barnett
financial planning

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Understanding account-based pensions

One day you'll be ready to retire. Then you can stop working and spend more time doing the things you enjoy. But what are your options when it comes time to access your super?

Once you decide to retire you can access your super as a lump sum or start an account-based pension (also known as an income stream) or do a combination of both. The benefit of starting an account-based pension is that it provides a regular tax-effective income during your retirement.

How does an account-based pension work?

An account-based pension works by simply transferring the money you have accumulated in your super to an account-based pension. This account will automatically pay you a regular income from your super into your bank account either fortnightly, monthly, quarterly or yearly.

The maximum you can transfer to an account-based pension is generally $1.6 million.

When can you start an account-based pension?

The income stream from an account-based pension can usually be paid to you once you've reached your preservation age and retired from work. In some circumstances, if you meet an alternative 'condition of relief' such as permanent incapacity, or start a 'transition to retirement' pension (see below) you may be able to access your super before you retire.

What's your preservation age?

When were you born?	Your preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Investing your pension

Your account-based pension account can hold a range of investments – including shares, fixed interest, cash and managed investments – depending on the investments offered by your fund.

Minimum pension payments

As legislated by the Government, every year you will need to withdraw a minimum pension payment. This is calculated according to your age. There is no maximum payment amount.

The Government has recently announced **the temporary halving of the minimum that you must draw from your super pension** to help minimise the impact of current economic conditions on retirees due to the Coronavirus situation.

Tax benefits of account-based pensions

An account-based pension can be more tax-effective than taking your super as a lump sum. This is because the **earnings from investments** in your account-based pension are tax-free. These **tax-free** earnings remain in your account and increase the account balance.

Both **lump sum and pension payments** from your account-based pension are **tax-free** once you turn 60.

How long will your pension last?

How long your pension will last depends very much on what you want to do in retirement, how much super you have, how much you withdraw as a pension, the investment returns and the amount of fees. So, careful financial planning is important.

To work out your income in retirement and how long it will last using your current circumstances as a base, visit the Government's **Moneysmart retirement planner calculator**.

Using a transition to retirement pension before you retire

If you've reached your preservation age, you can generally access between 4 and 10% of your super balance each year **even if you're still working** through a transition to retirement pension.

Unlike a full account-based pension, you can't take a lump sum.

A transition to retirement strategy can be used in two ways:

- Reduce your working hours while maintaining the same income
- Save money by reducing your tax bill

A transition to retirement strategy could give you more time to save for retirement or to build additional emotional stability by allowing you to slowly ease into retirement.

What happens to your pension after you die?

An account-based pension can last for your lifetime, as long as your account holds enough money, and can be transferred to your beneficiary, (generally your spouse or partner), after you die.

Types of beneficiaries

There are three types of beneficiaries you can nominate - non-binding, binding and reversionary.

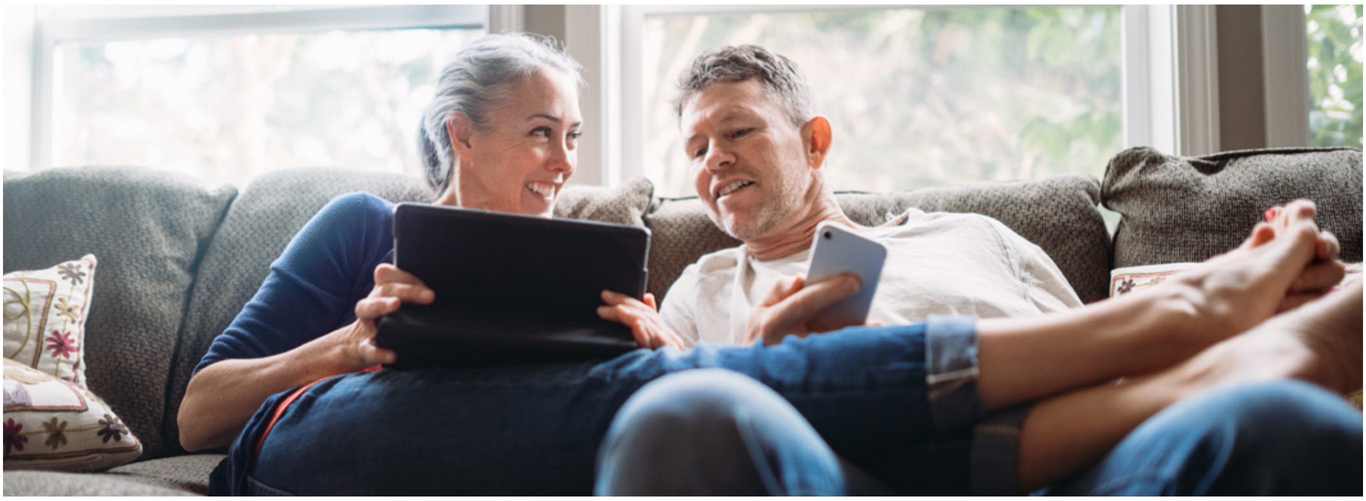
If you **nominate a reversionary beneficiary** the nominated person will **automatically continue to receive the pension** after you die.

Advantages of receiving a reversionary pension

- There is no urgency to deal with death benefits at a time of grief as the pension **automatically switches** from you to your reversionary beneficiary.
- Generally, the pension continues to be **tax-free** for your beneficiary, or at least concessionally taxed.
- Earnings are **tax-free** in the fund.
- The pension **remains in the super** environment. In contrast, by receiving a death benefit as a lump sum (through a binding or non-binding death benefit nomination) some beneficiaries would not be able to contribute that money back into super due to age restrictions.

Make plans for your retirement

Retirement can and should be a rewarding and enjoyable phase of your life, so ensure you plan for it properly and understand what your choices and options are.



Renovations at home

Tempted by a home reno? You're not alone. But, before you reach for the sledgehammer, there are a number of things to consider.

Over the past year or so, we've all spent more time in our own homes than we probably would have otherwise. And, if there's one thing that spending more time at home does, is highlight those opportunities for home improvement.

If you've been casting increasingly disdainful glances at your 20-year-old kitchen, finally reached the end of your tether regarding the lack of space or have convinced yourself that the outdoor area just isn't complete without a deck, you're not the only one.

At the time of writing, the most recent data from the Australian Bureau of Statistics (ABS) shows that $973.2m[1] of alterations and additions to residential buildings were approved in one month (February 2021) alone – compare that to the same month in 2020 (pre-COVID-19 effects in Australia) and the same figure stood at $687.9m[2].

Throughout the year, despite the uncertainty the COVID-19 pandemic has brought, people have invested more in their homes.

> It's smart to focus on the areas that are high value in the eyes of buyers – kitchen, bathroom, an extra bedroom and street appeal.

Please proceed carefully

Of course, if you're considering a renovation, you need to understand why you're doing it.

Many people renovate to sell their property at a profit – maybe it's an investment property, maybe it's their strategy to get the dream home.

If that's the case, it's smart to focus on the areas that are high value in the eyes of buyers — kitchen, bathroom, an extra bedroom and street appeal.

Improvements in these areas can be the difference between hitting your target sale price or missing out, so it's worth considering investing in these areas, with a neutral, inoffensive interior. You may love a pink tile. Not many others will.

However, if you're making improvements to your long-term home, focus on the areas that will make the biggest difference to how you use and enjoy the property.

For example, building that deck will mean that you spend more time enjoying the outdoors — sitting outside on a warm summer's evening watching the sun go down, cold rewarding drink in hand, is incredibly appealing.

1 https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/feb-2021

2 https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/feb-2020

You may need more space — perhaps the COVID-19 pandemic has resulted in more permanent working from home arrangements, or maybe the grandchildren are coming over to stay for a night (or four) more often than they were before.

Whatever the motivation, focus first on the improvements that will give you the most joy.

Time to dive in?

If you don't already have a pool, it could be something that figures highly on your wish list — space permitting.

And, a pool is the perfect example of something that could significantly improve the way you use your property, without necessarily adding much value.

Research shows that nearly 40 per cent[3] of people wouldn't pay any more if a house had a pool, although almost 16 per cent would be happy to pay $10,000 more. Therefore, given that the average cost of a pool in Australia is around $50,000 – with many pools coming in over the $100,000 mark[4] – it's safe to say that a pool is a luxury addition, rather than a profitable one.

Make hay while…

One addition that could save you some money, is solar. Australia has the highest uptake of solar globally, with 21 per cent of homes (2.66m)[5] now taking full advantage of Australia's sunshine.

Rooftop solar can cost anything between $3000 to $12,000[6] on average, after taking advantage of the varying State Government rebates.

A common entry in the 'against' column for solar used to be the need to use the power in 'real time' — not much use if you're out at work all day. However, with increasing numbers of people working from home, together with affordable battery storage becoming more readily available, solar is something that is certainly worth serious consideration. It could take less than six years to pay off — and then you're literally saving money while the sun shines.

The money conversation

Renovations can be costly projects – in fact, half of the renovations in Australia are valued between $40,000 and $200,000. It's serious business, so a pragmatic approach is needed.

How you proceed will depend on your circumstances. If money is not a driving factor then you'll be guided by the additions that will most benefit your life. However, if you're taking out finance to fund the renos, or you're upgrading with half an eye on selling, it's important not to over-capitalise, and end up owing more money than the property is worth.

And remember, renovations come with a lot of additional costs too – from architect fees and council permits to having to pay rent on another property if you need to move out when the renos are being done, it can soon rack up.

Cutting costs, not corners

One way to reduce the financial load is to take on some of the DIY work yourself. And, if you're an experienced DIY enthusiast, or a tradie by trade, it can be a smart move. It's always good to remember not to overestimate your own abilities however!

Even if you are doing work yourself, you'll still need council approval for most renovations plus, any electrical work needs to be carried out by a licensed electrician.

Start by understanding the real reasons you want to reno, and then go for it!

If you're considering making a large investment, such as a home renovation, please contact us and we can see how it could affect your financial plan.

3 https://www.yourinvestmentpropertymag.com.au/news/does-installing-a-pool-add-value-to-a-property-246165.aspx
4 https://hipages.com.au/article/how_much_does_a_pool_cost
5 https://www.energy.gov.au/households/solar-pv-and-batteries
6 https://www.canstarblue.com.au/solar-power/solar-installation-cost/

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