



# Transition to retirement

Asset Super Fact Sheet

July 2011

Previously, if you were under age 65 your super was locked away until you were permanently retired from the workforce. If you wanted to reduce your working hours – perhaps easing your way towards retirement by working part-time – it meant lowering your standard of living.

All that has changed with the introduction of **transition to retirement ('TTR')** pensions. Under this change you can convert part of your super savings into an income – even while you're still working. So you can work fewer hours and still live the way you want.

Transition to retirement is not just for people cutting down their working hours. Even if you're still working full-time, you can combine transition to retirement with another strategy, **salary sacrifice**, and use the tax advantages to get your super growing faster.

So there are 2 reasons – **lifestyle** and **tax efficiency** – why a TTR strategy might be appropriate for you.

Interested? Then read on .....

## Who should consider it?

You might consider a transition to retirement strategy if:

- you're aged 55 or over;
- you're working, either full-time or part-time;
- your taxable income is at least \$37,000 p.a.

## and

- you want to scale back your working hours but still have enough money to live on; or
- you're interested in saving tax and boosting your super savings.

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## Why is it tax-effective?

The strategy is tax-effective for 2 main reasons:

### 1. You pay less tax on the same income\*

That's because, once your taxable income exceeds \$37,000, your marginal rate of income tax rises from 15% to 30% (plus Medicare levy), which is higher than the tax rate of 15% on super contributions.

### 2. You pay no tax on investment earnings

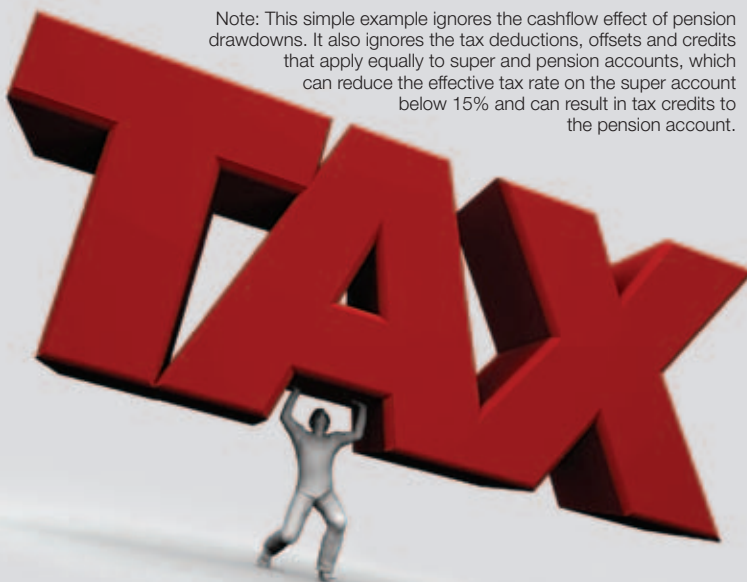
Once you convert your super account to a pension account, the tax rate on your investment earnings reduces from 15% to zero. So, given the same pre-tax investment returns, the after-tax return on your pension account will be higher.

\* Refer to the Important Note on page 4 of this fact sheet for details about the 'Flood Levy' for the 2011/12 financial year.

## Example of tax advantage over 1 year

	Super account	Pension account
Account balance	\$ 300,000	\$ 300,000
Investment return before tax (assumed)	7.5%	7.5%
Tax on investment earnings	15%	Zero
Investment return after tax	6.4%	7.5%
After-tax investment earnings	\$ 19,125	\$ 22,500
Tax advantage of pension		\$ 3,375

Note: This simple example ignores the cashflow effect of pension drawdowns. It also ignores the tax deductions, offsets and credits that apply equally to super and pension accounts, which can reduce the effective tax rate on the super account below 15% and can result in tax credits to the pension account.



## How does it work?

You simply notify your super fund that you want to convert all, or part, of your super account into a TTR pension. This doesn't give you access to your super as a lump sum, but it does allow you to receive a regular pension income.

The fund will set up a pension account for you and ask you how much annual pension you want to draw. That amount must be no less than 4% of your account balance at the time your pension starts, and no more than 10%. (Note: As a temporary measure, the Government has announced that limited relief, a 25% reduction to the normal drawdown minimum until 30 June 2012 will continue from 1 July 2011. It is anticipated that normal minimums will apply from 1 July 2012.)

Every year, on 1 July, you will be able to re-set the amount of your annual pension based on your new account balance.

## Case study – Jane

Jane is 60, earns \$60,000 a year and would like to ease back to part-time work for a while before she finally retires. She currently has \$210,000 in her super account.

Cutting back to 2½ days a week would reduce her salary to \$30,000, but she needs all her current income to live on. Her financial planner suggests a way to do this by converting her super into a TTR pension account and drawing down enough to keep her after tax income intact.

This is how it works in the first year.

	Before	After
Taxable salary	\$ 60,000	\$ 30,000
<b>plus</b> TTR pension payments	Nil	+\$ 20,352
Total income before tax	\$ 60,000	\$ 50,352
<b>less</b> income tax <i>(including Medicare levy, Flood levy and allowing for the low income tax offset)</i>	-\$ 12,200	-\$ 2,552
After-tax income	\$ 47,800	\$ 47,800

So Jane still has the same income to live on. She's drawn down just \$20,400 from her pension account – far less than the \$30,000 in salary she has given up. That's because her pension income is completely tax-free and, with her reduced salary, she qualifies for some tax offsets. (Refer to the Important Note on page 4 of this fact sheet for details about the 'Flood Levy' for the 2011/12 financial year).



There are other benefits, too. Firstly, Jane's super is now in her pension account where the investment earnings are completely free of tax, so it will grow faster than it otherwise would.

Secondly, because her taxable earnings have been reduced, she may now qualify for a higher Government co-contribution. To claim the maximum co-contribution Jane needs to make a personal contribution of \$1,000 from her after-tax earnings, and the Government will top it up with a contribution of \$1,000 of its own. That's \$2,000 saved back into super, helping to offset the pension withdrawals.



### Case study – Martin

Martin, aged 57, is on a salary of \$100,000. He has \$500,000 in his super account which, while substantial, is a long way short of what he needs to fund a comfortable retirement.

He doesn't have the spare cashflow to contribute any more, but his financial planner shows him another way. He suggests that Martin converts his \$500,000 account balance into a TTR pension, draws almost \$33,000 income from it and sacrifices \$41,000 of his salary into super.

That \$41,000, added to his employer's 9% Superannuation Guarantee contributions (which is based on his full \$100,000 pre-sacrifice salary) takes him up to his \$50,000 a year concessional contributions cap.

	Before	After
Taxable salary	\$ 100,000	\$ 59,000
<b>plus</b> TTR pension payments	Nil	+ \$ 32,692
Total income before tax	\$ 100,000	\$ 91,692
<b>less</b> income tax <i>including Medicare Levy and Flood levy</i>	- \$ 26,700	- \$ 23,296
<b>add</b> pension rebate	n/a	+ \$ 4,904
After-tax income	\$ 73,300	\$ 73,300

While Martin pays tax on his TTR pension payments, that tax is offset by a 15% rebate because his super all came from his company's contributions. The end result is that he has exactly the same income to live on, but pays a lot less income tax.

The tax-effectiveness of this strategy delivers some substantial advantages:

- ▶ a net increase in Martin's super of \$2,158 in the first year, made up of:

Salary sacrifice contributions	\$ 41,000
<b>less</b> contributions tax at 15%	- \$ 6,150
Net super contribution	\$ 34,850
<b>less</b> pension payments	- \$ 32,692
Increase in super	\$ 2,158

- ▶ tax savings on his investment earnings of \$3,300 in the first year (assuming his fund earns 4.4% gross), because his pension account grows tax free, calculated as:

Gross investment earnings	\$ 500,000 x 4.4%* = \$ 22,000
Tax saving (0% v. 15% tax rate)	\$ 22,000 x 15% = \$ 3,300

\*Percentage return is based on the 5 year return for the Stable Growth option as at 30 June 2010.

In the first year alone Martin is more than \$5,400 ahead, and the advantages will become even more substantial if he carries on this strategy after age 60 because his TTR pension income will then be completely tax-free. (Refer to the Important Note on page 4 of this fact sheet for details about the 'Flood Levy' for the 2011/12 financial year).

## What happens when I finally retire?

Once you retire permanently, or you reach age 65, the restrictions that apply to a TTR pension are lifted. With Asset that happens automatically.

We'll write to you to confirm that your pension has been converted to a standard Asset Flexible Pension.

That means:

- there is no longer any upper limit on your annual pension payments; and
- you have full access to your remaining capital at any time as a lump sum or series of lump sums, whatever suits you.

## How will this work for me?

To help you understand how this strategy may work for you, Asset can help in three ways.

Firstly, we have a user friendly online Transition to Retirement Calculator. It allows you to enter information about you and it calculates the results based on this information. It also takes into account inflation, investment earnings, fees, insurance premiums and any Age Pension you might be eligible for. It takes you right through the transition period and into full retirement, so you can see where your income may come from and how long it might last.

To access the calculator, go to our website and click on the link on the home page.

Secondly, consider the Asset Flexible Pension product disclosure statement. This document provides information about pre and post retirement pensions as well as other information specifically related to Asset's Flexible Pension, such as investment choice, fee and charges, and what action to take if you want to establish a flexible pension.



Finally, if you are thinking about preparing for retirement even if it is on a part-time basis, there are many issues and options to consider and you may benefit from seeking professional advice. Asset Members have access to personal financial advice as they plan for their retirement through an arrangement we have established with Money Solutions Pty Limited (Money Solutions).

The advice is provided by a qualified financial planner who, on a fee for service basis, will help you plan to make the most of your super in retirement.

## Important Note

For the 2011/12 financial year, a 'Flood Levy' was introduced by the Federal Government. This Levy is applicable to taxable income at the following rates:

- |                                |   |
|--------------------------------|---|
| ➤ Income up to \$50,000        | Nil   |
| ➤ Income \$50,001 to \$100,000 | 0.5 cents for each dollar over \$50,000           |
| ➤ Income over \$100,000        | \$250 plus 1 cent for each dollar over \$100,000. |

The Levy may also apply to pensions paid to persons regardless of age if all or part of that pension is taxable, and together with any other taxable income, exceeds \$50,000.

## More information

If you are interested in finding out more about transitioning to retirement, Asset's Flexible Pension or are seeking professional advice, please contact our Client Service team on 1800 805 981.

We have related fact sheets available on request on:

- Co-contributions
- Salary Sacrifice

To see the full range of Asset Super fact sheets, please visit our website.



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