The PSK Guide to...

Planning for your retirement

Advice that puts you first

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The PSK Guide to planning for your retirement

What is transition to retirement?

Transition to retirement is a strategy that can help you reduce your working hours while maintaining the same level of income. This is achieved by drawing a pension from superannuation using the 'transition to retirement' condition of release.

What are the benefits of this strategy?

If you've reached your super 'preservation age' (currently 55 but rising to 60), you can take some of your existing super as an income stream to help make your transition to retirement a smooth one.

This is called a transition to retirement (TTR) strategy. And it can be very tax effective:

- You can continue to work and contribute towards your super using tax-effective salary sacrifice contributions;

- You can top up your income with a tax-effective income stream from your retirement account (between 4% and up to 10% of the account balance can be drawn each year); and

- There's even a way to 'refresh' your TTR strategy every year for potentially even more tax benefits.

How does a transition to retirement strategy work?

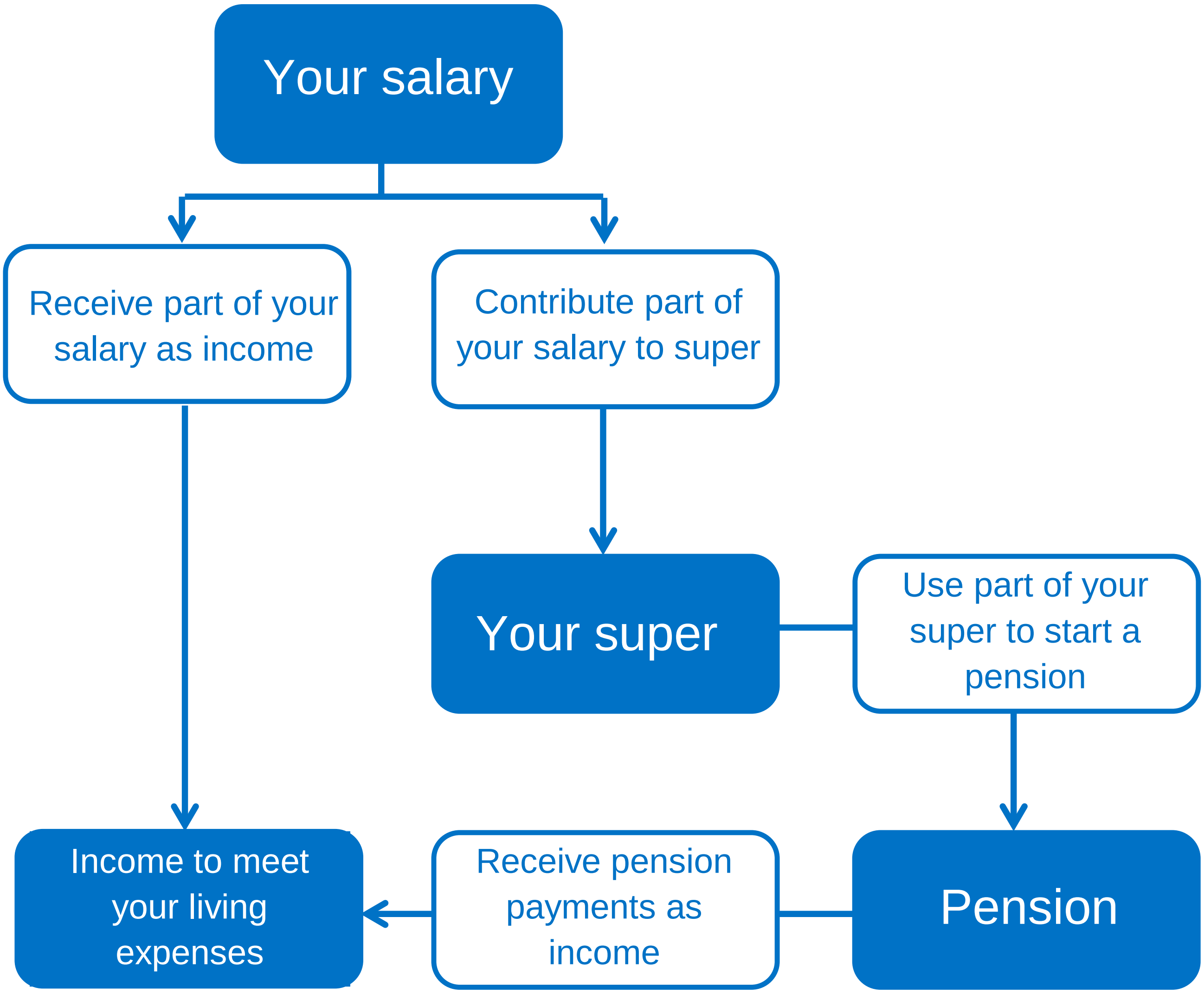
There are two main parts to a transition to retirement strategy:

- Directing a portion of your salary into superannuation, known as salary sacrifice; and
- Replacing the income you direct into superannuation with a regular payment from your super savings, otherwise known as a ‘pension’.

A transition to retirement strategy changes the way you receive your income. Instead of receiving your income from one source (your employer), you receive income from two sources (your employer and your superannuation savings).

How transition to retirement works

Your superannuation pension is taxed at more favourable rates than your salary. So, to replace your salary with a pension, you can draw a smaller amount from super and receive the same amount in your pocket. This means that your superannuation savings should still grow each year.



Pulling it all together

A transition to retirement strategy can be an effective way to boost your superannuation savings. But how much your savings grow will depend on the contributions you make into super through salary sacrifice, compared with the amount you withdraw as your pension. If you take out more money than you put back in, your savings will decline in value. This will result in you having less money to fund your retirement when you stop working altogether. This is where your PSK adviser can add enormous value to you.

Case Study 1: Less work, potentially the same after-tax income

Michael is over 55 and earns $75,000 a year before tax and has $250,000 in his super. He wants to cut back his working hours, which will reduce his before tax salary from $75,000 to $53,500.

Transition to retirement in action		
Results	**No TTR strategy**	**After TTR strategy**
Salary	$75,000	$53,500
TTR allocated pension	$0	$17,494
Gross assessable income	$75,000	$70,994
Income tax	($17,451)	($13,446)
Take home pay	$57,548	$57,548

As shown in the table, by using a TTR strategy, Michael can maintain his after-tax income, despite reducing his work hours.

But it does come at a price – your super balance may dwindle over time as you draw down your pension payments.

Case study 2: Same hours, more super

Georgie is over 60, earns $60,000 a year before tax and has $200,000 in her super. She chooses to use the full amount to start a pension.

As shown in the table below, together with her pension income, Georgie can salary sacrifice $29,300 a year and still receive the same amount of after-tax income.

Transition to retirement in action		
Results	**No TTR strategy**	**After TTR strategy**
Salary	$60,000	$60,00
Less salary sacrifice	$0	$29,300
Pension income	$0	$19,980
Less tax paid on salary (and pension)	($12,259)	($2,939)
Net income	$47,741	$47,741
Tax paid on super contribution	$0	$4,395
After tax contribution to super	$0	$24,905
Total tax paid	**$12,259**	**$6,969**

What's more at the end of the year, Georgie has boosted her super by $5,290.

How do I get started?

Your PSK adviser can help you strike the right balance and determine whether a transition to retirement strategy is the best way for you to maintain your income and lifestyle as you move towards retirement.

To find out more, you can contact your PSK Financial Adviser, visit www.psk.com.au or email us at info@psk.com.au for more information.

Or complete our online '5-Minute Financial Health Check' now to get a clear understanding of where you are now, and where you'd like to be.

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