Transition to retirement:

What you need to know

Fact**File**

Implementing a transition to retirement strategy can give you more flexibility and enable you to take advantage of tax concessions to help achieve the lifestyle and super balance you want.

Beginning the transition to retirement

The years before you retire can be challenging. While you are probably looking forward to having more time to do the things you enjoy, you may not be ready to stop working. Many people are also concerned about whether or not they have saved enough super.

What is a transition to retirement strategy?

Transition to retirement strategies are designed to give you greater flexibility as you begin the transition to retirement. Once you reach what's known as your 'preservation age', you can access your super by drawing a pre-retirement pension (a regular income stream drawn from your super savings).

How to determine your preservation age

By law, all super contributions are locked away or 'preserved' until you reach your preservation age. Your preservation age is based on your date of birth (as set out in the table below). Once you reach your preservation age, you can begin drawing a pre-retirement pension. (You will need to check with your super fund as not all funds offer pre-retirement pensions.)

Date of birth	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
On or after 1 July 1964	60

What is a pre-retirement pension?

A pre-retirement pension allows you to draw a regular income from your super while you're still working, provided you have reached your preservation age. There are restrictions on accessing your super as a lump sum during this pre-retirement phase.

Why start a pre-retirement pension?

A pre-retirement pension gives you the flexibility to draw down an income and at the same time contribute to your super, e.g. through salary sacrifice, in a way that may be more tax effective than just relying on your salary. In most cases, you'll pay less tax on your pension income than you would on the same amount of salary or wages.

Do I have to stop working to draw a pre retirement pension?

No. In fact, transition to retirement strategies are generally most effective when you continue to work and contribute to your super while you draw a pre-retirement pension.

If you would like to ease your way into retirement, a transition to retirement strategy could enable you to reduce the number of hours you work or retire part time. While working less will mean a smaller pay packet, if you decide to take out a pre-retirement pension, you could supplement your work income with the pension payments. This would give you more time to do the things you want, while maintaining your income and lifestyle.

A transition to retirement strategy could also be beneficial if you have reached your preservation age but want to continue working full time. The tax concessions on offer can make this a great way to boost your super balance in the years before you enter full retirement.

For example, you might decide to continue working full time while simultaneously drawing the minimum pre-retirement pension from your super balance. This would, of course, give you more income than you need. To reduce your income down to its previous level, you could salary sacrifice to super an amount equivalent to the pre-retirement pension you are drawing (take care not to exceed the relevant concessional contribution cap). This would maintain your after-tax income while offsetting the reduction in your retirement savings from the pension payments.

Salary sacrificing reduces your taxable income, which may in turn decrease the amount of tax you have to pay. In addition, salary sacrifice contributions are taxed at just 15% when they enter the fund and investment earnings in the fund are also taxed at up to 15%, compared to the marginal tax rate for investments outside super.

Is a pre-retirement pension right for you?

Transition to retirement strategies aren't right for everyone. You should discuss the following factors with your financial adviser to ascertain whether a transition to retirement strategy is suited to your personal circumstances:

- whether you have sufficient super to support drawing a preretirement pension
- whether or not your employer will:
- allow you to work part time at a rate that suits you
- allow you to salary sacrifice
- agree to continue to pay your super guarantee contributions at the pre-salary sacrifice level
- your tax position
- your financial objectives and retirement needs
- the costs associated with this strategy.

Professional financial advice can make all the difference and will help ensure you are not disadvantaged from a tax or social security perspective if you decide to implement this type of strategy.

A word about contribution caps

While there are no limits on the amount you can contribute to super, the government has set contribution caps that determine how much you can contribute to super in any one year without penalty. There are caps on both concessional (pre-tax) and non-concessional (after-tax) contributions. If you exceed these caps, you could be penalised with hefty tax rates.

- Concessional cap. Concessional contributions include salary sacrifice, super guarantee and personal deductible contributions. If you are under age 50 on the last day of the financial year, the cap is $50,000 (2008–09), decreasing to $25,000 (indexed) in the 2009–10 financial year.
- Transitional concessional cap. If you are aged 50 or over on the last day of the financial year between 1 July 2007 and 30 June 2012, the transitional concessional contribution cap will apply. This cap is $100,000 for 2008–09, decreasing to $50,000 in 2009–10. This cap is not indexed. From 1 July 2012, the concessional cap will be $25,000 (indexed) for taxpayers of all ages.
- Non-concessional cap. The cap for non-concessional contributions is currently $150,000 per year, or $450,000 over three financial years (under the 'bring-forward rule') if you are under 65 in the financial year. The cap will remain for the 2009–10 financial year, but in future will be calculated as six times the level of the indexed concessional contributions cap. There has been no change to the 'bring-forward rule'.

It's important to keep your financial adviser informed about any contributions you make so they can ensure you don't exceed the contribution caps. This is especially important given the coming reductions in these caps. Contributions over the caps are taxed at 46.5% (ie 31.5% in addition to the standard 15% tax on concessional contributions).

of superannuation savings. Your financial adviser can provide more information.

Pre-retirement pensions at a glance

- Minimum and maximum drawdown limits apply to preretirement pensions.
- Pre-retirement pensions can be started with preserved
- and restricted non-preserved superannuation benefits.
- Lump sum withdrawals can only be made from a pre-retirement pension if:
  - *they are from unrestricted non-preserved benefits*
  - *you have reached preservation age,*
  - *have retired and do not intend to seek gainful employment for more than 10 hours per week*
  - *you have reached age 60 and ceased employment before that age and now do not intend to seek gainful employment for more than 10 hours per week*
  - *you are at least age 60 and have ceased gainful employment since turning 60*
  - *you reach age 65.*

- Once you are aged 60 or over you will pay no tax on the income payments you draw from your pre-retirement pension. If you are between your preservation age and age 60, the income that you receive will be assessable income in your hands and taxed at your marginal tax rate. However, part of each payment may be tax free and, if not, you may qualify for tax offsets which will mean you pay little or no tax on your income.

1 The minimum drawdown requirement for account-based pensions was reduced by 50% during the 2008–09 financial year. In the Federal Budget 2009, the government has proposed extending this reduction for 2009–10.

Speak to us for more information...

If you would like to know more about self managed super funds, contact our office and talk to us at LifeTime Financial Group. We can give you more detailed information on the best approach for your situation.

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