Getting ready for retirement

Transition to retirement
Congratulations!

You’ve worked hard to build up your retirement savings and the finishing line is finally in sight.

With Australians enjoying longer and more active retirements, you’re looking forward to the next exciting stage of your life.
Transition to Retirement

If you’re 55 or over and still working you can access your super early, build your super and save tax with a Transition to Retirement strategy. This doesn’t mean you have to retire but provides you with the option to boost your super or reduce your working hours.

The changing face of retirement

Retirement used to represent a sharp break with the past – one day you were working full-time, the next you were sitting at home with the rest of your life ahead of you.

These days, the transition to retirement doesn’t have to be quite so abrupt. Many Australians are keeping themselves active and engaged by continuing for longer in the workforce on a part-time basis. More than two in five Australians who work full-time and intend to retire are looking to reduce their hours first.¹

And the good news is that you can use your super as an income stream to make the transition and set a retirement date that suits you.

Making a smooth transition

A Transition to Retirement (TtR) strategy can be an effective way to boost your super savings to help you own your tomorrow.

Imagine being able to continue working and contributing towards your super while at the same time starting to draw an income from your retirement nest egg.

With a TtR strategy you can.

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TtR at a glance

1. Maintain your current income and boost your retirement savings through salary sacrifice
2. Supplement your income while reducing your work hours and gradually transitioning into retirement

Enjoy favourable tax rates that apply to pension payments for those aged 55 and over.
When can you start a TtR strategy?

To make sure people use their super for retirement the government sets a minimum age at which you can access your super. It depends when you were born. This is known as the ‘preservation age’.

<table>
<thead>
<tr>
<th>Date of birth</th>
<th>Preservation age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1 July 1960</td>
<td>55</td>
</tr>
<tr>
<td>1 July 1960 – 30 June 1961</td>
<td>56</td>
</tr>
<tr>
<td>1 July 1961 – 30 June 1962</td>
<td>57</td>
</tr>
<tr>
<td>1 July 1962 – 30 June 1963</td>
<td>58</td>
</tr>
<tr>
<td>1 July 1963 – 30 June 1964</td>
<td>59</td>
</tr>
<tr>
<td>From 1 July 1964</td>
<td>60</td>
</tr>
</tbody>
</table>

Hang on… aren’t there pretty strict rules about when you can access your super?

Yes. You can’t access your super until you reach your preservation age, you cease employment after age 60, or you turn age 65.

But TtR strategies take advantage of a special condition of release that allows you to start accessing your super while still working, as long as you’ve reached the preservation age, which is currently 55 if you were born before 1 July 1960.

Is TtR for you?

– Have you reached your preservation age?
– Do you work at least 40 hours every 30 days?
– Do you have an active super account?
– Are you keen to carry on working while accessing your super early and potentially saving tax?

If so, TtR could be the right strategy for you. As your professional financial planner, we can talk more about the best way to make the transition to retirement for your own personal circumstances.
You call the shots

With a TtR strategy you’re in control.

– You decide how much super you transfer to your pension.
– You decide how much and how often to withdraw money from your pension.
– You decide whether to continue working full-time or start cutting down your hours.
– You decide if you want to use this on a large purchase such as a new car.
– And you decide whether you want to refresh your TtR strategy every year for more potential tax benefits.

With TtR, instead of receiving your income from one source (your employer); you receive income from two sources (your employer and your super savings).

It’s the ideal stopover on the way to retirement.

Boost your super the smart tax way

The great thing about TtR is it’s so tax-effective.

You can continue to work and boost your super using tax-effective salary sacrifice contributions. And you can top up your income with a tax-effective income stream.

A TtR strategy benefits from the different tax rates that apply to employment income, super and pensions.

Up to age 59 your income is taxed at your marginal tax rate, less a 15% tax rebate on the taxable amount. And once you turn 60, the income you receive from your retirement account will be completely tax-free.

So by replacing your salary with a pension, you can draw a smaller amount from super and receive the same amount in your pocket. This means that your super savings should still grow each year.

By converting your super money into accessible income you’ll receive:

– An income stream at a low tax rate up to age 59 (your marginal tax rate less a 15% rebate on the taxable amount)
– A tax-free income once you reach 60 (0% tax)
– No tax on any investment earnings
– More flexibility once you’ve retired – with access to all your money.

Tax-effective income stream

From age 55, you can start a tax-effective income stream by setting up your retirement account while you are still working.

Once you turn age 60, the income you receive from your retirement account will be completely tax-free.

Boost your super tax-effectively

You can continue to work full-time and boost your super tax-effectively using salary sacrifice and “top up” your income with a tax-effective income stream from your retirement account.

Work less but maintain your lifestyle

You can reduce your work hours and “top up” your income with a tax-effective income stream from your retirement account.

Live the retirement you want
Super tax story part 1

Earnings

Super earnings are taxed at 15% and earnings are tax-free once you’ve started an income stream.

Super tax story part 2

Income

Up to age 59 your income is taxed at your marginal tax rate, less a 15% tax rebate on the taxable amount. And once you turn 60, the income you receive from your retirement account will be completely tax-free.

Finding the right balance

A Transition to Retirement strategy can be an effective way to boost your super savings. But how much your savings grow will depend on the contributions you make into super through salary sacrifice, compared with the amount you withdraw as your income.

If you take out more money than you put back in, your savings will decline in value. This could result in you having less money to fund your retirement when you stop working altogether. We can help you strike the right balance and determine whether a TtR strategy is the best way for you to maintain your income and lifestyle as you move towards retirement.
**TtR in practice**

There are two main ways you can use a TtR strategy:

1. **Less work, same income**

Cut down your working hours while maintaining the same level of income.

Let’s look at how this works in practice. Let’s say you’re over 55, you earn $75,000 a year and you have $250,000 in your super.

You want to cut back from 35 hours a week down to 25 hours, which will reduce your salary from $75,000 to $53,500.

By using a TtR strategy, you can maintain your after-tax income, despite reducing your work hours.

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$75,000</td>
<td>$53,500</td>
</tr>
<tr>
<td>TtR allocated pension</td>
<td>–</td>
<td>$17,519</td>
</tr>
<tr>
<td>Gross assessable income</td>
<td>$75,000</td>
<td>$71,019</td>
</tr>
<tr>
<td>Income tax</td>
<td>($17,047)</td>
<td>($13,066)</td>
</tr>
<tr>
<td>Take home pay</td>
<td>$57,953</td>
<td>$57,953</td>
</tr>
</tbody>
</table>

But it does come at a price—your super will dwindle over time as you continue to draw down your pension payments.

2. **…same hours, more super**

The other option is to maintain your work hours, but increase your salary sacrifice contributions to super, and supplement your income with a TtR pension.

So let’s say you’ve reached 55, are self-employed and you’re earning $60,000 a year.

You have $200,000 in your super, and you choose to use the full amount to start a pension. Together with your pension income, you can make a pre-tax contribution of $24,380 a year and still receive the same amount of money in your pocket.

<table>
<thead>
<tr>
<th></th>
<th>No Transition to Retirement</th>
<th>Transition to Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross salary</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Less pre-tax contribution</td>
<td>$0</td>
<td>($24,650)</td>
</tr>
<tr>
<td>Pension income</td>
<td>$0</td>
<td>$20,000</td>
</tr>
<tr>
<td>Less tax paid on salary (and pension)</td>
<td>($11,847)</td>
<td>($7,197)</td>
</tr>
<tr>
<td>Net income</td>
<td>$48,153</td>
<td>$48,154</td>
</tr>
<tr>
<td>Tax paid on super contribution</td>
<td>$0</td>
<td>$3,697</td>
</tr>
<tr>
<td>After-tax contribution to super</td>
<td>$0</td>
<td>$20,953</td>
</tr>
<tr>
<td>Total tax paid</td>
<td>$11,847</td>
<td>$10,894</td>
</tr>
</tbody>
</table>

Add that up over 10 years and you can see the long-term advantages.

If you do this for ten years, that’s potentially an extra $9,530 for your retirement.

The net result after a year? You’ve boosted your super by $953.
How can we help?

TtR may look straightforward but the details can be complex.

As your professional financial planner, we can help you understand where you are now, and then work out a plan that is based on where you want to be.

We can help you work out the best way to make the transition to retirement to minimise your tax burden and boost your retirement nest egg.

And we can help you decide if you could benefit from starting to draw an income from a pension while still contributing towards your super.

Contact us

To find out how you can live the retirement you want contact your financial adviser or planner.

phone 131 267
web amp.com.au

If you are a member of the following plans call:

SignatureSuper® 1300 366 019
CustomSuper® 1300 653 456
North Personal Super and Pension 1800 667 841.