



Focus On Pre-Retirement

Easing into retirement made easier.

If you're currently 55 and over you now have options that will make the transition to retirement easier. Under the new Government's 'Transition to Retirement' rulings that were announced on July 1, 2005, these changes will effectively allow you to reduce your working hours - without reducing your income.

The changes mean that you could work part time and then top up your income from your super to the same amount as when you were working full-time. They do this by letting you 'top up' your lower income with a regular 'income stream' from your superannuation savings and at the same time pay less tax.

What if, reducing your working hours isn't an option, or you just prefer to keep working full-time. There is an option for you! The worker-saver option will allow you to accumulate super and save tax!

Before the changes came into effect you could only access your superannuation once you turned 65 or retired. This meant it was difficult to reduce your hours of work and still maintain your standard of living.

More options than ever before

Leaving the workplace can change your life. It's a big step. 'The new transition to retirement' rules however, give you some freedom to take a series of smaller steps first.

In fact, thanks to the greater flexibility in the way you can now use your super, you've got more income options than ever before.

Option one

Work the same, build your nest egg further and access your super too.

"I'm happy to keep working standard hours, but need to give my retirement savings a 'boost' over the next few years."

Sometimes you can't afford to retire or move to part-time employment. (Or, maybe you prefer to keep working full-time, regardless of your age.) The 'work-saver option suits those who

want to work the same hours while using smarter strategies to accumulate super.

You just maintain your existing work hours, start a non-commutable income stream from your super benefits and then 'salary sacrifice' part of your regular salary back into super. Depending on a range of factors such as investment performance, this lets you improve your nest egg before you decide to leave the workforce altogether.

Option two

Work less and use super to boost your everyday income.
"Now that I'm over 55, I want to spend less time in the office but also have enough money coming in to maintain my current lifestyle."

'Downshifting' is a great solution if you still love your work but want a few days off each week to begin your transition to retirement. You can now reduce your work hours and supplement the reduced salary by drawing from your 'accumulated super benefit' through a non-commutable income stream.

Option three

Work any hours and access your super for additional income plus associated benefits.

"What I really need is maximum flexibility. I want a financial solution so I can work any hours I like and have the freedom to choose the benefits super has to offer."

If you want a level of financial control over your working hours and the freedom to draw on your super for extra income and its various benefits, then this option may be right for you. You just begin a non-commutable income stream to receive extra income and use available strategies to invest or access the benefits associated with super - or both.

How it works in practice

Meet Mark. He is 59 years old, has reached preservation age and is considering his future. He's deciding when to retire and wants to know his options. Mark's decision depends on two factors:

1. His financial situation and capacity to fund retirement
2. His lifestyle goals such as what he wants to do leading up to and in retirement.

Mark earns \$65,000 per annum plus the 'super guarantee' (SG) of 9% (\$5,850). He is debt-free and needs \$32,000 a year for living expenses. The chart below shows Mark's assets.

Mark's Assets

| | |
|--------------|-----------|
| Home | \$280,000 |
| Car | \$12,000 |
| Bank | \$8,000 |
| Term deposit | \$48,000 |
| Super | \$290,000 |

Mark works full-time with a flexible super strategy

Mark recognises the benefits of super. He knows 'salary sacrificed' amounts are taxed at 15% on receipt by his super fund and that earnings on super funds are taxed at a maximum of 15% rather than his 'marginal tax rate' of 30%.

He also knows that regular income from an allocated pension would be subject to his marginal tax rate of 30% but he would be eligible for a 15% tax offset on that income.

While Mark decides to continue working full-time he is thinking about salary sacrificing to boost his nest egg. But he may commence a 'non-commutable allocated pension' to supplement his income too.

This flexible combination may provide overall tax savings which allow Mark to build more retirement money in the long term.

Mark works part-time

Mark decides to reduce his hours from full-time (five days a week) to part-time (three days a week). Therefore, his salary reduces to \$39,000 and he still receives 9% SG (\$3,510).

Mark's super is \$290,000. He is able to commence an allocated pension with income of between \$15,930 and \$31,870 per annum. He decides to receive \$21,760 per annum.

On a regular salary of \$65,000 Mark's take home pay is \$48,425. But with Mark working 3 days a week and his allocated pension paying \$21,760, his take home 'pay' becomes \$49,024.60.

Even though he has reduced his hours, his cash flow remains almost the same. Also, Mark is still contributing to his super.

Mark keeps working full-time

Mark decides to continue working full-time and uses his super balance of \$290,000 to start an allocated pension of \$21,760 per annum. This now gives him more income than he needs, on which he has to pay tax.

Mark may be able to utilise the extra income. For example, he is interested in buying a country property for his retirement years but, until now, would have needed to sell his existing home first to raise the money. One of the effects of the new rules means Mark may be able to borrow money to purchase his retirement home and use the extra income to make loan repayments until he retires - and can then release the capital from his existing home.

We should point out that the 'Transition to Retirement' measure only allows you to access your superannuation benefits as a 'non-commutable' income stream, not a lump sum.

This means that you generally still cannot take your superannuation as a lump sum cash payment while you are still working. Instead, if you choose to do so, you will need to take your superannuation benefits as regular payments.

There is no limit on the amount of superannuation benefits you can access while still in the workforce under these arrangements. However, the usual cashing of benefits rules apply. Your fund may also have its own limits on how much of your superannuation you can receive.

If you decide to take up this measure, your employer is required to make superannuation guarantee contributions based on the reduced income you earn.

Before you take any action under the new 'transition to retirement' rules, you should speak to your Infocus Financial Adviser.

They will be able to assess your eligibility, determine your financial and lifestyle goals and assess the potential risks and rewards of the various retirement strategy options available to you.

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