

Transition to Retirement Strategy

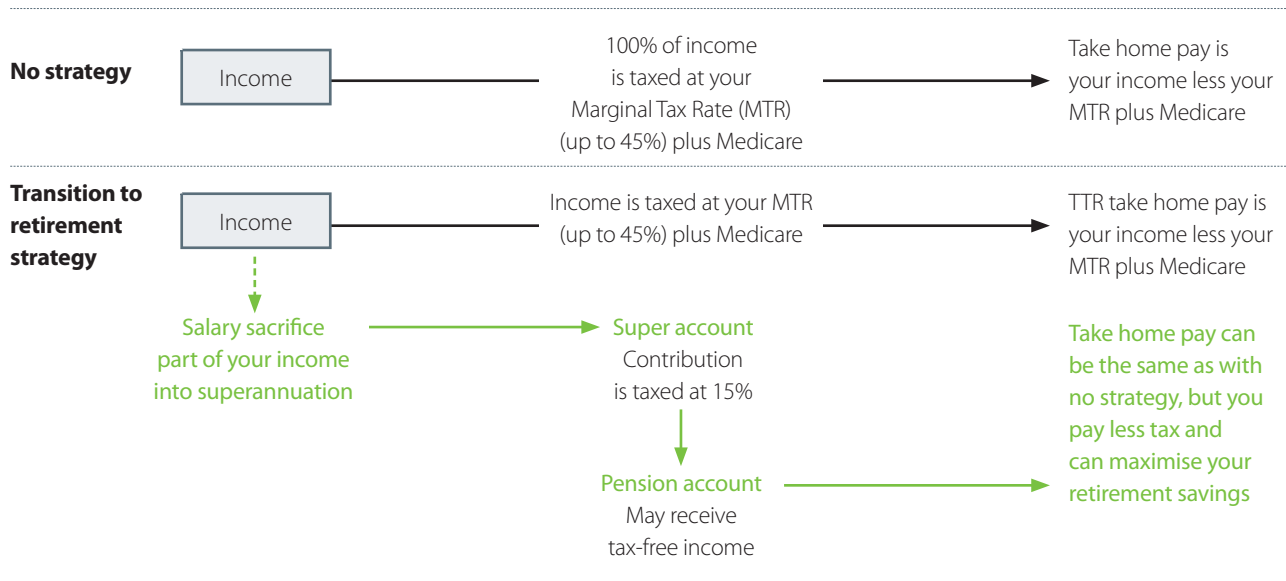
For those over 55 and still working, a transition to retirement strategy (TTR) can be a way to boost your retirement savings without taking on any additional investment risk.

A TTR strategy simply involves salary sacrificing your income to your superannuation account and at the same time starting a pension to draw your required income from the very favourable tax environment. The biggest impact is at age 60 when pension income is tax free.

Taking advantage of a TTR strategy can help you to minimise tax and maximise your super, leading up to your retirement, without compromising your current net income position. With restrictions on the amounts you can contribute into superannuation, the earlier you implement your TTR strategy the greater the potential tax savings.

As shown within the following diagram, there are two components to the TTR strategy:

- commence a non-commutable account based pension receiving between three and ten per cent of the account balance as an income stream
- salary sacrifice part of your employment income into superannuation so that, including the pension, the overall net income remains unchanged.



The TTR strategy may provide an effective approach for people transitioning from full time to part time work, whilst drawing an income stream from their super to 'top up' their income. It can also open up opportunities for wealth accumulation and tax planning as outlined within the following table.

	Non superannuation	Superannuation accumulation	Superannuation pension	
			age 55 – 59	after age 60
Salary/pension income	MTR (max 45%) plus Medicare	n/a	MTR (less 15% rebate) plus Medicare	Tax-free
Super contributions (SGC, salary sacrifice)	n/a	15%	n/a	n/a
Investment income	MTR (max 45%) plus Medicare	Max 15%	Tax-free	Tax-free
Capital gains	MTR (50% ² discount if held for more than 12 months)	10% (15% if asset held less than 12 months)	Tax-free	Tax-free

¹ Based on 2011/2012 marginal tax rates.

² 50% discount applies to individuals only.

Contributing to your super

There is a limit on how much you can contribute to your super before it no longer becomes tax effective and therefore it's important to be aware of these rules when setting up your TTR strategy.

At the moment, if you are aged 50 or more you can contribute to super via salary sacrifice and compulsory super contributions up to \$50,000 pa at the concessional tax rate of 15%. If you go over the \$50,000 concessional contribution cap you will be taxed at 45%¹ plus Medicare.

Important: From 1 July 2012, the rules around concessional contribution cap will change. The concessional contribution cap of \$50,000 will only apply if you have less than \$500,000 invested in super. If you have more than \$500,000 the concessional cap will drop to \$25,000.

Note: At the time of producing this document this change from 1 July 2012 had not become law.

Pension income

The amount of pension income you can take from your transition to retirement pension is limited to between 3% and 10% of the account balance, and you cannot take any lump sum withdrawals. Once you turn 65 (or earlier if you retire) there are no restrictions of withdraws from your pension account and no maximum limit on the amount take from your pension account.

¹ Based on 2011/2012 marinal tax rates.

Deciding if a TTR strategy is right for you

As with any strategy, there can be risks associated and the same applies with implementing a TTR strategy. In most cases, the TTR strategy can provide significant benefits, but there are risks which should be considered including:

- depleting your retirement savings at an earlier age
- actually paying more tax – this can happen if your marginal tax rate is lower than the super contribution tax rate of 15 per cent
- the costs of implementing and maintaining the strategy.

Because of these risks, it is recommended that you speak with a financial adviser to determine if a TTR strategy is appropriate for your personal situation.

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