Retirement Funding
Strategy Paper

The introduction of compulsory superannuation many years ago resulted in the creation of a specialist advice industry overnight. It also created an overwhelming reliance on superannuation as the core – and sometimes the only – retirement funding strategy for a large number of Australian investors.

Whilst there is no denying the tax effectiveness of superannuation, perhaps it should not be relied upon as the sole retirement funding source for several reasons.

As we know, diversification reduces the risk of reliance upon one single asset class, or one single security, or even a single fund manager investment philosophy, but diversification across strategies can also guard against regulatory or legislative risk. Chances are that those in their 40s now are likely to find that the rules and regulation around superannuation savings are very different when they reach their preservation age.

Even though you can't access your superannuation to assist in your retirement finances until you have met a condition of release, the fact is that it is possible to retire whenever you feel financially secure enough to do so. It simply requires you to initially self-fund outside of the superannuation environment, via direct investment in property, shares, managed funds or even bank deposits.

Investment bonds can also be used to facilitate a very flexible and tax effective transition to retirement strategy at ANY age, which can complement the traditional superannuation–based approach.

Case Study: Mike

- 52, was self employed for 12 years.
- Recently sold business and now full time employed earning $100,000 annually.
- CGT small business concessions contributed to Super under S152D of ITAA1997.
- Surplus of $500,000 currently parked in several term deposits.
- Mike invests his $500,000 in a Lifeplan Investment Bond, plus $20,000 surplus income annually.
- Aims to retire at 60 (2024) but wishes to retain access to funds if he chooses to retire earlier.
- Mike would like to withdraw $600,000 upon retirement to clear any debt, top up super or purchase a holiday home.

Key Benefit

Until a withdrawal is made, the earnings within the investment bond are quarantined from Mike's taxable income.

Source: Lifeplan Investment Bond calculator 2017

Bond Value	**2024 (age 60)**	
Bond balance start of year	974,161	
Existing Bond - Balance at beg of Year 1	-	
New Bond - Initial Contribution	-	
New Bond - Additional Contributions in Year 1	-	
New Bond - Additional Contributions Year 2 +	20,000	
0	-	Investment bond components (IT2346)
Earnings (after tax)	55,160	
Balance before drawdown	1,049,321	
Balance before drawdown	-	
Ad hoc Drawdowns	600,000	
Total Drawdowns	600,000	
End of Year Bond Balance	**449,321**	
Tax		
Relevant amount of drawdown	211,177	
Taxable amount of drawdown	140,771	
Other taxable income (includes franking credits)	-	Taxable income from bond
Taxable super pension/annuity	-	
Taxable income	140,771	
Primary Tax (excludes Medicare Levy)	39,717	
Non refunadable tax offsets/rebates		
Friendly Society Inv Bond Rebate	42,231	
Low Income Rebate	-	
Super pension or annuity tax offset	-	
SAPTO for single taxpayer	-	
SAPTO for married taxpayer	-	Rebates and offsets received
SAPTO for married taxpayer separated due to illness	-	
Other tax offsets	-	
Refundable tax offsets/rebates		
Franking tax offset	-	
Tax Payable/(Refundable)	**-**	
Income (after tax)	140,771	
Non-Taxable Portion of Drawdown	459,229	Net income after tax
Tax-free Pension/Annuity (60yrs +)	-	
After Tax Cashflow	600,000	

This strategy may offer other advantages as well. It may result in a much lower Adjusted Taxable Income (ATI), therefore minimising the effect of relevant levies such as Medicare Levy and the Deficit Levy. It may also potentially improve the retention or outright eligibility of other peripheral benefits such as Family Tax Benefit Parts A & B, Health Insurance Rebates, for which eligibility is assessed upon taxable income.

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