

New Transition to Retirement Rules - Golden Opportunity for Older Workers

Some senior members of the financial planning profession are urging older workers to make the most of the government's new Transition to Retirement (T2R) rules. According to Theo Marinis of Adelaide's Marinis Financial Group, Transition to Retirement is a golden opportunity for older workers, and one which financial planners have a responsibility to explore with their older working clients.

"Minister for Revenue and Assistant Treasurer Mal Brough, should be applauded for introducing what I believe to be the simplest, yet most profound super rule change of a generation", says Theo Marinis.

According to Mr Marinis, Transition to Retirement rules - which give workers aged 55 or over, significant tax reductions - will reverse the trend of last half-century which saw Australians retiring at 55 and investing their super tax-free in allocated pensions and then 'double dipping' by claiming Centrelink benefits.

Transition to Retirement is the name given to the new set of rules allowing older workers to draw down on their superannuation while reducing their working hours – but also to continue to contribute to their savings while paying just 15 per cent tax on those contributions.

According to Mr Marinis, the benefits of the new Transition to Retirement are two-fold - firstly there is a benefit to society by keeping highly experienced people in the workforce and contributing financially to society. Secondly, the individual, by continuing in the workforce will be able to maintain a higher standard of living which will have obvious benefits to the individual, and will also provide flow-on effects to the economy through increased spending, bolstering economic growth and GST revenues.

By giving older workers the benefit of such a tax effective option, the new Transition to Retirement, rules will encourage people to stay at work, save more super and eventually retire as fully self-funded retirees and enjoy a much higher standard of living.

However, according to Theo Marinis, a strategy variation in the Transition to Retirement approach also allows people to receive "The Pay Rise You Never Knew You Had" by commencing a Transition Allocated Pension and receiving this pension income in addition to their normal full time salary. (*Case Study 1*)

"The pay rise you never knew you had" means, for example, people can finance the purchase of the new car, holiday home and/or take the big overseas holiday they always wanted but couldn't afford, not to mention reduce debt" commented Theo.

"It also means people can support their family by paying the kids' HECS fees or the grandkids' school fees."

Transition to Retirement also can allow people to "Increase their Super and their Future Retirement Income, Without Compromising their Current Lifestyle" (*Case Study 2*) by commencing a Transition Allocated Pension and receiving this pension income instead of part of their normal full time salary, which is salary sacrificed, back into super!

This strategy variation is what some recent articles (including a recent Sydney Morning Herald article) alluded to, as there are significant tax savings, as a result of implementing such a strategy.

Yet some recent media articles miss the point of the Transition to Retirement rule change. By suggesting the ATO may knock down "Increase Your Super and Your Future Retirement Income without Compromising Your Current Lifestyle" strategy variations, under Part IV A of the tax act, as a tax avoidance scheme.

According to Mr Marinis, such claims underestimate the new policy's appeal and the government's master stroke with this policy, as it transcends the tax effectiveness only.

Whilst it does give significant tax breaks, it is the flexibility of the rule which will encourage older workers to continue working, spending, saving and contributing to society, much longer than has been the case in the past, which is the beauty of this policy.

According to Mr Marinis “Transition to Retirement is the Real Super Choice” as it gives those aged 55 or over, unparalleled flexibility to arrange their lives as they choose. Theo believes that this is “Super for the twenty first century.”

This new golden opportunity for older workers seems to have been overlooked, even on many within the financial planning community."

Mr Marinis calls on financial advisers to fully explore the opportunities the new Transition to Retirement (T2R) rules offer for older working Australians and to make the most of these new rules when advising their clients.

"Unfortunately, only a very small number of superannuation funds have recognised the opportunity this initiative provides members. One leading master trust, Navigator, is already set up to allow this," said Theo Marinis.

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