

# Money DIY Super

Expert view

## Work to rules on a pension



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Transition-to-retirement pensions have captured the imagination of serious superannuation savers but there are complexities to consider.

For example, different rules apply depending on your circumstances. Then there is the fact rules are regularly modified. People can also have misconceptions about the way such pensions work.

For example, most people with super are aware that when you turn 55 you can start a pre-retirement or transition-to-retirement (TTR) pension. But they also often think that any pension you start between 55 and 65 has to be a TTR, says technical manager Leigh Mansell of super administrator Heffron.

It doesn't, and there are situations where an income stream that started as a TTR with certain restrictions can become an unrestricted pension.

The major restrictions that apply include having to take a minimum pension according to your age and the account balance you commit to the pension. There is also a maximum limit on pension income, which is 10 per cent of the balance.

You can't make lump sum withdrawals from a TTR, an entitlement that is available to those with an unrestricted pension.

This lump sum restriction can have a wider application for those with a TTR. When a TTR is started while you are still working, you are also likely to have an accumulation account. The accumulation account is used to accept super contributions and a reader asks if it could also be a source of lump sum withdrawals.

Both he and his wife – he is 66 and effectively retired and she is 62 and working part-time – each have a TTR pension and an accumulation

account within their DIY fund. While accepting the TTR pension rules, he asks about the rules that apply to taking lump sums from the accumulation account.

Mansell says his TTR and accumulation account no longer have any withdrawal restrictions because he has passed the magic age of 65.

Whether he is working or not he can withdraw tax-free lump sums from his accumulation account. As far as his now unrestricted pension is concerned, there is no upper limit on the income he can withdraw. He has full access to all his super and the payments will be tax-free.

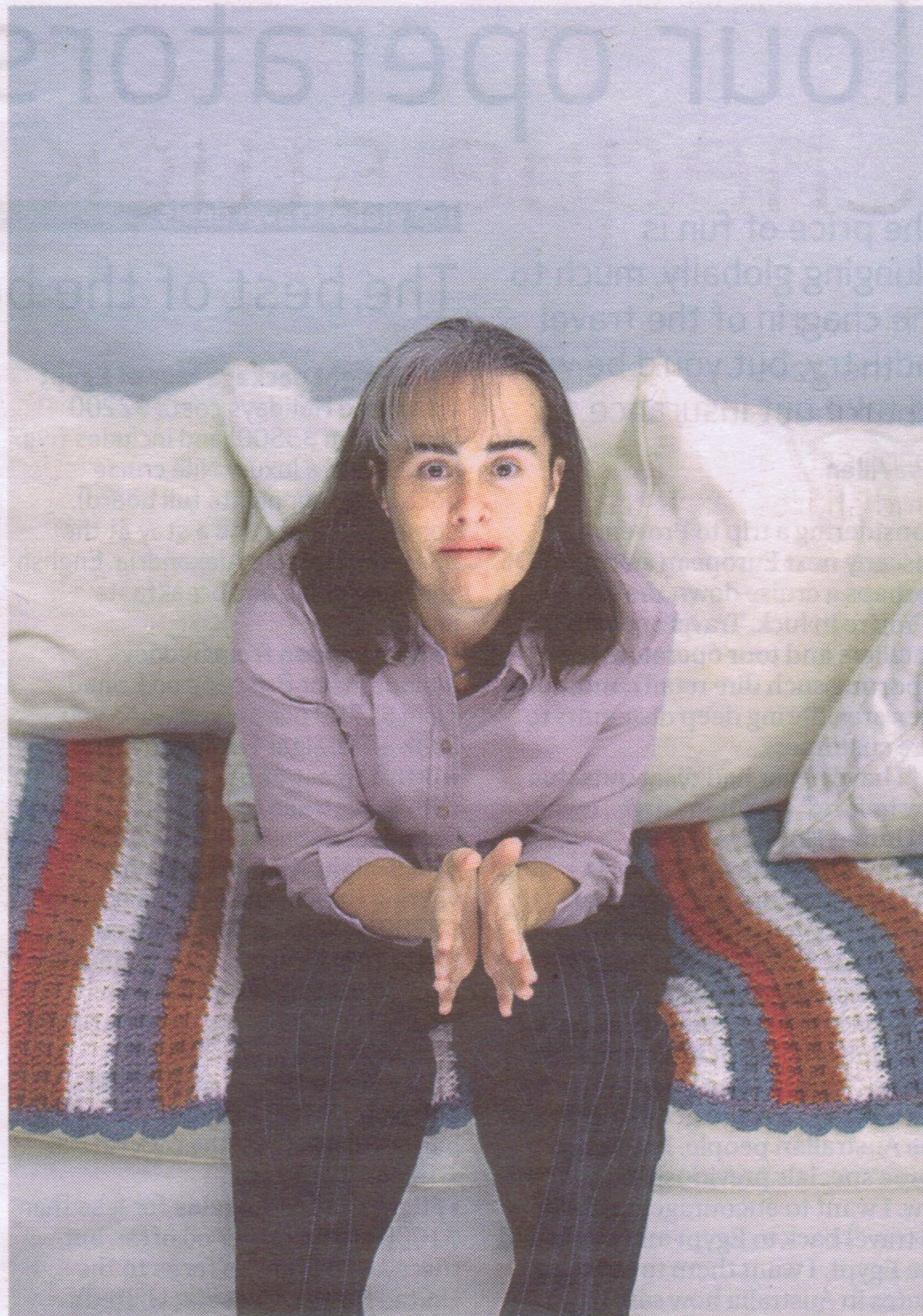
If he leaves the accumulation account as it is, unlike his pension account there will be tax to pay on his investment earnings. But if he is smart and starts a pension with the accumulation balance, its investment earnings will also be entitled to tax-exempt treatment.

His wife is 62, so her accumulation account will remain restricted until she satisfies what is described as a condition of release. Before any super can be taken as a benefit, especially a lump sum benefit, at least one of a number of rules must be satisfied, says Mansell.

If she is working part-time, one way to access a lump sum from her accumulation account would be to reduce her working hours to less than 10 hours a week. This will allow her to describe herself as being retired and, as she is older, allow her to satisfy a condition of release.

One thing to check as far as her part-time work is concerned, says Mansell, is whether this involves a major change in her work circumstances. While the most common condition of release of super benefits before the age of 65 is retirement from work after the age of 55, in between these two age milestones there is another lesser understood condition: changing your employment circumstance after the age of 60.

This could involve leaving a job and starting a new one or if you have more than one job, ending one of



Leigh Mansell says a pension can become unrestricted. Photo Michele Mosso

**One of a number of rules must be met before super can be withdrawn.**

them. If you do either of these things, says Mansell, some or your entire super could be available on an unrestricted basis.

In the case of the reader's wife, this would mean that rather than a TTR, her pension could, like his, be unrestricted.

This wouldn't happen if her part-time employment was greater than 10 hours and she still worked in the job that provided the super from which she is taking the TTR.

As far as other opportunities to take lump sums from super are concerned, there are certain people who can take tax-free lump sums if their super includes historical amounts described as unrestricted and non-preserved benefits.

Large after-tax or non-concessional contributions made before 1999 and employer golden handshakes rolled into super before July 2004 are the most likely unrestricted and non-preserved benefits.