

# Transition to Retirement

Turned 55? Like to keep working but gain access to your super? Now it's easier.



Transition to Retirement (TTR) rules allow you to take some or all of your superannuation, and use it to purchase a non-commutable Super Income Stream. 'Non-commutable' means you cannot access any lump-sum withdrawals until after retirement. The income stream payments you receive may be taxable, but a tax offset reduces the effective rate that applies.

The TTR rules allow you to receive regular payments from your superannuation fund, without the need to retire. Therefore, you may be able to switch to part-time work without having to reduce your income. It also provides an opportunity to significantly grow your wealth before full retirement.

Many Australians reaching 65 will be dependant on the Age Pension to meet a large proportion of their living expenses. Compulsory employer superannuation contributions have only partially helped address the challenge of an ageing population.

TTR encourages workforce participation and increases the options available for people aged 55 and over. TTR provides incentives for people who may wish to stay in the workforce longer, even if only on a part-time basis.

It is another measure designed to encourage people to take the slow route to retirement. *Refer to the table on the right to see how it works in practice.*

## Topping up part-time income

John is 55. He earns \$70,000 per year, which leaves him with \$54,100 after tax. He needs all of this for his living expenses, but he would like to work for just four days per week. If this happens, his net income would drop as follows:

Gross income (4/5 of \$70,000)	\$56,000
Income Tax & Medicare - including Mature Age Worker Tax offset - Low Income Offset	\$10,830
<b>Net income</b>	<b>\$45,170</b>

Income shortfall (\$54,100 - \$45,170) \$8,930

John has \$150,000 in superannuation (all from taxed sources), and he uses this to start a non-commutable Super Income Stream. He chooses to receive pension payments of \$11,070 in the first year, which is within the maximum allowable.

Now his position looks like this:

Salary (4/5 of \$70,000)	\$56,000
Plus Super Income Stream (SIS)	\$11,070
Less Income Tax & Medicare - including Mature Age Worker Tax offset - SIS tax offset	\$12,967
<b>Net income</b>	<b>\$54,103</b>

The result is that John can maintain his lifestyle working only four days a week. If he chooses, he can slowly transition to retirement over several years.



## Building wealth for retirement

As there is no work test attached to the TTR rules, it is possible to continue working full-time, and still commence a pension. This opens up the opportunity for those over 55 to make good use of the generous tax concessions, which apply to retirement income streams on the one hand, and to superannuation contributions on the other, to grow their retirement savings.

### How can TTR help?

*Let's compare some different strategies.*

#### Full time work + salary sacrifice

Bernadette is 55 and earns \$70,000. However, she wants to continue working full-time and to save for her retirement. Her living expenses are \$45,000 a year, which gives her a savings capacity, after tax, of \$9,100 a year.

Bernadette can increase her super contributions via a salary sacrifice arrangement with her employer, which will allow her to make contributions in pre-tax dollars.

#### Salary sacrifice + Super Income Stream (SIS)

She can also start an income stream, just like John, but drawing the maximum allowable income stream payments of \$15,000. This will allow her to make even greater salary sacrifice contributions. How do these two strategies compare?

By using salary sacrifice in conjunction with starting an income stream, Bernadette's retirement savings will be around \$3,278 per annum more than they would be if she had just saved her after-tax surplus.

The Transition to Retirement strategy increases her net savings even further.

### But wait, there's more!

The first two columns in the example below for a 55 year old is 'worst case', in that it assumes all the Super Income Stream income is taxable. That won't always be the case.

Since 1 July 2007, Super Income Stream payments to people from age 60 are tax-free.<sup>1</sup> The last column (Age 60+) shows the impact for a 60 year old using this strategy – an even better outcome.

### Other issues

When negotiating a salary sacrifice arrangement, it is important to check that this won't reduce your Superannuation Guarantee (SG) contributions and/or basis of other entitlements such as leave payments. SG is based on salary, which can be reduced when you salary sacrifice. However, most employers are willing to pay their 9% obligation on the overall package. Check your relevant conditions of employment.

### Will Transition to Retirement work for you?

It depends on your situation. The calculations are complex, so talk to an IFFP planner, and ask them to help you work out a financial plan that's best for you.

Industry Fund Financial Planning:

1300 138 848

iffp.com.au

### Bernadette's situation

	Age 55-60		Age 60
	Salary Sacrifice Only	SIS and Salary Sacrifice	SIS and Salary Sacrifice
Salary	\$70,000	\$70,000	\$70,000
Plus Super Income Stream income	\$0	\$15,000	\$15,000
Less salary sacrifice <sup>2</sup>	\$13,721	\$32,209	\$36,604
Less Income Tax & Medicare - including Low Income Tax offset - SIS tax offset	\$11,279	\$7,791	\$3,396
<b>Net income</b>	<b>\$45,000</b>	<b>\$45,000</b>	<b>\$45,000</b>
Net into Super (after 15% contributions tax deducted)	\$11,663	\$27,378	\$31,113
Less Super Income Stream drawdown	\$0	\$15,000	\$15,000
<b>Net increase in Superannuation contributions<sup>3</sup></b>	<b>\$11,663</b>	<b>\$12,378</b>	<b>\$16,113</b>

<sup>1</sup> Since 1 July 2007, both superannuation lump sums and income stream payments, from age 60, are tax free.

<sup>2</sup> The higher levels of salary sacrificing (\$32,209 and \$36,604) is under the transitional cap arrangements which cease 30 June 2012. From 1 July 2012 the higher levels of salary sacrificing listed may not be possible without incurring a tax penalty.

<sup>3</sup> Over and above compulsory employer contributions.