# Withdrawals trump pension deposits

DIY super
**John Wasiliev**

Important signs are emerging of a shift in the do-it-yourself superannuation sector from super savings to the payment of benefits.

According to a study by DIY super administrator Multiport, the last quarter of the 2011-12 financial year saw more benefit and pension payments leave a sample of 1900 funds it regularly surveys than enter them through contributions.

The funds, which look after about $1.4 billion of investment assets, are regularly analysed for a range of industry trends.

While the difference between benefits leaving the funds in the form of super pensions and lump sum withdrawals and contributions going in wasn't huge – around 7 per cent – with some of the benefits taken likely to be earmarked for recontribution in the not too distant future, it was still worth noting and monitoring, says Multiport technical manager Philip LaGreca.

LaGreca says the payments would have come from about 800 of the 1900 funds that have entered the pension phase of superannuation. He described the withdrawals as being mostly related to meeting minimum pension levels for the 2011-12 financial year or as part of a withdrawal and recontribution strategy.

Withdrawal and recontribution is an inheritance strategy that funds engage in to reduce the prospect of their beneficiaries losing 16.5 per cent tax on super balances that are passed on in the form of a death benefit.

This tax liability is levied on super death benefits sourced from concessionally taxed contributions and investment earnings.

The most likely beneficiaries this may affect are the adult children of a late fund member.

The strategy to save this tax involves a member making a tax-free lump sum withdrawal from their super once they are entitled to do so and then recontributing this as a non-concessional, or after tax, contribution.

Once a member is over 60 they can withdraw up to 10 per cent of a pre-retirement or transition to retirement pension as tax-free income, and once they have reached 65 any amount can be withdrawn as a tax-free lump sum.

To recontribute money into super as a non-concessional contribution a member must be either under age 65 or if they have passed 65 they must meet an employment work test that involves working for at least 40 hours over a 30-day period. While the non-concessional annual contribution limit is $150,000 a year, anyone under 65 can increase this to $450,000 by bringing forward three years of such contributions into one year.

The attraction of having non-concessional super in a fund is that this component escapes the 16.5 per cent tax on death benefits.

LaGreca says of the 800 pension paying funds in the Multiport sample, about 500 are also making regular super contributions, which suggests they have a transition to retirement pension.

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At around 42 per cent, the total 800 funds taking pensions in the survey is higher than the sector average of about 28 per cent of funds estimated by the Australian Taxation Office.

He attributes this to the fact that most Multiport clients are advised by financial planners who like to recommend transition to retirement pensions along with withdrawal and recontribution as tax savings strategies for clients who are still working. As well as those over 60 being entitled to take tax-free pension payments, starting a super pension from a DIY fund also allows the fund to claim tax exempt investment earnings, which enhance the fund's annual income.

The strategy of recontributing money taken as pension or lump sum benefits around the end of a financial year as non-concessional contributions is strongly suggested by contributions statistics monitored by Multiport.

The strongest quarter for non-concessional contributions last year was September when 50 per cent more in the way of non-concessional contributions went into the Multiport funds compared to concessional contributions.

Not surprised by the high level of pension withdrawals revealed by the Multiport survey is pensions specialist Meg Heffron of DIY super support services adviser Heffron. She says the proportion of the Heffron client base that is in pension phase is also going up and is now comfortably greater than half of all funds compared to one-third of all funds about 10 years ago.

She attributed this to a combination of changes in the super industry generally plus the fact that most clients also deal with financial advisers who tend to get more involved with strategies at the pension phase.

This includes growing familiarity with transition to retirement pensions, even though these have now been around for more than seven years.

The awareness of what they offer was spurred on enormously by the Howard government's tax changes in 2007 that introduced tax-free pensions for the over-60s, says Heffron.

She says it is older members of super funds who are most attracted to these strategies, which can be appealing where they have bigger balances which many tend to have because their super savings have not been as affected by the massive tightening of contribution caps since 2009.

Having a bigger fund balance makes both a transition to retirement pension and a recontribution strategy more attractive because the tax saving dollars are enough to make people sit up and take notice, says Heffron.