

## What a Year – Wow!

This has been a year of major legislative change affecting tax, superannuation and Age Pension. Many of our clients have already benefited from the changes. And many still working will benefit significantly over time as they initiate 54.11, Transition Pension and Salary Sacrifice strategies.

### Baby Boomers Benefit

Dollars have followed the baby boomer generation through the education system, the superannuation system and now into the Age Pension system. It is not hard to understand why. The members of this demographic bulge, to which the majority of our clients belong, have been a politically aware and outspoken generation. But even without the activism their sheer numbers would have excited the interest of political parties and politicians in search of votes.

There is no natural affinity between the desire of politicians to be elected and the development of good public policy. The changes to tax rules affecting superannuation and to Age Pension rules preferentially benefit retirees with strong asset and income bases, relative to those with few assets.

Increasing awareness of injustice and anomaly in the new rules will likely lead to amending legislation as the years pass. The need for tuning of retirement income and asset structures over time to accommodate an evolving legislative environment will remain a significant element of good retirement planning.

### Thank You to our Clients

Politicians seek their plaudits by announcing and selling policy. It is left to others to cobble together the processes for implementation; to grapple with the complexities, the anomalies and the impossible deadlines; to somehow make it work.

It has resulted in a pressure year indeed for our staff and for the staff at the fund managers and other organisations with whom we liaise on behalf of clients. At Retirement Victoria we have at times had difficulty satisfying the short run demand for appointments both from continuing clients and from new clients. The process of tuning continues, to ensure that our clients are effectively structured and positioned to take advantage of the benefits available to them under the new rules.

Our thanks as a group go to you as clients for your understanding of the time pressures that this year has created and your patience in being prepared to accept longer lead times for appointments than would normally be the case. Your patience and

### The Year of the Bubs at RV

Two RV Advisers have achieved a 100% increase in their family size this year. Ed Paterson and his wife Marnie welcomed a daughter, Alannah, to join young Lachlan. And Rob Jowett and his wife Myra are over the moon at the birth of a son Caleb, to join their daughter Caitlin. Congratulations to both families – the Mums in particular.



Rob Jowett with Caleb – just one day old.

courtesy were strongly evident when I was required to take two weeks off with a lung infection. My PA, Melanie, rang me to say – "Your clients are all so lovely – they were concerned about you – not the inconvenience of having to reschedule". Their response is indicative of the mutual respect which exists between RV staff and clients.

Geoff's and my thanks go to the Advisers and Support Staff at RV for their untiring efforts in assisting clients and for the sustained quality of their work, and their support of us, across the year.

As we move towards Xmas please accept our compliments of the season and our best wishes to you and to your wider families for a most enjoyable summer.

We look forward to working with you again in 2008.

– **Alan** for Geoff and the Retirement Victoria team.

### Xmas Closure

As is our usual practice, RV will close between Xmas and New Year.

**Last day before Xmas:** Friday 21 December 2007  
@ 5pm

**Office reopens:** Wednesday 2 January 2008  
@ 8.30am

**Limited staff:** Wednesday 2 January 2008  
– Friday 4 January 2008

**Full staff resumption:** Monday 7 January 2008

# Age Pension in the New Super World

The legislative changes operative from July and September 2007 have created opportunities for many people of Age Pension age to increase their level of Age Pension, or in many cases to commence receiving Age Pension for the first time.

This article offers a summary overview of Age Pension rules and indicates some ways in which efficient structuring to include Age Pension can buffer total retirement income.

## Income and Assets Tests

The rate of age pension payable is assessed under both an Income Test and an Assets Test. The test which results in the lower rate of payment at any time is the one which applies, and is commonly referred to as the constraining test.

Full Age Pension for a single homeowner is \$537.70 per fortnight (\$14,028 p.a.). Full Age Pension for a homeowner couple is \$898.20 per fortnight (\$23,433 p.a.).

### Income Test

The income test is subject to a lower threshold and an upper threshold. The lower threshold for a single homeowner is currently \$132 per fortnight (\$3,443 p.a.). The upper threshold is \$1,491 per fortnight (\$38,900 p.a.). For a homeowner couple the lower threshold is \$232 per fortnight (\$6,052 p.a.) and the upper threshold is \$2,492 per fortnight (\$65,015 p.a.).

Age Pension entitlement is reduced by 40 cents for every dollar by which fortnightly assessed income exceeds the lower threshold. The pension ceases to be paid if assessed income exceeds the upper threshold.

Note that the exemption of superannuation income streams from taxable income from age 60 does not affect assessment of income for age pension purposes. Centrelink assessment of Age Pension entitlement uses Centrelink income test assessment rules, not taxable income.

### Assets Test

Under the Assets Test, a person may own a certain level of assessable assets (the lower threshold) before their pension is reduced. If their level of assets exceeds the upper threshold no pension is payable. As of 20<sup>th</sup> September 2007 the upper threshold has been increased by some \$200,000 for singles and by some \$300,000 for couples.

The lower threshold for a single homeowner is \$166,750. The upper threshold has increased to \$529,250. For a homeowner couple the lower threshold is \$236,500 and the upper threshold is now \$839,500. Note that the principal residence is excluded from assessment of assets.

Pension entitlement is reduced by \$1.50 per fortnight for every \$1,000 by which assessed assets exceed the lower threshold. In effect Age Pension reduces by \$391 p.a. for every \$10,000 of assets above the lower threshold.

Arising from the changes many pensioners who were constrained by the Assets Test are now eligible for an increased level of Age Pension. And many people of eligible age who were outside the Assets Test upper threshold before 20<sup>th</sup> September 2007 now fall within the new threshold, thereby being eligible to receive part Age Pension provided they also fall within the Income Test limit.

## Superannuation Pensions and the Income Test

**ESSSuper** – For many existing ESSSuper (formerly GSO) pensioners of Age Pension age a new exempt proportion can now be applied to assessment under the Income Test for Age Pension. (Note that the provision applies only in the case of ESSSuper pensions which commenced after 30<sup>th</sup> June 1994.) For some the exempt proportion is 50% or more of the ESSSuper pension. Where the Income Test is the constraining test the exemption of this income from Age Pension income testing permits a higher level of Age Pension. Part Age Pension is available to others who were previously above the income test limit but now fall within it.

ESSSuper has stated that it directly notifies Centrelink of the exempt proportions for all ESSSuper pensioners aged 60 and above. At this stage there have been impediments in the process and it is likely to take a little time. Where ESSSuper notification is slow Retirement Victoria advisers can assist their clients to expedite the process.

**Allocated/Account Based Pensions** – These pensions continue to receive friendly treatment under the Income Test for Age Pension. Where the Income Test is the constraining test reducing the level of annual pension drawn can result in an increase in Age Pension entitlement. For many clients the tuning can result in no net income from an allocated or account based pension being assessed for Age Pension purposes.

Two simple case studies illustrate the opportunities available –

**Case Study 1** – Maree is aged 64 and lives independently in her own home. She has an ESSSuper pension of \$24,000 p.a. and assessable assets for Age Pension purposes of \$360,000. Under the old rules she did not receive any Age Pension. Her RV Adviser has ensured that she is efficiently structured under the new rules. Her annual income is now \$46,000 p.a., including \$6,600 p.a. of Age Pension. She pays no tax or Medicare levy.

**Case Study 2** – Avis is 63 and Reg is 66. Avis was teaching full time with a gross income of \$66,000 p.a. and a net income after tax and super of \$44,000 p.a. Reg was retired. They had \$250,000 in bank savings. Avis is a member of the ESSSuper Revised Scheme and her ESSSuper retirement pension entitlement was \$39,000 p.a. Another RV client suggested to Avis that she ought to get some advice. After talking to an RV Adviser Avis decided to retire immediately. She and Reg now have a net income of \$64,000 p.a. (\$39,000 p.a. of ESSSuper Pension, \$15,000 p.a. of Age Pension and \$10,000 p.a. of age pension efficient Account Based Pension). They pay no tax or Medicare levy. Avis could not believe the outcome. She was finding it hard going at school but didn't realise she could afford to retire.

The continually shifting rules and their effects on clients highlight the importance of the continuity of relationship between advisers and clients which is the cornerstone of RV's approach to planning.

# What Do You Know about Anti Detriment?

Not a bad question to ask an Adviser or a Super Fund.

Arising from changes to superannuation law in 1988, dependent beneficiaries of a deceased super fund member are able to claim back, via a super fund, an amount intended to compensate for contributions tax paid on a member's contributions to super during their working life.

This is called an Anti-Detriment Payment and can amount to 5% of the total amount in a super fund at the time of the member's death, as an additional payment above and beyond the value of the investment in the fund.

## Which Funds Offer It?

Many super funds will **not** make Anti-Detriment Payments. However, some super funds do make Anti-Detriment Payments to the dependent beneficiaries of a deceased member.

They then need to recover the amount from the Australian Tax Office as part of their own annual tax reporting. This can involve a considerable administrative load for a super fund. Some funds have the expertise, commitment to their clients and provide the staff resources necessary to do it. Some don't.

It can be a significant element to consider when choosing a super fund.

## A Recent Example

Denis Cleary recently obtained an additional benefit of \$22,000 for a deceased member's spouse arising from our understanding of the issue.

He was able to arrange the move of the member's super from a fund which did not claim Anti-Detriment to a fund which did, just a few days before the member, who had a terminal illness, sadly passed away.

Retirement Victoria considers Anti-Detriment among the many issues which must be considered in choosing a super fund. It can be an indicator issue in deciding whether or not a fund provides the level of expertise, support and staff resources to properly meet the needs of its members.

## Client Showcase

We continue this popular series which showcases the talents of RV clients –

### John Montesante

Teacher, Musician, Band leader

John Montesante has always been passionate about music and is renowned as a music teacher in the State education system.

He retired from full time teaching in 2005 and now devotes most of his time to his two bands, while continuing to teach on a part time basis at Elwood Secondary College.

Born in Lyon, France, he moved to Australia with his parents at age three. Shortly after arriving in Australia John's father's health failed and the family struggled. From age four he lived in a series of foster homes and he associates the loneliness of these difficult early years with his need to create and belong. It was in these years that his passion for music developed.

John is the founder and Band Leader of the *Grand Wazoo Kings of Soul*.

*Grand Wazoo* formed in 1981 and is now considered to be Australia's pre- eminent soul band. John has written over three hundred special, ten part arrangements for his band to perform.

In addition to leading the fourteen member Band John is also the leader of Melbourne's renowned jazz band, *The John Montesante Quintet*, who play timeless jazz standards.

*Grand Wazoo* plays on Friday nights at The Spot, 133 Sydney Rd Brunswick from 9.45pm and Sunday afternoons

at the Rainbow Hotel, 27 St David Street Fitzroy from 6.00 pm. Unfortunately the famous Rainbow Hotel will cease to be a music venue in December this year.

*The John Montesante Quintet* plays every Thursday at The Commune, 2 Parliament Place, East Melbourne from 5.30-8.30pm and every Friday at The Commuter Café Bar, 595 Collins St Melbourne from 5.15 to 8.15pm.

You can find out more on the bands' web sites –

[www.grandwazoo.com.au](http://www.grandwazoo.com.au) and [www.johnmontesantejazz.com](http://www.johnmontesantejazz.com)

John and his bands can also be booked for special functions.

Phone: 0418 318 618 Fax: 03 95255313

Email : [kingsofsoul@netspace.net.au](mailto:kingsofsoul@netspace.net.au)

**RV is giving away four of John's *Grand Wazoo* CD's**

- first two request calls to Maria from Metro clients and
- first two request calls from Country clients.



# Offcuts Topical Bits and Pieces

## Can I withdraw preserved super capital while I am still working?

Only unpreserved superannuation capital can be withdrawn as a lump sum. Preserved capital becomes unpreserved once certain conditions are met. These include full retirement after age 55, changing jobs after age 60 and reaching age 65.

However, preserved superannuation capital can be accessed in the form of an income stream generally from age 55. Commencing a 'Transition Pension' can allow a significant level of salary sacrifice whilst still meeting core income need. This can lead to enhanced savings to satisfy lifestyle objectives in retirement.

## How much tax will I pay if I withdraw some of my super money between ages 55 and 60?

It is important to differentiate between **withdrawal** and **rollover** within the super world. Amounts rolled over are moved from one super fund to another and no tax is payable in this situation. Amounts are withdrawn from a super fund most commonly to a bank account in order to satisfy capital needs such as paying out a mortgage or vehicle purchase.

Tax is not normally payable on withdrawals. Superannuation capital contains a tax free and a taxable component.

From age 55, the first \$140,000 withdrawn from the taxable component is not subject to tax. The tax free and taxable components cannot be separated for the purposes

of withdrawal. They must be withdrawn proportionately. Seek advice.

## What is the maximum that I can contribute to super under the new rules?

The superannuation world is favoured by tax benefits and concessions arising out of the Federal Government's support for superannuation investment and the private provision of retirement incomes. However, stricter limits have been imposed on contributions since 1 July 2007.

Employer contributions, salary sacrifice contributions and tax deductible personal contributions are all called Concessional Contributions. A contribution cap of \$50,000 per person per year applies with a transitional cap of \$100,000 per year for five years for people aged 50 or over. Tax on these contributions is 15%.

Personal contributions are now called Non-Concessional Contributions. A cap of \$150,000 applies per financial year per person. A person is able to bring forward two years of future contribution entitlements under some circumstances.

Contributions in excess of the contributions caps are subject to tax at penalty rates.

The application of contribution rules across years can be tricky, especially where members bring forward contributions or have multiple contribution types. Care must be taken and advice is essential.

## Staff Snapshots



### Maria Beltran Receptionist and Office Organiser

Life at RV would not be the same without Maria at Reception – her smile lights a room. Competency, easy warmth, a great sense of humour and an endless capacity for shopping are a few of her attributes.

Maria was born in the Philippines, came to Australia in her early teens, and completed Year 12 at Reservoir High School. She says it was difficult as a teenager

adjusting to a new life in a new culture and a new country.

Two decades later her love of Melbourne makes it very much her home. She and her partner enjoy camping holidays, long walks and, when they can, overseas travel. Maria maintains a keen interest in different cultures, traditions and food.

Mostly though it is about shopping and clothes.

Four years on we all hope she never leaves RV.

### Marnie Ewinger Personal Assistant to Denis

Marn is a six year RV veteran, two in Reception and four as PA to Denis. Highly organised, a team player, inclusive and a lot of fun. Whether it is the footy tipping, a birthday morning tea, a cup sweep, flowers for the unwell, the RV charity support program or organisation of a staff dinner the RV social co-ordinator will be driving it.

She is a Melbourne girl through and through – cafes, restaurants, St Kilda footy club and the spring racing carnival. Very close to her parents and two brothers, a keen traveller and the courier for regular delivery of her generous Mum's amazing home made vanilla slices. Marn is indispensable – for her great work as a PA, her personal qualities and her Mum's vanilla slices.



## About RV Client NEWS

RV Client News is written and published by Retirement Victoria as a service to clients.

Retirement Victoria are specialists in public sector retirement strategy and are the Australian Education Union's preferred provider of financial and retirement planning services to members.

The information in RV Client News is of a general and summary nature only and is neither represented as, nor intended to be, personal advice on any matter. No person should act on the basis of the information contained herein but should seek appropriate professional advice based upon their own personal circumstances.

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