

# Retire with a Bright Future

New opportunities for  
transitioning to retirement.



**infocus**  
Money Management

For Life

With the Government's 'Better Super' rules in place new opportunities for you to retire with a brighter future are now reality. If you're aged between 55 and 75 years old and still working, it's likely you could be a lot better off.



# Transition to Retirement

## What is Transition to Retirement?

**‘B**etter Super’ rules were introduced to allow working Australians aged 55 and over access to their superannuation money while they are still working.

The original intention of the rules was to enable workers approaching retirement age to ‘transition’ to retirement, i.e. reduce their work hours and supplement a lower income with money from their retirement savings. This is made possible through a Transition to Retirement pension - using money from superannuation savings to receive a regular income.

It’s great news if you’re looking at cutting back your working hours and gradually retire. It means you can work the hours you want while maintaining an income to support the lifestyle you enjoy.

However there’s more to the Transition to Retirement rules than what initially meets the eye.

## Transition to Retirement pension key features.

- Can be started by people who have reached super preservation age (55 if you were born before 1 July 1960).
- Must be started with superannuation money.
- Pension payments are capped at a maximum of 10% p.a. usually until the earlier of retirement or attaining age 65.
- Lump sum withdrawals or commutations are generally not allowed.

## The possibilities

As well as providing a financial solution for people who want to try partial retirement before they fully retire, the Transition to Retirement rules offer potential benefits for people currently 55 or over who continue to work full time.

Although it may sound hard to believe, using a Transition to Retirement pension while still working full time can help boost super savings without reducing your income. That's more super for when you retire, without having to give up any extra income today.

Or if you have sufficient retirement savings, you can use a Transition to Retirement pension while you are working full time to boost your income today. And the increased income you receive can be put to work by reducing your debt or funding projects such as home improvements.

**If you're between 55 and 75, establishing a Transition to Retirement pension could help you:**

- ease into retirement by reducing your working hours without reducing your income
- increase your retirement savings without impacting your income if you are still working full time
- boost your income today so you have more money to cover your everyday living expenses.

### How does it work?

Super is a tax-effective environment in which you only pay 15% tax on the contributions you make with pre-tax income, and up to 15% tax on investment earnings. You can also put money into super from your salary before tax\*.

This means, instead of being taxed at your marginal tax rate which can be as high as 46.5%, you only pay 15% when you choose to put your salary into your super (up to certain limits).

As most people 55 or over can have access to their super through a Transition to Retirement pension, that money isn't locked away until you

retire. By structuring your income differently, putting more of your pre-tax salary into super, and receiving regular income from both your employer and a Transition to Retirement pension, you can pay significantly less tax. Instead of it going to the tax office, you can use the money to boost your retirement savings and enjoy a more comfortable retirement, or boost your income today.

There are even more benefits. When your superannuation money is being paid to you as a pension, related investment earnings are exempt from tax within the super fund. So when you move your super savings into a Transition to Retirement pension, your investment earnings will no longer attract up to 15% tax within the fund.

Let's look at three case studies:

- Jane who's looking to use a Transition to Retirement strategy to ease into retirement.
- Mark who is working full time to increase his super savings for retirement.
- Simon who's looking to boost his income.

### Case Study 1: Ease into retirement

Jane, aged 58, is a retail assistant earning \$35,000 p.a. (\$31,475 after tax). She has a superannuation account balance of \$240,000 and plans to fully retire from the workforce at age 65. Her daughter has recently given birth to her first child and Jane is looking to reduce her work hours so she can help care for her grandchild when her daughter returns to work.

Jane hopes to continue working three days a week. Jane also puts \$40 a fortnight into her super account from her after-tax income. This qualifies her for a Government co-contribution of \$1,267 p.a. Jane is keen to maintain this arrangement, however she is concerned about meeting her living expenses if she reduces her working hours.

## The strategy

By commencing a Transition to Retirement pension, Jane can still receive the same take-home income as when she worked fulltime - even after reducing her work hours. Using a Transition to Retirement strategy that supplements Jane's reduced salary of \$21,000 with a pension payment amount of \$11,460 p.a., she can still maintain the same take home income of \$31,475.

And that's not all. The strategy will also result in Jane qualifying for the maximum \$1,500 Government co-contribution possible. This represents a \$233 increase on her current entitlement.

It is important to be aware that drawing down super benefits to supplement income can result in less super in retirement. This is something that Jane must consider when deciding to reduce her work hours.

Assumption: Jane's super account balance of \$240,000 is comprised of a 70% taxable component and 30% tax-free component.

## Case study 2: Boost your retirement savings

Mark, aged 55, is an engineer earning \$90,000 p.a. He enjoys his job and has no immediate plans to reduce his working hours. He does, however, feel that age 65 would be a good time to retire from the workforce to make the most out of his retirement.

He has a superannuation account balance of \$325,000 invested in a balanced option that has historically earned 7% p.a. Mark has heard about the new super rules and is interested to find out how he can benefit from the changes.

### The strategy

Mark's financial adviser suggests that he consider establishing a Transition to Retirement pension. This will mean that Mark will need to salary sacrifice a significant portion of his pre-tax salary into his super account. Mark is

initially concerned because he does not want to change his lifestyle or receive a lower take home income.

His Infocus financial adviser explains that by implementing a Transition to Retirement pension, Mark can supplement his income from his retirement savings while sacrificing a portion of his income into his super.

Mark currently receives \$66,650 in after-tax income. Mark's Infocus financial adviser explains that if he salary sacrifices \$35,000 p.a., he will still receive \$55,000 p.a. in income from his employer. He then explains that he can supplement his reduced income with pension payments of \$27,313 p.a. from a Transition to Retirement pension using his existing super savings. This will mean that after tax Mark will still receive \$66,650.

Mark is happy that he will receive the same income and continue to live the lifestyle he enjoys, but wants to know how this will benefit his retirement savings. His Infocus financial adviser explains that in the first year his net salary sacrifice super contributions of \$29,750 exceed his Transition to Retirement pension payments of \$27,313.

This means that in the first year alone Mark's retirement savings are boosted by an additional \$2,437. And it gets better. When Mark turns 60, the payments from his Transition to Retirement pension are tax free.

This means he can reduce his pension payment amount and increase his retirement savings further.

For example, if Mark was 60, he could still receive the same after-tax income of \$66,650 by drawing pension payments of \$22,375 and his retirement savings would be boosted by \$7,375.

Assumptions: Mark's super account balance of \$325,000 is all taxable and fully preserved. Superannuation Guarantee is

assumed unchanged at 9% of the original earnings base. No taxation deductions have been claimed. Qualifying private hospital cover is in place.

### Case study 3: Boost your income

Simon, aged 60, is a telecommunications technician who earns \$58,800 p.a. (\$45,536 after tax). He has a superannuation account balance of \$400,000.

Simon is looking for a way to supplement his income to meet his everyday living expenses until he retires at age 65. Simon would like to receive \$52,000 after tax.

#### The strategy

Simon consults his Infocus financial adviser who explains that Transition to Retirement rules allow most individuals currently age 55 or over to access their retirement savings. His Infocus financial adviser explains that he will need to use the money in his existing super account to open a Transition to Retirement pension and that he can withdraw up to a maximum of 10% p.a. from the pension account balance.

As Simon has reached the age of 60, his Infocus financial adviser informs him that pension payments received from his Transition to Retirement pension will be tax free.

His Infocus financial adviser suggests Simon salary sacrifices \$30,000 into super and draw an income of \$26,352 p.a. from his Transition to Retirement pension. This will increase his total annual disposable income to the desired \$52,000.

Using this strategy, Simon's income target of \$52,000 is achieved - in fact he has a total cash flow of \$53,000. The extra \$1,000 could be used by Simon to make an after-tax contribution into his super. As Simon's cash salary is lower, he now qualifies for the Government co-contribution. So if he puts an extra \$1,000 into his super the Government will put in a contribution of \$1,500 as well.

Simon's strategy would increase his disposable income in the first year by \$5,464. The strategy will also marginally boost his retirement savings in year one by \$1,648. Therefore, the total strategy benefit in year one is \$7,112.

Over the five-year period to his retirement, it is forecasted that the total strategy benefit could be as high as \$60,000 (this includes Government co-contributions and related earnings).

Assumptions: No taxation deductions have been claimed. Qualifying private hospital cover is in place.

#### Simon's change in cash flow before and after implementing the strategy.

	Current position \$	With strategy \$
Original salary	\$58,800	\$58,800
Salary sacrifice super contribution	(\$0)	(\$30,000)
Cash salary	\$58,800	\$28,800
Transition to Retirement pension	\$0	\$26,352
Total income	\$58,800	\$55,152
Net tax and Medicare levy	(\$12,264)	(\$2,152)
<b>After-tax income</b>	<b>\$46,536</b>	<b>\$53,000</b>

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