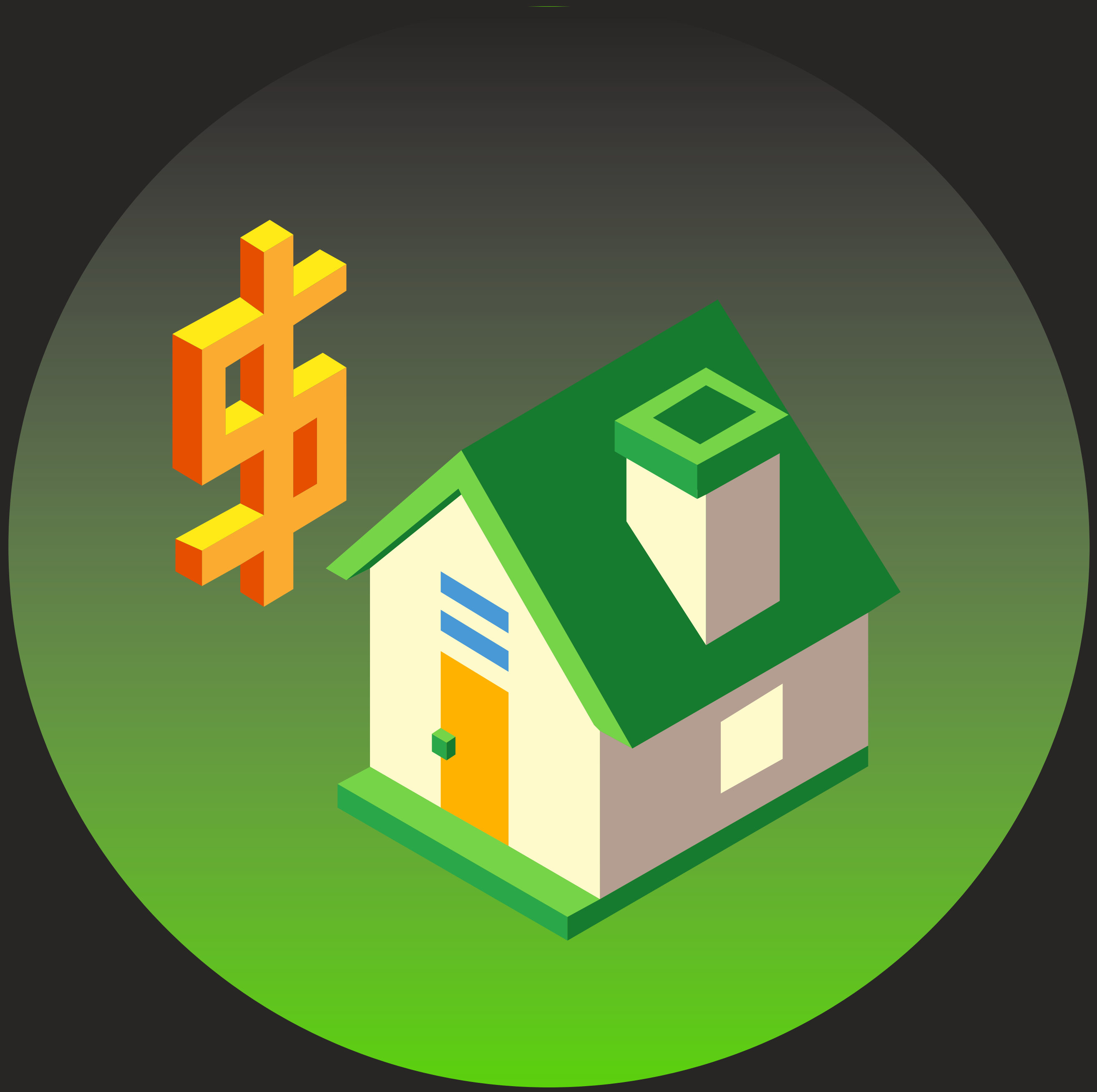
ADVANCED PENSION AND ESTATE PLANNING STRATEGIES

with Grant Abbott



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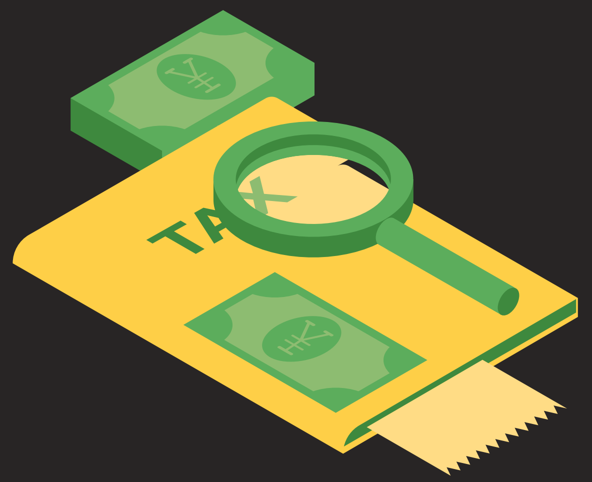
Before account-based pensions, there were annuities - the first ever recorded in Egypt in 2500 BC, where a lump sum gives way to an income stream. In England, they have been around for centuries so we are not reinventing the wheel here.

Here’s the deal, an annuity is generally offered by a life insurance company for a term certain, life, reversionary, or with a residual capital value – and even jointly or severally. A pension is an income stream that is an annuity but simply comes from a pension plan (ex. Australia) or a superannuation fund in Australia. They can be offered all over the world, as only the country that you reside in can tax you.



PENSIONS AND INCOME STREAMS WITH ESTATE PLANNING

- An income stream, whether a pension or a transition to retirement income stream, are financial products and thus licensed products and all that goes with that

- They can have a finite term such as five, ten, fifteen years, life or carry on to one or more reversionaries

- A reversionary is simply a person nominated to carry on the pension or income stream at the time of the death of the member – see SIS Reg 6.21 and the limitation in sub-regulation (2A)

- There can be first, second, third, fourth reversionary beneficiaries and so on

- One of the most complex I have worked on was four pages of terms and conditions – *This Is A Contract Between The Fund And The Member*

TRAPS AND PITFALLS OR BIG MISTAKES

- **Leaving it too late:** Have you not heard of SIS 6.01(7) retirement?
- **The Dead End SMSF corporate trustee** – please check your companies or it will cost your client a lot – let me tell you a real life story
- **The Pension that dies** – our friend the Commissioner of Taxation has published the ultimate legal guide for pensions – TR 2013/5 "Income tax: when a superannuation income stream commences and ceases"
- **Single Purpose Pensions** – rule of thumb – tax-free components go to non-tax dependants or through the estate, taxable components go to dependants – remember our Smith Case Study – coming soon, it's a beast
- **Pooled investment strategies** – prehistoric waste of time and tax
- **First Reversionary Deaths** – good planning on that one
- **TBAR Blow Up** – Is the spouse really necessary

PENSIONS AND INCOME STREAMS WITH ESTATE PLANNING

Let’s start with the end in mind and that’s the reversionary beneficiary – ask these questions:

- *Who is going to be the reversionary beneficiary?*
- *Who is going to be the reversionary beneficiary if they are not alive at the time of the pension member’s death?*
- *Will there be a second or third reversionary and will the intermediate reversionary beneficiaries take income only with any commutation prohibited in order to stretch the pension as long as possible?*
- *Would the pension member like a clause where any bloodline dependant at the time of the member’s death shares jointly in the on-going reversionary pension?*
- *What happens if there is no-one left? Will the commutation lump sum go to the estate or should it go into a fixed trust for the benefit of the pension member’s lineage only?*

THE TRIS WAY OF LIFE

- A transition to retirement income stream is not a pension and is not found in SIS Reg 1.06 but in the definitions of SIS Reg 6.01(2) – do you remember it's forerunner – the non-commutable allocated pension – I like this one a lot

- So it is an income stream that is created from a member's accumulation account and depending on the documentation, grows into an ABP, carries on or ceases by folding back into the accumulation account (the only commutation allowed)

- Can run with estate planning and should if it turns to ABP but if short term TRIS only then don't need to

- Watch TBAR and trigger as soon as possible

LET'S START WITH A SIMPLE CASE STUDY

- John Smith is 67 and has a $1.8M ABP with no reversion 30% tax free and 70% taxable component– has hit TBAR already and is married to second spouse Jane – aged 53 who has $250,000 in accumulation. John has a retirement accumulation account of $300,000 - 100% taxable component

- His child from his first marriage – Brett is 48 years old and a builder, has gone bankrupt twice but now on his feet thanks to John helping in his business and has two children from a former marriage – Kit and Kat, twins aged 13 who John has financially looked after since their birth

- Let’s look at what can be done – plan and build, plan and build!

ABP BEAUTY – THE CORE OF THE LIGHTYEAR DOCS PLATFORM

- The LightYear Docs ABP and TRIS documents feature built in estate planning strategies that will help you ask your clients the “right questions”
- Customisable text within the interview process to ensure you completely capture your clients needs with the executed document and binding Trustee resolutions.
- FAQ and tutorial videos available on the LightYear Docs Support page, by emailing support@lightyeardocs.com.au or by asking the live on-site chat Bot.

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