

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 double¹. 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 age². Previously, most people would have 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 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.

Tony is 55 years old and would like to retire at 65. He has \$310,000 in his super fund and his current salary package is \$100,000 a year. He requires about \$40,000 (gross) per year to fund his living costs, so he currently salary sacrifices the remaining \$60,000 a year into super. If he continues with this strategy and the super grows at 8% p.a. his super balance on retirement in 10 years time will be \$1,354,690.

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 Tony chooses to start an allocated pension from his existing super now, he can salary sacrifice \$78,400 a year. His employment assessable income will be reduced to \$21,600 with the income from his super pension 'topping up' his total taxable income. Because of the tax effectiveness of the allocated pension, he will pay income tax of only \$5,699 meaning that his net income will have increased by \$2,760 p.a.

By using this method, assuming the super grows at 8%, his super balance on retirement in 10 years time will be \$1,369,092. By commencing a pension earlier, and

because his super has moved to pension phase in which assets attract tax-free earnings, Tony will build an additional **\$14,402** in his super fund.

He will also have generated a total of \$30,220 additional cash flow as a result of a more tax-efficient structure.

Tony will receive a total of \$44,623 over 10 years purely by accessing his super as an income stream before retiring, and without having to find any of the extra money himself.

Tony's super strategy

	Super balance at start	Salary sacrifice amount p.a.	Tax paid p.a.	Super balance in 10 years	Total income – tax savings
Current strategy	\$310,000	\$60,000	\$8,459	\$1,354,690	\$0
Transition to retirement strategy	\$310,000	\$78,400	\$5,699	\$1,369,092	\$30,220
				Net gain to super \$14,402	Net overall gain \$44,623

Benefits of accessing super while still at work

- **A higher overall super balance** – Commencing your pension as an income stream before retiring can result in a **higher** super balance at retirement.
- **Eliminate Superannuation Earnings Tax on your current super balance** – 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 most 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.

Important Information – Any advice contained in this article is general advice only and does not take into consideration the reader's personal circumstances. Accessing super early may not be a suitable strategy for you. Super is a complex area and to avoid making a decision not appropriate to you, the content should not be relied upon or act as a substitute for receiving financial advice suitable to your circumstances. Any reference to the reader's actual circumstances is entirely coincidental. When considering a financial product, please consider the Product Disclosure Statement. Genesys and its representatives receive fees and brokerage from the provision of financial advice or placement of financial products.

For more information or to arrange an initial no-cost, no-obligation consultation, please contact:

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