BUSINESS

Each week, financial adviser and international bestselling author Noel Whittaker answers your questions.
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Ask Noel

Noel Whittaker

COULD commuting a portion of the money I have in super in accumulation mode affect my current eligibility for the Commonwealth Seniors Health Card (CSHC) – will the commuted amount be assessed by Centrelink as a new fund and result in my pension from the $1.6 million in retirement mode being assessed as income?

A departmental spokesperson confirms that since January 1, 2015, the CSHC has been subject to an income test whereby any deemed amount from account-based income streams has been added to a person's adjusted taxable income to determine eligibility for the CSHC.

If you have a grandfathered account-based income stream (also known as an allocated pension) – meaning you held an account-based pension before January 1, 2015, and continue to be assessed under the old deeming rules – only your adjusted taxable income will be used to determine your eligibility for the CSHC.

Should you fully commute the existing allocated pension and buy a new account-based income stream, the grandfathered status will not apply to the new product and it will be assessed for the CSHC under the current deeming rules.

Making a partial commutation and transferring the proceeds from the pre-2015 allocated pension into the accumulation phase will not impact the income assessment for the CSHC, unless this alters your adjusted taxable income.

If a new account-based income stream is purchased using the money from the superannuation investment in the accumulation phase, the deemed income from this account-based income stream will be included in the CSHC income test.

I am going through a divorce and am looking into both our super accounts. Is it easy for us to split them down the middle?

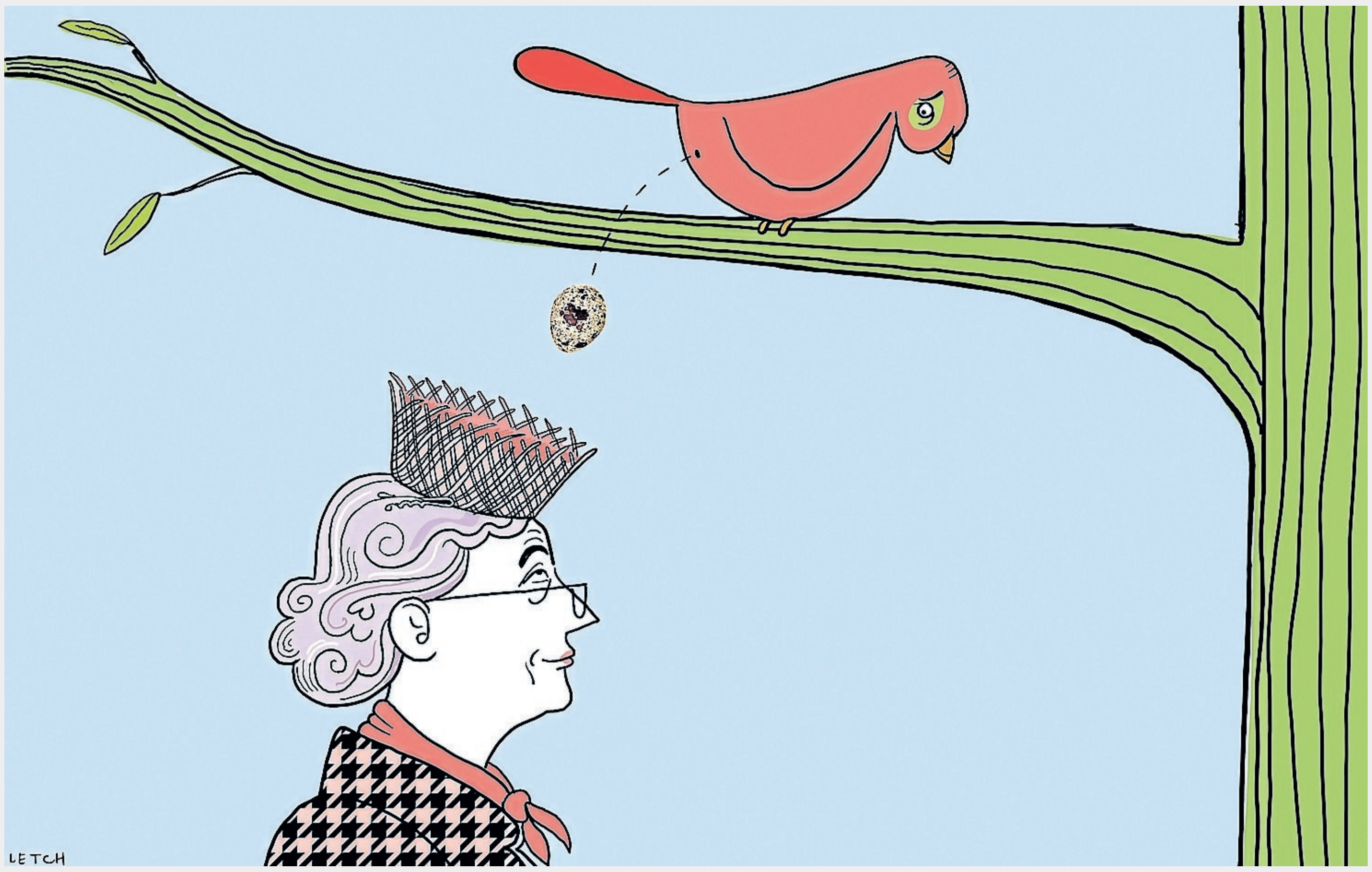
It is possible to do this when the property settlement is being done but there can be complications. Think about a situation where both parties were in their 40s, one of them did not work, and super and the family home were their main assets. Because the super could not be withdrawn till they were 60, one party could find themselves with considerable assets that could not be accessed and so would be unable to get enough for a deposit for a home to start off again. These matters should be considered when the property settlement is being negotiated. There are many possible scenarios – this is why it is important to take top legal advice, and negotiate an outcome which will result in a win-win for both parties.

I am a little confused. In a recent column, you said that money gifted or loaned is treated as a deprived asset by Centrelink for five years. But then you go on to say that money loaned will be assessed until repaid. Did you mean if it was repaid before five years, or until full repayment?

You need to understand the difference between a gift and a loan. If I make a gift which exceeds the limit of $10,000 a year, the balance of that gift is held as a deprived asset by Centrelink for five years even though the money is no longer my property. After five years it ceases to count for Centrelink purposes.

However, a loan is an agreement between a lender and a borrower that the money lent will be repaid at some stage in the future. As a result, it cannot cease to exist after five years for Centrelink purposes as it would still be owing unless forgiven. Once forgiven it is then treated under the gifting rules.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.



How pensioners should use an unexpected gift

I HAVE been bequeathed $20,000 and do not know how best to invest this unexpected gift. I am 68, female, retired, but work the odd day per month. My super account is still open with a balance of $8000, I receive the full age pension and own my own home worth $450,000. I have no savings. I do not have funeral bonds. What would you suggest?

The Explainer

The only purpose of superannuation is to save tax and, as you are not paying tax now, I see no point in adding the bequest to your super. In fact, it would make sense to withdraw the current balance in super to save fees. The receipt of the money will not affect your pension, so there is no need to tie up money in funeral bonds unless you are concerned that your estate or your family will be unable to pay for your funeral when you die. Look for a bank account that pays a reasonable rate of interest, and make sure you keep enough funds in an at-call account for unexpected expenses.

Three scenarios to decide on transition to retirement

Super & Funds

John Collett

IT'S decision time for anybody with a transition to retirement (TTR) pension. In the past a key bonus was that your super fund became a tax-free fund once the TTR commenced, but from July 1 the ability to have a tax-free pension fund in conjunction with a TTR has been taken away.

The essence of a TTR is that you start a pension from your superannuation fund once you reach your preservation age. This gives you partial access to your super, even though you have not satisfied a condition of release such as retirement, which would enable you to withdraw your funds when you wished.

For people who have reached their preservation age the choice will be to stay in a TTR, move back to accumulation mode, or abandon the TTR altogether and switch to pension mode. Let's consider these options one by one. First, the advantage of the TTR is access to your super before you retire – the price is the compulsory withdrawal of at least 4 per cent of the balance each year. If you leave your money in accumulation mode, or change back to accumulation mode, the tax treatment will be the same as if you had a TTR, but there is no requirement to make withdrawals – or you may be able to move to pension mode, where your super fund will become a tax-free fund.

Mary is 60 and has been enjoying a TTR since she was 56. She is now partly retired and has had several casual jobs. Because she has reached 60, and has satisfied a condition of release by resigning from a paid job, she has gained full access to her super and can quit the TTR. By doing this she will achieve higher net returns in her super fund from July 1 because she moves to a tax-free fund. If you are in Mary's position, and have met a condition of release, make sure you tell your TTR provider so they can convert your fund to a normal account-based pension and apply the earnings tax exemption. If you don't do this your fund will keep paying tax on your money.

Henry is 59 and is somewhat strapped for cash, as he was a late starter and his children are still in the expensive years. His wife is 46 and her super is inaccessible because of her age. He intends to work until 65, and is drawing a TTR so he can access his superannuation to help with the school fees. A TTR remains right for him as it enables him to access up to 4 per cent of his superannuation. The tax treatment of his fund is the same from July 1 irrespective of whether it stays in accumulation mode or becomes a TTR fund.

Helen, aged 58, is a career woman with substantial funds both inside and outside the superannuation environment. Being on her own she intends to work as long as she can. For her, the obvious strategy is to leave her superannuation in accumulation mode and salary sacrifice to the maximum. Since July 1, the amount she can contribute to superannuation has been substantially reduced – there is no point in taking money out unnecessarily through a TTR.

These examples highlight the fact that there is no one-size-fits-all strategy. As always, getting advice to optimise your financial affairs is the way to go.

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