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SPENDING OF SUPER LUMP SUMS

Robin Bowerman | 19 February 2014

Retirees who take at least part of their superannuation savings as a lump sum have to decide how to deal with what is typically a very large amount of money.

Undoubtedly, a super lump sum is the biggest sum that many individuals will have under their direct control at any one time in their lives.

As Smart Investing discussed earlier this year, the decision about whether to take super benefits as a lump sum, superannuation pension or both as a lump sum and a pension is a key personal finance issue.

Given that 55 per cent of current retirees took at least part of their super as a lump sum - according to Australian Bureau of Statistics (ABS) - it is particularly interesting to know how many super lumps are spent.

The Retirement and Retirement Intentions, Australia, July 2012 to June 2013 report, released by the ABS late last year, shows that of the current retirees who took superannuation benefits as a lump sum:

- 31.5 per cent used all or part of their super lump sum to pay off their home mortgage, buy a new home or undertake home improvements.
- 22 per cent reinvested the money outside the super system such as in a bank savings account.
- 12.5 per cent bought or paid-off a car, using at least part of their super lump sum.

Past ABS research shows that a significant number of retirees have used super lump sums to pay off debts, help out family members and/or to go on holidays.

A super lump sum may seem like a sudden windfall to some retirees. However, most of us face a retirement of perhaps 25 years or more and need to stretch our retirement savings as much as possible.

Of course, the issues of whether to take a super lump sum and how to responsibly deal with a lump sum are well worth discussing with a financial planner before making a decision.

Decisions about the payment of super benefits will, of course, depend much on personal circumstances including levels of personal debt and retirement savings.

A professional adviser could, for instance, discuss the possible implications for a client's long-term financial wellbeing of taking on new debt on the eve of retirement if that debt can only be repaid with super savings.

Increasing numbers of retirees are taking superannuation pensions rather than lump sums in an effort to make their money last as long as possible and to keep the concessional tax treatment of super into retirement.