

Ease yourself into retirement

The Federal Government has made it easier for you to step into retirement. When you reach your preservation age you can access your super benefits without having to leave the workforce permanently. Ultimately, this gives you more freedom and flexibility in the way you transition to retirement.

Transition to retirement

The transition to retirement rules are designed to help you stay in the workforce longer and make a gradual transition to retirement easier.

The old rules

In the past, most people approaching retirement faced an all or nothing decision. Generally, they either continued to earn a full-time salary or they retired permanently and accessed their super savings to provide their retirement income.

The new rules

On reaching your 'preservation' age, you can continue working (full or part-time) and access your super through a 'non-commutable' pension.

'Non-commutable' essentially means you cannot withdraw lump sum amounts; that you only receive a regular income – although there are exceptions.

Most super funds offer a non-commutable allocated pension and they can be referred to as 'transition to retirement allocated pensions' or TRAPS.

What's your preservation age?

When 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

When can you withdraw a lump sum amount?

You will be able to withdraw a lump sum amount from your non-commutable allocated pension in certain circumstances, for example to pay an excess contributions tax assessment issued by the Australian Taxation Office (ATO). You will also be able to withdraw a lump sum amount:

- When you retire permanently after reaching your preservation age,
- When you terminate your employment after age 60 (even if you don't intend to permanently retire),
- When you reach age 65,
- If you become permanently incapacitated,
- If you die (in which case your dependants will receive a benefit).

More options than ever before

Leaving the workforce can change your life. It's a big step. The new 'transition to retirement' rules however, give you some freedom to take a series of smaller steps first.

Option one

Work less and use super to boost your everyday income.

"Now that I'm over 55, I want to spend less time in the office but also have enough money coming in to maintain my current lifestyle."

'Downshifting' is a great solution if you still love your work but want a few days off each week to begin your transition to retirement. You can now reduce your work hours and supplement the reduced salary by receiving a regular income from a non-commutable allocated pension.

Option two

Work full-time and receive additional income.

"What I really need is maximum flexibility. I want a financial solution that will give me more income."

You can continue working full-time and commence a transition to retirement allocated pension – you don't have to reduce your working hours. This extra income can be used to reduce your debt or improve your lifestyle.

Option three

Work the same, build your nest egg further and access your super too.

"I'm happy to keep working the same hours, but need to give my retirement savings a 'boost' over the next few years."

This option suits those who want to work the same hours and utilise smarter strategies to accumulate super.

To do this, you just maintain your existing work hours, start a non-commutable allocated pension from your super benefits and then 'salary sacrifice' part of your regular salary back into super. Depending on a range of factors such as investment performance, this lets you improve your nest egg before you decide to leave the workforce altogether.

How it works in practice

Meet Mark. He is 60 years old, has reached preservation age and is considering his future. He's deciding when to retire and wants to know his options. Mark's decision depends on two factors:

1. His financial situation and capacity to fund retirement,
2. His lifestyle goals; such as what he wants to do leading up to and in retirement.

Mark earns \$65,000 per annum plus the 'super guarantee' (SG) of 9% (\$5,850). He is debt-free and needs \$32,000 a year for living expenses. He has the following assets:

Home	\$280,000
Car	\$12,000
Bank	\$8,000
Term deposit	\$48,000
Super	\$290,000

Option one

Mark works part-time

Mark decides to reduce his hours from full-time (five days a week) to part-time (three days a week). Therefore, his salary reduces to \$39,000 and he still receives 9% SG (\$3,510).

Mark's super is \$290,000. He is able to commence a non-commutable allocated pension.

Mark is required to withdraw a minimum annual pension amount based on his age. He is, however, entitled to receive more if he wishes. In this case he opts to receive \$15,232 per annum.

On a regular salary of \$65,000 Mark's take home pay is \$50,675. With Mark working three days a week and his allocated pension paying \$15,232 his take home 'pay' is still \$50,675.

Even though he has reduced his hours, his cash flow remains almost the same. Also, Mark is still contributing to his super.

Option two

Mark keeps working full-time

Mark decides to continue working full-time and uses his super balance of \$290,000 to start a non-commutable allocated pension of \$29,000 per annum. This now gives him more income than he needs.

Mark may be able to utilise the extra income. For example, he is interested in buying a country property for his retirement years but, until now, would have needed to sell his existing home first to raise the money. One of the effects of the new rules means Mark may be able to borrow money to purchase his retirement home and use the extra income to make loan repayments until he retires – and can then release the capital from his existing home.

Option three

Mark works full-time with a flexible super strategy

Mark recognises the benefits of super. He knows 'salary sacrificed' amounts, which qualify as concessional contributions, are taxed at 15% on receipt by his super fund and that earnings on super funds are taxed at a maximum of 15% rather than his 'marginal tax rate' of 30%.

While Mark decides to continue working full-time he is thinking about salary sacrificing to boost his nest egg. But he may commence a 'non-commutable allocated pension' to supplement his income.

This flexible combination may provide overall tax savings which allow Mark to build more retirement savings in the long term.

Important things to consider

Regardless of which option suits your personal situation, you should think carefully about the following before taking any action and should consider seeing a professional financial adviser to help you implement a strategy.

Personal lifestyle issues

- Do you wish to reduce your working hours?
- Can your employer accommodate your desired working hours?
- Have you considered what you will do with the extra free time?

Cash flow requirements

- How will working fewer hours affect your income?
- Will you need to supplement your income with a pension from your super?
- Do you have other income you can rely on?
- Will you have surplus income and what will you do with it?

Tax issues

- What is your personal marginal tax rate?
- What is your current and future tax rate? Your tax rate now and in retirement is important. Tax rates dictate whether salary sacrifice is an appropriate savings strategy or whether alternative savings strategies may be better.
- How extensive are your super savings?

An annual limit applies to the amount of concessional contributions made to superannuation that are taxed at concessional rates. 'Concessional contributions' include contributions made for you by your employer and salary sacrifice contributions. Limits also apply to the amount of non-concessional contributions. 'Non-concessional contributions' include any post-tax contributions you make. Speak to a licensed, or appropriately authorised financial adviser, to find out how these limits affect you.

Your super fund

Is your super fund able to help? Super funds aren't obliged to offer a non-commutable allocated pension so you'll need to check with your current provider about 'transition to retirement'. If they don't offer a non-commutable allocated pension you may be able to move some or all of your super savings to a fund that does. But before doing this find out your eligibility, any specific fund rules or limitations, and the wider pros and cons of moving. For example, you may lose some existing benefits.

Make sure you seek professional financial advice

Before you take any action under the 'transition to retirement' rules, make sure you speak with a qualified financial adviser to:

- Find out your eligibility,
- Determine your short-term, medium-term and long-term financial and lifestyle goals,
- Assess the potential risks and rewards of the various retirement strategy options available to you.

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