

# A guide to First State Super's income streams

This brochure outlines the main features and benefits of First State Super's income streams. Before making a decision to start an income stream issued by FSS Trustee Corporation, you should seek professional advice to determine whether the product is appropriate for you. You should also consider the current **Member Booklet (Product Disclosure Statement)** for the First State Super Superannuation Income Stream. The Member Booklet is available from the First State Super website [www.firststatesuper.com.au](http://www.firststatesuper.com.au) or by calling Customer Service on 1300 650 873.

## What is a superannuation income stream?

A superannuation income stream is a pension paid to you from your superannuation account. Whether you're ready to retire permanently or wish to cut back your working hours and move gradually towards retirement, a First State Super income stream can support your plans by providing you with regular income.

When you invest in a First State Super income stream, an account is established in your name, investment earnings (or losses) are added to (or deducted from) your account, and income payments, fees and costs are deducted from your account.

The income stream is not guaranteed for life and payments will cease when there is no money left in your income stream account.

First State Super offers two types of income stream:

- a transition to retirement income stream (TRIS) if you are still working
- a retirement income stream (RIS) if you have permanently retired.

## What are the benefits?

- You may be able to reduce your working hours and replace your lower income with payments from your income stream.
- You may be able to keep working full time, top up your existing superannuation account balance by making tax-effective salary sacrifice contributions, and use income stream payments to make up the shortfall in take-home pay<sup>1</sup>.
- The income payments are tax free once you are age 60 or over.
- Investment earnings are tax free.
- You can withdraw lump sums from a RIS, but only in limited circumstances from a TRIS.
- You can nominate what happens to your money if you die.
- You have a choice of investment options.
- You can vary the frequency of your payments.
- You can vary the amount of income you receive each year (within Government limits).
- Income streams receive favourable treatment under Centrelink / Department of Veteran Affairs means tests compared to other income-producing investments.

<sup>1</sup> If you are aged between 65 and 74 and you wish to make concessional and/or non-concessional contributions, you must have worked at least 40 hours in any consecutive 30-day period during the financial year in which the contributions are made. Further, there are limits on the amount of tax effective salary sacrifice contributions that you can make, called "contribution caps".



## Still working? Consider a TRIS

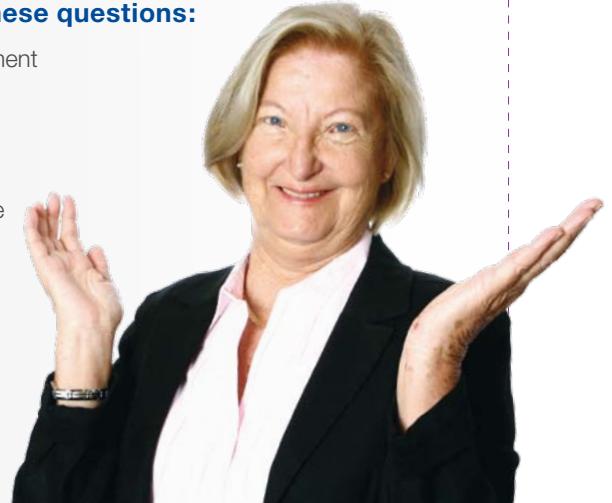
If you're still working but would like to reduce your working hours, you might be interested in a First State Super transition to retirement income stream (TRIS).

### Before you set up your TRIS, you should think about these questions:

- Does my current superannuation fund provide a transition to retirement income stream?
- Do I want to reduce my working hours and if so, is this option available to me?
- How will working fewer hours affect my income, and will the income stream from my super be sufficient to make up any shortfall?
- Will there be any impact on my future benefits and life insurance arrangements?



The Options 55-plus calculator on the First State Super website can help you evaluate the benefits of a TRIS



A TRIS lets you draw regular income from your super account while you're still working, so you can reduce your working hours and replace your lower income with payments from your super fund.

Alternatively, you may choose to keep working full time and use a TRIS to supplement your income. This could allow you to salary sacrifice a larger amount into super (but don't forget to consider the contribution caps). If you can use this strategy after age 60, it becomes even more effective because the income from your TRIS will be tax free.

To be eligible for a TRIS, you must:

- have reached your **preservation age** (see table under **What's your preservation age?**); and
- open your income stream account with a **superannuation** amount of at least \$20,000.

While you're in a TRIS, you **must** take between 4% (2% until 30 June 2011) and 10% of your account balance as income each year. You normally can't withdraw a lump sum until you satisfy one of the **conditions of release** listed on page 3. Once you meet one of these conditions, your transition to retirement income stream effectively becomes a retirement income stream. In other words, when you satisfy one of the conditions of release, then:

- there will be **no limit** on the maximum income payments you can receive from your income stream
- you can make **lump sum withdrawals** (subject to superannuation law).

### What's your preservation age?

All contributions and all earnings made after 1 July 1999 are **preserved**. If you satisfy certain "conditions of release", these benefits can be withdrawn. In most circumstances, reaching your **preservation age** is one of the conditions.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

## What is a condition of release?

Each of the following events is a condition of release:

- you reach your preservation age and permanently retire
- you cease employment with an employer on or after age 60 (although you may continue to work in another employment arrangement)
- while you ceased employment with an employer before age 60, you have now reached age 60 and the Trustee is reasonably satisfied that you will not return to work
- you reach age 65
- you become permanently incapacitated.

While there is no specific ‘transfer’ form to complete to convert your transition to retirement income stream to a retirement income stream, there are certain documents we require depending on which condition applies to you.

Condition	Documents required
You reach your preservation age and permanently retire	Written confirmation from you
You cease employment with an employer on or after age 60 (although you may continue to work in another employment arrangement)	Written confirmation from you
You ceased employment with an employer before age 60, you have now reached age 60 and the Trustee is reasonably satisfied that you will not return to work	Written confirmation from you
You reach age 65	No documents required – we already hold evidence of date of birth
You become permanently incapacitated	Two <i>Confidential medical report on permanent incapacity</i> forms (FSS 028) completed by two medical practitioners, one of whom should be your treating specialist

## Permanently retired? A RIS might be suitable

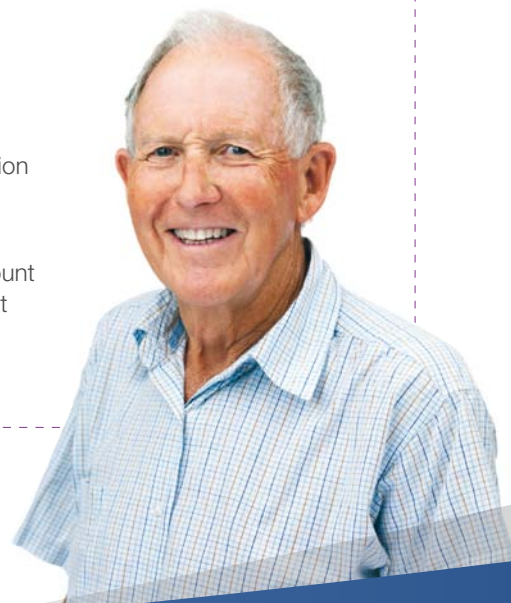
If you're permanently retired, you can apply for a First State Super **retirement income stream** (RIS).

To be eligible for a RIS, you must:

- have reached your preservation age and permanently retire; or
- have resigned or retired from an employer since turning age 60; or
- be aged 65 years or over; or
- be permanently incapacitated (at any age).

To open your income stream account, you must have a superannuation amount of at least \$20,000.

You **must** take at least 4% (2% until 30 June 2011) of your account balance as income each year. There is no limit on the maximum amount you can withdraw. You can withdraw lump sums from your retirement income stream at any time.



## Payments

One of the main benefits of income streams is that you can vary the amount of income you receive, subject to the **minimum** and **maximum** withdrawal requirements outlined here.

The **minimum** withdrawal is a percentage of your account balance\* at the beginning of each financial year. Normally, the percentage is **between 4% and 14%** of your account balance, depending on your age. However, in response to the impact of the economic downturn of 2008 and 2009 on investment earnings, the government has introduced lower **temporary** minimums until 30 June 2011. The temporary minimums are **50% lower** than the standard minimums (see table).

There is **no limit on the maximum** amount you may withdraw each year from a retirement income stream, but if you have a TRIS, then you can withdraw a **maximum of 10%** of your opening account balance each year.

\* For the purposes of calculating the minimum payments, your account balance means the amount in your account on 1 July in the financial year in which the payment is made or, for the year in which the income stream payments commence, the commencement day. The percentage applies to your age on 1 July in the financial year in which the payment is made or, for the year in which the income stream payments commence, the commencement day. The percentage must be applied proportionately in the year the income stream commences. The amount calculated is rounded up to the nearest \$10.

Age	Minimum %	Maximum %
Under 65	4% (2% until 30 June 2011)	<b>TRIS:</b> All ages have an annual limit of 10% of your account balance at the start of the year
65–74	5% (2.5% until 30 June 2011)	
75–79	6% (3% until 30 June 2011)	
80–84	7% (3.5% until 30 June 2011)	
85–89	9% (4.5% until 30 June 2011)	<b>RIS:</b> No maximum withdrawal limit
90–94	11% (5.5% until 30 June 2011)	
95 and over	14% (7% until 30 June 2011)	

### Nominating the amount of your payment

We will write to you shortly after the start of each financial year to tell you the **minimum** amount you **must** withdraw for that year and, if you have a TRIS, the **maximum** amount you **may** withdraw.

The letter will ask you to nominate the amount of income stream you wish to receive for the current financial year. If you do not nominate an amount, then the payments will remain the **same as the previous year**, unless the payment has to be adjusted to comply with any minimum and maximum requirements that might apply.

You can change the amount of your income stream payments at any time, provided you stay within the allowable limits. You should allow 15 days for your request to be processed. Call Customer Service and we will send you the appropriate forms.

### How are your payments made?

Your income stream payments are paid into your **nominated bank account**. Your nominated account must be held either in your name or, if the nominated bank account is held jointly, you need to be one of the account holders. Payments cannot be made by cheque.

Your payment options are:

- **Fortnightly** on a Wednesday
- **Monthly** on the 12th day of the month
- **Quarterly** on the 12th day of September, December, March and June
- **Half-yearly** on the 12th day of June and December. Alternatively, you may nominate the two months you prefer (six months apart) and payments will be made on the 12th day of those two months
- **Yearly** on the 12th of June. Alternatively, you may nominate the month you prefer and payment will be made on the 12th day of that month.

If the 12th day of the month falls on a public holiday or weekend, then payment will be made into your nominated bank account on the prior business day. Your income stream can only be paid into an account in your name, or an account which includes your name.

### What are your drawdown options?

You have a choice of eleven investment options and if you invest in more than one, you can nominate the **order of priority** that you would like your payments deducted. For example, if you invest 50% of your money in Australian shares and 50% in cash, you can choose to have your payments taken from Australian shares first, then from cash. Or vice versa.

If you **don't specify** an order of priority, your payments will be deducted on a **pro-rata** basis ie. in proportion to how your account is invested at the time the payment is made. In the example above, 50% of each payment will be taken from Australian shares, and 50% from cash.



## Taxation

The tax treatment of income streams can be quite complex and this section provides a brief summary only. You should refer to the information on taxation in the Member Booklet (Product Disclosure Statement) and consider obtaining professional taxation advice in regard to your personal circumstances.

The key taxation benefits of income streams are:

- tax-free income payments once you are age 60 and over
- tax-free access to your capital once you are age 60 and over (in those circumstances where you are able to access your capital)
- tax-free investment earnings.

If you're under 60 years of age, your income payments will be subject to tax (plus Medicare Levy). Income tax is deducted from payments made to you through the PAYG (Pay As You Go) withholding system. We will send you a PAYG certificate after the end of each financial year, together with information you need to complete your tax return.

The table provides a summary of the tax treatment of income streams.

Tax on	Rate of tax	
The amount you roll in (transfer) to set up your income stream account	No tax, unless the rollover contains an untaxed element of the taxable component.	
Investment returns	No tax.	
Death benefits	No tax is paid on lump sum death benefits paid to a death benefit dependant as defined in the tax legislation. The taxable component of a lump sum paid to a non-dependant is taxed at 15% <sup>1</sup> . The taxation of a reversionary pension depends on the ages of both the primary and reversionary beneficiaries.	
Payments	Income stream	Lump sum
<i>Aged 60 or over</i>	No tax (with or without your TFN).	No tax (with or without your TFN).
<i>Over preservation age but under age 60</i>	The taxable component is taxed at your personal marginal tax rate <sup>1</sup> (15% tax offset applies). However, if we do not have your TFN, tax is withheld on the taxable component at the highest marginal tax rate <sup>1</sup> .	The taxable component is tax free up to the tax-free threshold (\$160,000 for 2010–11, indexed) <sup>2</sup> and taxed at up to 15% <sup>1</sup> on the remainder. If we do not have your TFN, tax is withheld on the taxable component at the highest marginal tax rate <sup>1</sup> .
<i>Under preservation age</i>	The taxable component is taxed at your personal marginal tax rate <sup>1</sup> (no tax offset applies unless the payment is a disability superannuation benefit). If we do not have your TFN, tax is withheld on the taxable component at the highest marginal tax rate <sup>1</sup> .	The taxable component is taxed at up to 20% <sup>1</sup> . If we do not have your TFN, tax is withheld on the taxable component at the highest marginal tax rate <sup>1</sup> .

<sup>1</sup> Plus Medicare levy (currently 1.5%)

<sup>2</sup> The tax free threshold is indexed in line with Average Weekly Ordinary Time Earnings (AWOTE), but indexation will only take effect when the increase is greater than \$5,000. For example, if AWOTE is 3%, then the increase on \$150,000 is \$4,500 and the amount will not be increased. The indexation is rounded down to the nearest \$5,000 threshold so that the threshold will be increased in the year when the sum of the increments is in excess of \$5,000. The tax free threshold is reduced by any other superannuation benefits that have been applied to it during your lifetime.

## What happens if you die?

You can nominate your spouse as your **reversionary beneficiary**, which means that if you die with money in your income stream account, your pension will continue to be paid to your spouse. Your spouse can cash in the income stream account as a lump sum, but they must be your spouse at the time of your death.

If your spouse changes, you can nominate your new spouse as your reversionary beneficiary.

If you have not nominated your spouse as your reversionary beneficiary, you can nominate a dependant or your estate to receive the capital balance of your income stream by completing either a binding or non-binding death benefit nomination.

If you do not nominate a reversionary beneficiary or make a binding death benefit nomination, then the Trustee will decide who will receive your death benefit. The Trustee will consider any non-binding nomination and the terms of your Will in making this decision. When the Trustee receives satisfactory proof of the death and there is no reversionary beneficiary, the deceased member's superannuation income stream account balance will automatically be transferred to the Cash investment option until paid out in accordance with the Fund's rules.

The tax payable on death is summarised in the table under **Taxation**.

## Centrelink entitlements

Under Australia's Social Security system, you may be entitled to Social Security benefits (the age pension) in addition to your income stream. However, the rules are complex, and the following information is of a general nature only.

### Centrelink / Department of Veterans' Affairs (DVA) Entitlements

The amount you're eligible to receive from Centrelink or the DVA depends on your income and your assets. The Income and Assets Tests are applied each year, and your Centrelink benefits (if any) are calculated based on the information you provide. Your Centrelink entitlements will be based on whichever test provides the lower amount.

#### Assets Test

The total value of your income stream (which commenced on or after 20 September 2007) is counted as an asset under the Assets Test. Other assets you have may or may not be counted. Check with your financial planner or Centrelink for more information.

#### Income Test

Regular payments from your income stream account, less an amount representing the return of your investment (the non-assessable portion), are included under the Income Test.

When your income stream starts, we will provide a schedule to Centrelink with details of your retirement income information. A schedule will then be provided yearly and after any drawdown.

**This information is a guide only. We recommend you contact Centrelink or your financial planner for information regarding Centrelink payments.**



You can nominate what happens to your money if you die

## Investment choices

First State Super offers a choice of eleven investment options – four pre-mixed options and seven single asset class options. The table shows the options, their long-term allocations to growth and income assets, and their risk profile. Full details of the options can be found in the Member Booklet. Choosing the right investment option for your income stream is important because it will have a big impact on the length of time your account will last.

Investment options with a higher proportion of **growth** assets (shares and property) tend to produce higher

long-term returns, although these returns can fluctuate quite widely from year to year. Investors in these options generally have a longer-term investment timeframe.

Conversely, over the long term, the options holding a higher proportion of **income** assets (cash, fixed interest) are more likely to produce lower long-term returns, but the returns tend to fluctuate less than the returns from growth assets.

Whatever investment option you select, it is important to remember that investment returns may be positive or negative.

Investment options	Growth assets (shares and property)	Income assets (cash and fixed interest)	Risk profile*
<b>Pre-mixed options</b>			▼ Lower <span style="float: right;">Higher ▼</span>
High Growth	90%	10%	Very high risk
Diversified	70%	30%	High risk
Balanced	50%	50%	Medium risk
Capital Guarded	30%	70%	Low risk
<b>Single asset class options</b>			▼ Lower <span style="float: right;">Higher ▼</span>
International Equities	100%	–	Very high risk
Australian Equities	100%	–	Very high risk
Australian Socially Responsible Equities	100%	–	Very high risk
Property	100%	–	Medium to high risk
International Fixed Interest	–	100%	Medium risk
Australian Fixed Interest	–	100%	Medium risk
Cash	–	100%	Low risk

\* The risk profile is intended to show the relative/comparative level of risk, or volatility, of each investment option.

## Fees

The table shows the fees that apply to members of the First State Super income stream, including an example of the impact of fees on a \$50,000 income stream account balance invested in the Diversified investment option over one year. The example is illustrative only based on the factors stated. It should not be taken to provide an estimate or guarantee of the fees you will pay. Note that a minimum income stream payment must be made each financial year but this has not been taken into account in the example.

**IMPORTANT:** Please refer to the *Fees and other costs* section of the Superannuation Income Stream Member Booklet for more information.

Fee	Amount	Example for \$50,000 account balance in the Diversified option
Establishment fee	Nil	Nil
Contribution fee	Nil	Nil
Lump sum withdrawal fee	\$36	
Administration fee	\$52 pa plus 0.20% pa of your account balance	\$152
Investment management fee	Varies from 0.05% pa to 0.54% pa depending on the investment option (Diversified option is 0.26% pa)	\$130
Total fee		\$282
Total fee as a % of account balance		0.56%

<sup>1</sup> Source: SelectingSuper: [http://www.selectingsuper.com.au/Top\\_10\\_fees\\_PO.html](http://www.selectingsuper.com.au/Top_10_fees_PO.html). The fee table on the SelectingSuper website shows that First State Super has the "Best fee deal across all retirement funds". The table describes the best overall fees payable for retirement funds open to the public as at June 2009 where overall fees are calculated for a member with an initial deposit of \$100,000 all invested in their retirement product's default investment option and receives 12 monthly pension payments.

## Procedures and paperwork

### 1 MAKE SURE YOU'RE INFORMED

Read the First State Super Superannuation Income Stream **Member Booklet** (Product Disclosure Statement), which is available from Customer Service or the First State Super website.

### 2 CONSOLIDATE

If you have other superannuation account balances that you would like to use to set up your income stream, you should first consolidate these amounts into a single superannuation account before setting up your income stream. This is important because you cannot add money to an income stream account once it is established, although you can set up a second income stream account.

### 3 COMPLETE THE PAYMENT FORM(S)

Complete either an *Application for payment of your benefit* form (if using your existing First State Super superannuation account to set up your income stream) or a *Transfer to superannuation income stream* form (if using superannuation money held outside First State Super to set up your income stream).

You may be required to provide certain documents verifying your identity at the time you request a benefit payment. Transferring money from an existing First State Super superannuation account to a First State Super income stream account is considered to be a benefit payment and you will have to attach proof of identity to your *Application for payment of your benefit* form. Details of the documents required are included on the form. Other (non-First State Super) funds may have their own proof of identity requirements.

### 4 COMPLETE THE APPLICATION FORM

Complete the *Superannuation income stream member application* form at the back of the Member Booklet.

- You must invest a minimum of \$20,000 and it must be "superannuation" money (ie. money withdrawn or transferred from an existing superannuation account).
- If you wish to nominate your spouse as a reversionary beneficiary to receive the balance of your income stream in the event of your death, make sure you complete **Section 8 Reversionary beneficiary nomination** on the application form.
- If you do not wish to nominate your spouse as a reversionary beneficiary, you can complete the *Income stream death benefit nomination, update or cancellation* form to make a binding or non-binding nomination for those dependants you wish to receive your death benefit (or your estate).
- If you are under 60, you should consider completing the Tax File Number Declaration form, which is available from Customer Service on 1300 650 873. The form is also available from post offices and some newsagents.

### 5 SUBMIT YOUR PAPERWORK

Send your completed forms to:

First State Super  
PO Box 1229  
Wollongong NSW 2500

## What about financial advice?

If you would like personal financial advice, why not give FSS Financial Planning\* a call on 1800 665 756 and arrange an appointment with one of their experienced financial advisers.

\* FSS Financial Planning services are provided by Q Invest Limited ABN 35 063 511 580 AFSL 238274 trading as FSS Financial Planning. Q Invest, trading as FSS Financial Planning, is not related to FSS Trustee Corporation and provides financial planning services under its own Australian Financial Services Licence. First State Super does not act as an agent or representative of FSS Financial Planning and is not responsible or liable for any advice provided to you by FSS Financial Planning.



## Need more information?

### Customer Service

Phone: 1300 650 873

8.30 am to 5.30 pm (AEST) Monday to Friday for the cost of a local call (unless calling from a mobile or pay phone)

### Fax

1300 722 072

### Email

enquiries@firststatesuper.com.au

### Website

www.firststatesuper.com.au

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