YOUR QUESTIONS JOHN WASILIEV

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How shares can become a pension payment

My super fund pays me a pension and owns shares I would like to keep for dividends and capital appreciation. Is there any way I can take my pension as shares? My accountant told me there is a tax ruling that pension payments may only be in cash and not by any transfer of investments. It seems I have to sell the shares for cash, then repurchase the shares with that cash. This will involve additional cost for exactly the same outcome.

If your fund is paying a normal account-based pension, one of the entitlements of such pensions is the scope to make lump-sum payments. Ed Bernard, from super administrator SuperGuardian, says under definitions contained within super regulations, a pension payment must be in cash.

However, lump-sum payments can be paid as asset transfers, known as in specie transfers.

This means you may be eligible to make a lump-sum withdrawal in the form of a transfer of investments, as long as the transfer is at market value. Check your pension's terms and conditions and fund's trust deed.

The lump sum will be referred to as a partial commutation of the pension account. It is important to note that the minimum pension payment requirement will still need to be taken into account.

Note that it must be a normal account-based pension – it can't be a transition to retirement pension, from which lump-sum withdrawals are not permitted.

I plan to retire at the end of the year and transfer my super to an industry fund pension. Some industry funds have a high percentage of unlisted assets. I am concerned that there could be downward valuations of these assets and I will suffer a loss. What questions should I ask?

According to Ian Fryer of Chant West, industry super funds typically have more investments in unlisted assets than retail super funds – 28 per cent versus 9 per cent at June 2009.

Unlisted assets are investments not traded on a financial market. They include property, infrastructure assets, private equity and hedge funds. While they have been an excellent source of returns for industry funds, Chant West believes exposure to them should be no more than 25 to 30 per cent, as they can be difficult to sell if the fund needs cash to pay benefits.

While assets listed on financial markets fall quickly in response to market conditions, there is a time lag for unlisted assets. While listed markets have fallen steadily from November 2007, unlisted assets only started to fall in the December quarter of 2008. Since then, most industry funds have reported downward valuations of 12 to 20 per cent in unlisted assets and there may be more to come.

As far as questions you could ask, start with how much exposure the investment has to unlisted assets. It can range from 2 per cent to 70 per cent. A lower allocation means you will be less affected by further valuation falls.

You should also ask how often assets are valued. In the current environment once a year isn't enough. Major assets must be valued at least quarterly. And you should ask about revaluing downwards of unlisted assets in the past 12 months. As most funds have revalued over this period, funds that haven't will likely experience falls in coming months.

I have a query about a question last weekend on super contribution limits and non-taxed funds. I believe your comment about contribution limits not applying to non-taxed funds needs to be qualified as some major non-taxed funds – for example, the Commonwealth Super Scheme – will not accept salary-sacrificed amounts. Employees need to carefully check they are really salary sacrificing into the non-taxed fund and not an associated product. In other cases, for example NSW government funds, more complex rules apply.

The Commonwealth Superannuation Scheme and the Public Sector super schemes fall under the loose definition of hybrid funds and you are correct that different rules apply to them, says Emma Boer of Dixon Advisory.

This was mentioned at the end of the last week's answer, she says.

Key NSW government schemes – State Super and State Authorities Super – are taxed schemes, unlike the constitutionally protected funds (CPEs) that the question focused on. With these, different grandfathering rules apply to concessional contributions. Recent questions in this column have touched on those.

ASK US

It's critical to get your superannuation right. Many readers send us questions about retirement saving, and more are welcome. We seek expert advice where necessary to help make sense of it all.
Send any query, big or small, to: **wasiliev@yoursuper.net**