is deemed to be their principal place of residence.)

Income

John's pension	$0*
Susan's pension	$773*
Cash account	$400**

* Based on pension payment less Centrelink deductible amount
** Deemed

John and Susan will be assessed using the assets test and eligible to receive a combined age pension (including pharmaceutical allowances) of $571.55 per fortnight (i.e. $14,860.30 p.a.).

In retirement

Having implemented their retirement strategy, John and Susan will have the following income:

John and Susan can achieve their goal of $35,000 p.a. retirement income.

They are also able to access lump sum amounts from their account based pensions if they need capital, such as for a new car. However, this may impact on the pension they can draw. The age pension may also be affected, depending on the amount of capital taken and how it is used.

Aged care

At some stage during their retirement years John and Susan may downsize and move to a retirement village. Any capital released, after paying for their new accommodation, will be assessed under both the income and assets test, and affect the level of age pension they receive.

If John or Susan were to need hostel or nursing home care an accommodation bond will be required. The amount of the bond is assessed based on their assets, similar to Centrelink assets tests. A specified part of the bond is retained, and the balance returned when they die or leave the aged care facility. The bond is not assessed for the assets test or deemed for the income test. This may lead to an increase in age pension, which may partially offset income lost from the capital needed to provide the bond.

	Taxable income		**Tax exempt income**		**Total**
	John	**Susan**	**John**	**Susan**	
	$	**$**	**$**	**$**	**$**
Account based pension			12,500	11,000	
Cash account*	500	500			
Age pension	7,430	7,430			
	7,930	7,930			
Tax payable**	Nil	Nil			
Disposable income	7,930	7,930	12,500	11,000	39,360

* 5% income assumed
** Allows for low income earner tax offset

John or Susan also have the option of paying the bond in a combination of lump sum and instalments, or instalments only (using drawdowns from their account based pension). When at least part of the bond is paid in instalments their home may be rented out and remain exempt from the assets and income test.

The rules on aged care are complex. John and Susan's adviser can help them access aged care facilities in the most effective way.

Estate planning

John and Susan's home forms part of their estate.

They elected for their account based pensions to be reversionary. If one spouse dies the survivor will continue to receive their pension. This will affect the age pension received by the survivor, and the potential impact can be monitored during their regular reviews with their adviser.

When the last surviving spouse dies the remaining balance of the account based pensions will be paid to their estate, and will be taxed at 15% (plus Medicare levy) on the taxed component of each balance (both Emily and Nathan who will receive the benefit are classified as non-dependants).

Alternatively the last survivor of John and Susan has the option of moving money from their account based pension into their personal names at any time. On their death the remaining balance would become part of their estate, and subject to capital gains tax. They would be able to work with their adviser on the most appropriate strategy for maintaining some access to the age pension, investing money inside and outside super, and providing for Emily and Nathan.

If John and Susan wished to exclude their son-in-law from benefiting from their estate they may also include a testamentary trust in their wills, with Emily and Nathan nominated as the beneficiaries. Grandchildren may also be included as beneficiaries.

Note: Advice contained in this flyer is general in nature and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

Looking for advice?

The end of the financial year is an important time to review your financial strategy and goals. For more information, please contact:

Genesys Wealth Advisers on 1800 066 577

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