canberra times: q&a

Q 1: I am 65 and retired from work. What are the advantages and disadvantages of rolling over an existing allocated pension into a new allocated pension. Are there any tips or dangers in doing this?

T.I., DUFFY

A 1: It is certainly possible to roll from one allocated or account based pension to another one, but it is important to understand that some calculations for Aged Pension assessment can change which may be a positive or a negative in your specific situation. Here is an example:

You purchased an allocated / account based pension some 2 years ago, say 1 July 2011 with $200,000. A 63 year old male at that time would have a life expectancy of 20.14 years, which becomes the Relevant Number (RN) for calculating an annual exempt income stream for aged pension calculation purposes, called the Deductible Amount (DA). So, the DA in this example would be $9,930 pa ($200,000 divided by 20.14).

At that time a 63 year old would have a minimum drawdown from their fund of 3% of the account balance, which would be $6,000 pa. Therefore you would be able to draw an annual pension of $9,930 pa from this fund and none of the income would be assessed as income for Aged Pension calculation purposes. The DA has effectively shielded any income you earn from this $200,000 asset, as there is also no deemed income assessment on the $200,000 account balance either.

Now, assuming 2 years later come 1 July 2013 at age 65 you decide to rollover your allocated / account based pension to a new provider. A new Deductible Amount will be calculated based on your new and lower aged based Relevant Number of 18.54 for a male. So, if your account balance has actually stayed the same over that time, ie is still $200,000, then the new DA will be a higher $10,787 pa, which effectively shields even more income from Aged Pension calculation assessment.

Better yet, if your account balance has increased over that time to say $250,000 and using the new RN, your DA would be calculated as $13,484 pa, which is considerably higher than the current DA of $9,930 pa.

Conversely, if your account balance has decreased over that time to say $150,000 and using the new RN, your DA would be calculated as $8,091 pa, which is lower than your existing DA.

To summarise, you can rollover an existing allocated / account based pension to a new fund / provider but be aware that a new Centrelink exempt amount (Deductible Amount) will be calculated which can be to your advantage or detriment, depending upon how the fund balance has moved and how much time has passed since starting your existing pension.

During a time of rising investment markets or if a number of years have passed since starting your pension fund and if you are receiving an aged pension that is based on the Income Test, then it can be worthwhile to review your situation with a Certified Financial Planner to see

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whether there is a benefit to you in changing your existing pension arrangements to a new one.

Keep in mind that some Pension Funds set up in the past carry with them a valuable Asset Test exemption (either in full or partially) for aged pension calculation purposes, the benefits of which should be understood before deciding to change funds.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to phil@risefinancial.com.au

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