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SMART MONEY

YOUR QUESTIONS

Convert from flexi and enjoy the benefits

My wife and I are the two members of a DIY super fund. I am 75 years old and currently drawing two super pensions: a flexi pension and an allocated pension. Do I have to take any particular action to draw an account-based pension or do I just draw 6 per cent of the commencing balance at July 1?
Philip La Greca of super administrator Multiport says you may immediately use the new minimum drawdown rate of 6 per cent for your allocated pension based on its balance at July 1.

However, the flexi pension is a defined benefit pension, which means its payment levels were set at its commencement. The good news is that it is possible to convert a flexi pension to the new account-based pension.

You need to commute the flexi pension back to the savings phase, properly documenting this in your fund minutes. You can then begin one of the new pensions from the commuted balance, again recording your actions in the fund minutes.

It is possible also to commute both the flexi and the allocated pensions and roll them together into one new account, from which you take an account-based pension. If you choose this path you will need to consider the different tax-free proportions that may separately exist on these pensions. Whenever you roll back a pension, any tax-free proportion must be crystallised into a dollar amount.

These amounts are added together and become the official tax-free proportion for the new pension for any future commutation or death benefits calculation.

My wife has notified our DIY fund of her intention to start a pension from July 1 and the trustee has acknowledged her request. Is any further action necessary before she commences drawing 5 per cent of her account balance at July 1?
Philip La Greca again: the only issue is to calculate the tax-free component of her balance at July 1. This will be used to work out the tax-free proportion for her pension.

Can a fully-employed person aged between 60 and 65 withdraw tax-free lump sums from an externally-managed super fund at any time?
No – unless you change jobs after turning 60, says Louise Biti of Asteron Financial Services.

Super savings must be preserved for your retirement or for when you reach the age of 65.

Once you are 65, you can withdraw lump sums even if you're still working full-time. Under 65 you will need to have reached your preservation age (currently 55) and be working for less than 10 hours a week with no intention of working any more.

However, if you are over 60 and terminate an employment arrangement, you can take lump sums without any restriction from the savings accumulated at that time, even if you work full time in a new job.

I am planning to start a pension from my super but may make some further contributions as I am eligible to do so. Can I add these amounts directly to my pension?
You cannot add contributions directly to a pension, says Phil Jaquillard of SuperGuardian. Contributions must firstly go into a separate accumulation account, which can be within the same super fund.

To combine this with your pension, the pension must be stopped and merged with the accumulation account; then a new pension can commence from the increased balance.

It is likely there will be some administration costs associated with the accounting and recalculation for the new pension.

Could you clarify when one gets the right to increase salary sacrifice contributions to super from $50,000 to $100,000 per annum? I turn 50 in May 2008. Is it the financial year in which you turn 50, and are employer contributions counted?
David Shirlow from Macquarie Financial Services says when your 50th birthday occurs during a financial year then you can salary sacrifice contributions of $100,000 during that year. As you turn 50 next May you'll be able to sacrifice $100,000 this financial year, less any employer super guarantee contributions. The maximum concessional contribution this year from any sources is $50,000 if you are under age 50 and $100,000 if you are 50 and over.

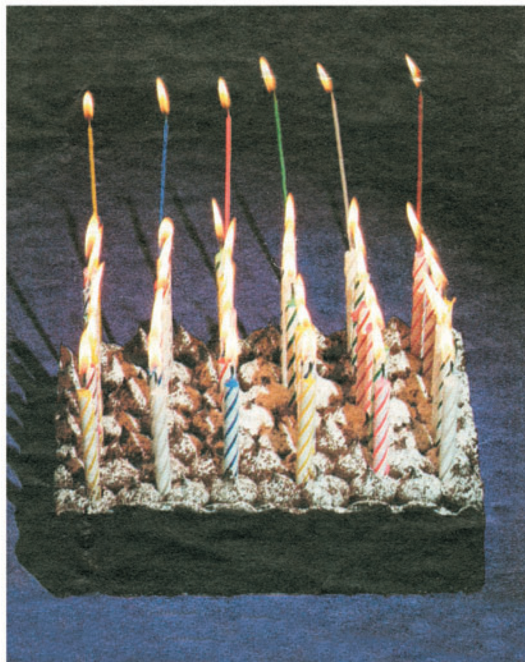
I've seen it reported that penalty taxes can reduce an excess contribution by 93 per cent. How does this happen?
If you contribute super in excess of the $50,000 or $100,000 concessional contributions limits, not only will the excess amounts face the 15 per cent contributions tax but there will also be a 31.5 per cent penalty tax, says Ernst & Young tax partner Noelle Kelleher.

Furthermore, the gross excess contribution amount is added to your non-concessional limit and if it exceeds this, another 46.5 per cent tax will be deducted from the excess amount.

In all, 15 per cent plus 31.5 per cent plus 46.5 per cent takes you to 93 per cent.

It's a nasty penalty which taxes excess concessional contributions as if they had been made by someone on the top tax rate.

The same goes for non-concessional contributions where the top tax rate penalty is imposed in addition to the maximum tax on concessional contributions.



Many happy returns... when you turn 50, you can salary sacrifice contributions of $100,000 during that financial year. Photo Anthony Johnson

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 advice where necessary to help make sense of it all. Send any query, big or small, to wasiliev@yoursuper.net

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