



Transition to retirement

The nature of retirement is changing and so are the rules. If you want to reduce your working hours or pay less tax without sacrificing your income, 'transition to retirement' 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 the importance of accumulating superannuation (super).

As a consequence, the Government is encouraging us to remain in the workforce beyond the traditional retirement age. A recent incentive is the option to access your super before you fully retire, through a Transition to Retirement (TTR) pension.

You can access a TTR pension of between 2² - 10 per cent of your account balance if you've reached preservation age (currently 55) and you are still working up to age 65.

A better lifestyle on the same income

TTR provisions allow you to supplement your income by drawing a regular pension payment from your super fund.

There are two principal ways you can benefit:

- convert to part-time work without decreasing your income, and spend more time doing the things you want to do; or
- continue to work full-time but reduce your tax by taking a pension and salary sacrificing more of your income into super.

Tax treatment

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

Notes about salary sacrificing:

Although salary sacrificing into super 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 – e.g. compulsory super contributions may be determined using actual (reduced) salary and may not take into account salary sacrifice contributions.

Also, if you are under age 50, the maximum concessional contribution is capped at \$25,000 per annum, if you are over age 50, the maximum concessional contribution is capped at \$50,000 per annum. Concessional caps include SG and salary sacrifice contributions.

1 http://www.aihw.gov.au/ai/mortality_data/life_expectancy.cfm

2 Two per cent minimum only applies in the 2009/2010 financial year.

How does the transition to retirement strategy work in practice?

Ted is aged 57 and earns a salary of \$80,000 per annum plus nine per cent Superannuation Guarantee (SG) contributions. He wishes to continue to receive his current net income but maximise the effectiveness of his super. He currently has \$400,000 in super and decides to commence a TTR pension of \$30,000 per annum while salary sacrificing \$37,000 into super.

As the table illustrates, with the TTR strategy, Ted has made minimal changes to his cash income and has saved over \$3,000 in tax each year (money that stays in his super account).

If Ted continues to work after age 60, the amount withdrawn from his super is tax-free. As illustrated in the table, this tax saving results in an increase of over \$5,000 in net cash.

Case study - meet Ted	Current position	With TTR	With TTR strategy* after age 60
Salary	\$80,000	\$43,000	\$43,000
9% SG contributions	\$7,200	\$7,200	\$7,200
Salary Sacrifice into super	\$0	\$37,000	\$37,000
Super pension drawn	\$0	\$30,000	\$30,000
Tax paid plus Medicare Levy (less offsets)	\$19,050	\$12,435	\$6,565
Net cash	\$60,950	\$60,655	\$66,435
Super balance	\$430,962	\$434,499	\$434,499
Increase in super balance	\$0	\$3,537	\$3,537

The above calculations assume: earnings are 6% per annum in his super account (net of 15% tax) and 6.5% per annum in his TTR pension account (nil tax). Salary Sacrifice and the 9% SG contributions are taxed at 15%. Earnings and super contributions are credited monthly.

*Withdrawals and pension payments after age 60 are tax-free.

Seek professional advice

Transition to retirement provisions can mean reducing your working commitments and pressures without necessarily reducing your standard of living. There are, however, various levels of complexity and the strategy is not suited to all investors. A financial adviser can help determine the best approach and help you to structure your pensions to legally minimise your tax obligations. Ensure your retirement planning is on track by seeking professional advice.

IOOF product options

IOOF offers clients a choice of three allocated pension products with transition to retirement options:

- Pursuit Select Allocated Pension;
- IOOF Portfolio Service Allocated Pension; and
- LifeTrack Cashback Pension.

These products are designed with different features to meet the needs of every super investor and retiree.

Where do I go for more information?

If you have any questions about your IOOF super account or retirement options, please speak with your financial adviser. Alternatively, IOOF has a dedicated Client Services team available to speak with you Monday to Friday between 8.30am – 6.00pm. You can phone us on **1800 062 963** for personal super members or **1800 653 894** for employer and corporate super members, email clientservices@ioof.com.au or visit our web site www.ioof.com.au

General information warning

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