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SMART MONEY

YOUR QUESTIONS JOHN WASILIEV

Strategies for death benefits

My wife and I are 64 and 65 with a self-managed fund that is paying us transition to retirement pensions. The fund also has separate accumulation accounts into which we have deposited around $500,000 of undeducted contributions. Because the investment earnings on the accumulation accounts are being taxed, can we roll over some or all of this money into the pension even though we do not want a total pension yet?

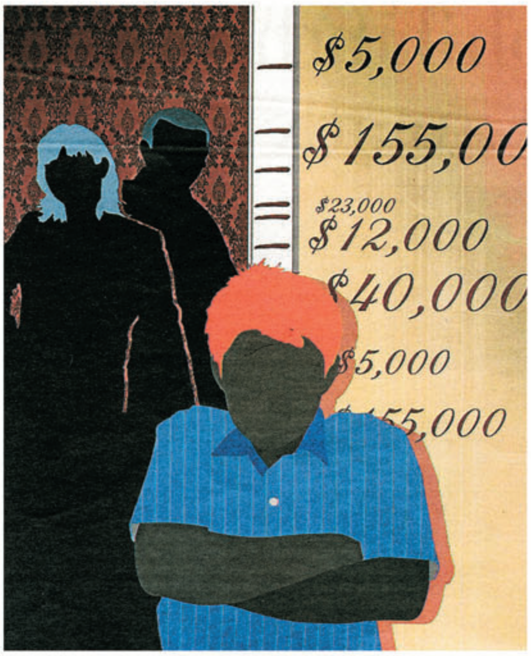
Yes, you may stop the existing pension. Then you can combine part or all of the accumulation account to the pension account balance and restart a pension, says Phil Jaquillard of Adelaide-based SuperGuardian. More of the income of the fund will then be deemed to be generated from the larger pension account balance and this portion of the fund's income will be tax-free. However, the annual pension drawdown requirement will be higher due to the increased pension account balance. This is because the pension drawdown requirement is directly correlated to the size of the pension account. You may then continue to maintain an accumulation account within the fund to accept future contributions. The earnings will continue to be taxable.

ASK US

Don't ponder the meaning of the new super rules. Many readers have sent us questions about the new system and more are welcome.
We'll seek expert advice where necessary to help make sense of it all. Send any query, big or small, to wasiliev@yoursuper.net

Because lump sums from our pension account are now tax free, we are thinking about making withdrawals and recontributing them as non-tax concessional contributions to escape the eventual inheritance tax that out children might face.

Phil Jaquillard again: A tax-free lump-sum withdrawal and recontribution strategy will help to reduce the amount of tax your beneficiaries might eventually pay on any inheritance. But be aware that if you are over age 65, you must work for at least 40 hours in a 30-day period to be eligible to make any superannuation contributions. If you satisfy this work test, this process can be undertaken as frequently as you like. However, it may increase the costs of administration of your fund.



Testamentary trusts can direct income to a range of beneficiaries. Illustration Karl Hilzinger

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