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PENSION IS NOT A DIRTY WORD

Many financial planners are selling themselves – and their clients – short by not offering the latest tax-effective tools.

Adelaide-based financial strategist Theo Marinis warns that advisers not explaining the benefits of the new transition-to-retirement pensions are doing a major disservice to their clients aged 55 years-plus.

These rules allow workers to save on tax and beef-up their super. Workers aged over 55 can use these new provisions to supplement part-time wages, receive extra tax-effective income or step up super savings.

They can roll their existing super into a transition-to-retirement pension and use the very tax-effective pension income to supplement other earnings.

Pension earnings are tax-free and the pension tax offset means assessable pension income is taxed at 15 per cent less than the client's marginal tax rate.

Marinis said: "The 2006 Budget super proposals reinforce a new, simpler, flexible and very user-friendly super system.

"Marinis Financial Group has been implementing these strategies for clients since they were introduced, on 1 July 2005 – and our clients have benefited greatly."

He offered these examples. "Take John, who is 55 and on a salary package of $90,000 pa plus $8,100 pa in super guarantee (SG). On his adviser's recommendation, John undertakes a super salary sacrifice while simultaneously rolling over his existing $600,000 super account into a transition-to-retirement pension/income stream.

"The strategy would then see John take a gross salary of $25,000, (salary sacrificing $73,100 back into his super account). Simultaneously he draws $51,750 gross from his transition-to-retirement pension to make up for his reduced take-home salary.

"As a result, John's net personal tax (after allowing for his transition-to-retirement tax offset) falls to $11,938 pa. John accumulates total benefits (super plus his transition-to-retirement pension account) of $656,734 at the end of the financial year."

Marinis continued: "Frank, John's 55-year-old workmate also earns $90,000 pa gross salary plus $8,100 pa in SG. However, Frank does not seek advice and, as a result, does not implement a transition-to-retirement strategy.

"He pays $23,850 in personal tax. With his normal SG regular super contributions, Frank accumulates total super benefits of $643,067 at the end of the same period. (See details on table 1, below)

"And the proposed 2006 Budget super changes mean benefits are even further enhanced for the over-60s after 1 July 2007! (See table 2, below).

Clearly, these transition-to-retirement provisions present a fabulous opportunity to built post-retirement prosperity," said Marinis. "The potential client benefits are huge, and enhanced by the further 2006 Budget Super proposals."

Theo believes that state and federal governments too, have been slow to recognise the potential of the new legislation.

"We need to encourage these governments to change their own employment rules to come into line with the transition rules; to enable public servants to take their super pensions and return to work in their old jobs, part-time if they choose to." he said.

"Australia runs a real risk of running out of public servants by 2012! As around 40% of public servants are due to retire in the next five years alone."

Marinis believes "The transition-to-retirement provisions are not a tax issue, nor are they under a Part IVA cloud." (A Tax Office rule designed to ban contrived tax-avoidance schemes).

"The ATO has previously confirmed it is comfortable with arrangements," Marinis said. "The enhancements proposed to transition-to-retirement pensions in the 2006 Budget, further reinforce the government's comfort with these strategies." said Marinis.

LIFESTYLE TRANSITION

"Australia's workforce is about to experience a lifestyle transition and these changes to super are not just retirement strategies – they are looking ahead to an impending skills exodus," he said.

In 2006, around one-quarter of a million baby-boomers will be turning 60 and considering retirement. Thereafter for the next decade or two, around a quarter-million people will be turning 60 each and every year.

Marinis said: "Poor old Gen X and Y 's would face an incredibly unfair tax and work burden if we don't implement changes to encourage Baby Boomers to stay connected to the workforce, even part-time, for as long as possible."

Transition-to-retirement means people with superannuation income streams would not resort to the 'double-dip', Marinis said.

"In the past, these double-dip retirees were constantly worried about how much money they had and how long it would last. The transition-to-retirement provisions will encourage them to keep working, possibly to keep saving through salary sacrifice and super contribution splitting. It means they can aspire to a great quality of life in retirement."

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TABLE 1

Based on Proposed 2006/07 Tax Rates	Frank (Aged 55)	John (Aged 55)
$90G Salary, Pension, Salary Sacrifice	Without Transition Income Stream	With Transition Income Stream + Super Salary Sacrifice
Salary Package	98100	98100
Salary	90000	25000
Salary Sacrifice	0	70850
Superannuation Guarantee	8100	2250
Gross Take home salary	90000	25000
Allocated pension	0	51750
Total Gross take home income	90000	76750
Deductible amount		0
Assessable income	90000	76750
Tax payable	23850	18550
Medicare levy payable	1350	1151
Pension Tax offset	0	7763
Net income	64800	64812
SUPER		
Opening balance	600000	Transferred to Pension
Contributions	8100	73100
Earnings (Est. 7% pa gross)	42567	5117
Fund Tax Payable	7600	11733
Closing balance	643067	66484
TRANSITION INCOME STREAM		
Opening balance	0	600000
Pension Received	0	51750
Earnings	0	42000
Closing balance	0	590250
Total Super and/or Transition Pension balances	643067	656737

TABLE 2
Based on Proposed Super Rules from 1 July 2007

Based on Proposed 2006/07 Tax Rates	**Frank (Aged 60)**	**John (Aged 60)**
$90G Salary, Pension, Salary Sacrifice	Without Transition Income Stream	With Transition Income Stream + Super Salary Sacrifice
Salary Package	98100	98100
Salary	90000	25000
Salary sacrifice	0	70850
Superannuation Guarantee	8100	2250
Gross Take home salary	90000	25000
Allocated pension	0	Tax Exempt from 1/7/2007 based on 2006 Budget announcements
Total Gross take home income	90000	25000
Deductible amount		0
Assessable income	90000	25000
Tax payable	23850	2,850
Medicare levy payable	1350	375
Pension Tax offset	0	0
Net income	64800	64800 (21775 net salary + 43025 tax free pension payment)
SUPER		
Opening balance	600000	Transferred to Pension
Contributions	8100	73100
Earnings (Est. 7% pa gross)	42567	5117
Tax Payable	7600	11733
Closing balance	643067	66484
TRANSITION INCOME STREAM		
Opening balance	0	600000
Pension Received	0	43025
Earnings	0	42000
Closing balance	0	598975
Closing balance	0	598975
Total Super and/or Transition Pension balances	643067	665459