Retirement

Smart financial strategies for women

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Retirement

You've worked hard to build your current lifestyle, so you deserve to retire on your own terms. However, you still need to have a regular income to help you pay bills and cater for your spending patterns.

To live comfortably in retirement, the required amount is currently around $430,000 for a single person and around $500,000 for a couple[1] (assumes part receipt of the Age Pension), though this may vary depending on your own personal needs and objectives.

Hopefully, you would have invested in your superannuation during your working years and made contributions to your account to boost your retirement income as much as possible (see superannuation section, page 6). Thankfully, there are strategies and certain social security support to boost your retirement income.

When you reach retirement age, there are two ways you can access your retirement income. You can either take it as an income stream or as a lump sum, or a combination of both.

Income streams

An income stream provides a regular source of money used to fund a person's retirement. It's an investment that allows you to receive regular income payments when you retire and will enable you to manage your ongoing income and lifestyle.

Account-based pension

The most flexible type of income stream is an account-based pension. It is a tax-effective option that invests eligible superannuation savings to pay you a regular income stream until your account balance is exhausted. How long it lasts will depend on how much you withdraw each year and what investment earnings you receive.

Age Pension

Centrelink determines eligibility for the Age Pension by applying income and assets tests.

Entitlement to the Age Pension can be lost by failing either test. The rate at which the Age Pension starts to decrease is $1.50 per $1,000 of excess assets, but your own home is not counted in this test. Income over $162 a fortnight for a single person or up to $288 a fortnight for a couple combined, will result in a reduction in your pension of 50 cents in the dollar for those who are single and for couples (combined)[2].

As at 1 July 2015, a homeowner will not be entitled to the Age Pension where total Centrelink assessable assets are at least:

	As at 1 July 2015[2]
Single homeowner	$779,000
Couple homeowner	$1,156,500

1 Source is 'The ASFA Retirement Standard – March 2015'

2 Please see www.humanservices.gov.au for more detailed information. Transitional rules may apply to some existing Age Pension recipients.

Case study

Meet Mary

Mary is 65 years of age and single. She owns her own home and given her level of assets, she never thought that she would be entitled to the Age Pension.

Her details are:

Superannuation pension (asset tested)	$400,000
Personal effects	$20,000
Car	$10,000
Cash at bank	$30,000
Total	**$460,000**

What does the Age Pension, as at 1 July 2015, mean for Mary?

Mary's Centrelink assessable assets have to exceed $779,000 before losing entitlement to the Age Pension. Mary's total Centrelink assessable assets are $460,000. She is now entitled to a part Age Pension of approximately $478.45 per fortnight ($12,439.70 p.a.). Mary can also take advantage of additional concessions provided to holders of the Pensioner Concession Card – this card is generally available to pensioners.

Transition to Retirement

Superannuation rules allow working Australians options in transitioning from work to retirement. If you have reached your preservation age (currently age 55), subject to the rules of your fund, you can draw on your superannuation without having to retire permanently from the workforce.

This strategy is called Transition to Retirement (TTR).

Under these rules, even if you're still working and are under age 60, you can receive your superannuation as a non-commutable account-based pension. This means you can choose between a range of pension payments, but you cannot convert any of the balance into a lump-sum cash benefit until you retire or reach age 65. A 10% cap applies to TTR payments.

TTR strategies

Here are some ways to use the TTR initiative to your advantage:

1. Maintain your current lifestyle and spend fewer hours at work

You can now reduce your work hours and supplement the reduced salary by drawing from your 'accumulated super benefit' through a TTR income stream.

2. Continue to work the same hours and boost your retirement savings

You may be able to combine a TTR income stream and salary sacrifice to increase your retirement savings.

3. Top-up your income with your super

If you have sufficient retirement savings, you can use a TTR pension while you are working full-time to boost your income today. The increased income can be used to reduce your debt, or fund projects such as home improvements.

Talk to your financial adviser about whether a TTR strategy is appropriate for you.

Case study – ease into retirement

Meet Janet

Janet is 58 years of age and is a store manager earning $35,000 p.a. ($31,553 after tax). She has a superannuation account balance of $240,000 and plans to fully retire from the workforce at age 65.

Janet is looking to reduce her work hours so she can help care for her newborn grandchild when her daughter returns to work. Janet hopes to continue working three days a week.

Janet also puts $40 a fortnight into her superannuation account from her after-tax income. This qualifies her for the maximum Government co-contribution of $500 p.a. Janet is keen to maintain this arrangement, however she is concerned about meeting her living expenses if she reduces her working hours.

The strategy

By commencing a TTR pension, Janet can still receive the same take-home income as when she worked full-time – even after reducing her work hours.

The TTR strategy supplements Janet's reduced salary of $21,000 with a pension payment amount of $11,545 p.a., so she can still maintain the same take-home income of $31,553.

Janet can still qualify for the maximum Government co-contribution of $500, if she contributes $1,000 in the financial year, as an after-tax contribution.

It is important to be aware that drawing down superannuation benefits to supplement income can result in less superannuation in retirement. This is something that Janet must consider when deciding to reduce her work hours.

Notes: Janet's superannuation account balance of $240,000 is comprised of a 70% taxable component and 30% tax-free component.

She is also entitled to the low income tax offset.

Case study – boost your retirement savings

Meet Anne

Anne is 55 years of age and an advertising manager earning $90,000 p.a. She enjoys her job and has no immediate plans to reduce her working hours. She does, however, feel that age 65 would be a good time to retire from the workforce to make the most out of her retirement.

Anne has a superannuation account balance of $300,000 invested in a balanced option that has historically earned 7% p.a. Anne has heard about the Transition to Retirement (TTR) rules and is interested in finding out how she can benefit from this strategy.

The strategy

Anne's financial adviser suggests that she consider establishing a Transition to Retirement (TTR) pension. This will mean that Anne will need to salary sacrifice a significant portion of her pre-tax salary into her superannuation account. Anne is initially concerned because she does not want to change her lifestyle and receive a lower take-home income.

Her financial adviser explains that by implementing a TTR pension, Anne can supplement her income from her retirement savings while sacrificing a portion of her income into her superannuation.

Anne currently receives $66,953 in after-tax income. Anne's financial adviser explains that if she salary sacrifices $26,450 p.a., she will still receive $50,125 p.a. in income from her employer. Her financial adviser then explains that Anne can supplement her reduced income with pension payments of $21,230 p.a. from a TTR pension using her existing superannuation savings. This will mean that after tax, Anne will still receive $66,953.

Anne is happy that she will receive the same income and continue to live the lifestyle she enjoys, but wants to know how this will benefit her retirement savings. Her financial adviser explains that in the first year, her net salary sacrifice superannuation contributions of $22,482.50 exceed her TTR pension payments of $21,230. In addition, the investment returns within Anne's pension are not taxed. This means that in the first year alone, Anne's retirement savings are boosted by an additional $3,572.

And it gets better. When Anne turns 60, the payments from her TTR pension are tax free. This means she can reduce her pension payment amount and boost her retirement savings further.

For example, if Anne was 60, she could still receive the same after-tax income of $66,953 by drawing pension payments of $19,828 and her retirement savings would be boosted in one year by $5,057.

Assumptions: Anne's superannuation account balance of $300,000 is all taxable and fully preserved. Superannuation Guarantee is assumed unchanged at 9.5% of the original earnings base, no taxation deductions have been claimed. Qualifying private hospital cover is in place.

Taxation issues

Your retirement has never looked better

Generally, once your superannuation benefits become accessible, you can either take lump-sum payments or commence a retirement income stream.

In many cases, once you attain age 60, you will not pay any tax on these lump sum superannuation withdrawals or superannuation pension payments.

If you are accessing your superannuation before age 60 and you have reached your preservation age, no tax is payable on your lump sum amount below a prescribed low rate cap (i.e. $195,000), with the balance over this cap taxed at a maximum of 15%.

Additionally, if you access your super before age 60, you will generally be taxed at marginal rates for superannuation pension payments, however you may be eligible for a 15% tax offset.

Talk to your financial adviser or tax specialist to make the most of your retirement plans.

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RI/WoReF/09-15/V1