Each week, financial adviser and international bestselling author Noel Whittaker answers your questions. asknoel@fairfaxmedia.com.au

Ask Noel

Noel Whittaker

MY wife is 62 and currently has a Transition to Retirement super pension as well an associated accumulation account.

Her job is being terminated in a few weeks (the business is closing down) but she would like to maintain something like her current arrangement (a super pension and accumulation account) as she is likely to obtain short-term work from time to time but also needs a reliable income stream.

I have heard that, from July 1, 2017, the tax exemption on TTR pension fund earnings will no longer apply, although the pension benefit itself will remain tax-free as she is over 60.

If that is correct, should she convert her TTR pension into a normal super pension, as she will have satisfied a "condition of release"? In that case, can she also keep the existing accumulation account (which I know is still taxed on earnings) as a vehicle for future superannuation payments?

Yes, TTR funds will lose their tax-free status after June 30, but the income stream from the TTR will remain tax-free for recipients aged 60 or over. I agree that it would make sense for your wife to advise her fund that she has satisfied a condition of release and ask them to switch her fund to pension mode. Her funds will then be in a tax-free area while she is drawing a tax-free pension. The difference between the treatment of pension funds and TTR funds is because a normal pension fund is used by retirees – a TTR is used by people still working. A person cannot contribute to a pension fund but contributions can be made to a separate accumulation fund.

I am a 30-year-old full-time worker. I have realised I never rolled my old super fund to my new one when I changed jobs. I noticed in the old fund's annual report that it did not perform well last year. I am thinking of transferring it to another fund where I can choose better investment mixes and be more hands on. Are there issues with having two funds?

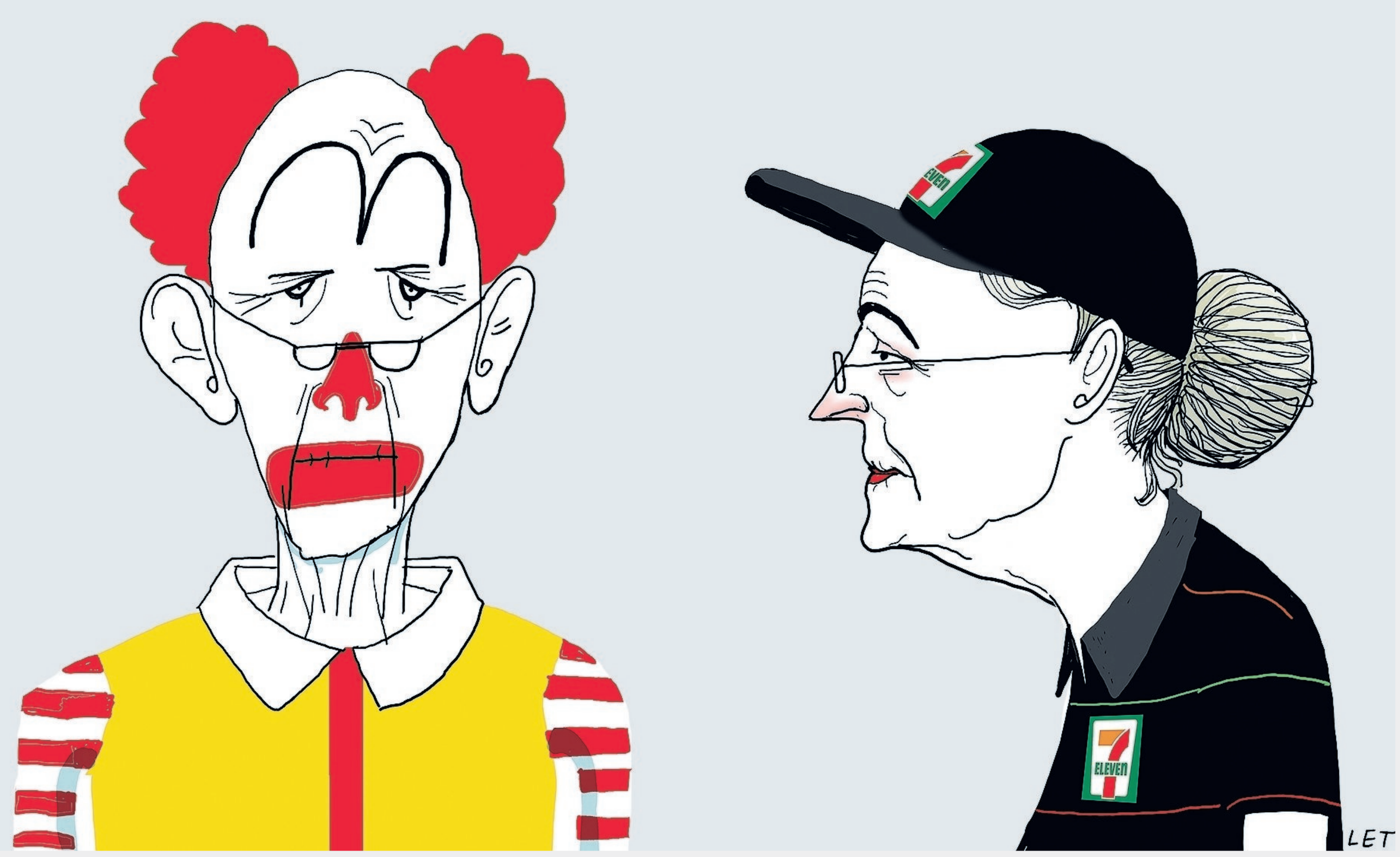
You are much better to have your superannuation in one fund and save annual account keeping fees, but you need to drill down and find out why your fund went backwards. Maybe you did not have a growth-orientated asset mix. I think you are at the perfect age to form a relationship with a financial adviser that should set you on a good course for the future and recommend a super fund with the features you require.

I was wondering how you think Australian share prices will be affected now that Donald Trump has been elected. We will need to sell some shares to pay for a caravan we are purchasing, but not for a couple of months as yet. We do not want to sell now as we are currently on Centrelink and the extra dollars would put us over the assets level.

I have always recommended that anybody investing in share-based investments should have a five to seven-year timeframe in mind at least. Therefore, irrespective of what you believe the markets may do, it would certainly make sense to cash in the shares now if the proceeds were going to be needed within the next six months. The conversion of shares to cash should not affect the treatment of your assets under Centrelink as both are deemed assets – this means they are assessed similarly.

Noel Whittaker is the author of *Making Money Made Simple* and numerous other books on personal finance.

THE EXPLAINER



How to boost the pension by $792 a fortnight

YOU mentioned recently that a couple can earn $292 a fortnight before their pension is reduced. You added that they could also earn $250 a fortnight each from personal exertion. Does this mean a total of $792 a fortnight? I can't seem to find a definition of "personal exertion" on the Centrelink website.

To encourage retirees to take on some casual work to supplement their pension it is allowed for an age pensioner to earn $250 a fortnight from a genuine paid job – not self employed. It is called a work bonus and the recipient must be over age pension age.

So, yes, it would be possible for a couple to have total assessable income of $792 a fortnight and retain the full pension. That is $292 of Centrelink assessable income such as deemed income PLUS $250 each per fortnight of wages under the work bonus. If either earned more than $250 a fortnight from wages the excess would be included in the income test.

More information is available at the Human Services website.

Fund members likely flying blind with life-stage options

Super & Funds

John Collett

WOULD you invest in something for which there is no information on whether it is likely to be a good investment? I'm not talking about some money punted on a sharemarket hot tip. I'm talking about retirement savings.

Many people have been shifted by their super funds into something called a "life-stage" or "life-cycle" option. They are different from the standard "balanced" investment options that are still used as the default options by almost all industry super funds.

Standard balanced options have fairly static asset allocations that are designed to cater for the majority of fund members.

A majority of "retail" super funds, those run by the for-profit institutions such as the banks and insurers, have life-stage investment options for those who don't choose who manages their super.

These adjust the asset allocation, firstly aggressively up to about age 40, after which time the risk is decreased as the fund member ages. Members are put into an option depending on the decade when they were born.

The investment risk is changed as they age without the fund member having to do anything. The funds adjust the "glide-path" – the tilt between riskier investments, such as shares and property, and income-producing assets such as fixed interest and cash.

Standard balanced options have about 70 per cent invested in shares and property and 30 per cent in fixed interest and cash.

Life-stage option supporters say they are better for members who don't take an interest in their super as the risk of their superannuation portfolio matches their stage of life.

Standard balanced options are easy to compare. Anyone can get onto the researchers' websites, at no charge, and see how their balanced option stacks-up, over all timeframes.

I've written on this topic before where I assumed that perhaps the researchers just needed time to find a way to compare life-stage options with balanced options.

Most life-stage options are new and so don't have a track record of performance; though some have been around for a while.

While comparisons can be made, say, among the super funds' 1950s life-stage options, I doubt it is going to be possible to compare them with balanced options.

There was a study in 2014 by the Centre for International Finance and Regulation that modelled the likely typical balance option with the typical life-stage option.

It concluded that over a working life that life-stage options were likely to produce a return that was 1 percentage point lower than the typical return of balanced options. That may not sound like much, but over a working life that would result in a much lower account balance at time of retirement.