

# understanding the transition to retirement

**The transition to retirement initiative was introduced by the Government to encourage older Australians to remain in the workforce and slowly ease out of full-time employment.**

Under the transition to retirement rules, if you have reached your preservation age, you are able to access your superannuation benefits as regular pension income without having to retire or leave your job.

This may enable you to reduce your working hours without adversely affecting your lifestyle. The earnings within your pension account becomes tax free, and if combined with a salary sacrifice strategy, can actually help you enhance the value of your superannuation while you draw an income.

## WORKING HOURS TO SUIT YOUR LIFESTYLE

Prior to the introduction of the transition to retirement measure, superannuation could generally only be accessed if you reach your preservation age and meet retirement conditions or turn age 65.

Under the transition to retirement rules however, if you have reached your preservation age, you can access your superannuation through an approved income stream without having to leave the work place. There is no work test involved or restrictions on how many hours you must work or in what capacity in order to qualify.

If the cash flow from your switch to part time work is insufficient to meet your income requirements, you can use a transition to retirement pension to supplement your income needs. This would allow you to adjust your working hours to suit your pre-retirement lifestyle.

## BUILD YOUR SUPERANNUATION WHILE YOU DRAW A PENSION

A salary sacrifice strategy is an effective way to top up your superannuation while you withdraw a transition to retirement pension. If you have surplus income from your salary, you can contribute the surplus back into

superannuation with pre-tax dollars.

The strategy uses a transition to retirement pension to maintain your cash flow whilst increasing your superannuation savings through salary sacrifice. In some cases, drawing a pension from superannuation whilst salary sacrificing your employment income can enhance your superannuation position over time.

## WHAT CONDITIONS MUST I MEET?

In order to commence a transition to retirement pension, you must have reached your preservation age. Your preservation age is based on your date of birth (refer Table 1).

For example, if you were born in August 1960, your preservation age is 56 and you are able to commence a transition to retirement pension at this point.

**Table 1: Preservation Age**

Your Date of Birth	Preservation Age
Before July 1960	55
Jul 1960 - Jun 1961	56
Jul 1961 - Jun 1962	57
Jul 1962 - Jun 1963	58
Jul 1963 - Jun 1964	59
After June 1964	60

## CAN I COMMENCE A TRANSITION TO RETIREMENT INCOME STREAM FROM A SELF MANAGED SUPERANNUATION FUND?

Your Self Managed Superannuation Fund (SMSF) can pay a transition to retirement income stream provided that this is allowed by your fund's trust deed. As this is a fairly new initiative,

it is important to check the trust deed to ensure a non-commutable income stream can be commenced prior to full retirement. You will need to check with your solicitor to ascertain if your SMSF trust deed needs to be updated.

## TRANSITION TO RETIREMENT INCOME STREAMS

There are 4 general types of income streams that you can use to draw superannuation under the transition to retirement initiative:

- Non-commutable Allocated Pensions
- Non-commutable Allocated Annuities
- Non-commutable Pensions
- Non-commutable Annuities

Each of these income streams are non-commutable, meaning that you cannot convert them to a lump sum. The non-commutable allocated pension is the most flexible of the four options.



This article by Frank Camilleri (above), National Technical Manager.

You are required to withdraw a minimum amount of 2% of your non-commutable allocated pension each year up to a maximum of 10% per annum if you are aged between 55 and 64. If you permanently stop working midway through your transition to retirement period, or satisfy any permanent condition of release (such as reaching age 65), your non-commutable allocated pension can revert to a normal allocated pension where you can withdraw a lump sum.

It is not a compulsory requirement for your superannuation fund to offer members non-commutable income products, however this product is available with the BT Superannuation Service.

## CASE STUDIES

Joan is 55 years of age and has reached her preservation age. Joan is considering retirement and wants to know how a transition to retirement arrangement can benefit her.

Joan earns \$85,000 p.a. (\$65,250 after tax) plus employer superannuation contributions of \$7,650. Her superannuation balance is \$500,000 and she would like approximately \$65,000 a year for living expenses. Under a transition to retirement strategy, Joan can draw a non-commutable account based pension of between \$10,000 and \$50,000.

### SCENARIO 1: WORK PART TIME

Joan chooses to reduce her working hours from full time to 3 days a week. Her gross salary is reduced accordingly to \$60,000 p.a. and her employer superannuation contributions are reduced to \$5,400.

By drawing a superannuation pension of approximately \$20,000, Joan will be able to match her full time take home pay of approximately \$65,250 whilst having reduced her working hours. Due largely to the 15% tax rebate on her pension, Joan only needs an assessable income of \$80,000 to achieve her after tax income requirement of \$65,250.

### SCENARIO 2: FULL TIME WORK AND COMMENCE A SALARY SACRIFICE PLAN

Joan prefers to continue working and would like to permanently retire when she reaches age 60. She would like to continue building her superannuation and decides to draw a superannuation pension of \$20,000 and salary sacrifice any excess income back into superannuation.

By drawing a transition to retirement income of \$20,000, Joan is able to salary sacrifice \$25,000 back into superannuation to offset her \$20,000 withdrawal and still maintain her after tax income requirement of approximately \$65,250.

By combining a salary sacrifice plan with a transition to retirement income stream, Joan is able to increase her superannuation savings by approximately \$1,250 p.a. on top of her employer contributions.

Assumptions: 2010/11 tax rates inclusive of Medicare



# Shadforth Financial Group

To contact us call 1300 308 440  
or visit our web site at [www.sfg.com.au](http://www.sfg.com.au)



#### Disclaimer

This information flyer has been prepared as general information only and does not take into account your investment objectives, financial situation or personal needs. Before making any financial decision based on this information, you should consider speaking to a financial adviser and assess whether the information is appropriate to your specific needs, objectives and circumstances. The information contained in this publication has been given in good faith and is believed to be accurate and reliable. Neither The Shadforth Financial Group, or its affiliated entities, employees, officers or directors gives any warranty of accuracy or reliability nor accepts any responsibility or liability for any errors or omissions or for loss or damage suffered by any person as a result of any inaccuracies or omissions.