



Avery Financial Planning

Transition to Retirement

In July 2007 the Australian Government introduced a new initiative to encourage persons in the workforce who are 55 years and over to remain in the workforce and slowly ease in to retirement.

Under these new rules, you are able to access your superannuation benefits as regular pension income without having to retire or leave your job. The earnings in your pension account become tax free, and if combined with a salary sacrifice strategy, can enhance the value of your superannuation while you draw an income. The new rules may also allow you to reduce the hours you work without impacting on your lifestyle.

Case Study 1

Part-time work plus a transition to retirement income stream

Joe is 55. He is paid a gross salary of \$85,000 per annum for a 5 day week, and receives a net income of \$62,625 after-tax and Medicare Levy is deducted. He needs approx. \$62,500 per annum after tax for his living expenses but he would like to work for just four days per week. If he moves to 4 days per week, his gross income would be reduced to \$68,000 and his net income would reduce as follows:

Gross Income p.a. (4 days per week)	\$68,000
Less PAYG Tax & Medicare levy	(\$16,020)
Net Income	\$51,980

In other words, Joe's take home pay is short by \$10,645 (\$62,625 - \$51,980).

Assuming Joe has \$300,000 (all from taxed sources) in superannuation to overcome his cash flow deficit, Joe can use \$250,000 of his super to start a Non-commutable Allocated Pension.

Joe has a choice of how much pension payment he wishes to receive between the minimum and maximum limits. Joe chooses to receive pension payments of \$13,600 in the first full year. Now his position looks like this:

Gross Income p.a. (4 days per week)	\$68,000
Non-Commutable Allocated Pension	\$13,600
Taxable Income	\$81,600
Less PAYG Tax & Medicare Levy	(\$20,964)
Add Tax Rebate on Allocated Pension	\$ 2,040*
Net Income	\$62,676

Using transition to retirement rules, Joe can maintain his lifestyle working only four days a week. If he chooses, he can slowly phase down to full retirement over several years by decreasing his expenses and eventually his working hours. This can be done with periodic reviews of his super strategies.

Case Study 2

Full time work plus a transition to retirement income stream.

A transition to retirement strategy can be used by those who have not retired to create greater wealth in super while working.

Julie is 55 and earns \$60,000 gross per annum. Julie, however, wants to continue working full-time and to save for her retirement. She wishes to boost her current super balance of \$300,000 by the time she retires at age 60. Her current expenses are \$43,000 a year.

Current Super Balance \$300,000

Current Position

Gross income p.a.	\$60,000
Less PAYG Tax & Medicare levy	(\$13,500)
Net income	\$46,500

Under this scenario Julie doesn't contribute to her super but her employer places the 9% Super Guarantee Contributions into her fund.

By age 60 her balance would be worth \$333,235.

Super Balance at age 60 (in todays dollars) \$333,235

Julie has two options for boosting her super:

1) Full time work and Salary Sacrifice only

One option is for Julie to increase her super contributions via a salary sacrifice arrangement with her employer, which will allow her to make contributions in pre-tax dollars.

Gross Income p.a.	\$60,000
Less Salary Sacrifice p.a.	(\$4,000)
Less PAYG Tax & Medicare	(\$12,240)
Net Income	\$43,760

Super balance with salary sacrifice at age 60 (in todays dollars) \$351,519

This gives Julie an extra \$18,194 in her super at age 60, however reduces her take home pay by \$2,740 per year.

Another option is to commence a Non-commutable Allocated Pension and salary sacrifice more.

2) Full time work, Salary Sacrifice plus transition to retirement income stream.

Gross Income p.a.	\$60,000
Non-commutable Allocated Pension Income p.a.	\$14,218
Less Salary Sacrifice p.a.	(\$21,000)
Taxable Income	\$53,218
Less PAYG Tax & Medicare Levy	(\$11,363)
Tax offset on Allocated Pension	\$2,133*
Net Income p.a.	\$43,987

Combined Super balance and Non-commutable Allocated Pension balance at age 60 (in todays dollars) \$369,632

With option 2 Julie is able to maintain her living expenses the same as scenario 1 but is increasing her overall super lump sum balance from her current position by over \$36,000 to age 60 by salary sacrificing a higher amount.

Julie will also save on income tax by setting up a non-commutable income stream and making greater salary sacrifice contributions.

By making salary sacrifice contributions her assessable income is also reduced within the threshold limits to be eligible for the Government Co-contribution, provided she makes the appropriate personal contribution.

Allocated Pension investment earnings are not subject to tax, and therefore there is a further savings on tax on investment earnings.

*The tax rebate is calculated by multiplying the taxable Non-commutable Allocated Pension income payment by 15%. Tax calculated is based on the current Pay As You Go (PAYG) rate. Assumptions are based on positive investment returns of 7% per annum for five years, 9% SG employer contributions, super contributions tax of 15% and are based on value in today's dollars with an estimate of inflation at 3% p.a. and indexation at 4% p.a.

Disclaimer:

The material provided in this document is provided for information only and constitutes general financial product advice. It does not take into account your personal financial situation, objectives and needs. Consequently before acting upon the information in this brochure you should consider its appropriateness to your financial situation, objectives and needs.

Avery Financial Planning Pty Ltd
 Australian Financial Services Licence Number 224530
 Suite 6/7, Professional Suites
 Garden City, Kessels Road
 Upper Mt Gravatt Qld 4122

Phone: (07) 3349 5544
Toll Free: 1300 averys(283797)
Fax: (07) 3349 5987
Email: admin@averys.com.au
Website: www.averys.com.au

