

## smart smsf strategy #3: transition to retirement pensions



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Before I was sidetracked last issue by changes to the Self Managed Super Fund (SMSF) borrowing rules, I was happily dreaming (and writing) of the Bahamas, the Hewitts and, of course, tax-free pensions. I return now to the theme of smart SMSF strategies and this one is for those who aren't quite at retirement as yet, but for those of you who have reached age 55.

**Age 55 has more significance than you realise. While it may be a milestone year for you personally, the reason financial advisers get excited is that you can start a tax-friendly pension from your super even if you continue to work. This is known as a Transition to Retirement (TtR) pension.**

In an effort to encourage older Australians to work for longer, rules were introduced allowing you to access your super as pension payments even if you continued to work. The idea was to entice you to work on a part-time basis instead of stopping altogether, but at the same time allowing you to maintain your income by drawing a pension.

The beauty of the legislation is the fact that it is not only for those decreasing their

working hours; it can be used as a wealth-building strategy for full-time workers too.

Let's consider a case study:

Jack is 60. His SMSF balance is \$350,000. He earns wages of \$70,000pa. Jack receives 9% super guarantee from his employer and is not currently salary sacrificing. He plans on working for another 5 years before retiring. To maximise Jack's retirement benefits we can use a TtR strategy as follows.

Jack commences a pension with \$350,000, and draws \$30,040pa as pension payments (note there are pension limits whilst you are working of 10% of the account balance pa). At this stage, Jack will be receiving too much income. In order to reduce this he can salary sacrifice into his super fund. Salary sacrificed amounts are taken from pre-tax salary, so are not taxed at your marginal tax rate. When the contribution is received by the super fund it is income to the fund, so will be taxed up to 15%. As Jack is over 50, his contribution limit is \$50,000pa, to maintain his income and reduce his tax therefore, Jack can salary sacrifice \$43,700pa.

The outcome:

**Existing situation:** Jack's wages = \$70,000pa. Income tax = \$14,550, medicare levy = \$1,050. **Total take-home pay is \$54,400pa.**

The **net amount being added to his super fund** (after allowing for

the worst-case scenario of 15% contributions tax) is **\$5,355 pa.**

**Commencing a TtR strategy:** Jack's wages = \$70,000pa, less salary sacrifice of \$43,700pa. He therefore receives \$26,300pa from his employer. Jack's pension income (tax-free because he is 60) = \$30,040pa. Income tax = \$3,045, medicare levy = \$395. He also receives a tax offset reducing his income tax liability to \$1,940pa. **Jack's take-home pay is maintained at \$54,400pa.**

**The net amount being added to Jack's super is \$42,500pa.** After allowing for his pension payments, the **net addition** to his retirement benefits (**super and pension**) **is an increase of \$12,460 in year one!**

If Jack continues to work **for another five years**, were he to continue with his existing strategy **his super could accumulate to \$577,865.** If, however, we commence the TtR strategy, **his pension and super could accumulate to \$634,354. That's a difference of \$56,489 in retirement benefits!**

This shows the power of the Transition to Retirement strategy and the real difference it can make in determining your lifestyle in retirement. The age of 55 is significant and this strategy provides another reason to crack open the bubbly and celebrate your milestone! **B**

## How SUPER is your Self Managed Super Fund?



Make the most out of your SMSF, talk to  
**Jo at Cornerstone FG**

Check out our website [www.cornerstonefg.com.au](http://www.cornerstonefg.com.au)

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