



## Access your super before you retire

If you are aged between 55 and 64, you do not have to retire permanently before being able to access your super. Once you have reached your preservation age (see below for details), you are able to access your super by purchasing a transition to retirement pension.

### What is a transition to retirement pension?

A transition to retirement pension offers regular income payments but is not commutable (ie cannot be cashed out) until you permanently retire or reach age 65.

#### Option 1: reduce your working hours but not your take-home pay

- Reduce the number of hours you work
- Supplement your reduced salary with income from a transition to retirement pension
- Maintain the same take-home pay.

#### Option 2: boost your super savings and maintain your take-home pay

- Continue to work full-time
- Salary sacrifice part or all of your salary into super
- Supplement your reduced salary with income from a transition to retirement pension
- Maintain the same take-home pay.

### Choice and flexibility

You now have greater flexibility than ever before in the way you can access your super. Once you have reached your preservation age, the Government's transition to retirement legislation allows you to ease into retirement.

### What's your preservation age?

Date you were born	Your preservation age
Before 1 July 1960	55
1 July 1960–30 June 1961	56
1 July 1961–30 June 1962	57
1 July 1962–30 June 1963	58
1 July 1963–30 June 1964	59
After 30 June 1964	60

By converting some of your super to a transition to retirement pension within AustChoice Super, the amount of pension you are able to draw each year must fall between statutory minimum and maximum payment limits. The minimum payment required is 4 per cent per annum of your account balance and the maximum is 10 per cent per annum.

Under super law, reaching age 65 is a condition of release that allows you to access all your super money, regardless of whether you continue to work or not. Therefore, at age 65 your transition to retirement pension will automatically convert to an account-based pension, with no restrictions on lump sum withdrawals.

## Reap the benefits of salary sacrificing

By adopting a salary sacrifice strategy, you sacrifice a portion of your salary into your super. Salary sacrificing offers the following benefits:

- Super contributions receive concessional tax treatment of just 15 per cent, rather than the marginal rate of tax applied to your salary, which can be as high as 46.5 per cent\*.
- Salary sacrifice contributions are deducted from your pre-tax salary, so not only do you pay less tax but you boost your super savings with the tax saved.
- A super fund pays up to 15 per cent tax on investment earnings versus your marginal rate, which may be as high as 46.5 per cent\*.

\*Including Medicare levy.

### Option 1: reduce your working hours but not your take-home pay

Leaving the workforce is a big decision and one that brings with it a great deal of change. Wouldn't it be nice to ease into it? Well now you can.

Previously, those people approaching retirement either continued to earn a full-time salary or retired permanently from the workforce to access their super savings. The ageing population and subsequent shortage of skills meant that greater flexibility was required.

A transition to retirement pension allows you to cut back your working hours and convert some of your super to an income stream product that can be used to supplement your reduced salary. However, before you decide to take a transition to retirement pension, you need to be sure that you have enough money in super for a comfortable retirement.

### Option 2: boost your super savings and maintain your take-home pay

You don't, however, have to reduce your working hours to part-time in order to commence a transition to retirement pension.

If you want to boost your retirement savings, you can continue to work full-time, make salary sacrifice contributions into super and use a transition to retirement pension to supplement your reduced income.

This strategy allows you to build your super balance and take advantage of the tax benefits that super has to offer while maintaining your lifestyle.

With either of the above options, if your personal circumstances change and you no longer need the additional pension income, you can transfer your pension back to your super at any time.

## Tax benefits of converting your super to a pension

If you are aged between 55 and 59 and retire permanently from the workforce, you could convert your super into a retirement income stream and receive a minimum of \$44,644 tax-free. For those aged 60 or over, your entire pension will be paid tax-free.

There are even more tax savings when you convert your super to a pension. Investment earnings and capital gains are tax-free within a pension, compared to up to 15 per cent tax in super.

## Case study 1 – under age 60

Let's look at the difference that a salary sacrifice strategy could make for Brian. Brian is aged 56, works full-time and has a gross salary of \$80,000 per annum (2010/11).

His employer pays Superannuation Guarantee (SG) contributions on \$80,000. This case study assumes that the SG contributions made by Brian's employer are not reduced as a result of salary sacrificing.

Brian has decided to salary sacrifice \$40,000 per annum of his income to boost his super savings. In doing so, his salary would drop to \$40,000 per annum, which is not enough to meet his financial needs of \$61,250 net per annum.

His super is all preserved and his balance is currently \$360,000 (\$100,000 of which is tax-free). Brian could use his entire super account balance to purchase a transition to retirement pension and use the pension income to supplement his salary.

Brian's pension is limited to 10 per cent per annum of the account balance. In the first year Brian chooses to draw a pension of \$30,870 to supplement his income.

### Effects of using a transition to retirement pension

	Before (pa)	After (pa)
Salary	\$80,000	\$40,000
Transition to retirement pension income	Nil	\$30,870
Tax-free portion	N/A	(\$8,582)
Total pre-tax income	\$80,000	\$62,288
Less income tax*	\$18,750	\$9,619
Plus tax-free portion	Nil	\$8,582
Net income	\$61,250	\$61,250

\* Medicare levy has been taken into account.

While Brian's net income remains the same, implementing a salary sacrifice strategy means his overall annual tax saving is calculated to be \$6,911. His super savings also receive a boost, as outlined in the table below.

### Effects of a salary sacrifice strategy

	Using full salary*	Using a transition to retirement pension*	Difference
After year 1	\$388,335	\$395,395	\$7,060
After year 3	\$450,308	\$472,601	\$22,293
After year 5	\$520,093	\$559,218	\$39,125
After year 9	\$687,157	\$765,378	\$78,221

\* Assumes a net earning rate of 7 per cent compounded monthly.

Additionally, when Brian turns 60, any payment from his pension or super fund will be tax-free.

## Case study 2 – age 60 and over

Consider Kate, who is 60 years old and currently earning a salary of \$50,000 per annum (2010/11).

She decides to cut down her working hours and, in so doing, her salary reduces to \$30,000 per annum, which is not enough to meet her income requirements.

To supplement her reduced income, Kate decides to use her entire super balance of \$180,000 to purchase a transition to retirement pension. Each year, she is able to draw a pension amount between her age-based minimum (4 per cent, as she is under age 65) and the 10 per cent maximum.

In the first year Kate chooses to draw an income of \$13,950, which, in addition to her salary, is enough to meet her annual income goal of \$41,900. All pension income Kate receives is tax-free because she is aged 60.

### Effects of using a transition to retirement pension

	Before (pa)	After (pa)
Salary	\$50,000	\$30,000
Transition to retirement pension income	Nil	\$13,950
Tax-free portion	N/A	(\$13,950)
Total pre-tax income	\$50,000	\$30,000
Less income tax*	\$8,100	\$2,050
Plus tax-free portion	Nil	\$13,950
Net income	\$41,900	\$41,900

\* Medicare levy has been taken into account.

Even though her salary is lower, Kate still benefits from this strategy; her overall annual tax saving is calculated to be \$7,940. Choosing a transition to retirement pension to supplement her income allows Kate to make a lifestyle choice to cut her working hours. However, this will reduce her super savings over time, as illustrated in the table below.

### Effects of reducing working hours

	Using full salary*	Using a transition to retirement pension*	Difference
After year 1	\$194,957	\$182,472	-\$12,485
After year 3	\$227,672	\$187,828	-\$39,844
After year 5	\$264,511	\$193,781	-\$70,730
After year 9	\$352,701	\$207,738	-\$144,963

\* Assumes a net earning rate of 7 per cent compounded monthly.

### Tips:

- If you are over age 55 and do not have adequate savings for retirement, you could consider a strategy incorporating a transition to retirement pension. Additionally, until 30 June 2012 there are transitional measures in place allowing those aged 50 and over to make pre-tax salary sacrifice contributions up to \$50,000 per annum per person to their super.
- You need to be aware that salary sacrifice contributions count towards concessional contribution caps – a maximum of \$25,000 per annum for those under age 50 and \$50,000 per annum for those aged 50 and over (until 30 June 2012).
- If you currently hold shares outside super, you can boost your super balance by making an in specie transfer to your super fund and benefit from the low tax on investment earnings. This will be considered a contribution and, depending on your circumstances, will count towards either your concessional or your non-concessional contributions cap.
- Check with your employer to see whether salary sacrificing is available.

Before investing in a transition to retirement pension, we strongly recommend you discuss your investment objectives, financial situation and particular needs with a licensed financial adviser.

**AustChoice Super offers a transition to retirement pension. To find out more, speak to your financial adviser or call our client services team on 1800 333 900.**

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