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Dipping in and out of work and savings

John Wasiliev

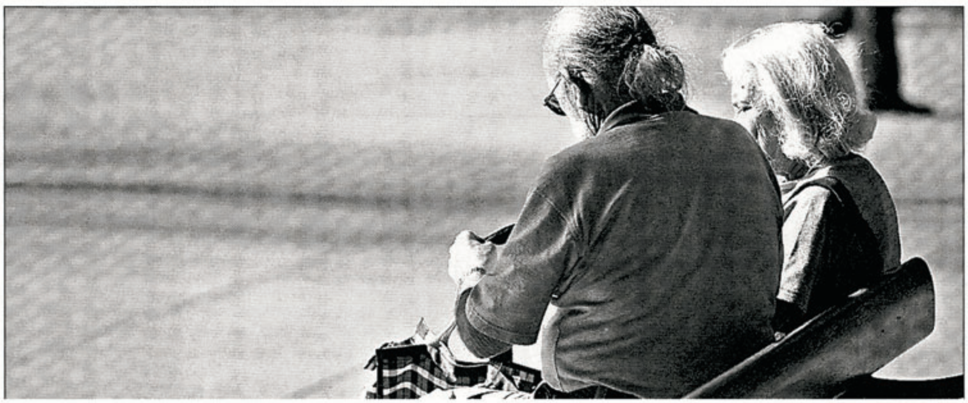

Photo: ANTHEA RUSSO

More flexible pensions mean you can take time out of the workforce.

Everyone is talking about pre-retirement pensions that allow you to access your pension benefits before you retire.

A reader asks how these new arrangements work with another long standing pre-retirement strategy: making a withdrawal and re-contribution of tax-free benefits prior to retirement.

A pre-retirement pension requires that you reach the preservation age where you could access your super if you decided to retire. For most people, this is 55. However, if you have chosen not to retire, you trigger a condition of release that allows you to access your super.

Pre-retirement pensions are non-commutable income streams, which means you can't make lump sum withdrawals from them as you can from an allocated pension.

The basic idea behind pre-retirement pensions is to discourage premature retirement in order to access super.

They also reflect changing work patterns, where people may want to reduce their working hours as they head towards retirement, says Michael Hallinan, a superannuation lawyer with Townsends Business & Corporate Lawyers.

A re-contribution strategy on the other hand, says John Randall, a superannuation partner with Deloitte, requires that you satisfy the rules that allow you to withdraw money from your super.

The strategy is centred on a particular superannuation benefit entitlement known as the low-rate threshold. This is a tax-free amount – currently worth $129,751 – that flows from taxable superannuation benefits taken as a lump sum.

Where you have taxable super that is considered to have been accumulated after June 1983, and if you are older than 55 and have satisfied a condition of release allowing you to access part of your super, you can implement the re-contribution strategy, says Randall.

The most common conditions of release are retirement from work after the age of 60, or reaching the age of 65. He says some people implement the re-contribution strategy as soon as they are able to, just in case the government decides later to change the rules.

Hallinan says you have to satisfy a condition of release to implement the re-contribution strategy and you may not need a pre-retirement pension.

However, Super Guardian technical adviser Ed Bernard says there are scenarios where someone might combine a re-contribution strategy with a pre-retirement pension.

If you made a sizeable after-tax or undeducted contribution to your super before 1999, these benefits are regarded as unrestricted and non-preserved benefits and can be accessed for a re-contribution strategy.

To access a pre-retirement pension, you have to be 55. But if you have, say, $130,000 of unrestricted pre-1999 contributions in your super, you could withdraw and re-contribute this money in order to take advantage of the tax-free threshold. One important point worth noting about these contributions is that their preservation treatment is independent of their withdrawal and re-contribution treatment where they are treated and taxed like a lump sum super payment.

There is no obligation to treat your unrestricted non-preserved amount as a specific component.

Another scenario where a pre-retirement pension might be combined with a re-contribution strategy could be if you retired at 60, which would release your super but then returned to work and make some sizeable contributions to super.

The new contributions would be preserved but you could access the funds through a pre-retirement pension if you needed the money, says Bernard.