Transition to Retirement Pension

You no longer need to wait until you are retired to benefit from your superannuation. If you are over 55 a 'transition to retirement' strategy can enable you to dramatically increase your super accumulation or to reduce working hours without losing any take home income.

What is a transition to retirement pension?

A transition to retirement pension is a type of superannuation pension that allows you to use preserved superannuation funds to generate an income before you retire. It is available to those who have reached preservation age which is currently 55.

This type of investment can provide you with a range of options as you approach retirement. You might want to:

- cut your hours without taking a pay cut; or
- 'turbo boost' your super in the last few years before retirement, without compromising your current lifestyle; or
- arrange your finances so that less money goes to the tax-man and more goes into your pocket.

What are the features?

A transition to retirement pension can provide:

- A regular income from your superannuation funds while you are still working - up to a maximum of 10% of your account balance each year (minimum income requirements apply);
- All earnings generated within the pension are not subject to tax;
- All pension payments are tax-free if you are 60 or over, or if you are between 55 and 60 a 15% tax offset and tax free amounts may be available;
- The option to invest in a range of asset types including shares, property, fixed interest and cash; and
- Estate planning options that ensure the balance of your account is paid to your nominated beneficiary or estate in the event of your death.

While you cannot take lump sums from your transition to retirement pension until you permanently retire or reach age 65, you can roll it back into superannuation at any time if your circumstances change.

What are the benefits?

A transition to retirement pension allows you to draw down on your existing superannuation and opens up several new pathways to retirement, including:

- Cutting back your work hours whilst maintaining the same income; or
- Continue to work full time but increase the rate at which your super is growing (and potentially reduce your tax bill at the same time); or
- Continue working, draw an income stream and use it to reduce debt, maintain or increase your insurance cover or build your non-super assets.

Case Study: Turbo boost your super

One of the most tax effective ways to contribute to superannuation is to 'salary sacrifice' some of your pre-tax salary into it. The portion of your income that you salary sacrifice is not taxed at your marginal tax rate but rather at the concessional rate of 15%*.

If you are over 55, you can combine salary sacrifice with a transition to retirement pension to create a strategy that will turbo boost your super without any reduction in your current 'take home' income.

The self-employed can also take advantage of this opportunity. Instead of salary sacrificing your pay into super, you can make tax deductible contributions to super and start a transition to retirement pension to achieve the same result.

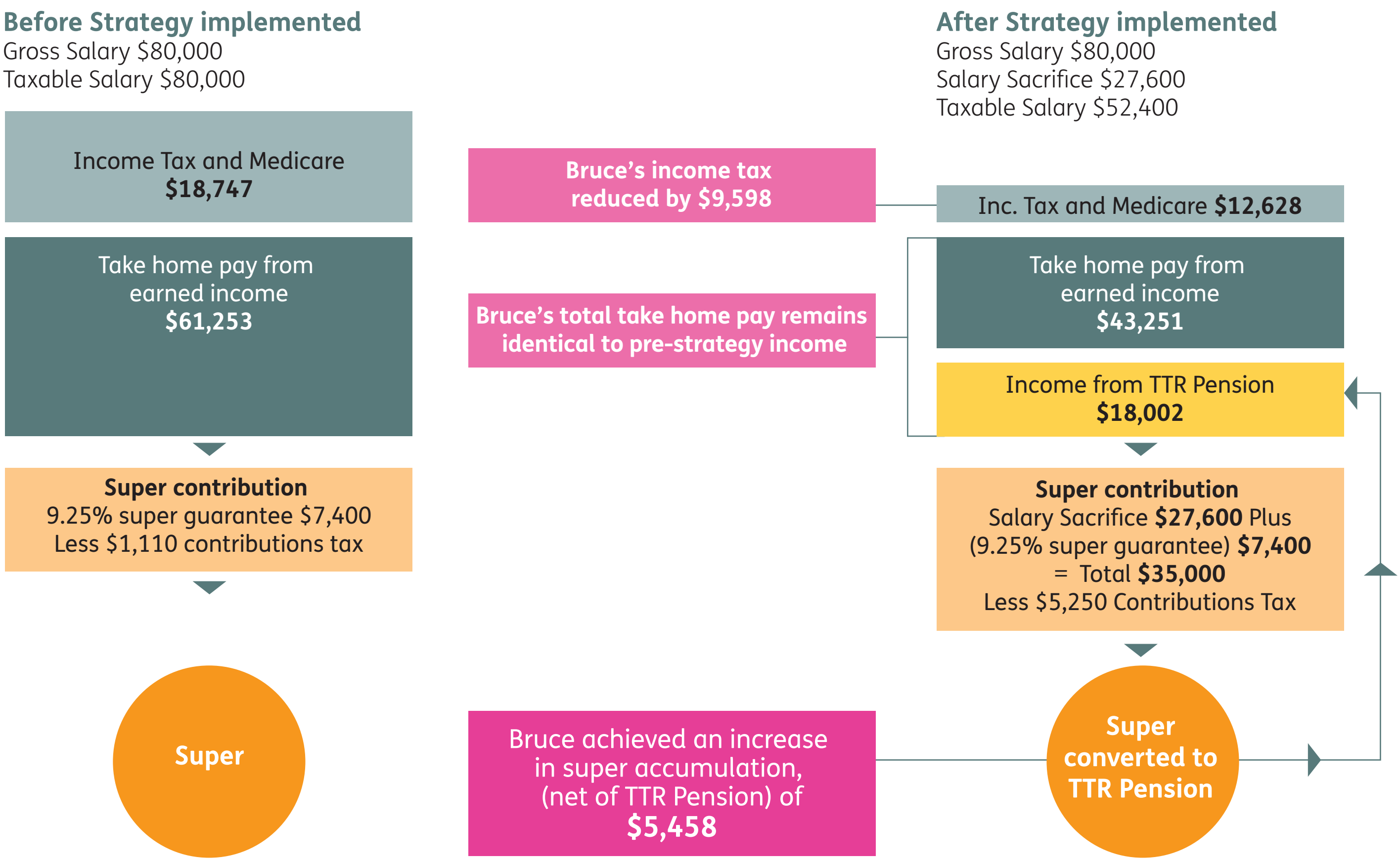
Bruce's Story

Bruce (age 60) earns a salary of $80,000. He wants to maximise his superannuation balance at retirement, but he doesn't want to sacrifice his current lifestyle.

Bruce's financial planner designed a turbo boost strategy to enable him to do exactly that:

- He recommended Bruce salary sacrifice $27,600 of his earned income into super;
- By converting his existing super of $280,000 to a transition to retirement pension, Bruce draws a pension amount of $18,002;
- This pension income, combined with Bruce's reduced earned income, gave him exactly the same 'take home' income as he would have received if he had not implemented the strategy; and
- Bruce was now boosting his super by $5,458 in the first year alone.

If you want to explore a transition to retirement pension further, please contact call 07 5537 3733.



* It is proposed that this concessional rate will increase to 30% for those earning an income greater than $300,000 per year from the 2012/13 financial year.

Information current as at July 2013.

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