

Transitioning to retirement

1 January 2017

The rules around transition to retirement are changing from 1 July 2017 so please refer to the Upcoming Super Changes financial planning guide.

If you want to reduce your working hours or pay less tax without sacrificing your income, a transition to retirement pension could be the answer.

Longer life expectancies mean many Australians are spending more time in retirement than ever before¹ – increasing the burden on our social security system and emphasising the importance of accumulating superannuation.

As a consequence, the Government is encouraging us to remain in the workforce beyond the traditional retirement age.

Did you know that you can access your superannuation while you are still working?

Using a transition to retirement pension you can generally access between 4-10 per cent of your super balance, as long as you've reached your preservation age (between 56 and 60 depending on the year you were born) and you are still working.

A better lifestyle on the same income

A transition to retirement strategy allows you to supplement your income by drawing a regular pension payment from your super fund.

There are a few ways you can benefit:

- continue to work full-time but reduce your tax by taking a pension and salary sacrificing some of your income into super
- moving from full-time work to part-time work and replacing lost salary with income from the transition to retirement pension,
- as a business owner/operator, you could use a pension to supplement your income needs in quiet times.

A transition to retirement pension may also help reduce your overall tax bill while boosting your total super balance before you retire.

This is how it works. You contribute part of your salary to super (where it is generally taxed at a maximum of 15 per cent² rather than at your marginal tax rate). You then move your super money into a 'transition to retirement' pension and use the pension income to supplement your reduced salary. The tax-effectiveness of the pension will help lower your overall personal tax liability.

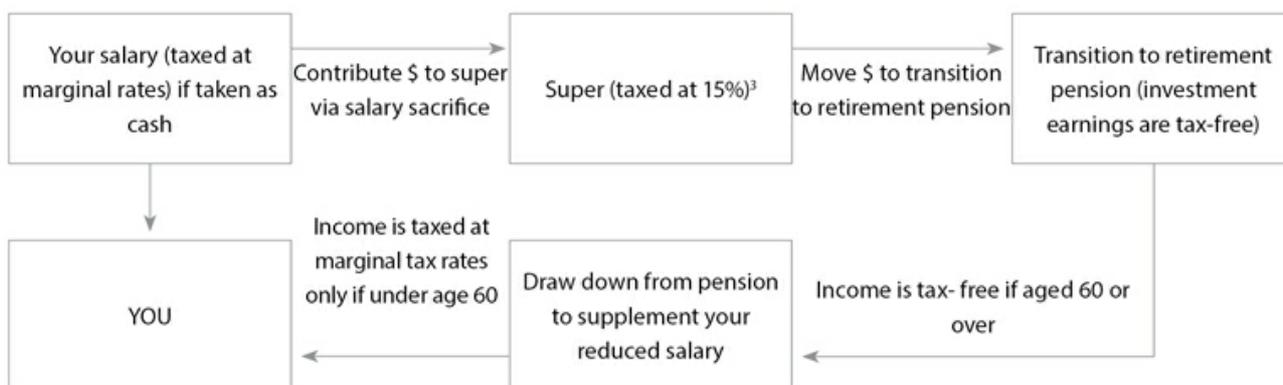
Note: there are changes to how transition to retirement pensions will operate from 1 July 2017. Please refer to the 'Upcoming Super Changes' flyer for more information.

Your preservation age

Under current superannuation law you must reach your preservation age before you can access your super. Your preservation age depends on the date you were born.

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

The diagram below will give you an idea of how your money moves when using this strategy:



Things to consider

Non-commutable income stream

Your transition to retirement pension income stream is non-commutable apart from any unrestricted non-preserved components within it. Non-commutable means you can't convert the income stream into lump sum cash until you satisfy a full condition of release from super, such as retirement or turning 65. However you can stop the pension anytime you want to.

Your transition to retirement pension will work in a similar way as a standard superannuation pension, subject to the non-commutable requirements and restriction on the amount of pension you can withdraw. You can withdraw between 4 per cent and 10 per cent of the pension account balance each year and have the flexibility to vary the payment at any time during the year, within these set ranges.

You should also keep in mind the possibility of your career not going exactly to plan – a redundancy or a forced or unplanned early retirement could interrupt this strategy and mean that you will have to review your circumstances with your financial adviser.

Another important point to consider is the concessional contributions cap. From 1 July 2014, the concessional contribution cap is \$35,000 for those aged 50 or over.

Self-managed super funds

If you plan to use this strategy through a self-managed super fund, you should ensure that the trust deed is drafted to allow you to commence any pension allowed under super law.

Tax treatment

Once you have reached age 60, your pension payments and any lump sum withdrawals will generally be tax-free.

A financial adviser can help you to structure your pension to legally minimise your tax obligations.

Note about salary sacrificing: Although salary sacrificing into superannuation is a great strategy for increasing your retirement savings, not all employers offer this feature to their employees. Also, under these arrangements your salary decreases and this could have a flow-on effect to other employment benefits you receive — eg compulsory SG contributions may be determined using actual (reduced) salary and may not take into account salary sacrifice contributions.

How does the transition to retirement strategy work in practice?

Tom, who is 56, has a salary of \$100,000 per annum (plus 9.5 per cent superannuation). He wishes to continue to receive his current net income but maximise the effectiveness of his super. He currently has \$300,000 in super and decides to commence a transition to retirement pension.

As the table below illustrates, with the transition to retirement strategy without changing his cash income received, Tom has still saved over \$3,860 in tax.

If Tom continues to work after age 60, the amount withdrawn from his superannuation is tax-free. In the table below, Tom's tax savings increase by more than \$6,750.

Alternatively, Tom could boost his wife Danielle's super. After salary sacrificing and choosing to take an account-based pension, Tom can take part of the contributions he has salary sacrificed to his super and split them into Danielle's account each financial year (as Danielle hasn't permanently retired). This gives Danielle's super a boost and means they can both make use of all the tax incentives available.

The transition to retirement strategy in practice

This example has been calculated using the 2016/17 income tax rates and TTR rules.

	Current position	With TTR under 60*	With TTR age 60 and over*
Salary	\$100,000	\$85,000	\$85,000
9.5% SG contributions	\$9,500	\$9,500	\$9,500
Salary sacrifice contributions	\$0	\$15,000	\$15,000
Transition to retirement pension	\$0	\$12,000	\$12,000
Tax paid plus Medicare levy (less offsets)	\$26,946	\$23,976	\$21,096
Net cash	\$73,054	\$73,024	\$75,904
Total tax saving	\$0	\$3,860	\$6,750

*Salary sacrifice and 9.5 per cent SG contributions are taxed at 15 per cent in super

1. Australian Institute of Health and Welfare - mortality data.
2. Additional contributions tax of 15 per cent applies to high income earners earning over \$300,000 per annum.

Call us on 0398240001 for more information.

Email: admin@pmdadvice.com.au

Tel: 0398240001

Fax number: 03 9824 1110

Address: Level 6 136 Exhibition St Melbourne Vic 3000

Website: www.pmdadvice.com.au



WP Exhibition St Pty Ltd t/as PMD Financial Advisers is an Authorised Representative of Consultum Financial Advisers Pty Ltd. ABN 65 006 373 995 AFSL 230323.

This is general advice only and does not take into account your financial circumstances, needs and objectives. Before making any decision based on this document, you should assess your own circumstances or seek advice from a financial planner and seek tax advice from a registered tax agent. Please obtain and consider the PDS before making any decision about whether to acquire a financial product. Information is current at the date of issue and may change.