TRANSITION TO RETIREMENT

'Transition to Retirement' refers to the opportunity for people who have reached their preservation age to continue working on a part-time or full time basis and supplement their salary with a regular income from their superannuation savings via a non-commutable income stream

Transition to Retirement strategies provide the following opportunities:

- You can increase your income prior to retirement.
- You can reduce your hours of work and receive a similar level of income.
- You can reduce your tax payable prior to retirement.
- You can increase your retirement savings.
- You can move your superannuation assets into the pension phase where earnings are tax free (as opposed to taxes of up to 15% within the accumulation phase).

Salary Sacrifice

Salary Sacrificing involves foregoing salary income and subsequently using pre tax money, through an arrangement with your employer, to obtain benefits which don't incur income tax.

The benefit from Salary Sacrifice comes from the difference between the income tax that would have been paid on the amount, and the rate of tax (contributions tax or fringe benefits tax) payable on the item under the Salary Sacrifice arrangement.

Concessionally taxed contributions to superannuation are currently limited to $25,000 per annum for those under 50 years of age and $50,000 for those over age 50 on the last day of the financial year. This amount includes any Superannuation Guarantee payments made by your employer.

Where the ATO identifies that a person's concessional contributions have exceeded the cap, the amount in excess will be effectively taxed at the top marginal tax rate plus Medicare levy (an additional 31.5% on top of the original 15% paid by the fund).

Transition to Retirement Pension (TRP)

A TRP is an Account Based Pension that has been commenced using the 'Transition to Retirement' provisions. In conjunction with the recommended Salary Sacrifice strategy we recommend you commence a TRP in order to supplement your reduction in salary.

A minimum income limit applies to TRP payments which is equal to 4% (2% for the 2009/10 financial year) of the account balance up to age 65. A maximum limit equal to 10% of the account balance also applies.

Account Based Pension payments are tax free for individuals over 60 years of age and do not have to be included in tax returns.

Payments made to individuals less than 60 years of age are taxable but receive tax concessions. The pension drawn, less any tax free amount, is taxed at your marginal tax rate. A 15% tax rebate applies to the difference, which is taxable income. The tax rebate can be used to reduce an income tax liability arising from this pension as well as other income sources.

When you retire or reach 65 years of age your TRP becomes unrestricted non preserved, meaning you can access your capital (the income stream in no longer non-commutable).

The benefits of commencing a Transition to Retirement Pension are:

- The income received from your TRP will assist in meeting your cost of living requirements.
- Pension payments are tax effective.
- Your Account Based Pension fund pays no tax on earnings or capital gains on investments in the fund (based on current legislation).
- You have the flexibility to adjust your pension payment between the minimum and maximum limits.
- Upon rollover of your accumulated superannuation benefits to an Account Based Pension, there is generally no lump sum tax payable.
- The pension is paid as regularly as you require to enable you to manage your cashflow, eg: monthly, quarterly, half yearly or annually and can be credited to your nominated bank account, building society, credit union or paid to you by cheque.

The risks associated with commencing a Transition to Retirement Pension are:

- If the income drawn from your TRP exceeds the level of superannuation contributions you will accelerate the depletion of your retirement capital.
- You are restricted from making commutations from your TRP. There are however exceptions which include, but are not limited to, the following:
    - Unrestricted Non Preserved funds can be accessed.
    - Capital is being rolled back into the accumulation phase.
    - You meet a full condition of release (this will be achieved at retirement).
    - You use the proceeds to purchase another non-commutable income stream.