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Retirement Living

SPECIAL REPORT

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REACH OUT FOR MORE

New rules kickstart better options to boost your post-retirement income, writes **Tim Blue**

RETIREMENT INCOME

Income boost	Before $	After $
Salary	90,000	90,000
Super Guarantee (9%)	8,100	8,100
Salary package	98,100	98,100
Plus allocated pension	0	31,000
Gross pay	90,000	121,000
Less		
Income tax on taxable income	26,100	40,420
Medicare levy	1,350	1,815
Plus pension tax offset	0	4,650
Total net personal tax	27,450	37,585
Total take home pay	62,550	83,415

WHEN to start your retirement is a question that is often hard to answer. For many there is a sense that the time is near, yet we are reluctant to leap from full-time work to a life we fear might be too empty.

A range of options has just opened for the over-55s under new rules that allow a transition to retirement. They can be worked to allow, for example, a three-day working week without a drop in income; or perhaps a short-term income boost when you need extra cash and even a way to cut income tax.

All are variations on a theme — of how to use some of your super ahead of full-time retirement. The main tool is an allocated pension — a privately bought pension that comes with tax breaks.

Here's how to use an allocated pension for a short-term boost to cash in your pocket.

Let's say Harry is 56, earning well and has several children at an expensive stage of their lives — perhaps about to become university students and face big fees. Harry would like to be able to pay these fees up front, to collect a 20 per cent discount for doing so. Suddenly finding an extra $20,000 a year would be very convenient.

See the table above. Harry, who is on a salary of $90,000 a year, happens to have $600,000 in super. He uses this to buy an allocated pension — one of the non-commutable type that generally can't be changed back to cash.

Under the rules, he can draw an income of between $31,000 and $63,000. Let's say he opts to take $31,000 a year, which lifts his gross income to $120,000. After taxes and the Medicare levy, he has a take home income that is $20,000 a year better than before.

By using his super as a pension, Harry got an extra $31,000 a year income but only lost about an extra $10,000 in tax. This is because he collected a $4650 tax offset from the government (set at 15 per cent of the allocated pension income).

Not only that, but his former $600,000 in super is no longer being taxed at 15 per cent on its earnings. It is providing an allocated pension, whose earnings are not taxed.

So one year later, Harry has an allocated pension that is delivering an extra $20,000 into his pocket. His super account is picking up the employer's 9 per cent super guarantee payment, and despite the pension payment, his total retirement assets have grown to $619,067, albeit not the $643,067 they might have grown to otherwise.

How else could Harry have got his hands on $20,000? He could have worked longer hours to earn about $40,000 extra, of which close to half would have been lost at the top marginal tax rate of 47 per cent and 1.5 per cent Medicare levy. But by taking advantage of the tax concessions on an allocated pension, the tax hit is much softer.

As Theo Marinis, an Adelaide financial planner, says, "Everyone can use some extra cash at this stage of their lives, and this is one way to do it.

"It gives families the chance to use the money when they need it, or start to build assets elsewhere such as a deposit on a holiday house or one for the children."

A point to remember is that this strategy works better when investment earnings in the allocated pension are high. Conversely, the lower the investment earnings, the lesser the benefit in relation to super.

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