



Government acts to help stricken self-funded retirees

The sharemarket crash has had a massive impact on seniors.

John Collett looks at how the relief will work.

About 400,000 self-funded retirees stand to benefit from the Federal Government's decision last week to cut in half the minimum amount of capital that they have to withdraw from their account-based pensions.

The Government had received hundreds of letters on this issue from retirees and was lobbied by retiree and financial services industry lobby groups.

Self-funded retirees objected to having to sell pension assets at the worst possible time and being forced to realise capital losses.

Ellis Hopper is one of those self-funded retirees who had been writing to government. The 71-year-old former private hospital consultant, who lives on the NSW Central Coast, says he and his wife, Sheila, have saved hard all their lives so that they can live in retirement free from government assistance.

He says the draw-down rules meant they had to sell shares from their self-managed superannuation fund at fire-sale prices.

While Hopper welcomes the Government's move, he would have liked to have seen the Government give total relief from being forced to draw down capital from his self-managed super fund.

Self-funded retirees were forced to sell some of their account-based pensions at a rate that varied, depending on age.

For those under 65, the minimum draw-down is 4 per cent of their balance. For people aged 65 and over, it is 5 per cent. For those 75 and over, it is 6 per cent. Higher percentages apply to older retirees.

The change means that the

percentages that apply for this financial year will be half of those.

The reason for the minimum draw-down rules is that the Government requires retirees use their super capital over their retirement.

The Government does not want wealthy retirees hoarding their retirement savings and providing a tax shelter for their beneficiaries.

The change recognises that self-funded retirees have been hit hard by the global financial crisis. Stockmarkets have crashed around the world. The Australian market is down more than 50 per cent since its high on November 1, 2007, and dividends are being slashed as company profits fall.

Many of the managed funds favoured by retirees, such as mortgage trusts and unlisted property trusts, have frozen redemptions to their investors though they continue to make distributions. Low official cash rates mean low returns from cash-deposit accounts.

The pension balance as at June 30 is used over the financial year for the purposes of the minimum draw-down.

Most of the investment options favoured by retiree investors, such as balanced funds, would be on average between 5 per cent and 15 per cent lower than at June 30 last year. That means under the full minimum draw-down rules, retirees were being forced to draw down a bigger portion of their retirement savings and eat into their capital more quickly than the Government intended.

As we are almost eight months into the financial year, the changes mean that those retirees who receive regular pension payments may have

already met their minimum draw-down requirements for this financial year and will not have to draw down more capital.

The relief on the minimum draw-down will also see more self-funded pensioners access the age pension and the pension concession discount card as they come below the age pension income and asset test limits.

Already, the number of people drawing at least a part age pension increased by 64,000 over the past year and the global financial crisis reduced their income and account balances.

The Government is open to extending the temporary relief to next financial year. Because the global recession is only months old, and a sustained turnaround in investment markets is possibly a long way off, an extension of the relief is likely. It will announce its decision before June 30.

However, the change is likely to benefit the better-off self-funded retirees most. Most others have no option as they need the funds to live on.

Kath Brewster, the president of the NSW Council on the Ageing, said: "The move is welcome by independent retirees but I do wonder, in the present circumstances, whether it is only the more comfortably off that are going to be able to take advantage of it."

She says most retirees would need to draw down at least the minimum in the present economic climate to make ends meet.

There are about 2 million private pension accounts but only 400,000 are expected to take advantage of the rule change because the rest need to keep drawing down their capital to live off.



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More retirees need help from Centrelink

As the global financial crisis bites and the income and capital of self-funded retirees diminish, more of them have been accessing the age pension.

Self-funded retirees who never thought they would have to take Government assistance, or would not have to until their very old age, have been contacting Centrelink.

The number of people applying for the age pension has risen to 3000 from 2000 a week as more retirees fall below the income and assets tests that are used to qualify for the pension.

Men are eligible for the age pension

from 65, while eligibility for women ranges from 60 to 65, depending on when they were born.

The age pension has some advantages over private market-linked types – it is payable for life, for one. And, as it is not market linked, there is the security of fixed payments. It is means tested, of course, but the upper-asset limit at which the age pension cuts out altogether is fairly generous. And it comes with the pension concession card (see page 6) and a range of discounts.

Provided they meet the income test, a couple living in their own home can have

assets, other than their home, of up to \$243,500 and still qualify to receive the full age pension.

The payment reduces for those with higher asset values and cuts out altogether once the value of other assets reaches \$873,500.

The maximum income for a couple under the income test to receive a part age pension is \$2602.50 a fortnight.

The rate of payment is calculated under both the income and assets tests. The test that results in the lower rate of age pension applies.



Pension pinch ... higher numbers of retirees are turning to Centrelink.



Tight budget

PAMELA FAWKE and husband Fred, self-funded retirees in their mid-60s, were planning an overseas trip to visit relatives.

But the global financial crisis unfortunately has put paid to those plans.

"We probably could have afforded it but when we

came back we wouldn't have much emergency cash," Pamela says.

The retired couple, who live in Canberra, have defined benefit pensions, which are not affected by financial markets.

That has helped them to withstand the turmoil to

some extent.

Pamela's defined benefit pension is only small and she also has a market-linked allocated pension.

"This financial year we have several hundred dollars a month less from the allocated pension; that is a lot of money and has

made it more difficult to budget," she says.

"Our financial adviser advised me to go to see Centrelink and I am getting a part age pension.

"We can manage on our pensions but we have lost our savings capacity and we have to be more careful."



Being careful ... Pamela and Fred Fawke had to cancel a trip overseas. Photo: Andrew Meares