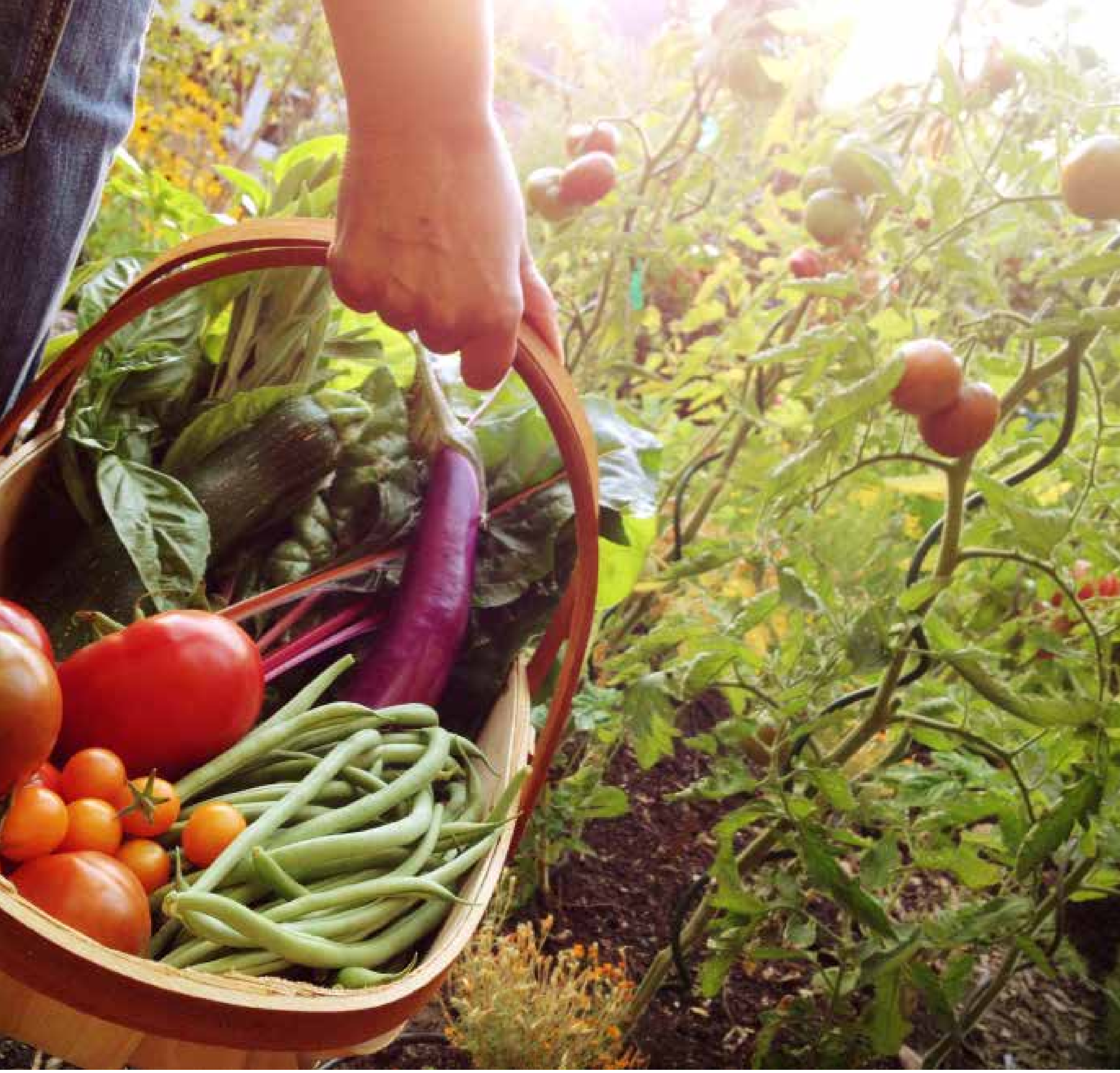

Insights and Investment Solutions Magazine

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Welcome

In this edition of Insights and Investment Solutions magazine, read the latest market update based on the market recovery from COVID-19.

We take a look at changes to your minimum pension payments and finally we share insights on accessing your super in retirement.

Until next time – happy reading.

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Market update

Following the suprise market recovery experienced in April and May we have seen many indexes continue their early stages of bouncing back. As countries begin to relax their Coronavirus restrictions, the positive effect of reopening major economies has been felt globally. However, some uncertainty remains over how quickly economies can be reopened without risking a second wave of COVID-19 cases.

The Westpac-Melbourne Institute Index of Consumer Sentiment experienced a bounce back of 16.4% to 88.1 as at the end of May. This follows last month's decrease of 17.7%. The astounding improvement in confidence can be attributed to the fact that consumers are reacting positively to Australia's successful response to COVID-19 and the subsequent relaxation of restrictions. The flow-on increase in consumer sentiment represents the largest monthly Index rise in the history of this survey. However, this is still considered the second worst result for the index since the GFC, remaining 7.6% below the six-month average covering September '19 to February '20. More positive outcomes were seen through the sentiment indicator on the 'economy, next 12 months' sub index, which rebounded 32.6% from its poor April result of 53.7 to finish at 71.2 in May.

The Federal Government plans to achieve a budget surplus have been shelved in order to deliver much needed economic stimulus. It is important to note that prior to COVID-19, domestic economic growth was already below trend. This can be cited to increased levels of household debt and diminishing growth of wages, which in turn, lowered consumer spending. Despite Government stimulus and efforts from the RBA, unemployment is expected to remain at a higher level than prior to COVID-19 for some time. There are some concerns for the potential of significant unemployment growth when stimulus measures are withdrawn later this year.

While there are ongoing reports that the economic outlook will not be as severe as previously expected, sales volumes highlight that turnover has decreased 60% over the past year. That said, to assess the impact of the COVID-19, the Australian Bureau of Statistics revealed the strongest rise in retail spending to date. Panic buying may possibly be the sole driver of this increase, which represents the considerable extent of cushioning being implemented by the Government. Ultimately, the eventual reduction of income and employment will have a negative impact on consumer spending in the near term.

The Australian Labour Force survey indicated the decline in market conditions, with unemployment increasing by 1% to 6.2%, a 594,000 reduction in jobs. While these statistics are alarming, the result was less severe than the labour conditions around the world. The Government announced this month that JobKeeper payments are being made to support millions of workers across 860,000 businesses.

Australia's gross domestic product (GDP) fell 0.3% in Q1 of 2020. While this is the first quarterly reduction in GDP since 2011, the Government announced that the Q2 results are expected to far exceed Q1. COVID-19 has clearly played a significant role in this result, however, weak performance in private sector demand over the past year has also contributed. RBA Governor Lowe displayed a sense of cautious optimism by noting "it is possible that the depth of the downturn will be less than earlier expected" and that "some restrictions have been eased earlier than previously thought likely".

Changes to minimum pension payments

As part of the Government's commitment to Australians during COVID-19 crisis, it recently announced changes to the minimum pension payments for retirees.

The minimum pension drawdown rates have been halved for the 2019/20 and 2020/21 financial years.

This action is in response to dramatic movements in global sharemarkets, which have seen many people's superannuation balances fall.

How does this benefit me?

This change to minimum pension payments is welcome news for retirees with account-based pensions, market-linked pensions and transition to retirement pensions.

It will offer flexibility for retirees, who won't now be forced to sell their shares, property or other assets at a time when their value is reduced simply to fund their income stream.

Instead, if they have sufficient ongoing cash flow to meet day-to-day living expenses, retirees will be able to ride out the current volatility and avoid capitalising any losses by keeping more of their money invested. When the sharemarket recovers, they'll also be well positioned to take advantage of any opportunities that brings.

New minimum pension drawdown rates

Age of beneficiary	**Temporary percentage factor** (2019/20 and 2020/21)	**Normal percentage factor** (2013/14 to 2018/19)
Under 65	2%	4%
65 to 74	2.5%	5%
75 to 79	3%	6%
80 to 84	3.5%	7%
85 to 89	4.5%	9%
90 to 94	5.5%	11%
95 or more	7%	14%

Source: SIS Act

What is an account-based pension?

An account-based pension offers retirees regular, flexible and tax-effective income from their superannuation account. You might also see it referred to as an allocated pension.

Members of a Self-Managed Super Fund can also have an account-based pension, provided the payment is allocated to a separate account for each member of the fund.

You can access an account-based pension once you reach your 'preservation age' (between 55 and 60 based on when you were born) with just a few simple choices[1].

- Decide how much you want to transfer to the pension phase.
- Choose the frequency of your payments – monthly, quarterly, half-yearly or annually.
- Choose the amount you want to receive in each payment (subject to minimum and maximum requirements).
- Consider how you want the remainder of your superannuation to continue to be invested so it keeps working hard for you.

While the pension income isn't guaranteed for life, the income stream will continue for as long as your accumulated superannuation money does.

Why is there a minimum pension payment?

The Government sets minimum pension payment rules for just one simple reason – to satisfy the sole purpose test.

The sole purpose test requires that all activities of super funds must be for the sole purpose of providing retirement benefits to their members[2].

It prevents super funds and their members from taking advantage of the attractive tax concessions and using superannuation as a way to transfer wealth to the next generation.

The rules

- Pension amount

The minimum pension drawdown rates are calculated as an annual percentage of your account balance.

This percentage amount increases with age and is based on assumptions around what's considered a sensible amount to withdraw annually while maintaining an account balance that's enough for you to draw an income throughout retirement[2].

Each year, the minimum amount you will receive is recalculated based on your age and account balance as at 1 July. If you open a new pension account part way through a financial year, the minimum pension drawdown rate is pro-rated and calculated based on the number of days left until the end of the financial year.

- Pension frequency

You can choose whether you want to receive pension payments monthly, quarterly, half-yearly or annually – whichever suits your individual circumstances.

But it's a condition of all account-based pensions that you must receive at least one pension payment annually between 1 July and 30 June each financial year.

How can I adjust my minimum pension payment?

We've updated all our systems to take account of the new reduced pension minimums.

So, if you're worried that your superannuation balance has been impacted by recent sharemarket volatility and you would like to change your minimum pension drawdown amount to take advantage of the temporary reduction in rates, we recommend you speak to your financial adviser.

They can work with you to ensure your investments are structured in the best way to help you achieve your longer-term retirement goals while still providing you with adequate income for daily essentials.

1 Moneysmart Moneysmart.gov.au https://moneysmart.gov.au/retirement-income/account-based-pensions

2 SuperGuide https://www.superguide.com.au/smsfs/what-is-the-sole-purpose-test-and-how-does-it-work

Accessing super in retirement

When the time is right and if you decide to move your super account from the accumulation to pension phase, it is important to know some key facts before accessing your super.

Do I have to fill out any forms? Do I have to notify my super fund?

Once you stop working, your main (possibly only) source of income also ceases. Your superannuation benefits which have been accumulating during your working life, via contributions made by your employer (and possibly additional contributions made by you, your spouse or the government), are now potentially accessible to you, subject to meeting certain conditions[1]. Your super fund will need to be notified, and they will have a range of forms that can facilitate the next steps.

You may want to consider seeking advice from a qualified professional when thinking about accessing super, as they will be able to assess your personal situation and provide appropriate financial advice to you.

Do I have to transfer my super to a pension account?

When a person retires after reaching their preservation age[2], they can request their superannuation monies to be moved to an account-based pension structure. In other words, they can request their superannuation to be moved from accumulation phase, to drawdown (or pension) phase.

Transferring superannuation from accumulation phase to pension phase is not compulsory. However, there may be some tax advantages to transferring your super from an accumulation account to an account-based pension.

Does the tax rate on my super change?

Investment earnings on your super in accumulation phase is generally 15%. If and when your super monies are converted to an account-based pension account or a transition to retirement pension account in the retirement phase, the tax rate on investment earnings reduces to zero. Note that depending on your age when you are drawing down a pension, you may still incur tax on the actual pension payments (if under age 60). Once you turn 60, all drawdowns are tax free in your hands.

How do I take out money? Can I take as much as I want out as often as I like? Are there rules and restrictions in accessing super?

Once you have reached your preservation age and have ceased all paid employment, there are no restrictions on the maximum amount that can be withdrawn from a super or pension account.

The rules do however specify:

a maximum amount that can be transferred to a pension account, currently set at a maximum of $1.6 million across all pension accounts you may have (anything above this can either be withdrawn from the super system or remain in an accumulation phase account and be subject to the concessional 15% tax rate on earnings), and a minimum drawdown requirement for monies held within a pension account, which start at 4% of your account balance at commencement and each 1 July thereafter, if aged under 65.

As you get older, the minimum percentage increases gradually. A pension is a zero tax

1 The ATO has a useful summary on the circumstances in which you can access your super.

2 Your preservation age is based on your date of birth. Your preservation age can be found here.

structure but you are required to withdraw a proportion of your accumulated savings, to be able to continue to enjoy the concessional tax treatment it receives.

If you draw down an amount above and beyond your personal requirements, you are likely to accumulate monies in your own name, for which you will be personally liable to pay tax on any earnings that are derived. As a result, it might make sense to only drawdown what you require (or are obliged to draw down).

Is it a good time to change my investment strategy?

This should be part of the broader discussion with your advice professional, but generally speaking, when people move from 'accumulating' capital for their retirement to 'drawing' on their capital, this usually coincides with a "re-setting" of a person's asset allocation, as part of their overall investment strategy.

Typically, moving to 'retirement' sees a reduction in the proportion of growth assets such as shares and property within a person's super portfolio, and an increase in defensive assets such as cash and fixed interest. The reason is because you are now selling assets to fund pension drawdowns and as a result, the investment timeframe for a portion of these accumulated monies is in the short to medium term, and as a consequence, the importance of allocating them into suitable assets.

What happens if I retire and start accessing super and then change my mind and go back to work?

Whilst a declaration of genuine intent to cease all gainful employment after reaching your preservation age will potentially make accumulated super monies available, this does not mean you are ever prevented from returning to work. Changing one's mind (for whatever reason) and returning to work will not reverse the above process, although it does potentially mean that new contributions to super are preserved until you satisfy (or re-satisfy) a new 'condition of release'.

In summary, it is recommended that professional advice is sought from a suitably qualified adviser, as this will mean your superannuation savings are within the appropriate structure and have the right investment mix to help you through your retirement years.

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