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Did You Know?

The amount of money invested through superannuation has now broken through the \$900bn mark. Statistics just released by the Australian Prudential Regulation Authority reveal that as at 31 March 2006, total superannuation assets stood at \$905.4bn. This represents an increase of just over \$50bn for the 3 months since 31 December 2005.

Source: APRA – “Statistics – Quarterly Superannuation Performance” – Issued 29 June 2006.

Transition to Retirement

It is now just over 12 months since the “transition to retirement” regime was introduced. Originally implemented to assist people approaching retirement, this strategy can be very effective for anyone aged between 55 and 65 with accumulated superannuation benefits.

Today, most accumulated superannuation benefits are “preserved”. This means that the benefit can not be accessed as a lump sum or as an income stream (such as an allocated pension) until a “condition of release” has been met.

A condition of release is met in a number of circumstances including on reaching age 65, on ceasing employment after turning 60 years of age, and upon permanent retirement on or after reaching “preservation age”. Preservation age is currently 55, but for those of us born on or after 1 July 1960, this will progressively increase to 60. There are some other limited circumstances where preserved benefits can be accessed including on; the death of a superannuation fund member, in cases of disablement and in certain situations involving severe financial hardship.

It is not uncommon for people approaching retirement to progressively reduce their work commitments as they “transition into retirement”. However, a reduction in working hours usually brings a corresponding reduction in income. Many people saw their growing superannuation account balance as a potential source from which income could be drawn to supplement the reducing income from employment. Certainly not an unreasonable conclusion to draw.

But unfortunately the preservation regime that was in place prior to 1 July 2005 would not allow a person to access their superannuation benefits whilst they continued to work, even on a part-time basis as they generally could not satisfy a condition of release.

The Government, whilst actively encouraging Australians to remain in the workforce, even on a reduced basis, saw the need to allow restricted access to superannuation benefits for those in the community who sought to supplement their income whilst transitioning to retirement.



So, effective from 1 July 2005 superannuation legislation has been amended to extend the conditions of release. From that date, anyone over the age of 55 may now access their superannuation even if they continue to work. But there is one catch....and that is, benefits may only be received as an “income stream”, and not as a lump sum. A superannuation income stream that commences under the transition to retirement must be “non-commutable”. That is, it can not be cashed out or converted to a lump sum until such time as one of the other conditions of release has been satisfied (i.e. reaching age 65, leaving employment after turning 60, permanently retiring after reaching preservation age etc). There are a number of types of pensions that can be used to pay a “transition to retirement” income stream, the most popular being the “non-commutable allocated pension” (NCAP).

A NCAP works in the same manner as a normal allocated pension with one exception. As the name implies, it is not commutable. The NCAP is an account based pension where the level of income to be paid is calculated at 1 July each year.

Formulae are used to determine the minimum and maximum amount of income that can be drawn over a 12 month period. The formulae takes into account a member’s pension account balance as at 1 July and their age at that time.

By way of a simple example, let’s consider Joe who is 57 years of age and commenced a NCAP on 1 July 2006. The amount he transferred from his superannuation account to commence the pension was \$400,000. Based on his age of 57, the minimum income he must draw during the next financial year is \$19,610, whilst the maximum that can be drawn is \$35,400. He has the flexibility to choose an income between these limits.

getting you from **a** to **b**

If Joe was looking to supplement his "other" income by an amount less than the minimum (say \$10,000), he would simply arrange to transfer less than \$400,000 from his current superannuation account to commence the pension. In this case, if Joe wanted to draw a minimum income of \$10,000, he would simply need to set aside \$200,000 in the pension account.

Transition to retirement pensions are used predominantly by two groups of people. First are those people who are seeking to supplement their income. Perhaps your working hours have reduced (either voluntarily or beyond your control) and you need to generate additional income to meet your day-to-day needs.



The second group of people who may benefit from commencing a pension under the transition to retirement regime are those who wish to increase the tax effectiveness of the income they receive.

Because most superannuation pensions paid to people over the age of 55 receive a tax benefit in the form of a 15% tax offset (rebate), income from a superannuation pension may be more concessionally taxed than income received from other sources such as wages and salary. To qualify for these tax concessions, the pension must be paid from a "taxed" superannuation fund (about 90% of all superannuation funds in Australia are taxed funds), and the amount applied to commence the pension must be within the fund members reasonable benefit limit.

One trend that has emerged over the course of the last 12 months is for people to commence a superannuation pension under transition to retirement and simply "salary sacrifice" all or part of their income from employment back into superannuation. This allows them to receive a concessionally taxed income stream through superannuation and then invest surplus income back into the superannuation system.

With the proposed changes to taxation of superannuation pensions, particularly for people aged 60 or more, due to come into effect from 1 July 2007, commencing a superannuation pension under transition to retirement will become very attractive in terms of delivering significant tax savings, particularly for people who have a taxable income of more than \$25,000 per annum.

Reviewing the possible benefits of commencing an income stream under the transition to retirement regime is something that should be at least considered by anyone aged between 55 and 65 who has some money in superannuation (or has funds available that can be contributed to a superannuation fund) and is seeking to either supplement or replace their existing income, or is looking to increase the tax effectiveness of their income. Anyway the good news is...you don't need to be retired to take advantage of this opportunity.

Getting the best out of using a transition to retirement strategy can be complex and advice from an appropriately experienced financial planner will help you avoid the pitfalls.

Source: Peter Kelly – Professional Investment Services"

Effective Salary Sacrificing

At the start of a new financial year the hearts and minds of income earners often turns to considering ways of reducing the amount of tax we pay.

One strategy for reducing personal tax is to sacrifice part of our salary into superannuation.

Salary sacrificing involves foregoing part of our salary and having our employer make additional contributions into superannuation on our behalf. This allows us to build up additional savings for our retirement whilst receiving an immediate tax benefit. This occurs because income we receive from wages or salary is taxed at our marginal tax rate (which may be up to 45%, plus Medicare levy) whilst superannuation contributions are taxed at a maximum rate of 15%.

The Australian Taxation Office allows tax concessions where salary sacrificing arrangements are "effective".

One of the hallmarks of an effective salary sacrifice arrangement is that there must be an agreement in place between the employee and their employer. This agreement must be put in place before the work to which salary sacrificing applies has commenced. In other words, you can't salary sacrifice after the work has been done.

Salary sacrificing can be a very effective way of reducing the amount of tax we pay whilst building wealth for our retirement. There are some pitfalls but by following the ATO guidelines, these can be avoided.

If you think salary sacrificing is for you, seek advice from your financial planner or accountant before acting.

Source: Peter Kelly – Professional Investment Services

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