

Transitioning into retirement

Make it happen



How it works

You don't have to be on the brink of retirement to receive some great tax-effective super benefits. If you're aged 55 or over, there's a way you could save more for retirement without reducing your current income.

No matter how many hours you work, if you're 55 or over you can access your super as an income stream, even if you are still working full time.

It involves a special type of pension. It's sometimes referred to as a pre-retirement pension or non-commutable income stream, and more recently is being termed as a *transition to retirement pension*. No matter what term we use to refer to this type of special income stream, the main benefit is that it can help you to decide which path you want to take to retirement from the age of 55 (depending on your circumstances).

As a general rule, you can't withdraw a lump sum until you either:

- reach your preservation age and permanently retire;
- terminate your employment relationship after you reach age 60; or
- reach age 65.

However, this special type of income stream gives you a regular income from your super without having to retire. In some ways you get the best of both worlds. A transition to retirement strategy allows you to salary sacrifice into your superannuation and replace this sacrificed salary with income from your transition to retirement pension. The salary you sacrifice will be taxed concessionaly at 15 per cent rather than your marginal tax rate. Assuming your benefit is paid from a taxed fund, your transition to retirement pension income will also be subject to a 15 per cent tax offset if you are under age 60 and will be tax free once you reach 60 years of age.

By drawing down on your superannuation monies, you could ease into your retirement by cutting back your work hours (while potentially maintaining the same income). Put simply, working part-time and doing the things you enjoy could now be an option, because cutting down your hours doesn't have to mean cutting down your income.



It's a simple four step process

1. Talk to an adviser about the most appropriate strategy to suit your needs.
 2. Invest some of your existing super in a transition to retirement pension.
 3. Arrange with your employer to sacrifice part of your future before-tax salary directly into a super fund.
 4. Use the regular payments from the transition to retirement pension to replace the income you sacrifice into super.
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By considering these steps, you can potentially boost your super benefit because:

- A maximum of 15 per cent tax is paid on salary sacrificed super contributions rather than your marginal tax rate (provided the contributions are within the concessional contribution cap and you have provided your Tax File Number to your super fund).
- Earnings from your transition to retirement pension are tax-free compared with super fund earnings taxed at a maximum of 15 per cent.
- There's no tax on income payments from a transition to retirement pension if you're over age 60. If you are aged between 55 and 60, a tax offset of 15 per cent will generally be available on taxable income payments.

How could it work for you?

Let's look at some examples:

Michael, aged 55, currently earns a before-tax salary of \$90,000 p.a. (or \$67,000 after-tax). He also receives nine per cent Superannuation Guarantee (SG) contributions from his employer. He decides to reduce his before-tax salary to approximately \$60,000 p.a. and sacrifices \$30,000 p.a. into his super fund to build his retirement savings.

To receive the same after-tax income of approximately \$67,000, he invests \$300,000 of his existing super into a Transition to Retirement Pension (TRP) and elects to receive taxable income payments of \$24,040 in the first year.

Note: Assumes Michael continues to receive 9% SG based on his package of \$90,000 p.a. even after he sacrifices \$30,000 p.a. into his super fund.

	Before strategy	After strategy
Before-tax salary	\$90,000	\$60,000
TRP income	\$0	\$24,040
Less tax payable*	(\$23,000)	(\$17,040)
After-tax income	\$67,000	\$67,000
SG contributions	\$8,100	\$8,100
Salary sacrifice contributions	\$0	\$30,000

Assumptions:

These calculations take into account the Mature Age Worker Tax Offset and the Pension Offset. Michael's total pre-tax income is lower after using this strategy as the TRP attracts a 15% pension offset. The 2009/10 tax rates apply throughout.

While the after-tax income and SG contributions are the same in both scenarios, this strategy has the potential to boost Michael's retirement savings.

After year...	Value added by strategy [^]
1	\$3,431
5	\$18,786
10	\$65,235

Likewise, Jane, who's 55 and earning \$120,000 and is also receiving the nine per cent SG. She has \$500,000 in her superannuation account.

	Before strategy	After strategy
Before-tax salary	\$120,000	\$80,800
TRP income	\$0	\$31,412
Less tax payable*	(\$34,850)	(\$27,062)
After-tax income	\$85,150	\$85,150
SG contributions	\$10,800	\$10,800
Salary sacrifice contributions	\$0	\$39,200

She decides to sacrifice \$39,200 of her salary into her super fund for three years, and then she wishes to retire.

After year...	Value added by strategy [#]
1	\$5,137
2	\$10,747
3	\$16,875

[^] **Other assumptions:** Both the super and TRP (transition to retirement pension strategy) investment earn a total before-tax return of 8% p.a. (split 3.5% income and 4.5% growth). The overall franking level on investment income is 30%. Michael receives a tax-free income from the TRP from age 60. Salary doesn't change over the ten-year period. Super consists entirely of Taxable component. Neither the super or TRP investment are cashed out.

* Tax rates based on 2009/10 financial year

[#] **Other assumptions:**

The TRP income payments will attract a 15% pension offset while Jane is under age 60.

Both the super and TRP investment earn a total pre-tax return of 8% pa (split 3.5% income and 4.5% growth)

The overall franking level on income is 30%

Salary does not change over the 3 year period

The 2009/10 tax rates apply throughout

CC cap transitional of \$50,000 from year 1 to year 3

Considerations

There are some limitations that may be associated with this strategy. For example:

- Any salary sacrifice you make along with any other concessional contribution (for example Superannuation Guarantee contribution) cannot exceed :
 - \$50,000 each year if you are aged 50 or over. This transitional limit is available until 30 June 2012;
 - \$25,000 per annum applies for the 2009-2010 financial year for those under age 50 (in future years this cap will be indexed in line with Average Weekly Ordinary Time Earnings (AWOTE) in increments of \$5,000).

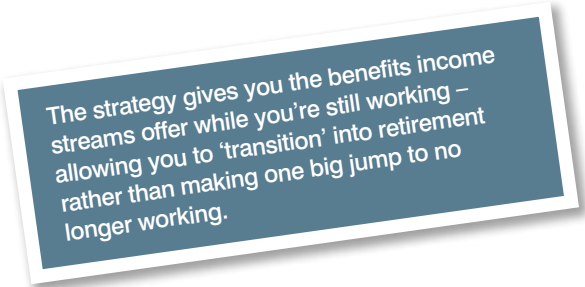
You may like to read the *Superannuation basics* strategy guide for more information about contribution limits or the *Salary sacrifice* strategy guide for more detailed information about making a salary sacrifice arrangement.

- Your employer is only required to contribute SG on your Ordinary Time Earnings (OTE)*. This may mean by putting in place a salary sacrifice arrangement and effectively reducing your salary. Your employer may decrease the amount they make as a SG contribution based on your reduced salary.
- If your SG contributions are based on your reduced salary, this strategy could erode your wealth – it may be worth checking this out before implementing this type of strategy.
- Keep in mind that a transition to retirement pension has a minimum and maximum amount payable each year (whereas a pension commenced after retirement has no maximum annual payments).
- You cannot make lump sum withdrawals from a transition to retirement pension until you reach age 65 or meet a condition of release. You can only receive the regular income payments between the minimum and maximum amounts for your age.

* OTE is the earnings on an employee's ordinary hours of work. Generally OTE excludes overtime. It is an employee's default earnings base for SG purposes and is defined in the SG legislation, and in rulings issued by the Tax Office. Ordinary time earnings is the sole base on which an employee's SG entitlement will be calculated. There is a quarterly maximum on the earnings base – an employer is not obliged to make SG contributions on amounts above this limit.

Work less hours and still receive the same income

If you'd like to enjoy a few days off every week and 'transition' into retirement but still receive the same income, a transition to retirement pension may also help you to receive a tax-effective income to supplement your reduced salary.



The strategy gives you the benefits income streams offer while you're still working – allowing you to 'transition' into retirement rather than making one big jump to no longer working.

How could it work for you?

Let's look at an example:

Mark, aged 55, is working full-time and wants to cut back his working hours. His before-tax salary will reduce from \$60,000 p.a. to \$40,000 p.a., so he decides to invest some of his super in a TRP.

By using this strategy he will continue to meet his after-tax income goal of \$47,550 p.a. He will only need to draw a before-tax income of approximately \$15,786* from the TRP in the first year to cover his pay cut. This is because the income payments from the TRP will attract the full 15 per cent tax offset.

	Before strategy	After strategy
Before strategy	\$60,000	\$40,000
TRP income	Nil	\$15,786
Total before-tax income	\$60,000	\$55,786
Less tax payable*	(\$12,450)	(\$8,236)
After-tax income	\$47,550	\$47,550

In addition, while the money is invested in the transition to retirement pension, earnings in the fund will be tax-free, versus up to 15 per cent in a super fund.

Assumptions:

These calculations take into account the Mature Age Worker Tax Offset and the Pension Offset. Mark's total pre-tax income is lower after using this strategy as the TRP attracts a 15% pension offset.

* The 2009/10 tax rates apply throughout.

Keep in mind

There are some limitations that may be associated with this strategy. For example:

- If you have other financial resources (and you plan to reduce your working hours), you may be better off keeping your benefits in super and supplementing your income from these other assets.
- If you are able to access your super and you don't have other financial resources, you may want to consider using an income stream that isn't subject to the commutation restrictions associated with a TRP.
- You cannot make lump sum withdrawals from a TRP. You can only receive the regular income payments between the minimum and maximum amounts for your age.
- This strategy does not boost your super. You may run out of superannuation earlier than anticipated because it relies on you having adequate savings for a longer retirement than the average, currently 21 years (for women) and 17 years (for men)¹ from age 65.

1 Catherine Nance – *Australia the great divide?* 7 November 2006.

Where to from here?





Thinking about your next steps you may want to consider:

If you are planning to cut down your working hours

This will determine how you should best structure your transition to retirement strategy.

How to set up a transition to retirement strategy

Contact a Plum Member Services Consultant on **1300 55 7586** to obtain a *Plum Pension Product Disclosure Statement*. We can also put you in touch with a qualified financial adviser who can work with you to ensure you choose the most appropriate strategy to suit your needs.



Seek advice

These strategies may help you either boost your super or supplement your income in a tax-effective manner, but implementing the most effective approach may prove difficult and potentially costly without the right advice.

To help you make sure your transition to retirement is a successful one, it's important to seek professional advice. A financial adviser can help you understand your options and recommend the best approach for you to consider.



Did you know...

As a member of the Plum Superannuation Fund you can access the services of financial advisers through *Momentum Financial Advice*. This service provides general advice over the phone – at no cost to you, in addition to personal face-to-face advice if you require more in-depth advice about your personal financial circumstances.

If you would like more information about *Momentum Financial Advice* or would like to access this service, contact a Plum Member Services Consultant on **1300 55 7586**.

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www.plum.com.au or



or speak with a Plum Member Services Consultant on **1300 55 7586**.

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