Super strategies

Convert your super into a tax-effective retirement income

Starting an account based pension with your super when you retire could enable you to receive a tax-effective income and make your savings last longer.

How does the strategy work?

When you retire, it can be tempting to take your super as a cash lump sum. However, using your super to start an account based pension[1] could be a more tax-effective option. This is because:

- no tax will be payable on earnings in the fund[2]
- you can receive $49,753[3] pa in tax-free income between your 'preservation age'[4] and 59, and
- when you reach age 60, the pension income payments will be completely tax-free[5] and you don't have to include these amounts in your annual tax return.

Seek advice

A financial adviser can help you determine whether an account based pension suits your needs and circumstances.

Maximum taxable income that can be received tax-free (pa)		
Age	**From investments held outside super**	**From account based pension (taxed fund)**
Preservation age[4] to 59	$20,542[6]	$49,753[3]
60 to Age pension age[7]	$20,542[6]	Unlimited tax-free[5] income payments. Also, you don't have to include the income payments in your annual tax return
Age pension age[7] and over	$32,279[8] (for singles) and $28,974[8] (per member of a couple)	As above

1 There is a limit on the total amount that can be transferred to retirement phase in a person's lifetime. This limit is $1.6 million in 2017/18 (subject to indexation).

2 Assumes you are in retirement phase.

3 Takes into account low income tax offset and 15% pension tax offset and assumes no other income is received.

4 Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60 depending on date of birth.

5 Assumes the pension is commenced from a taxed super fund.

6 Takes into account low income tax offset.

7 Age where you become eligible for age pension.

8 Takes into account low income tax offset and Seniors and Pensioners tax offset.

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Case study

Warren, aged 60, has $500,000 in super and $150,000 in a bank account. He is about to retire and needs an after-tax income of $50,000 pa to meet his living expenses.

He was considering taking his super as a lump sum and investing outside super in a managed fund.

However, his financial adviser explains that if he uses his super to start an account based pension, he'll pay less tax[9] on his income during his retirement. This is because the income payments from the account based pension will be tax-free.

As a result, Warren's adviser estimates he'll use up less of his capital and will have more money left over at the end of 5, 10 and 15 years (in today's dollars).

After year:	Value of investments		Value added by starting account based pension
	Take lump sum and invest outside super[10]	Start account based pension	
5	$536,067	$540,749	$4,682
10	$378,346	$388,193	$9,847
15	$217,667	$255,276	$37,609

[9] This will vary depending upon individual amount of investments and circumstances.

[10] These figures reflect any tax that would be payable on unrealised capital gains if the managed fund was cashed out at the end of each of these periods.

Assumptions: Income from all sources is used to meet cashflow needs. Any deficit shall be drawn from the bank account. Warren's super balance of $500,000 consists entirely of the taxable component. Both the account based pension and managed fund generate a pre-tax return of 7.74% (split income of 3.68%, growth of 4.06% and franking of 28.55%). The bank account provides an income of 3% pa. Warren's after-tax income goal ($50,000 in year one) is indexed at 3% pa. Any income received above Warren's requirement is invested in the bank account. Where applicable, age pension benefits are taken into account. Warren is a home owner and, apart from his bank account, he has no other financial assets that would impact the assets test.

Important information and disclaimer

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