



ALLOCATED PENSIONS
A GUIDE TO MAKING YOUR MONEY
GO FURTHER IN RETIREMENT



MACQUARIE

FORWARD THINKING



CURRENT AT 1 JULY 2002

WELCOME

There's one thing everyone who retires has in common - they need money to live on. No matter whether you've built up your savings in super, in property, an investment portfolio, cash in the bank or a business you're selling, at some stage you need to convert that nest egg into income.

The question is - what's the best way to achieve the income you need as conveniently, securely, and tax-effectively as possible?

For an increasing number of people the answer is an allocated pension, for all the reasons you'll read about in this booklet. The chances are an allocated pension will provide most, if not all, of the features you're looking for.

**MACQUARIE KNOWS
ALLOCATED PENSIONS
BETTER THAN MOST**

Macquarie has been offering allocated pensions for many years, and our technical knowledge of where they

fit, and how to make the most of them, is second to none.

We put that knowledge to good use in the funds we offer, and in the research and strategies we share with the many advisers we work with.

We also understand that many people want to know more about how allocated pensions work, so that's why we've put together this booklet. It takes you beyond the basics, and covers many of the frequently asked questions.

IT'S YOUR RETIREMENT

Retirement planning is important, and it's a very individual matter. While this booklet deals with many common questions, it's not a substitute for the personal advice you can only get from a professional financial adviser.

Your adviser will also be able to help you decide if an allocated pension is the right answer for you and, if it is, talk you through the options available.

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The information in this booklet is based on interpretation of the income tax, superannuation and other laws current at 1 July 2002. We believe it is correct. However, it is a general summary only, and under no circumstances are we providing advice. As each individual's needs and taxation position are unique, we recommend that you contact a professional adviser before making an investment decision. This booklet is no substitute for professional advice. It is published by Macquarie Investment Management Limited, ABN 66 002 867 003, Level 11, 20 Bond Street, Sydney.

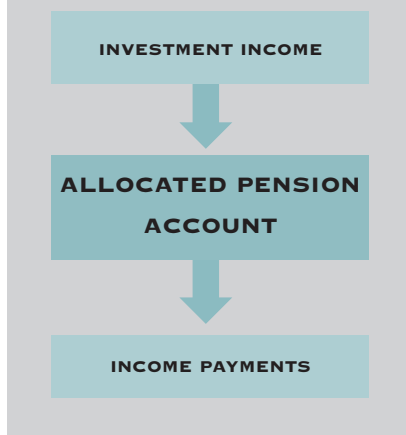
ALLOCATED PENSIONS AT A GLANCE

An allocated pension is a type of investment that can provide you with a convenient, reliable, flexible and tax-effective income when you retire.

The best way to think of it is as your personal retirement income account, operating within a super fund.

As the diagram shows, once you've set up the account you receive regular income payments. At the same time, the account is earning investment income to top it up so it lasts longer.

HERE'S HOW AN ALLOCATED PENSION WORKS:



You'll continue to receive pension payments as long as there's money left in your account. How long that will be depends on the starting amount, how you choose to invest it, what level of income you draw and whether you take out any lump sum payments along the way.

There's no guarantee that it will last your lifetime, but tax advantages mean that you're likely to get more mileage out of savings in an allocated pension than you would from most other types of investments.

THEY'RE CONVENIENT

With an allocated pension, your income comes in regularly just as it did when you were working, with payments going automatically to the bank, building society or other account you choose. There's virtually no paperwork or record-keeping to worry about.

This simplicity is the reason many people choose to consolidate all their retirement savings in an allocated pension, rather than having to keep track of lots of individual investments.



THEY'RE FLEXIBLE

- With an allocated pension you can:
 - vary the level of income you receive (within the minimum and maximum levels set by the Government);
 - choose whatever frequency of payment suits you - monthly, quarterly, semi-annually or annually;
 - withdraw lump sums if you need to (known as 'commutations', these withdrawals reduce the balance in your account and may also change the amount of tax you pay on the pension payments);
 - specify who will receive the balance of your account on your death, in what proportions and in what form;

- select from a range of investment options that you can vary to meet your changing needs.

THEY'RE TAX-EFFECTIVE

The investment earnings added to your allocated pension account are tax-free. You do pay income tax on the regular payments you receive, but often they'll include a tax-free 'deductible component'. You'll also normally qualify for a 15% tax rebate.

The overall effect of these tax concessions is that you can receive quite a substantial income each year and still pay little or no tax.

CASE STUDY

Rodney Blair is 65 and receives a monthly pension payment of \$1,500 of which \$200 is a tax-free deductible amount.

His total assessable income for tax purposes is \$18,000 pa, but because of his deductible amount and his superannuation rebate he ends up paying no tax at all.

Here's how.

Assessable income - deductible amount
= \$18,000 - \$2,400
= \$15,600 pa.

The tax payable on this would usually be \$1,632.

However Rodney also qualifies for the following rebates:

- Low income rebate \$150 a year
- Senior Australians Tax Offset (rebate) \$2,230 a year
- Superannuation rebate \$2,340 a year.

As a result of these rebates, Rodney's tax liability is eliminated. And, because his annual income is below \$20,000 he doesn't pay the Medicare levy - so he gets to keep every cent of his \$1,500 a month.

HOW TO START AN ALLOCATED PENSION

You can invest in an allocated pension whether you're retired or not. Anyone who has accessible monies in a superannuation fund or rollover fund can invest (roll over) into an allocated pension.

FOLLOW THE THREE-STEP PROCESS

There are basically three steps involved in getting your allocated pension up and running.

STEP 1

Accumulate money in a superannuation or rollover fund.

STEP 2

Fulfil one of the conditions that allow you to get access to that money.

These are:

- retiring after age 55*;
- ceasing employment after age 60; or
- reaching age 65.

In some circumstances you may have access to some or all of your money earlier if you leave your employer. Your employer or financial adviser will be able to tell you if this applies.

STEP 3

Invest your super or rollover money into an allocated pension.

** The age 55 limit applies to people born before 1 July 1960. If you were born after that date, your 'preservation age', as it's called, is between 55 and 60 (see the definition on page 33)*



MAKING YOUR MONEY STRETCH FURTHER

Having accumulated a sizeable amount for your retirement, you want to be sure it's going to provide you with an adequate income for as long as possible - ideally, of course, for the rest of your life.

An allocated pension is an ideal investment for doing so because the tax advantages it offers really can stretch your money further. Even so, it is possible for your money to run out. To help prevent that happening, there are three key factors you can control.

These are:

- the level of pension payments you receive each year;
- the way your account is invested; and
- whether you take any money out as a lump sum.

STRATEGIES TO MAKE YOUR NEST EGG LAST LONGER

By varying the amount you receive each year (within the minimum and maximum allowed) in line with your investment earnings and your income needs, you can effectively moderate how long your allocated pension lasts.

In the following example we look at the effect that different investment earnings rates have on how long an allocated pension lasts. We also show the flexibility you have to choose your income level to achieve the balance you want between current lifestyle and future security.

How you manage these factors is entirely up to you, and will take into account other considerations such as social security entitlements, your other investments and your general health.

It's a good idea to review your pension with your financial adviser, at least every year, to make sure your overall financial plan remains on track.

CASE STUDY

Ken Corbett has \$200,000 accumulated in a super fund that provides an allocated pension option. He retires on 1 July at age 65 and decides to draw annual pension payments of \$14,000 with the first payment to be made on 30 June next year. To allow for the effect of inflation, Ken requests that his pension is increased by 5% each year.

The table on the next page shows what happens to Ken's allocated pension account assuming he earns investment returns of 7.25% a year.

You can see how his pension payments go up each year and that, in the early stages, the investment earnings keep his account topped up close to the figure he started with.

Gradually, though, the account runs down until it's all used up at age 83. That's shown in the graph on page 9.

This raises the question of how important it is to get a good investment return. We can see this in the second graph on page 9, where we've assumed that Ken's annual return on his account is 9.75% pa instead of 7.25% pa.

In this case, Ken's pension payments will continue for another 8 years, and his account isn't exhausted until he reaches age 91.

He could also stretch his pension longer if he chose a lower payment to start with or if he set the annual increases at, say, 3% instead of 5%.



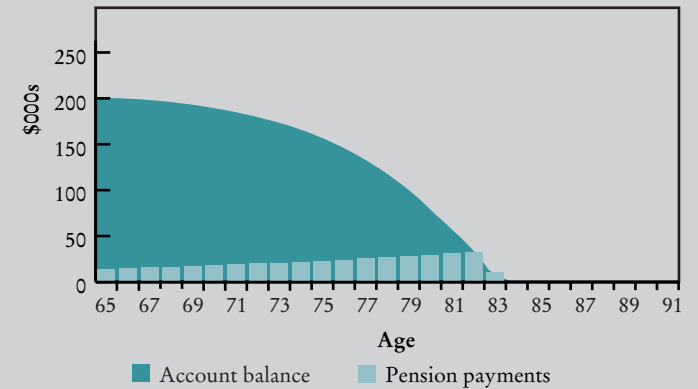
ANNUAL PENSION PAYMENTS FROM AN INITIAL INVESTMENT OF \$200,000 AT 7.25% ANNUAL RETURN

Age	Allocated pension account at start of year \$	Investment earnings for year \$	Pension payments for year \$	Allocated pension account at end of year** \$
65	200,000	14,500	14,000	200,500
66	200,500	14,536	14,700	200,336
67	200,336	14,524	15,435	199,426
68	199,426	14,458	16,207	197,677
69	197,677	14,332	17,017	194,992
70	194,992	14,137	17,868	191,261
71	191,261	13,866	18,761	186,366
72	186,366	13,512	19,699	180,178
73	180,178	13,063	20,684	172,556
74	172,556	12,510	21,719	163,348
75	163,348	11,843	22,805	152,386
76	152,386	11,048	23,945	139,490
77	139,490	10,113	25,142	124,461
78	124,461	9,023	26,399	107,085
79	107,085	7,764	27,719	87,130
80	87,130	6,317	29,105	64,341
81	64,341	4,665	30,560	38,446
82	38,446	2,787	32,088	9,145
83	9,145	663	9,808	0

* Based on the actual pension payment taken.

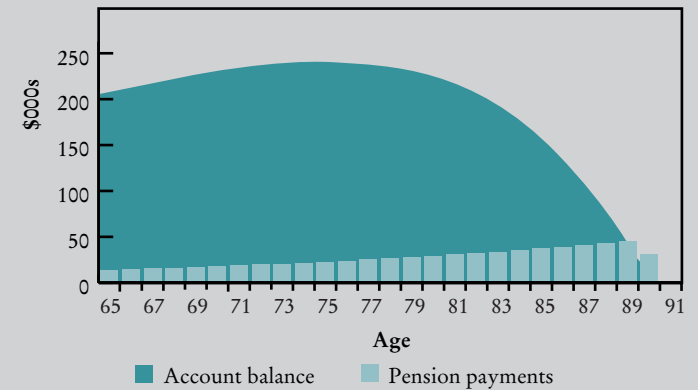
**AT 7.25% PA EARNINGS RATE
KEN'S PENSION ACCOUNT LASTS UNTIL AGE 83**

Graph 1



**AT 9.75% PA EARNINGS RATE
KEN'S PENSION ACCOUNT LASTS UNTIL AGE 91**

Graph 2



WORKING WITHIN THE LIMITS

While you have flexibility to choose the level of your pension payments each year, you do have to work within the upper and lower limits set by the Government. These limits are set each year according to your age and how much you have left in your allocated pension account.

In our example on page 8, Ken chose a starting pension of \$14,000 pa, increasing at 5% a year. In the table on the following page, we again show the actual amounts he draws and compare that with the minimum and maximum amounts he could take each year.

MINIMUM PENSION PAYMENT

The minimum pension payment is calculated on 1 July each year by dividing your account balance by the minimum pension factor for your age (see page 30).

For someone aged 70, for example, the minimum pension factor is currently 13.5. So when Ken is aged 70, we can see that the balance in his account on 1 July is \$194,992 and the minimum pension he can receive for that year is:

$$\frac{\$194,992 \text{ (Account balance)}}{13.5 \text{ (Minimum pension factor)}} = \$14,440 \text{ (rounded to the nearest \$10)}$$

MAXIMUM PENSION PAYMENT

The maximum pension payment is calculated in a similar way, but using the maximum pension factor which, at age 70, is 6.6.

So the maximum pension Ken can receive that year is:

$$\frac{\$194,992 \text{ (Account balance)}}{6.6 \text{ (Maximum pension factor)}} = \$29,540 \text{ (again, rounded to the nearest \$10)}$$

FLEXIBILITY TO FIT IN WITH YOUR PLANS

You can see that there's a lot of flexibility and, because you get to re-set your income every year, it's something you can adjust to suit your changing circumstances.

Of course the higher the pension you choose to receive, the faster you're going to deplete your remaining balance, but that may be part of your plan. If, for example, you have another investment maturing in a few years you may choose to take more out of your allocated pension now and then scale back the payments later.

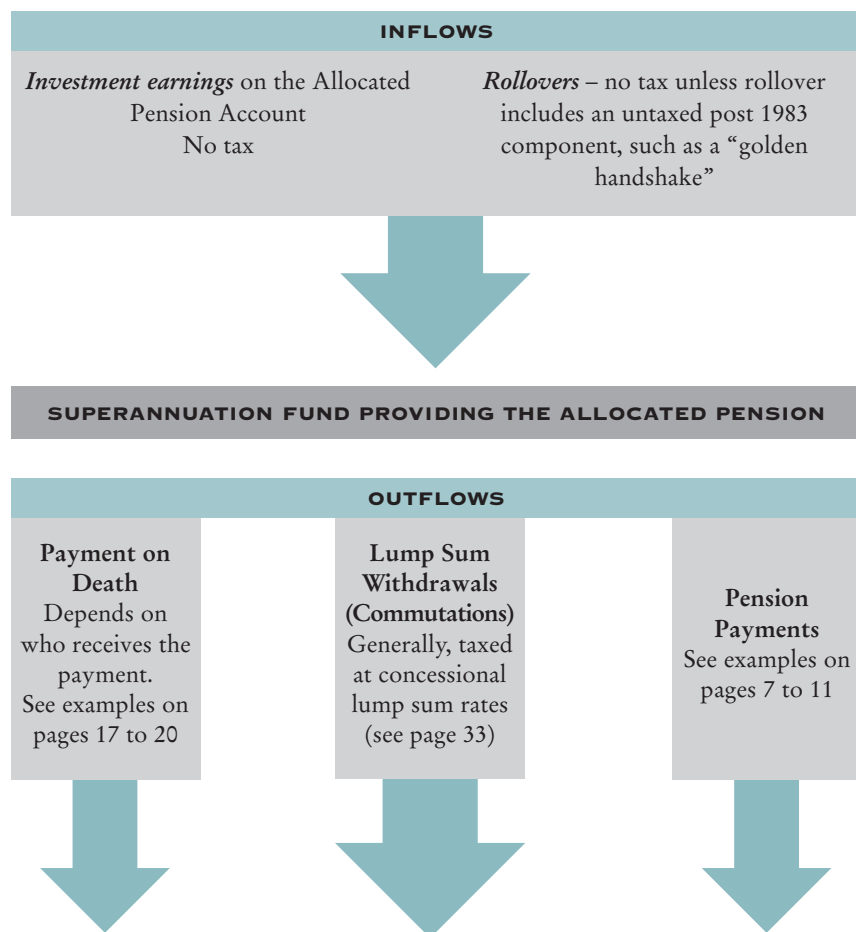
The planning possibilities are endless, and that's why many financial advisers recommend an allocated pension as the cornerstone of a retirement income plan.

MINIMUM AND MAXIMUM PENSIONS BASED ON \$200,000 INITIAL INVESTMENT AND 7.25% ANNUAL RETURN

Age	Allocated pension account at start of year \$	Minimum pension allowed \$	Ken's actual pension payments for year \$	Maximum pension allowed \$
65	200,000	12,740	14,000	24,690
66	200,500	13,100	14,700	25,380
67	200,336	13,440	15,435	26,360
68	199,426	13,850	16,207	27,320
69	197,677	14,120	17,017	28,240
70	194,992	14,440	17,868	29,540
71	191,261	14,600	18,761	30,850
72	186,366	14,790	19,699	32,130
73	180,178	14,770	20,684	33,370
74	172,556	14,750	21,719	35,950
75	163,348	14,460	22,805	37,990
76	152,386	14,110	23,945	41,190
77	139,490	13,410	25,142	46,500
78	124,461	12,450	26,399	56,570
79	107,085	11,280	27,719	76,490
80	87,130	9,570	29,105	No maximum*
81	64,341	7,400	30,560	No maximum*
82	38,446	4,630	32,088	No maximum*
83	9,145	1,160	9,808	No maximum*

* No legislative maximum applies, so the limit is effectively the full account balance.

HOW IS AN ALLOCATED PENSION TAXED?



NO TAX ON INVESTMENT EARNINGS

One of the great attractions of allocated pensions is that there's no tax on the investment earnings added to your account - that applies to both income and capital gains earned by the fund.

PENSION PAYMENTS ARE TAXABLE

When you receive your pension payments the fund will deduct tax on a pay-as-you-go basis, in the same way as an employer deducts tax from an employee's salary. The amount of tax deducted depends on:

- the level of your pension payments;
- where the money came from to purchase the pension;
- whether the pension was purchased before 1 July 1994, or rolled over from a pension or annuity that was; and
- the amount of any rebate you are entitled to on the pension payments. These factors are used to calculate two important amounts:
 - Deductible amount - this is the part of your pension that is paid to you completely free of tax. In some instances this may be the whole pension.

- Rebate - you'll generally be entitled to a tax rebate equal to 15% of your assessable pension income. That's unless some of your pension was purchased with an excess benefit (see page 33), in which case there's effectively no rebate for that portion.

The deductible amount and the rebate can both be very valuable. In fact, the combination of the two can sometimes result in you paying no tax at all on your allocated pension income.

HOW IS THE DEDUCTIBLE AMOUNT CALCULATED?

The deductible amount is calculated when your pension begins, by dividing certain components of the amount used to purchase the pension by a life expectancy factor.

The life expectancy used is yours, unless you've opted to include a reversionary pensioner (typically your spouse or child - see page 18) in which case their life expectancy will be used if it's longer than yours.

The general rule that applies to pensions purchased after 30 June 1994 is:

$$\begin{aligned} &\text{Deductible amount} \\ &= \\ &(\text{Undeducted contributions} \\ &+ \\ &\text{CGT exempt component}^* \\ &+ \\ &\text{Post-June '94 invalidity component}^*) \\ &\hline &\text{Life expectancy factor at date} \\ &\text{of purchase} \end{aligned}$$

* Note that any CGT exempt component and any post-June '94 invalidity component is only included for pensions commencing on or after 1 July 1997 and 4 June 1998 respectively.



EXCEPTION FOR SOME ROLLED-OVER PENSIONS

If you purchased your pension by directly rolling over an earlier pension which commenced before 1 July 1994, the rules that applied to that earlier pension are used to calculate the deductible amount for the new one. In this case:

$$\begin{aligned}
 &\text{Deductible amount} \\
 &= \\
 &(\text{Total transferred* from pre-July '94} \\
 &\text{pension to new pension} \\
 &\text{less} \\
 &\frac{\text{post-July '83 component at date of transfer*}}{\text{Life expectancy factor at date of rollover to new pension}}
 \end{aligned}$$

* Must be direct from pension to pension. If you amalgamate with post-June '94 benefits this approach will not apply.

CASE STUDY

Kate Jones starts an allocated pension in June 2002, having been in a super fund for 25 years.

She's 62 and wishes to receive a pension of \$18,000 in the first year. The lump sum she rolls over to buy the pension is made up of the following components:

Pre-July '83 component (6 years)	60,000
Post-June '83 component (19 years)	160,000
Undeducted contributions	30,000
Total purchase price	<u>\$250,000</u>

Her life expectancy factor is 22.39 years (see page 31) and there is no reversionary beneficiary.

CALCULATION OF DEDUCTIBLE AMOUNT

Her deductible amount is calculated as follows:

$$\begin{aligned}
 &\frac{\text{Undeducted contributions}}{\text{Life expectancy}} \\
 &= \\
 &\frac{\$30,000}{22.39} \\
 &= \\
 &\$1,340 \text{ per annum}
 \end{aligned}$$

That is, the first \$1,340 of Kate's pension payments received in any financial year would be tax-free.

CALCULATING KATE'S REBATE

Kate is also entitled to a rebate at the rate of 15% as her benefit is within her lump sum RBL (see page 22). Her rebate in the first year will be:

$$\begin{aligned}
 &\text{rebate percentage} \\
 &\times \\
 &(\text{total pension payments} - \text{deductible} \\
 &\text{amount}) \\
 &= \\
 &15\% \times (\$18,000 - \$1,340) \\
 &= \\
 &15\% \times \$16,660 \\
 &= \\
 &\$2,499
 \end{aligned}$$



CASE STUDY

Jenny Fletcher started her original allocated pension before July 1994. Now, in June 2002, she wants to transfer to a new provider. She's 63 and the ETP components she's rolling over are the same as Kate's on the previous page.

CALCULATING JENNY'S DEDUCTIBLE AMOUNT

Jenny's deductible amount for her new pension will be calculated according to the pre-July 1994 rules as follows:

$$\begin{array}{r}
 \text{Deductible amount} \\
 = \\
 \frac{\text{ETP - post-June '83 component}}{\text{New life expectancy factor}} \\
 = \\
 \frac{\$250,000 - \$160,000}{22.39} \\
 = \\
 \$4,020 \text{ per annum}
 \end{array}$$

Jenny's deductible amount is much higher than Kate's, because it's worked out using the old rules. Note that it won't necessarily be the same as applied to her original pension, because her life expectancy and the ETP components have changed since she started that pension.

CALCULATING JENNY'S REBATE

Like Kate, Jenny is entitled to a rebate of 15% of her assessable pension income. In the first year the rebate is calculated as:

$$\begin{array}{r}
 15\% \\
 \times (\text{total pension payments} \\
 - \text{deductible amount}) \\
 = \\
 15\% \times (\$18,000 - \$4,020) \\
 = \\
 15\% \times (\$13,980) \\
 = \\
 \$2,097
 \end{array}$$

WHAT HAPPENS IF YOU DIE BEFORE YOUR ACCOUNT BALANCE RUNS OUT?

Your allocated pension will play an important part in your estate planning, and you'll need to think about what would happen if you were to die while there's still money in your account, such as:

- who will get the benefit?
- will it be paid as a lump sum or a pension?
- how will it be taxed?

The options vary from one provider to another. In some cases you have little influence, but with a forward-thinking provider like Macquarie you can have a lot of control over what happens. In fact, with Macquarie your allocated pension becomes a very flexible estate planning tool.

Superannuation and allocated pensions, because of their tax advantages, have a special role to play in estate planning.

Macquarie has produced a companion booklet to this one titled "A Guide to Superannuation Estate Planning", which shows how you can use the super system to provide certainty and financial security for your family in the event of your death.

If you're interested in seeing a copy, please speak to your adviser or Ask Macquarie - our contact details are at the back of this booklet.

The following options are common:

BINDING OPTION

With this option, you direct the trustee to pay death benefits to one or more of your dependants or to your estate. The trustee will normally decide if that's in lump sum or pension form, although in some cases the recipient may be able to request how the benefit is to be paid to them.

With many providers, binding nominations lapse every three years and have to be renewed. That's not the case with Macquarie, where you can make a binding nomination that remains effective until you choose to update or amend it.

Note that not every provider offers binding nominations - especially ones that don't lapse, like Macquarie's.

DISCRETIONARY OPTION

With this option the trustee has the discretion to pay death benefits to one or more of your dependants or to your estate. Your 'dependants' are your spouse, child or other person financially dependent upon you. You can advise who you'd like to receive the benefit, but you can't direct the trustee to follow that advice.

The trustee will also have discretion as to whether to pay the benefit as a lump sum or a pension,

although in some cases the recipient may be able to request how the benefit is to be paid to them.

REVERSIONARY PENSION OPTION

With this option you nominate a reversionary pensioner, who must be one of your dependants, to continue receiving your pension benefit. Normally they'll be able to convert it into a lump sum if they prefer.

This option is binding and does not leave any discretion to the trustee.

HOW ARE THE BENEFITS TAXED?

The tax treatment varies depending on who receives the benefit and whether it is paid as a lump sum or pension, among other factors.

The example on this and the following pages gives you an idea of the different tax treatments that may apply.

THE MAIN DIFFERENCES

The tables over the next 2 pages compare the different options in some detail. Essentially, though:

- The key difference with the discretionary option is that you have no control over who will receive the benefit.
- The key difference with the reversionary pension option is that the tax-free deductible amount of your pension is calculated differently and will often be lower.

The essential differences between the options are shown below:

	Discretionary Option	Binding Option	Reversionary Option
What happens on death?	Trustee decides: <ul style="list-style-type: none"> ■ who to pay; and usually ■ how to pay (lump sum or pension). 	You choose: <ul style="list-style-type: none"> ■ who to pay; ■ in what proportions. 	Pension payments continue to nominated dependant.
Deductible (tax-free) amount of your pension	Based on your life expectancy. Generally higher than reversionary option.	Based on your life expectancy. Generally higher than reversionary option.	Generally lower, because based on the longer life expectancy.
Is deductible amount recalculated on death?	Yes	Yes	No

CASE STUDY

Doug Walker is 65 years old. His wife Christine is 62 and their son Steve is 40. Doug decides to start an allocated pension with a \$250,000 rollover which includes a post-July 1983 component of \$100,000 and undeducted contributions of \$50,000.

DEDUCTIBLE AMOUNT UNDER DIFFERENT OPTIONS

Based on his own life expectancy (currently another 16.21 years) Doug's deductible amount would be \$3,085 pa.

That's the figure that will apply to his pension if he doesn't elect to have a reversionary beneficiary.

If he does choose the reversionary pension option, the deductible amount of his pension is based on the longer of his life expectancy and the reversionary beneficiary's life expectancy.

For example, if Christine is to receive the pension on his death, her life expectancy (ie another 22.39 years) is longer than his, so the deductible amount of his pension is lower, at \$2,233 pa.

BENEFIT PAID AS A LUMP SUM

Discretionary & Binding Options			Reversionary Pension Option	
1. Paid to dependant** (eg Christine) <ul style="list-style-type: none"> ■ The non-excessive* portion is tax free. ■ Any excessive amount is taxed at the top marginal rate. ■ Cannot be rolled over. 	2. Paid to non-dependant (eg Steve) <ul style="list-style-type: none"> ■ The non-excessive* portion is taxed as an ETP at special rates**. ■ Any excessive amount is taxed at the top marginal rate. ■ Cannot be rolled over. 	3. Paid to Doug's estate <ul style="list-style-type: none"> ■ If paid to a dependant, treated the same as in column 1. ■ If paid to a non-dependant, treated the same as in column 2. 	4. Paid to dependant (eg Christine) <ul style="list-style-type: none"> ■ Christine can opt to commute to a lump sum. ■ If she commutes within a certain time limit† the lump sum will generally be tax-free to the extent the amount is not excessive. ■ If she commutes after the time limit it will be taxed as an ETP unless rolled over. 	5. Paid to non-dependant (eg Steve) <p>Benefit paid as a lump sum</p> <ul style="list-style-type: none"> ■ Steve can opt to commute to a lump sum. ■ If he commutes within a certain time limit† the lump sum will be taxed as an ETP at special rates+ to the extent the amount is not excessive. ■ If he commutes after the time limit it will be taxed as an ETP.

See page 20 for footnote.

BENEFIT PAID AS A PENSION

Discretionary & Binding Options		Reversionary Pension Option		
1. Paid to dependant** (eg Christine) <ul style="list-style-type: none"> ■ Deductible amount is based on dependant's life expectancy. ■ The balance of the pension is taxable but may attract a rebate. 	2. Paid to non-dependant (eg Steve) <ul style="list-style-type: none"> ■ Deductible amount is based on non-dependant's life expectancy. ■ The balance of the pension is taxable but may attract a rebate. 	3. Paid to Doug's estate <ul style="list-style-type: none"> ■ Not applicable 	4. Paid to dependant (eg Christine) <ul style="list-style-type: none"> ■ Deductible amount is determined when Doug started the pension. <p>It is based on the longest life expectancy, which in this case is Christine's (22.39 years) compared to Doug's (16.21 years). The original deductible amount of \$2,233 pa continues. The balance of the pension is taxable but may be rebateable to the extent it is not excessive.</p>	5. Paid to non-dependant (eg Steve) <ul style="list-style-type: none"> ■ Deductible amount is determined when Doug started the pension. <p>It is based on the longest life expectancy, which is Steve's (37.88 years) compared to Doug's (16.21 years). The original deductible amount of \$1,320 pa continues. The balance of the pension is taxable but may be rebateable to the extent it is not excessive.</p>

* Excessive amounts are those which exceed the Reasonable Benefit Limit - see page 34.

** For tax purposes, a 'dependant' includes a spouse, child under 18 years or person financially dependent upon you. That's narrower than the definition (described above) used to determine who can receive the benefit. This means that a child who is 18 years and over and is not financially dependent on you (like Steve in this example) may be nominated to receive the benefit, but will be taxed as a non-dependant.

+The tax on the lump sum components (outlined on page 33) applies except that there is no tax-free threshold.

†The time limit is:

- within 6 months of Doug's death; or
- within 3 months of grant of probate or letters of administration for Doug's estate, whichever is later.

HOW SOCIAL SECURITY TREATS ALLOCATED PENSIONS

AN EXAMPLE

In our example on page 15, Kate Jones rolled over \$250,000 into an allocated pension and drew a payment of \$18,000 in the first year. There is no reversionary pensioner, so Kate's social security treatment is as follows:

ASSETS TEST

Your allocated pension account balance is included as an asset for the purpose of the assets test.

The balance is revalued every 6 months, unless you only receive your pension annually in which case your account balance is also revalued annually.

INCOME TEST

Your annual pension, less a 'special' deductible amount, is counted as income. This deductible amount differs from that used for tax purposes. In this case it is the full purchase price divided by a life expectancy factor.

The life expectancy factor is your life expectancy (in years) when you started the allocated pension unless you've elected the reversionary pension option, in which case it's the longer of yours and the reversionary pensioner's life expectancies.

ASSETS TEST:

Assessable asset
=
\$250,000

INCOME TEST:

Assessable income
=
annual pension - $\frac{\text{purchase price}}{\text{life expectancy factor}}$
=
 $\frac{\$18,000 - \$250,000}{22.39}$
=
\$18,000 - \$11,166
=
\$6,834

REASONABLE BENEFIT LIMITS

Reasonable Benefit Limits (RBLs) determine the extent of the tax concessions you can receive through an allocated pension.

*Amounts above your lump sum RBL are known as 'excess benefits'. If you take these as a lump sum, they're taxed at a very high rate (47% plus Medicare levy) compared with the rate on lump sum payments that are within your RBL.***

HOW DO I KNOW IF I HAVE AN EXCESS BENEFIT?

The Tax Office keeps records of all superannuation payments you have received since 15 February 1990 and they will inform you if your benefit exceeds your RBL.

	If taken as a Lump Sum	If taken as an Allocated Pension
Amounts above your lump sum RBL	Taxed at 47% plus Medicare levy**	No rebate on pension payments*
Amounts below your lump sum RBL	Taxed at lump sum rates (generally less than 20%)	15% rebate applies*

* Only that amount of the allocated pension which is assessable income is affected by the rebate.

** At the time of writing the Government had announced a proposal to modify the tax rate applying to excess lump sum benefits with effect from 1 July 2002, but no details were available.

CAN I INVEST IN AN ALLOCATED PENSION IF I HAVE AN EXCESS BENEFIT?

Yes, in many circumstances an allocated pension can be a very tax-effective option for dealing with an excess benefit.

You can roll over your excess amount into an allocated pension without paying any lump sum tax. However, you will not receive the 15% tax rebate on that part of your pension income that relates to the excess benefit. And if you later commute part of your pension for a lump sum you will then pay tax at the 47% rate on the excess portion.

This is summarised in the following table:

WHY NOT SIMPLY TAKE THE LUMP SUM WITH AN EXCESS BENEFIT?

Because by doing so you lose almost half your benefit in tax. By taking the allocated pension option you ensure that 100% of your money is being invested for your benefit.

A SIMPLE EXAMPLE SHOWS HOW THIS WORKS.

Alison Pearson's super benefit is \$100,000 above her RBL. She is trying to decide whether to cash in this excess amount as a lump sum or to invest it in an allocated pension.

	Cash in and take as a Lump Sum	Roll Over into an Allocated Pension
Excess amount	\$100,000	\$100,000
Tax payable*	\$48,500	Nil
Net amount to invest	\$51,500	\$100,000
Source of income	Returns generated from investment	Pension drawn from fund
Tax payable on income	Taxed at marginal rates	Taxed at marginal rates (no rebate)

* Including Medicare levy of 1.5% for the 2002/2003 financial year.

The bottom line is that Alison has much more money working for her by rolling over her excess benefit into an allocated pension.

CAN I QUALIFY FOR A HIGHER RBL?

If your benefit is excessive based on your lump sum RBL, you can take at least 50% of your total RBL-assessed benefits as a complying pension or annuity which can increase your RBL to a higher amount. This is known as your pension RBL.

An allocated pension does not satisfy the definition of a complying pension as it is not guaranteed for life nor guaranteed for a fixed term based on your life expectancy.

SUMMING UP - AND A BRIEF LOOK AT THE ALTERNATIVES

Allocated pensions should be considered by anyone who wants to receive a flexible, tax-effective income stream in retirement. They offer many advantages - and a few disadvantages - compared with other alternatives you might consider.

In this section we sum up the pros and cons, and take a brief look at some other options.

ADVANTAGES

TAX ADVANTAGES

- There's generally no lump sum tax to pay when you roll over into an allocated pension. This means the full amount of your rollover is available to provide for your pension income.
- The investment earnings added to your account by the superannuation fund are tax-free.
- The part of the pension payment representing the return of certain rollover components (the deductible amount) is tax-free.
- You may be entitled to a tax rebate.

- Tax is deducted on a PAYG basis, so you don't have to put money aside to pay a tax bill at the end of the year.
- The trustee provides you with a group certificate every year, which makes it simple to complete your tax return.

PROFESSIONAL MANAGEMENT

- Allocated pensions are generally provided by professional fund managers who manage the investment on your behalf.
- You can usually choose from a range of investment options covering cash, fixed interest and growth investments like managed funds and shares.

FLEXIBILITY

- You can vary the amount of pension payments you take each year.
- You can make additional lump sum withdrawals.
- If you die, your remaining account balance isn't lost. It's paid in full to your dependants, either as a continuing pension or a lump sum, or to your estate.

DISADVANTAGES

- There are restrictions on the amount of the pension that you can take each year.
- There is no guarantee that your pension payments will continue throughout your lifetime.
- You generally can't split your pension payments with your spouse to reduce tax (although there are ways for each of you to have your own allocated pension).
- An allocated pension does not qualify as a complying pension to take advantage of the higher pension RBL.
- An allocated pension is not exempt from the assets test for social security purposes.

WHAT ARE THE ALTERNATIVES?

If you have a lump sum super payout (or rollover) and you want to use it to provide your income in retirement you can:

- purchase a fixed payment pension or annuity; or
- pay lump sum tax and invest in your own investment portfolio; or
- if you are not yet 65, invest in a rollover fund and draw down lump sums as you need them.

The table on the page 27 compares the features of allocated pensions with some of these different investment strategies. It is only an overview and is not meant to be a comprehensive comparison.

LIFE PENSIONS AND ANNUITIES

While life pensions and annuities can provide you with greater certainty, one of the difficulties with them is that you are usually locked into a level of income that's determined at the time you purchase them.

This is because the life insurance company locks in pension and annuity rates based on investment conditions - especially interest rates - at the time.

For instance, looking back over recent years, a \$100,000 lump sum would have purchased the following incomes at the time:

Date purchased	Annuity income *
March 1999	\$6,437 pa
March 2000	\$6,314 pa
March 2001	\$6,510 pa
March 2002	\$6,766 pa

** Based on quotations from a major life office for a CPI-indexed annuity payable monthly in arrears, guaranteed for life for a 65-year-old male.*

Despite these limitations, lifetime pensions and annuities can be useful. One strategy could be to use an allocated pension initially and transfer amounts to an annuity when life pension or annuity rates are considered desirable.

COMPLYING PENSIONS AND ANNUITIES

Some pensions and annuities are eligible for favourable social security assets test treatment. They may also assist you to qualify for a higher pension RBL. These are described as ‘complying’.

A complying pension or annuity has the following features:

- it must not be commutable (i.e. you can’t withdraw lump sums) except in limited circumstances;
- it must either run for life or have a term equal to your life expectancy (or a minimum of 15 years, if your life expectancy is longer than 15 years);
- there must be no residual capital left when the income payments finish; and
- the size of each year’s payment is fixed.

CONSIDER YOUR PRIORITIES - AND TAKE PROFESSIONAL ADVICE

Your decision will depend on what’s most important to you.

If a guaranteed indexed income for life is your major requirement, then a fixed payment pension or annuity product may be attractive. On the other hand, if flexibility is more important then an allocated pension or your own investment portfolio might be more attractive options. Sometimes a combination of different strategies can achieve the best outcome.

The best way to work through the issues is to sit down with a professional financial adviser. They’ll be able to talk you through the pros and cons and arrive at the best solution, taking account of your objectives and your personal preferences.

It may suit your purposes to purchase both a complying pension and an allocated pension - many people do. The particular blend of pensions can be set up to suit your tax, social security and other circumstances.

INCOME SPLITTING

If you want to split your income with your spouse then you will need to hold some investments in each of your names. To achieve this, it may be beneficial to pay lump sum tax on some of your superannuation and invest the proceeds in a portfolio of investments, some in your name and some in your spouse’s.

Income splitting can be a tax-effective strategy for a couple since it allows you to make use of your spouse’s tax-free and low tax thresholds as well as your own.

ALTERNATIVES TO ALLOCATED PENSIONS

	Allocated Pension	Term* Annuity 100% RCV	Life Annuity Nil RCV	Cash your Lump sum & purchase an investment portfolio
<i>Can you defer lump sum tax?</i>	✓	✓	✓	✗
<i>Are your income payments guaranteed?</i>	✗	✓	✓	✗
<i>Do you have a choice of investment portfolios?</i>	✓	✗	✗	✓
<i>Can you get a tax rebate on part of your income?</i>	✓	✓	✓	✗
<i>Do you have access to your account balance at all times?</i>	✓	✗	✗	✓
<i>Is income guaranteed for life?</i>	✗	✗	✓	✗
<i>Are regular payments flexible?</i>	✓	✗	✗	✓

* Please refer to the glossary (pages 32-35) for an explanation of these terms.

MACQUARIE'S FORWARD THINKING CAN HELP

We hope this booklet has helped you understand how allocated pensions work, their attractions, and why so many people use them as part of their retirement income strategies.

Like all aspects of super, it's an area where expert advice is valuable. Often you'll need to start planning your strategy several years before you actually retire, and a professional adviser can make sure you follow the right steps at the right time.

SHARING STRATEGIES, TIPS AND TECHNIQUES

Macquarie works closely with many professional financial advisers, passing on the technical wisdom for which we're renowned.

We've developed strategies and techniques to deal with many situations, so if your adviser deals with Macquarie they'll have ready access to the best ideas, modelling tools and products to suit your personal needs.

MACQUARIE'S SUPER FUNDS ARE PLANNED WITH YOUR FUTURE IN MIND, TOO

Macquarie's technical solutions are also built into the superannuation funds we offer. All our funds are able to pay allocated pensions, and they have

special features that set them apart from most other funds in the market.

MACQUARIE SUPEROPTIONS

Macquarie SuperOptions offers flexibility and choice with an investment selection covering 29 funds from 13 managers, including a geared growth fund, and model portfolios. It has technically superior estate planning features including binding nominations that don't lapse and a child allocated pension facility that allows you to provide a tax effective income for your children if you die. With Macquarie SuperOptions, your objectives for your superannuation or pension savings can be met more easily and with more flexibility than with most other funds.

MACQUARIE ADF SUPERANNUATION

This superannuation option is a conservative, low-risk portfolio. It is perfect if you are looking for a safe place to park your super while you consider your longer-term strategy or consolidate your super funds. Others use it as a secure choice for the cash portion of their broader superannuation portfolio. As there are no entry or exit fees, all your money starts working from the day you invest.



MACQUARIE SUPER AND PENSION MANAGER

Macquarie Super and Pension Manager provides both choice and control: an extensive investment selection and a range of smart tools that give a portfolio plenty of flexibility for effective wealth creation at any stage of your life. It offers a choice of around 200 managed investments, including

absolute return funds and geared growth funds, and you can also invest in shares directly. As an investor, you can access detailed information about your portfolio, such as asset allocation and portfolio valuations, at any time via the internet. Macquarie Super and Pension Manager is the ideal solution for investors who want to be more involved in their superannuation, in conjunction with their financial adviser.

NEED HELP FINDING AN ADVISER?

If you don't already have a financial adviser, the Financial Planning Association of Australia (FPA) can provide a list of advisers located near you. The FPA have also prepared a helpful booklet in conjunction with the Australian Securities and Investments Commission called 'Don't kiss your money goodbye'.

The booklet explains how to choose a financial adviser to suit your needs. You can contact the FPA by calling: 1800 337 301.

MINIMUM AND MAXIMUM PENSION FACTORS

Age	Minimum Pension Factor	Maximum Pension Factor	Age	Minimum Pension Factor	Maximum Pension Factor
55	19.8	9.6	78	10.0	2.2
56	19.4	9.5	79	9.5	1.4
57	19.0	9.4	80	9.1	no maximum
58	18.6	9.3	81	8.7	no maximum
59	18.2	9.1	82	8.3	no maximum
60	17.8	9.0	83	7.9	no maximum
61	17.4	8.9	84	7.5	no maximum
62	17.0	8.7	85	7.1	no maximum
63	16.6	8.5	86	6.8	no maximum
64	16.2	8.3	87	6.4	no maximum
65	15.7	8.1	88	6.1	no maximum
66	15.3	7.9	89	5.8	no maximum
67	14.9	7.6	90	5.5	no maximum
68	14.4	7.3	91	5.3	no maximum
69	14.0	7.0	92	5.0	no maximum
70	13.5	6.6	93	4.8	no maximum
71	13.1	6.2	94	4.6	no maximum
72	12.6	5.8	95	4.4	no maximum
73	12.2	5.4	96	4.2	no maximum
74	11.7	4.8	97	4.0	no maximum
75	11.3	4.3	98	3.8	no maximum
76	10.8	3.7	99	3.7	no maximum
77	10.4	3.0	100+	3.5	no maximum

These factors are current as at 1 July 2002.

LIFE EXPECTANCY FACTORS

Age	Male*	Female*	Age	Male*	Female*
55	24.22	28.53	73	10.96	13.67
56	23.36	27.63	74	10.38	12.96
57	22.52	26.74	75	9.82	12.26
58	21.68	25.86	76	9.27	11.58
59	20.86	24.98	77	8.74	10.92
60	20.05	24.11	78	8.24	10.28
61	19.25	23.25	79	7.76	9.67
62	18.46	22.39	80	7.30	9.09
63	17.70	21.54	81	6.87	8.53
64	16.94	20.70	82	6.46	8.00
65	16.21	19.88	83	6.08	7.48
66	15.49	19.06	84	5.73	7.00
67	14.79	18.25	85	5.40	6.53
68	14.11	17.46	86	5.10	6.10
69	13.44	16.67	87	4.82	5.69
70	12.80	15.90	88	4.57	5.32
71	12.17	15.14	89	4.35	4.98
72	11.56	14.40	90	4.16	4.67

* Based on Australian tables (1995-1997) which apply to pensions purchased on or after 1 January 2000.

GLOSSARY OF TERMS

ANNUITY OR IMMEDIATE ANNUITY

A pre-determined income stream purchased for a lump sum amount, usually from a life insurance company. See also life annuity and term annuity.

ASSETS AND INCOME TEST

Two tests used to assess entitlement to the Age Pension and other social security benefits.

COMMUTATION

The process of converting some, or all, of a future income stream into a lump sum payment. For an allocated pension this simply involves withdrawing some or all of the remaining account balance.

DEPENDANT

A dependant for tax purposes is a spouse (legal or de facto), an ex-spouse, a child under the age of 18 or a person who is financially dependent. However, the word is often used in superannuation to refer to a spouse, children of any age and financial dependants.

DEDUCTIBLE AMOUNT

The tax-free portion of a pension or annuity. Also known as the tax-free amount. The term deductible amount is also used for the non-assessable portion

of the pension for the social security income test.

ELIGIBLE TERMINATION PAYMENT (ETP)

A lump sum payment, usually paid from a superannuation fund or rollover fund. ETPs are taxed in a different way to income payments (see lump sum tax definition).

LIFE ANNUITY

A product which provides a set regular income stream guaranteed for life.

LUMP SUM TAX

The tax applicable to ETPs (Eligible Termination Payments) taken as a lump sum. Lump sum tax depends on factors such as:

- age when the lump sum is taken;
- the date the person commenced service or started paying into superannuation or, in some cases, the date service commenced with an employer;
- whether the benefit is above the individual's Reasonable Benefit Limit.

The lump sum is divided into different components which are taxed at different rates. (See chart below).

PENSION PAYMENT

The amount of pension income received in a year from the allocated pension.

PENSION RBL

See Reasonable Benefit Limit.

PRESERVATION AGE

A person's preservation age depends on their date of birth as follows:

Date of birth	Preservation age
Before 1 July 1960	55
1/7/60 - 30/6/61	56
1/7/61 - 30/6/62	57
1/7/62 - 30/6/63	58
1/7/63 - 30/6/64	59
After 30 June 1964	60

TAX RATES FOR LUMP SUM COMPONENTS

Component	Definition	Tax
<i>Concessional</i>	Payments made prior to 1/7/94 due to bona fide redundancy, approved early retirement scheme or invalidity. Bona fide redundancy and early retirement scheme payments made after 30/6/94 are not ETPs and are not subject to tax, up to dollar limits of \$5,623 plus \$2,812 (for the 2002/2003 year, indexed annually) for every completed year of service.	5% included in assessable income and taxed at marginal rate.
<i>Post-July 1994 invalidity component</i>	Payment after 1/7/94 to an employee who is certified by 2 medical practitioners to be unable to perform any employment for which he/she is reasonably qualified.	Nil.
<i>Pre-1983</i>	Amount that relates to days of service prior to 1/7/83.	5% included in assessable income and taxed at marginal rate.
<i>CGT exempt</i>	Amounts arising from the disposal of certain assets of small businesses.	Nil.
<i>Post-1983 (taxed element)</i>	Amount that relates to days of service after 30/6/83.	Age under 55 years: tax maximum 20% plus Medicare levy. Age 55 years and over: first \$112,405 (for the 2002/2003 year, indexed annually) tax-free. Balance taxed at maximum 15% plus Medicare levy.
<i>Undeducted contributions</i>	Personal and spouse contributions made after 1/7/83 for which no tax deduction was claimed.	Nil.
<i>Excessive</i>	Portion of lump sum that exceeds the RBL.	Taxed at the top marginal tax rate plus Medicare levy.

**RESIDUAL CAPITAL
VALUE (RCV)**

The amount of the original purchase price of a pension or annuity that is returned to the purchaser, either at the end of the term in the case of a term pension or annuity or on death in the case of a life annuity. For example, a term annuity with 100% of the purchase price returned at the end of the agreed term is called a 100% RCV annuity.

**REASONABLE BENEFIT
LIMIT (RBL)**

The Government sets a limit on the total amount that can be received from superannuation and rollover funds on a concessionally taxed basis. This is known as the Reasonable Benefit Limit (RBL). Lump sum amounts above this limit can still be received, but they will be taxed at 47% plus Medicare levy.

Generally, these limits only apply to benefits received since 15 February 1990. There are special rules for amounts held in rollover funds on 15 February 1990 and for certain public servants.

For most people, their RBL in the 2002/2003 year will be:

- \$562,195 lump sum (indexed each year by the increase in average weekly earnings); or
 - \$1,124,384 if at least 50% of the total RBL-assessed benefits are taken as a complying pension or annuity.
- See also Transitional RBL.

**REVERSIONARY
PENSION**

A pension payable to a spouse or other nominated person on the death of the original recipient of the pension. To arrange a reversionary pension, the original pensioner must nominate this when the original pension commences.

ROLLOVER

The process of transferring an eligible termination payment (ETP) to a superannuation fund or rollover fund. Generally lump sum tax is not paid until an amount is subsequently withdrawn.

**ROLLOVER
FUND**

A type of fund set up for the investment of ETPs, including superannuation payouts. If a superannuation payout is invested in a rollover fund, generally no lump sum tax is paid until the amount is withdrawn. Rollover funds include superannuation funds, approved deposit funds and rollover annuities (also called deferred annuities).

**SUPERANNUATION
FUND**

A special type of investment plan set up to take advantage of tax concessions for people who are saving for their own retirement or for employers to contribute for their employees' retirement.

TERM ANNUITY

A product which provides a set regular income for a fixed term, for example, five years, after which any residual capital value (RCV) is paid.

**TRANSITIONAL REASONABLE
BENEFIT LIMIT (TRBL)**

A higher than normal RBL. Eligibility depends on age, salary and level of superannuation benefits.

Transitional RBLs need to be approved by the Tax Office.

TRUSTEE

All superannuation funds have a set of rules called a trust deed. All money is held in trust by a trustee, who is usually independent of the members. It is the trustee's responsibility to invest the members' contributions in line with

the rules contained in the trust deed and current superannuation law.

**UNDEDUCTED
CONTRIBUTIONS**

Broadly, personal and spouse contributions made to a superannuation fund since 1 July 1983 for which no tax deductions were claimed.

**UNDEDUCTED
PURCHASE PRICE**

For pensions and annuities commenced after 1/7/94, the undeducted purchase price is generally the sum of any undeducted contributions plus CGT exempt component* plus post-June 1994 invalidity component* used in purchasing an allocated pension.

Used to determine the tax-free or deductible amount.

UNDEDUCTED PURCHASE PRICE

For certain allocated pensions purchased by rolling over from a pension commenced prior to 1/7/94	For other allocated pensions which commenced after 30/6/94
Pre-'83 component, plus concessional component, and undeducted contributions	Undeducted contributions, plus CGT exempt component*, and post-June '94 invalidity component*

* For pensions or annuities commenced on or after 1 July 1997 and 4 June 1998 respectively.



SEE YOUR FINANCIAL ADVISER

We hope this booklet has helped you make sense of super and shown you how you can get the best out of this tax-effective system.

If you have any questions, or require more information, we recommend you talk to your financial adviser, or Ask Macquarie on 1800 808 001.

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Care should be exercised in using past performance as a basis for assessing long term performance as future yields may bear no relationship to published yields. Funds will only be accepted on receipt of a form of application attached to a current brochure. These are available upon request from Level 11, 20 Bond Street, Sydney. Current brochures are dated as follows: Macquarie SuperOptions 25/3/02, Macquarie ADF Super Fund 6/5/02, Macquarie Super and Pension Manager 20/8/01.

**IF YOU HAVE ANY QUESTIONS, OR REQUIRE MORE INFORMATION,
WE RECOMMEND YOU TALK TO YOUR FINANCIAL ADVISER, OR
ASK MACQUARIE ON  1800 808 001.**