FUNDAMENTALLY SPEAKING

A simple explanation of the finance terms we all hear about but don't really understand

Reduced withdrawal limits save fire sale in hard times

ROWAN JONES

If you've retired and are drawing money out of your super fund, you'd know that each financial year you have to withdraw a minimum amount.

The amount depends on a couple of factors: your age and your fund balance at the start of the financial year. For example, up to age 64 you need to withdraw 4 per cent of your fund. If you're aged between 65 and 74 that jumps to 5 per cent. The weird thing is the percentage keeps ratcheting up as you get older, even though logic suggests you're likely to spend less.

There is also no requirement to withdraw this minimum amount as a "regular" payment, such as on a monthly basis.

Some people naturally withdraw more than their legislated minimum as that's the amount they need to be able to pay the bills. Others draw their exact minimum as they don't need the money and would rather leave it to grow inside the tax effective environment of super.

It's this latter group who may benefit from a recent government announcement.

In response to the market falls due to the impacts of COVID-19, the government has announced that for the 2019-20 and 2020-21 financial years the minimum pension payment will be halved.

So, if you were supposed to withdraw 4 per cent this year, you are now only required to draw 2 per cent.

It will assist retirees who do not wish to sell investment assets at depressed prices purely to allow them to meet their minimum pension requirements.

By not being forced sellers they will have more money working for them when markets recover.

Rowan Jones is an adviser with Entrust Private Wealth Management

Illustration: Don Lindsay

Get ahead on estate planning and control

PETER TYNDALL

With the recent heightened feeling of health vulnerability among senior citizens, there has been a rush to get estate planning in place or up to date.

This has meant establishing or revising wills, enduring powers of attorney, enduring powers of guardianship and perhaps advanced health directives.

According to estate planning lawyer Phillip Simmonite of PS Legal, executing estate documents in WA has now become an issue as two witnesses are required to be present at the document signing.

Providing the documents can be validly executed, estate planning doesn't end with putting the documents away in the bottom drawer. The communication and sharing of information now becomes key, otherwise executors, attorneys and guardians, may struggle to do the jobs they have been entrusted with.

These are the key points:

Communication

If a person can't produce an original or certified copy of the will, EPA or EPG it is unlikely they can act. One person had to apply to the State Administration Tribunal to act for his mother as the EPA could not be found.

If a will is lost and a person is intestate on passing, lengthy and costly legal costs will be incurred and the estate is at higher risk of being challenged.

To manage this, a key documents register should record and share the details where all key documents are held. The register should also include birth certificates, passports, certificates, tax files, contracts, property titles, trust deeds and any other important documents.

Make copies and lodge

A simple way of being able to manage someone's affairs is to have previously lodged an EPA or EPG with relevant bodies. The attorney or guardian should be able to ring or attend an office, establish their identity, and act. Authorities will be required for banks, institutions and bodies such as Landgate, Centrelink, ATO and Medicare.

List contacts and accounts

A register of account numbers, names, addresses, passwords, contact details, tax file numbers and company/trust details is important information that will be needed by an attorney, guardian or executor.

For example, a guardian may need to contact medical staff to make healthcare decisions while an attorney needs banking information to access funds.

The detail and completeness of this register is important. One surviving spouse of a husband couldn't access his laptop as she didn't have his login password. This held all the details of investments and passwords and frustrated her ability to access vital funds needed for day-to-day living costs.

Share access data

There is a balance about trusting people and being exposed to fraud and theft. In saying that, without having relevant information, people may not be able to act effectively or quickly.

Where people have access to money, assets or information, ensure that there are sufficient "prevent" or "detect" controls to protect information and assets.

Clear understanding

An executor and attorney need to understand the legal and tax consequences of various ownership structures and asset types such as trusts, joint ownership, property, foreign assets and superannuation.

This is necessary as there are different rules for administration of these assets. For example, superannuation does not form part of a person's estate and a person's ownership share of a joint asset automatically pass to the joint owner on passing.

In the end . . .

It is infinitely simpler and more effective to complete the planning while everyone is still healthy, ensuring piece of mind for both the seniors and those entrusted with helping them in the future.

Peter Tyndall is director of Primetime

Preserve pension options

Q&A

NICK BRUINING

Q I recently received a letter from my account pension fund offering to reduce my monthly payment in line with the special COVID-19 relief package targeted at retirees. I am in two minds as to whether I should reduce the payments and would appreciate your view.

A This announcement replicates an arrangement that occurred after the global financial crisis and allows a retiree to reduce their mandatory account-based pension payments by half.

It means, for example, a 76-year-old who is currently required to withdraw 6 per cent of the June 2019 account balance over the year can reduce the drawdown to 3 per cent of the same balance.

You have a number of choices. If you were already receiving the minimum amount on a monthly basis for the eight months leading up to this change, you have already satisfied your minimum obligations for this financial year and can suspend payments altogether until July, the start of the new financial year.

Your pension payments for 2020-21 will be based on the June 30 account balance.

Your decision to reduce your payments very much depends on your circumstances. If appropriately structured, your ABP fund should be protected against events such as this. That means having adequate cash and fixed-interest investments to meet the full pension payments for the next year or two, allowing the markets and the value of the growth assets in your fund to recover. When they do, you can switch those profits into cash or fixed interest to replenish that part of the portfolio.

Equally, many retirees complain that at present they are unable to spend the money coming into their bank account each month. Bearing in mind that once the money comes out of the ABP it cannot be returned, leaving it in the ABP for longer means you preserve all options.

As you are retired, you can always access money from the ABP without restrictions, either as a lump sum or by increasing the monthly payment rate. If you do decide to change the rate and are in receipt of an income support payment such as an age or disability support pension, make sure you or your financial adviser provides an updated Centrelink schedule to Centrelink.

Got a question for Nick? Email *yourmoney@thewest.com.au* or write to us at Your Money, GPO Box D162, Perth WA, 6840

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