

# THE RETIREMENT TRANSITION



## Message from the CEO

In a world where you have so much choice, we are sincerely grateful that you have chosen to download this e-book. We hope that you find it beneficial and informative.

We have now been assisting people for over 26 years to make educated financial decisions which in turn help them develop at various stages of their lives.

Being born into humble beginnings and growing up in a world of government handouts and assistance, we know what it's like to "do it though". It's our strong desire to help as many Australians and their families avoid a life of financial struggle.

That is why we have gathered a group of professional advisors, property experts and financiers that have placed us better than most, to cater for all of your financial requirements. Each one carefully selected over the past 26 years, to arrive at the team Option Wealth has today. Collectively our team possesses over 150 years experience helping Australians in the quest for financial prosperity.

Of course we would encourage you to make an appointment, sit down with a member of ours over a cup of coffee and see if we can assist you get where you want to go. If, however, you choose not to, we still wish you all the best and urge you to take action regardless.

Our introductory meetings are free and carry absolutely no obligation.

Kind regards  
John Hanna



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## NO ADVICE WARNING

**Warning: This e-book contains general advice or information only.**

The information in this e-book is general information only and has been prepared without taking into account your personal objectives, financial situation or needs. You should consider any advice in this e-book in light of your personal objectives, financial situation or needs before acting on it. You may wish to consult a licensed financial adviser to do this.

The information in this e-book is no substitute for financial advice.

If you are looking at acquiring a financial product you should obtain a Product Disclosure Statement and consider its contents before making any decisions.

Stoneridge can take no responsibility for any actions you take independently, and without seeking professional advice from a licensed financial adviser.

# INTRODUCTION

Getting access to funds in your superannuation when approaching retirement used to be an 'all or nothing' affair. You either had to keep working, in which case your pension would be unavailable to you, or you had to formally retire. This meant that many people were, in a sense, forced into early retirement and that others had to continue working until the official retirement age in order to maximise their retirement income.

Fortunately this rather inflexible system has now been replaced with the so-called 'Transition to Retirement' measures that came into force on 1 July 2005. In a nutshell, Transition to Retirement allows people who are still working, and who meet the eligibility criteria, to derive income from their superannuation funds.

This arrangement opens up some interesting investment and income maximisation options for mature age workers and also gives them the possibility of easing into retirement while continuing in their careers. You would do well to investigate whether making use of Transition to Retirement can benefit you in your circumstances as it could possibly make a real difference in your financial position and lifestyle.

The purpose of this document is to give a brief overview of the Transition to Retirement measures. Please be aware, however, that its contents are intended as general advice. If you have specific questions dealing with your own circumstances you should consult a financial adviser or accountant.

# 1: WHAT IS 'TRANSITION TO RETIREMENT' ?

The Transition to Retirement measures allow people nearing retirement (see below for specific eligibility criteria) to access their accumulated superannuation in the form of a non-commutable income stream. 'Non-commutable' simply means that you cannot withdraw a cash lump sum from your superannuation funds under the measures.

The most important consideration when setting up a non-commutable income stream is to make sure that the arrangements being made are in compliance with the provisions of the Transition to Retirement measures. Pensions specifically set up to comply with the measures are sometimes called 'Transition to Retirement Allocated Pensions'

(TRAPS). TRAPS are, as the name suggests, transitional in nature and can therefore eventually be superseded by a more permanent arrangement.

Making use of Transition to Retirement using an account based pension (formerly known as an allocated pension) does not mean that you permanently waive the right to withdraw a cash lump sum from your fund. The 'normal' rules governing withdrawals will come back into play if you:

- **Retire permanently**
- **Cease your current employment after 60 (even if you intend to seek other work)**
- **Reach the age of 65**
- **Become permanently incapacitated**

It is also possible to take out a general non-commutable pension or annuity (i.e. one that is not specifically set up to comply with Transition to Retirement). However, these are more permanent in nature and may also include certain long-term restrictions on withdrawing lump sums. You should therefore make sure that you clearly understand the terms and conditions of what you are signing up to.

It is highly advisable that you discuss all your options with a financial adviser with experience in this area before making a final decision on how to set up your non-commutable income stream.



## 2 : WHO IS ELIGIBLE?

Once you reach your 'preservation age' you can, under the Transition to Retirement measures, access your superannuation benefits without having to retire completely from the workforce. Your preservation age depends on your date of birth and can be determined by consulting the table below:

DATE OF BIRTH	PRESERVATION AGE
BEFORE 1 JULY 1960	55
1 JULY 1960 - 30 JULY 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

## 3: WHAT ARE THE BENEFITS?

People make use of Transition to Retirement for a variety of reasons. Chief among these are:

- **Flexible working option** – Many people approaching retirement choose to work for fewer hours and then use the income drawn from their accumulated superannuation funds to make up for the resulting reduction in income.
- **Extra income** – The extra income gained from accessing retirement funding can translate into a significant increase in your personal cash flow, especially if you continue to work full time. Funds that become available in this way can then either be reinvested or, with the necessary discretion, used to finance certain lifestyle goals.
- **Maximising retirement income** – Transition to Retirement can also be used to further increase the money available to you in retirement. This can be done by taking advantage of the tax and investment benefits that can be gained by starting a non-commutable income stream from your superannuation fund and then 'salary sacrificing' a part of your regular income back into your super. This means that your super fund can continue to grow at a healthy rate, despite the fact that you are already drawing a pension.

# 4: SOME THINGS TO CONSIDER

Before you make a final decision on Transition to Retirement you should, at the very least, ask yourself the following six questions:

## **1. Do I really want to reduce my working hours and, if so, is the option available to me?**

The desire to work less is one of the main reasons why people choose to make use of Transition to Retirement. If you decide to go down this route you need to be 100% sure that you are actually ready (emotionally and professionally) for a time of semi-retirement. If the answer is 'yes' you will obviously also have to enquire whether your employer will consider your request for reduced hours.

## **2. How will working fewer hours affect my income, and will the income from my super be sufficient to make up any shortfall?**

You will have to do a fair bit of number crunching before taking the final step to reduce your working hours. This will enable you to make an informed decision on whether you will be able to maintain your standard of living during this new phase of your life.

## **3. How will my choice impact future benefits**

Financial decisions can have very significant long-term implications. You should therefore do some projections on how your decision to access your pension early will affect your long-term income. This is particularly important when a defined pension, where the benefits are related to age and length of service, is involved.

## **4. What will the impact of my choice be on my life insurance arrangements?**

It may be the case that your existing life cover ceases or reduces if you access your pension early. It could also be that, if new contribution arrangements are entered into, insured sums may reduce or that medical examinations (possibly leading to new conditions being imposed) may be required.

## 5. Does my current superannuation fund provide a non-commutable income stream?

Superannuation funds are not under any legal obligation to offer non-commutable income streams. You should therefore find out whether your provider offers products that are compatible with Transition to Retirement. If they don't, then it should be possible under 'portability' arrangements, to move your superannuation savings to a fund that does. Before you do that, however, you should make sure that you will be able to comply with all the relevant rules and eligibility criteria of the new fund and that you will not be losing significant benefits by moving.

## 6. What could the likely tax implications be?

Part of the appeal of Transition to Retirement is that it allows you to benefit from the lower tax rates associated with pension income (pensions are generally subject to a 15% tax offset). This means that it might be possible to receive part of your income at a lower tax rate while 'salary sacrificing' a portion of your income subject to a higher tax rate by adding it to your superannuation fund. The salary sacrificed contribution will then not be taxed as direct income, but rather in the form of a 'contributions tax' to be paid from within the fund. The rate at which this is levied (currently 15%) is much lower than the marginal tax rate that most people pay.

This can obviously translate into positive growth in the strength of your superannuation fund since you will possibly be putting more money in than you are taking out. Each situation is unique, however, so take the time to determine whether this arrangement is right for your specific circumstances.

***Some of the things that you will need to have clarity on are:***

- Your personal marginal tax rate.
- All the applicable current and future tax rates – The rate at which you pay tax will be a decisive factor in determining whether you can benefit from salary sacrifice or whether you should perhaps investigate alternative investment avenues.



# 5: 'TRANSITION TO RETIREMENT' IN ACTION

The purpose of the hypothetical case studies below is to demonstrate how the benefits mentioned earlier can be achieved through making use of Transition to Retirement. Some of the applications of the measures can be quite complex and it is not possible to cover all the possible permutations in a document of this length. The examples given below should therefore be seen as general descriptions of the most common ways in which people can benefit from Transition to Retirement.

## a) Flexible Working Option

Sarah is 59 and works 30 hours per week, earning about \$60,000 per annum (pa). She is contemplating retirement but does not feel ready to stop working completely. She decides to reduce her working hours to only 10 per week. This means that her annual salary-based income will drop to \$20,000. She does some number crunching and decides that she will need another \$25,000 pa to maintain her current lifestyle. She then proceeds to use \$350,000 from her superannuation fund to create a non-commutable income stream (in the form of an allocated pension) to provide the \$25,000 pa that she needs to bridge the gap between her earnings and her income requirements.

## b) Extra Income

Peter is 61 and is committed to working full time until he reaches 65. He decides, however, to make use of the Transition to Retirement arrangements, using his super balance of \$400,000 to fund an income stream of \$35,000 per year. Since he is working full time, this money is not needed for day to day expenses and can therefore be used for a special project, namely the purchase of a retirement home. Previously Peter would have had to sell his current home first in order to raise the necessary funds but now the extra income can be used to service a mortgage on the retirement property. When he retires, the loan can be paid off by using the capital locked up in his existing home.

### c) Maximising Retirement Income

Philip is 55 and works full time; he intends to keep going until he reaches 65. He earns \$120,000 per year and his superannuation fund contains \$500,000. He decides to draw the maximum annual pension and then to 'salary sacrifice' \$62,800 of his salary back into super. Philip's pension income comes with a 15% tax offset, which means that he is paying less tax on this part of his income. The net effect is that he is sacrificing more (\$62,800) into his super than what he is taking out as a pension (\$50,000). This means that he can use the last 10 years of his working life to significantly boost his retirement income.

It should be clear from the above examples that the Transition to Retirement measures can benefit people in a wide variety of ways. There is often, however, a wide gulf between general principles and individual circumstances. You should therefore find a solution that will work best for you. One way of doing this would be to ensure that you make the best decision for your circumstances by consulting an experienced financial adviser.

Approaching retirement can be both daunting and exhilarating. It is our sincere wish that you will be able to use some of the information contained in this document to help you ease into, rather than stumble into, retirement.

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