THE WEEKEND AUSTRALIAN

Weekend We

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Get paid more for wo

Smarter use of super savings could allow older workers to shift to a three-day week, writes **Tim Blue**

FANCY a three-day working week? Sounds great, especially to those clambering towards the big retirement day. There's a glitch to this glorious vision, however, in that less work usually means less pay: family budgets wilt in the dollar drought and so the idea gets shelved.

Adelaide-based financial planner Theo Marinis has a solution that many will find appealing. It allows, for example, a three-day working week to be topped up with income from superannuation, so that cash in your pocket is back up to the five-day level.

And it is possible to later revert to full-time work if you want, and keep building your super balance.

In the budget, the federal Government made much of keeping older people in the workforce. According to Marinis the solution will be available from July 1, due to changes in superannuation rules applying to allocated pensions — a form of privately-purchased income streams.

As Marinis says, the changes are good news for those 55 and over who have saved away in super, because they can get access to 10.5 per cent of their super money without needing to retire.

"It allows people to cut back on a working week yet keep their lifestyle, by using super money," he says.

"They can also choose to transfer part of their super savings to this environment, and leave the rest to accumulate and grow. It's a relatively small rundown in super savings, which in turn allows a postponed full-time retirement."

Look to chart one for an example of how the arithmetic could work in the 2005-06 financial year.

Take the case of fictitious Phil, a 55-year-old who has $340,000 in super and is on a salary of $50,000 a year before tax, to which his boss adds the 9 per cent compulsory super contribution. The table shows the figures for those with a lesser super balance of $200,000.

Phil is earning a gross income of $50,000. After income tax and the Medicare levy, his take-home pay for 2005-06 is $38,890 a year. Total tax payments — on his salary and on the balance of his super fund — have been $14,760 a year.

His super has grown to $364,650, assuming he has made no personal contributions. The employer's 9 per cent contribution and the funds earnings have been taxed.

Phil decides he wants to work a three-day week, and top up the salary shortfall by buying a (non-commutable) allocated pension using all of his existing $340,000 in super. In doing so he is effectively running two super funds — the old accumulation fund and the new allocated pension fund.

Under the rules for allocated pensions, Phil can receive an annual pension in 2005-06 of as little as $17,170 or as much as $35,420.

As it happens, earnings within an allocated pension fund are tax-exempt, whereas the same money in his old super balance was being taxed at 15 per cent on the earnings.

By swapping the nature of his super, his tax on fund earnings is cut from $2975 to nil. Tax is still payable on any contributions that Phil might make to his now shrunken old fund — perhaps through salary sacrificing — and on his employer's 9 per cent SG contribution.

Phil's gross salary falls to $30,000 or three-fifths of last year's $50,000. See the second chart for how he fares under a three-day working week, depending on whether he takes the minimum or maximum pension. The chart also shows the numbers if Phil's super balance was $200,000, instead of $340,000.

In an ideal world, Phil might not need as much as $54,000 a year income, but perhaps only $44,000 a year. Phil has several options, including:

- Salary sacrifice the spare $10,000 using pre-tax dollars from this salary and direct it to his super fund.
- Reduce the amount of pension taken (within the prescribed limits).
- Transfer a lesser amount of his super balance to the allocated pension (or commute part of the pension back to superannuation).

Marinis says it makes sense to salary-

rking less

to salary-sacrifice into your existing super account — while drawing down on the allocated pension fund."

According to Andrew Lawless, MLC's Technical Services Manager, the new measure allows older Australians to shift into retirement by using their preserved super to buy a non-commutable income stream.

While it's possible to have a non-commutable version of almost any income stream, Lawless believes that most product providers will only offer a non-commutable allocated pension, because of its flexibility.

"With this option clients can roll their preserved benefits back to super at any time," he says. "Or they can commute the pension and take a lump sum, or buy a different type of income stream once a normal condition of release is met, such as reaching age 65.

"This is not possible with complying income streams, such as term allocated pensions, outside of the first six month."

Lawless describes the rules as simple and generous, provided you meet the main condition of having reached preservation age (55 for those born before 1960).

"There are no constraints on how many hours you can work and no limit on the amount that can be invested in a non-commutable income stream.

"And assuming the income stream falls within a person's reasonable benefit limit, they would qualify for a full 15 per cent tax offset on the income payments."

So what's the downside? Such a strategy will run down retirement benefits faster than if Phil kept working full-time. A lot depends therefore on how much is taken out between the upper and lower limits of the allocated pension.

But on the flipside, he would run down his super slower than if he fully retired.

Other pluses from a shorter working week are a life less tiring and more enjoyable. It may also enable you to work less but for longer.

"For many men and women who have worked since their teenage years, it can be a shock to suddenly stop work completely. This way is a transition into retirement," says Marinis.

Clearly, not all employers will want to lose senior staff to a shorter week, but this must surely be a better option than losing them to full-time retirement. "Here's a way to keep their skills and knowledge on tap," Marnis says.

sacrifice any surplus salary (for Phil, taxed at 31.5 per cent) and invest it in the super fund (where it will be taxed at the rate of 15 per cent). "If you can afford it and your employer is willing, you are able

FICTITIOUS PHIL'S THREE-DAY PLAN

Chart 1: How his super grows now

	$	$
Super balance July 1, 2005	340,000	200,000
Plus		
Employers SG contribribution (9% of $50,000)	4500	4500
Fund earnings (3.5% capital growth and 3.5% income on super balance)	23,800	14,000
Less		
Tax on SG contributions	675	675
Tax on fund income and capital growth	2975	1750
Net super balance July 1, 2006	**364, 650**	**216,075**

Notes: Employer contributions and fund income are taxed at 15 per cent, while capital gains on investments (held for more than 12 months) are taxed at 10 per cent

Chart 2: How pay picks up by using allocated pension range

	$	$	$	$
Opening pension balance	340,000	340,000	200,000	200,000
Salary	30,000	30,000	30,000	30,000
Plus pension	17,170*	35,420^	10,100*	20,830^
Taxable income	47,170	65,420	40,100	50,830
Less				
Income tax on taxable income	10,719	16,758	8,492	11,871
Plus				
Pension tax offset	2,576	5,313	1,515	3,125
Mature age worker tax offset	500	500	500	500
Total personal tax	7,643	10,945	6,477	8,247
Total take home pay	**39,527**	**54,475**	**33,623**	**42,583**

* min ^ max

Source: MLC