Rolling Over Superannuation

When rolling over or transferring superannuation much thought is given to fees and performance. People do not realise that substantial amounts of money can be lost due to poor investment choice and little consideration is given to the issue of safety.

People who are retired, or nearing retirement with small amounts of superannuation cannot afford to take undue risk with their investments. For these people, safety is an important aspect when choosing a fund and investment options.

Rolling over of superannuation can occur for many reasons. These include choice of fund, commencing an income stream or returning an income stream to the accumulation phase of superannuation. Where the rollover is within the same phase of superannuation a signed statement may be sought by the fund being exited to the effect that due consideration has been given to costs associated with the transfer and possible realisation of losses.

Transfers can be made within either phase (accumulation and pension) at any age. For those in the pension phase who receive Government Income Support, such actions can have an effect on the amount of income that is assessed.

When rolling over, consideration should be given to appropriate investment strategies that satisfy the investor's needs and objectives. Various investment options, such as those listed below, may be used and varying fees and charges apply. Each option has a different level of risk. It is the investment objectives and attitude to risk, not predicted returns, that should determine choice. Refer to *http://moneymap.nicri.org.au* for help in prioritising objectives and determining risk profile.

Cash: Low risk investment with little or no potential for capital growth.

Capital Secure: Funds are usually invested in the cash and fixed interest markets. Returns and balances can rise and fall due to market conditions.

Capital Stable: Invested in a wide range of less volatile investments. Returns and balances can rise or fall due to market conditions.

Fixed-Term: These operate like a term deposit and offer a set rate of return for a fixed period of time.

Managed: These market linked options may have names such as *Growth, Balanced, Property, International* or simply *Managed Fund*.

The superannuation fund can invest in a number of different asset classes (diversified) or in a single asset class as is sometimes indicated by their name. The value of the investment will rise and fall with market conditions.

Always read the product disclosure statement carefully to see where money will be invested and the level of risk involved.

Superannuation and ETP's

Investments within the superannuation system can be transferred and retain their concessional taxation and Government Income Support treatment. In the accumulation phase these include superannuation funds, retirement savings accounts (RSA), approved deposit funds (ADF), deferred annuities (DA) and in the payment phase income stream products .

Withdrawals and transfers between funds as well as payments made as a consequence of termination of employment were, prior to 1 July 2007, referred to as Eligible Termination Payments. They now do not fall under this category of payment.

From 1 July 2007, the term Eligible Termination Payment was replaced with the term Employment Termination Payment (ETP)and only a non superannuation lump sum payment that is made due to the termination of employment is now referred to as an ETP.

An ETP cannot be rolled over to superannuation. To retain the concessional tax treatment, it must be paid within 12 months of termination of employment. For more information on ETPs refer to NICRI booklet *Redundancy and You*.

Superannuation benefits that are rolled over to a new fund maintain their taxable and tax exempt components. When rolling over benefits to an existing fund the taxable and tax exempt components are added to those of the existing fund which can change the proportions of the components.

The Retirement Factor

Superannuation benefits can be retained in the accumulation phase indefinitely. However, depending on the fund rules it may still be necessary to transfer them to another fund.

Superannuation assets, for a person of age or service pension age, are assessable under the assets test and, if in the accumulation phase, are subject to deeming under the income test. Accordingly, depending on what is to be done with the assets, consideration should be given to investment options as this time approaches.

For those intending to withdraw benefits from superannuation or convert to an income stream with a different investment structure, it may be prudent to rebalance the funds to less volatile options, consolidating any gains achieved. This may incur costs and should be fully investigated before proceeding.

For those planning to retain benefits in the accumulation phase or to convert their benefits to an income stream **with similar asset allocation**, no action may be necessary.

Many rollover investments have the same or similar names and investment options as non superanuation managed investment products and as a result, performance and volatility will be similar.

Death Benefits

This is a complex matter that requires expert advice in relation to personal circumstances. Death benefits paid from superannuation funds, RSAs, ADFs and Deferred Annuities may be exempt from tax when paid to dependants.
Taxable components paid to non-dependants yield a tax liability.

Investing With Safety

- Establish practical levels of risk which you are comfortable with.
- Ensure a range of investments and fund managers are considered to reduce the risk.
- Be aware that investments indicating higher returns usually involve greater risk.
- Match investment choices to objectives and anticipated investment time frame.
- Be aware of the fees and charges involved. Rolling over, switching from one fund to another or changing investment options may incur additional fees and charges.
- Check what the guarantees (if any) mean and who is providing them.
- Measure the performance of the investment against personal goals, not the latest advertising claims. Past performance does not guarantee future returns.
- Refer to NICRI leaflet '*Risk Meter*' for further help in considering investment time frames.

A secure retirement should be your aim.

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The National Information Centre on Retirement Investments Inc (NICRI) is an independent organisation funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs. NICRI provides a free independent source of investment information for consumers and works at arms length from Government and the financial services industry.

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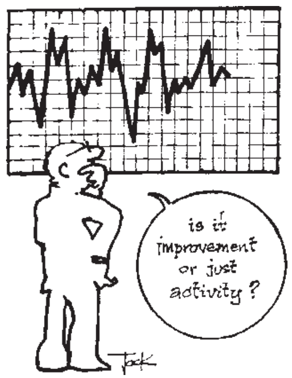
National Information Centre on Retirement Investments Inc.

Rolling over Superannuation



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