RETIREMENT NEWS

A super life really begins at 140pc

Working and collecting super at the same time just got easier, reports Gillian Bullock

THE transition to retirement will get better when income drawn down from a superannuation pension becomes tax-free for those aged 60 or over.

According to modelling undertaken by Deutsche Asset Management, you could be more than 140 per cent better off with the new rules.

Transition to retirement refers to the time when, once you are 55, you transfer some or all of your super into a non-commutable pension and draw down an income. The strategy was initially aimed at encouraging people to stay in the workforce longer by allowing them to work fewer hours and supplement their salary with the income stream from the pension.

However, it can also be used for those still working full-time, as long as they are aged 55 or over. And by salary sacrificing your wages into super, you can end up with a greater balance when you finally retire.

The proposed move to abolish tax for those aged 60 or over withdrawing money from their super has further enhanced this strategy.

Deutsche's technical manager David Giltrap says people on a gross package of $100,000 who convert their $200,000 of super savings to a pension and then salary-sacrifice would end up with an $80,017 benefit with the new rules, as opposed to $33,223 under the existing regime, both measured in today's dollars.

And much of this increase comes down to tax. Up to the age of 60, the money you draw down from your pension is added to your gross take-home salary as assessable income, but with the benefit of the 15 per cent pension rebate.

So, while you will still pay less tax than you would without salary-sacrificing, and build more super, the benefits arrive once you turn 60, when only gross wages after salary-sacrificing are counted for tax purposes. As Sue Merriman, head of technical at BT Financial says: "If you are still working when you turn 60 then the money from your pension will not be included in your tax return."

Under the case study used by Deutsche, this means that a 55 year old starting a transition-to-retirement strategy on a salary of $100,000 gross, would salary-sacrifice just $20,166 into super in the first year. This would give you the same $65,820 net salary that you would have received with no TTR strategy.

The salary-sacrifice into super figure would stay within a range of $20,000 to $22,000 until you reached 60, when it would jump to $49,593 in year 6 and maintain this level for the next five years.

And, under the new rules you could actually continue this strategy until you reached 75.

The only downside is that after 2011-12, you will be limited to a maximum of $50,000 a year in deductible contributions and this would include your Superannuation Guarantee. Until then, those aged over 50 will be allowed to salary-sacrifice $100,000 a year.

Because of this cap on deductible contributions, those with higher super balances will not fare as handsomely from the proposed budget changes. So, if you had a gross package of $100,000 but $500,000 in super, your end benefit would only grow 52.8 per cent from $83,057 to $126,989.

Giltrap makes the point that the strategy is very advice-driven and needs to be reviewed each year.

Adelaide-based financial strategist Theo Marinis agrees, stressing that it is not a set-and-forget strategy.

Marinis says every year, you should reconsider whether to transfer the new money accumulated in super through salary-sacrificing into the pension phase, given that it is then tax-free both in terms of income and capital gains tax.

Additionally, he says you should be looking at rebalancing your portfolio annually so that you do not find yourself forced into selling down growth assets to pay your income stream.

"Ensuring there are adequate funds invested in your cash account from which pension payments can be drawn leaves assets quarantined from any short-term market volatility," says Marinis.

Giltrap acknowledges that Deutsche's modelling is also based on assumed annual increases in salary and warns that the reality may be quite different: "Actual experience may vary drastically with some periods of flat salary levels or largish increases. You can't escape the fact that annual advice is crucial to the optimisation of the strategy."

In addition, he observes that while the strategy encourages people to stay in the workforce, the reality may be very different. "The fact is, this is a period of people's lives when employment continuity and prospects of re-employment are at their lowest during a worker's life," says Giltrap. "Luckily the strategy can be switched off fairly easily, with the TTR pension being able to be rolled back to super at a moment's notice. However, redundancy or a new employer with different rules on salary-sacrifice can play a part in the longevity of the strategy."

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