FUNDAMENTALLY SPEAKING

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

Opportunities emerge in the way you access funds

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There are two ways to access retirement savings from your super fund and the way you choose can potentially create opportunities down the track.

The first way is by taking what are generally referred to as "pension" payments. When you commence a superannuation pension you are required to ensure you meet your legislative minimum. This annual minimum is determined by your age and the value of your member balance on June 30 each year.

For example, if you are aged between 65 and 74, you are required to withdraw 5 per cent of your balance each financial year. Although most elect to take their pension payments at regular intervals, you are not required to do so. You can make just one pension payment.

The other way to access your super is by taking a lump sum payment. In contrast to pension payments there is no legislative requirement to make lump sums and they are generally one-off payments.

The reason it's important to differentiate between the two is pension payments do not impact your transfer balance cap. This is the lifetime limit imposed on the amount of super that you can move into tax-free pension phase.

The current limit is $1.9 million. Simply, this means pension payments do not provide a debit against your TBC, whereas lump sum payments do.

This means whenever you take a lump sum, you are creating space in your TBC which may allow you to move additional funds into tax-free pension phase. This is why it's a common strategy that any payments you require from super that are in excess of your legislative pension minimum are facilitated as lump sums.

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Illustration: Don Lindsay