

FactFile

Transition to retirement:

what you need to know

A transition to retirement strategy can give you more flexibility and allow you to take advantage of tax concessions to help achieve the lifestyle and super balance you want.

Beginning the transition to retirement

The years before you retire can be challenging. While you are probably looking forward to having more time to do the things you enjoy, you may not be ready to stop working. Many people are also concerned about whether or not they have saved enough super. A transition to retirement strategy can help you ease into retirement and boost your super in a tax effective way.

What is a transition to retirement strategy?

Transition to retirement strategies are designed to give you greater flexibility as you move towards retirement. Once you reach what's known as your 'preservation age', you can access your super by drawing a pre-retirement pension (a regular income stream drawn from your super savings).

How to determine your preservation age

By law, all super contributions are locked away or 'preserved' until you reach your preservation age. Your preservation age is based on your date of birth (as set out in the table below).

Once you reach your preservation age, you can begin drawing a pre-retirement pension. You will need to check with your super fund as not all funds offer pre-retirement pensions.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
On or after 1 July 1964	60

What is a pre-retirement pension?

A pre-retirement pension allows you to draw a regular income from your super while you're still working, provided you have reached your preservation age. There are restrictions on accessing your super as a lump sum during this pre-retirement phase.

Why start a pre-retirement pension?

A pre-retirement pension gives you the flexibility to draw down an income and at the same time contribute to your super, eg through salary sacrifice, in a way that may be more tax effective than just relying on your salary. In most cases, you'll pay less tax on your pension income than you would on the same amount of salary or wages.

Do I have to stop working to draw a pre-retirement pension?

No. In fact, transition to retirement strategies are generally most effective when you continue to work and contribute to your super while you draw a pre-retirement pension.

If you would like to ease your way into retirement, a transition to retirement strategy could enable you to reduce the number of hours you work or retire part time. While working less will mean a smaller pay packet, if you decide to take out a pre-retirement pension, you could supplement your work income with the pension payments. This would give you more time to do the things you want, while maintaining your income and lifestyle.

A transition to retirement strategy could also be beneficial if you have reached your preservation age but want to continue working full time. The tax concessions on offer can make this a great way to boost your super balance in the years before you enter full retirement.

How can I boost my super with a pre-retirement pension?

There are a number of techniques for boosting your super with pre-retirement pensions. For example, you might decide to continue working full time while drawing the minimum pre-retirement pension from your super balance. This would, of course, give you more income than you need.

To reduce your income down to its previous level, you could salary sacrifice to super an amount equivalent to the pre-retirement pension you are drawing (take care not to exceed the relevant concessional contribution cap). This would maintain your after tax income while offsetting the reduction in your retirement savings from the pension payments.

Salary sacrificing reduces your taxable income, which may in turn decrease the amount of tax you have to pay. In addition, salary sacrifice contributions are taxed at just 15% when they enter the fund and investment earnings in the fund are also taxed at up to 15%, compared to the marginal tax rate for investments outside super.

Is a pre-retirement pension right for you?

Transition to retirement strategies don't suit everyone's circumstances. You should discuss the following factors with your financial adviser when deciding if a transition to retirement strategy is right for you:

- whether you have sufficient super to support drawing a pre-retirement pension
- whether or not your employer will:
 - allow you to work part time at a rate that suits you
 - allow you to salary sacrifice
 - agree to continue to pay your super guarantee contributions at the pre-salary sacrifice level
- your tax position
- your financial objectives and retirement needs
- the costs associated with this strategy.

Professional financial advice can make all the difference and will help ensure you are not disadvantaged from a tax or social security perspective if you decide to implement this type of strategy.

A word about contribution caps

When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The government has set annual limits – known as contributions caps.

The annual contributions caps as of 1 July 2009 are:

- \$25,000 per year (indexed) for pre-tax contributions (concessional) if you are under age 50 on the last day of the financial year. If you're aged 50 or over on the last day of the financial year, a transitional cap of \$50,000 per financial year applies until 30 June 2012 – commencing in the financial year you turn 50.

- \$150,000 per year for after tax contributions (non-concessional) or \$450,000 over a three-year period if you are under 65 in the financial year you make the contribution.

It's important to keep your financial planner informed about any contributions you make so they can ensure you don't exceed these caps. Contributions over these caps are taxed at a hefty 46.5%.

Pre-retirement pensions at a glance

- Minimum¹ and maximum (10%) income limits apply to pre-retirement pensions.
- Pre-retirement pensions can be started with preserved and restricted non-preserved superannuation benefits.
- Lump sum withdrawals can only be made from a pre-retirement pension if:
 - they are from unrestricted non-preserved benefits
 - you have reached preservation age, have retired and do not intend to seek gainful employment for more than 10 hours per week
 - you have reached age 60 and ceased employment before that age and now do not intend to seek gainful employment for more than 10 hours per week
 - you are at least age 60 and have ceased gainful employment since turning 60
 - you reach age 65.
- Once you are aged 60 or over you will pay no tax on the income payments you draw from your pre-retirement pension. If you are between your preservation age and age 60, the income that you receive will be assessable income in your hands and taxed at your marginal tax rate. However, part of each payment may be tax free and, if not, you may qualify for tax offsets which will mean you pay little or no tax on your income.

¹ The minimum drawdown for 2010-11 is 4% for someone under the age of 65 years, effective 1 July 2010. The minimum drawdown for 2009-10 is 2% for someone under the age of 65 years if the pre-retirement pension commenced before 1 July 2010.

Speak to us for more information

If you would like to know more about transition to retirement strategies, contact us. We can give you more detailed information on the best approach for your situation.

Important Information

This general advice has been prepared without taking into account your particular financial needs, circumstances or objectives. This advice is based on Financial Wisdom Limited's understanding of current law as at 14 May 2010 and its continuance unless stated otherwise. While every effort has been made to ensure the accuracy of the information, it is not guaranteed. You should obtain professional advice before acting on the information contained in this publication.

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