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At the coalface: What clients ask about super

Q: When can I withdraw money from my super?

A: A client can withdraw money from their superannuation when they reach preservation age, which is anywhere between 55 and 60, depending on when they were born.

A key point for financial advisers to note is that the preservation age is increasing to 60 by 1 July 2024, so there might be some people who think they can take money now at 55 only to find they'll have to wait a little longer.

Once the client has reached the preservation age and meet a retirement condition of release, they have a couple of options up their sleeve. He/she can choose to receive their super as a lump sum, an account-based pension or a combination of both. It's also important to know they can also access all their superannuation money after turning 65.

The key other point for advisers to note is that where a client is between 60 and 65, and they change jobs, that is also meeting a condition of release which means the client can access their super as lump sum or as an account-based pension.

If the client hasn't yet retired, once they reach the preservation age they can start to draw down on their super in the form of a transition to retirement income stream. While this can provide the client with additional income payments, they aren't typically able to make any lump sum withdrawals.

Of course, in the unfortunate event that the client was to suffer from a permanent disability, severe financial hardship, or qualify under compassionate grounds, they may be able to access their super sooner.

Q: Can I still contribute to my super when I am over 65?

A: For those clients who decide to continue working, there is some good news. Even after turning 65 their employer is typically required to continue making compulsory contributions to super.

However, if the client is looking to make additional voluntary contributions after turning 65, they will generally need to meet a work test. This requires the client to have been "gainfully employed" (including self-employment) for at least 40 hours over a consecutive 30-day period during the financial year. If they do that, then they can voluntarily contribute at any time in the financial year until age 75.

Now the latest development in this space is the ability to make contributions after age 65 without regard to the work test and without regard to any age limitations – and this is through what is called the downsizer provisions.

These new rules kicked in from 1 July 2018. They allow individuals and couples who have owned a property for more than 10 years, and then sold, to contribute up to $300,000 each from the proceeds of that sale into superannuation as a non-concessional contribution and this may assist them with improving their income in retirement and assist in improving their estate planning situation should they eventually pass away and pay benefits to beneficiaries.

Q: If I receive an inheritance or a large lump sum of money, are there any limits to how much I can contribute to super?

A: There are always limits on how much a client can contribute to superannuation. These larger contributions will be made as non-concessional contributions or after-tax contributions – the limit will depend on whether the client is under 65 or over 65 – and will also depend on their total superannuation balance.

If the client is under 65 and their total super balance is less than $1.6 million, the standard cap is $100,000 and they can also bring forward two years' worth of contributions, meaning they can contribute up to $300,000.

Now those rules apply even if the client is over 65, except they can't trigger the "bring forward rule". So it's either $100,000 or $300,000 up to age 65 or $100,000 thereafter.

If a client makes a smaller personal contribution and claim some or all of it as a personal tax deduction, it will be treated as a concessional contribution.

Unlike non-concessional contributions, a concessional contribution will usually attract a 15% tax on entry to the fund (higher if you earn more than $250,000).

Currently the concessional contribution cap is $25,000. Also included toward this cap are any employer super contributions that you may have received.

Exceeding either of these contribution caps may lead to adverse tax consequences and or penalties. That's why it's usually a good idea for clients to get advice if considering making a large contribution.

Q: How does super impact the Age Pension?

A: According to ASIC, 65% of older Australians currently rely on the government for a pension or allowance as their main source of personal income in retirement.

For a client under Age Pension age, super doesn't impact it at all (unless it has been converted into an income stream).

On the other hand, once a client reaches Age Pension age, super is treated like any other asset – cash or shares, for example. It's counted as an asset and it's counted under the income test using deeming.

The strategic angle for advisers here is whether they're dealing with couples – where you've got one member of the couple who is of the pension age and one who is under.

Taking money out of the super of the person who is of pension age and putting it in to the super of the person under the pension age allows sheltering of that money for a number of years until the person reaches Age Pension age.

With the Age Pension age increasing it's a pretty good strategy to shelter assets and increase the Age Pension entitlement for the pensioner.

Q: Is superannuation covered by my will, and what happens to my super when I die?

A: Superannuation is going to be the second largest asset for most Australians, so they're keen to ensure it gets dealt with correctly.

Generally super is not covered as part of the will – superannuation is an asset held by the trustee and governed by superannuation law. It's going to depend on the directions or the nominations made to the superannuation trustee by the individual and this is an area where advisers can really provide some value.

Advisers can help individuals ensure they've got the right beneficiaries nominated and that the right nominations are made for the right monies to be paid out. There are only certain people who are recognised as eligible beneficiaries under superannuation law. This will typically include your spouse, children and financial dependants.

Getting this right has a big impact – your money will not be lost, as it will be dealt with by the nominations or the trustee based on the trust deed or general trust law. **FS**

One of the biggest ironies about superannuation is how little understood it is when in fact, it is going to be the second largest asset for most Australians.

Over time, government rules keep changing to adjust to new longevity patterns, adding even more complexity to the process.

In this edition, we answer five of the most commonly asked questions about super, from latest changes to the preservation age, lump sum contributions and the Age Pension.

Generally, super is not covered as part of a will. But financial advisers can help their clients by ensuring the correct nominations are made to the superannuation trustee. Getting this right has a huge impact, said AMP technical advice expert John Perri. Read this Q&A article for more or watch our video interview.

Michelle Baltazar
Michelle Baltazar
Director of Media & Publishing

The quote

65% of older Australians rely on the government for a pension or allowance as their main source of personal income in retirement.

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on www.fsitv.com