A super transition to retirement

The life you have in the future depends on your financial decisions today. What lifestyle do you want in retirement? Have you got a plan to get there? Genesys can help.

People are living longer and as the baby boomer generation reaches their retirement years, it's estimated that the population aged 60 years and over will double[1]. While a greater life-expectancy is good news for all of us, an older population will cause problems as many retirees may not have enough money to live the lifestyle they'd dreamed of in retirement. With this in mind, the Australian Federal Government has introduced several initiatives to encourage people to contribute more to super.

Accessing super early

One of the most significant government initiatives was introduced on 1 July 2005, and allows people who are still in the workforce to access their super (in the form of an income stream) once they reach preservation age[2]. Previously, most people had to retire to receive super benefits.

The concessions are extremely generous and provide you with a great opportunity to increase retirement savings before ceasing work.

Live the lifestyle you want

Accessing super early gives you more options – you might consider taking it easy and working part time closer to retiring while 'topping up' your income with a super pension. Or you may choose to postpone your retirement date, live off a pension from your superannuation, and then salary sacrifice most of your income to increase your super balance. This option may substantially boost your retirement savings.

Effectively, you can live off your pension while contributing most of your income to super. With all super contributions subject to a maximum of 15% tax, this means that, from age 60, you can reduce your marginal tax rate to the equivalent of just 15% instead of your usual tax rate.

What's more, by accessing super as an income stream before retiring, your super will move to pension phase which enjoys a 0% tax rate on all income and capital gains, instead of the 15% superannuation earnings tax charged during accumulation phase.

The importance of wealth advice

With sound wealth advice, the structure of your financial strategy can make all the difference. For example, the amount you save by accessing super as an income stream before retiring will be in addition to any amounts you'll gain from the performance of your super fund.

Boosting retirement income in practice

Let's take a look at how this strategy can help raise retirement income in the hypothetical situation below.

Joe is 60 years old and would like to retire at 65. He has $400,000 in his super fund and his current salary package is $100,000 a year. He requires about $60,000 (net) per year to fund his living costs, so he currently salary sacrifices $20,000 a year into super. If he continues with this strategy and the super grows at 7% p.a. (after fees and taxes) his super balance on retirement in five years time will be $699,125.

[1] Australian Bureau of Statistics – Australian Social Trends 1999 Population – Population Projections: Our ageing population.
[2] Preservation age – the age at which you can be classified as retired and access your benefits. It ranges from 55 to 60, depending on your date of birth.

However, if Joe chooses to start a non-commutable account based pension from his existing super now, he can salary sacrifice $40,000 a year. His employment assessable income will be reduced to $60,000 with the income from his super pension 'topping up' his total income. The account based pension is tax free as Joe is 60, so he will pay income tax of only $10,650 in the first year and his net income will increase by $2,450.

By using this method, assuming the super grows at 7%, his super balance on retirement in five years time will be $725,400. By commencing a pension earlier, and because his super has moved to pension phase in which assets attract tax-free earnings, Joe will build an additional $26,275 in his super fund.

Over the five year period, he will also have generated a total additional cash flow of $14,050 as a result of a more tax-efficient structure.

Joe will receive a total of $40,325 over five years purely by accessing his super as an income stream before retiring, and without having to find any of the extra money himself.
(Based on 2008/09 tax rates)

Joe's super strategy

	Super balance at start	Salary sacrifice amount p.a.	Income tax paid first year	Super balance in 5 years	Increased cash flow
Current strategy	$400,000	$20,000	$17,100	$699,125	$0
Transition to retirement strategy	$400,000	$40,000	$10,650	$725,400	$14,050
				Net gain to super $26,275	**Net overall gain $40,325**

Benefits of accessing super while still at work

- **A higher overall super balance** – commencing your pension as an income stream before retiring may result in a **higher** super balance at retirement.
- **Eliminate Superannuation Earnings Tax on your current super balance in pension phase** – enjoy a 0% tax rate on all income and capital gains earned by your current super balance.
- **More choice** – you get more choice about when and how you will retire, including the choice to reduce work hours to more easily 'transition' to retirement.
- **Fund your own retirement** – by contributing more to your retirement, you're less reliant on the age pension, decreasing the risk if social security benefits decrease in the future.
- **Pay less tax** – if you live off your pension and salary sacrifice more of your income to super, you'll pay just 15% tax, instead of your marginal tax rate.
- **Social impact** – the government believes that the skills and experience of older Australians in the workforce make them valuable employees with much to contribute.

For more information or to arrange an initial no-cost, no-obligation consultation, please contact:
Genesys Wealth Advisers on 1800 066 577.

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