Is a Transition to Retirement strategy right for you?

You have worked hard throughout your life and are now starting to think about all the things you've dreamt of having time to do like buying that beach house, or taking that dream holiday to Italy. If you're starting to think about life after work, then it may be time to think about reviewing your super and taking the opportunity to build up your retirement savings.

Overview

If you've reached the preservation age (between 55 and 60 depending on your date of birth) and have some super already accumulated, a Transition to Retirement strategy could help you boost your super savings without cutting back on your lifestyle. It could even allow you to reduce your hours at work and supplement your reduced salary with income from your super.

A Transition to Retirement strategy is likely to work best if you:

- Have reached preservation age (between 55 and 60 depending on your date of birth)
- Have some existing super, and
- Are working part time or full time.

What is a "Transition to Retirement Pension"?

Generally, a Transition to Retirement Pension enables Australians nearing retirement to access a part of their super in the form of a pension while still working, full time or part time. You can use it to transition more easily from full time to part time work, or boost your super savings and gain access to potential tax benefits.

Two Transition to Retirement strategies to consider:

a) Supercharge your super without changing your lifestyle

You continue to work full time, make salary sacrifice contributions to your super and top-up your reduced salary with income from a Transition to Retirement Pension.

Your salary sacrifice super contributions are taxed at 15% instead of your individual income tax rate (as long as all your concessional contributions fall within the current cap and your ‘income’ is below $300,000[1]). In most instances your Transition to Retirement Pension is taxed more favourably than salary and wages. This means you could potentially contribute more to super than you withdraw while keeping your after tax income the same.

b) Cut your hours, not your income

You reduce your work hours but replace your reduced salary with income from a Transition to Retirement Pension. Thus, you could maintain your lifestyle and have the option of cutting down on work. The catch? You’ll be accessing your super savings earlier than might otherwise be the case.

The tax effect of Transition to Retirement strategies

In most instances, income you receive from a Transition to Retirement Pension is favourably taxed compared to your salary:

- Tax concessions – if you’re between preservation age and 59, your Transition to Retirement Pension income is eligible for a 15% tax offset
- Tax-free income – if you’re aged 60 or over, your Transition to Retirement Pension income is tax-free
- Tax-free investment earnings – the assets backing your Transition to Retirement Pension generate tax-free investment earnings, which would otherwise have been taxed at up to 15%.

Take a look at our case studies to see how these strategies work.

Case study 1

Supercharge your super without sacrifice

How Anna increased her super payout by $53,924 without feeling the pinch.

Anna is 55 years old, has $200,000 in super and earns $80,000 p.a. She would like to boost her super without affecting her current lifestyle. She decides to contribute $30,000 (via salary sacrifice and superannuation guarantee contributions) to super and commence a Transition to Retirement Pension.

Outcome

	NET INCOME YEAR 1	SUPER BALANCE AFTER 10 YEARS
Earn $80,000 p.a. and receive Super Guarantee only.	$60,854	$435,636
Earn $50,000, salary sacrifice $30,000 (including Super Guarantee) to super, receive pension payments after starting a Transition to Retirement Pension.	$60,854	$489,560

By doing this, in 10 years Anna could potentially increase her overall super benefit by 12% without sacrificing her lifestyle along the way.

This hypothetical example has been provided for illustrative purposes only based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice.

Case study 2

Cut your hours, not your income

Roger is 60 years old, has $300,000 in super and earns $80,000 p.a. He would like to reduce his working hours but not his income. He decides to talk to his financial adviser about his options.

Roger's adviser explains that it is possible to withdraw money from a Transition to Retirement Pension to supplement his income. If he continues to work 3 days a week, he will be able to largely maintain his $300,000 in superannuation, despite drawing down a pension each year.

By doing this, Roger may be able to ease into retirement by reducing the days he works from 5 to 3 each week without reducing his income.

Outcome

	NET INCOME YEAR 1	SUPER BALANCE AFTER 5 YEARS
Earn $80,000 p.a. and receive Super Guarantee only.	$60,854	$426,531
Earn $48,000 p.a and receive Super Guarantee plus pension payments after starting a Transition to Retirement Pension ($20,680 in year one).	$60,854	$300,272

This hypothetical example has been provided for illustrative purposes only based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice.

Assumptions for both cases

- Resident individual tax rates for 2014/15 apply in year one, then individual tax rates for 2015/16 apply for all remaining years. All tax rates are inclusive of Medicare levy.
- Individual has private health insurance.
- Investment return of 6% p.a. compounded monthly before fees and taxes.
- Salary indexed to 4% p.a.
- Total concessional contributions to superannuation each year are equal to $30,000. The concessional contributions cap is assumed to be at least $30,000 pa for each and every financial year.

Before commencing a Transition to Retirement Pension there are a few things you should consider:

- You need to have reached your preservation age, which is between 55 and 60 depending on your date of birth, before you can commence a Transition to Retirement Pension.
- You can only draw down income within minimum and maximum limits prescribed by the government.
- You cannot make lump sum withdrawals from your Transition to Retirement Pension until your retirement or reaching age 65.
- If you salary sacrifice too much you may end up paying additional tax which could wipe out the benefits of the strategy.

You should consider speaking to one of our financial advisers to check whether a Transition to Retirement is the best option for your personal circumstances.