

maintaining your income

transition to retirement in plain English

what is transition to retirement?

Transition to retirement is a strategy that can help you reduce your working hours while maintaining the same level of income. This is achieved by drawing a pension from superannuation using the 'transition to retirement' condition of release.

If you have reached preservation age (currently 55) you may be eligible to commence a transition to retirement pension (T2R).



introducing T2R

Transition to Retirement pensions (T2R) have been popular since the federal government's rules were introduced in 2005. This is because T2R allows older Australians access to their preserved super benefits without having to retire.

what are the benefits of this strategy?

Key benefits of a T2R strategy may include:

- ~ the opportunity to maintain your current income and boost your retirement savings through salary sacrifice
- ~ supplementing your income while reducing your work hours and gradually transitioning into retirement, and
- ~ favourable tax rates that apply to pension payments for those aged 55 and over.

how does a transition to retirement strategy work?

There are two main options with a transition to retirement strategy:

1. Reduce your work commitment but maintain your income by commencing a T2R pension with your super benefit, or
2. Maintain your work hours, but increase your salary sacrifice contributions to super, and supplement your income needs with a T2R pension.

A transition to retirement strategy changes the way you receive your income. Instead of receiving your income from one source (your employer), you receive income from two sources (your employer and your superannuation savings).

can this strategy save you tax?

The benefit of a T2R strategy comes from the differing tax rates that apply to employment income, superannuation and pensions.

Lower rates of tax generally apply to super, compared with the marginal tax rates on employment income. This advantage is further increased because any investment earnings in a T2R pension will be tax free.

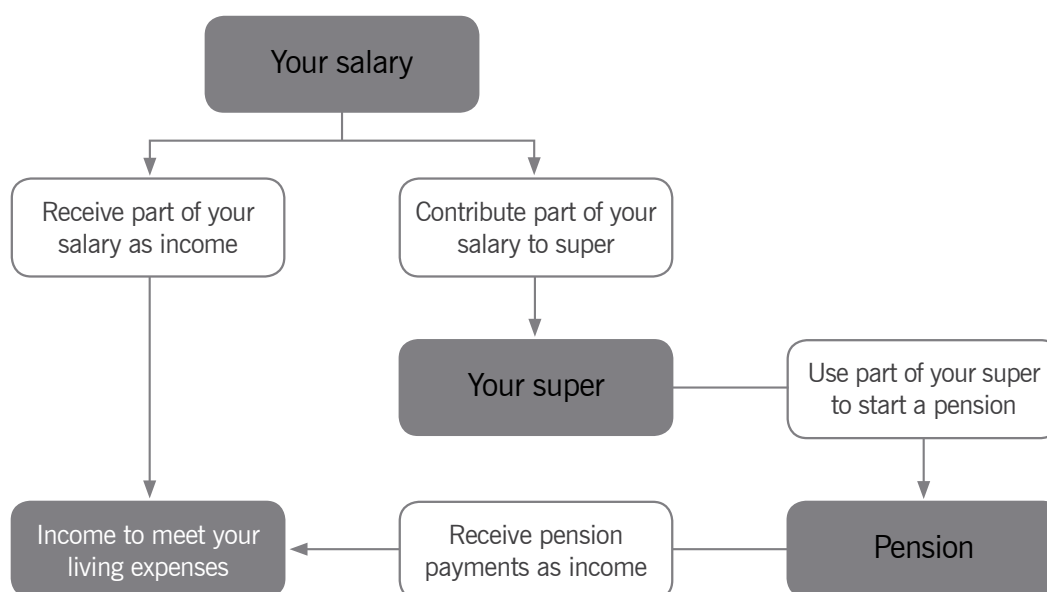
how transition to retirement works

Your superannuation pension is taxed at more favourable rates than your salary. So, to replace your salary with a pension, you can draw a smaller amount from super and receive the same amount in your pocket. This means that your superannuation savings should still grow each year.

pulling it all together

A transition to retirement strategy can be an effective way to boost your superannuation savings. But how much your savings grow will depend on the contributions you make into super through salary sacrifice, compared with the amount you withdraw as your income. If you take out more money than you put back in, your savings will decline in value. This will result in you having less money to fund your retirement when you stop working altogether.

We can help you strike the right balance and determine whether a transition to retirement strategy is the best way for you to maintain your income and lifestyle as you move towards retirement.



Michael's story

Michael has reached 55 and starts a transition to retirement strategy.

Michael's gross salary is \$60,000 per year. He has accumulated \$200,000 in super savings, and elects to use the full amount to start a non-commutable pension.

Together with Michael's pension income, he can salary sacrifice \$24,380 per annum and still receive the same amount of money in his pocket.

after a year, the transition to retirement strategy has resulted in:

Michael paying \$953 less tax.

An increase of \$953 in Michael's superannuation balance (a withdrawal of \$20,000 and an after tax contribution of \$20,953).

The income that Michael has earned on the \$200,000 in his pension account will not be taxed (if these funds remained in his super account, the earnings would be taxed at 15 per cent).

Transition to retirement in action

Results	No transition to retirement	Transition to retirement
Gross salary	\$60,000	\$60,000
Less salary sacrifice	\$0	(\$24,650)
Pension income	\$0	\$20,000
Less tax paid on salary (and pension)	(\$12,000)	(\$7,350)
Net income	\$48,000	\$48,000
Tax paid on super contribution	\$0	\$3,697
After tax contribution to super	\$0	\$20,953
Total tax paid	\$12,000	\$11,047

(tax rates apply in 2010-11)



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