Maximise your retirement income

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SUPERANNUATION fund balances have been going backwards, but now is not the time to put the brakes on retirement planning strategies.

Shrinking nest eggs have put greater importance on making every dollar count, particularly for people in the decade before retirement.

Ord Minnett financial planner Cameron Spears says many pre-retirement strategies will provide financial benefits "independent of what the market will do".

"They're basically just a play on tax rates," he said.

Some strategies are simple. Some are more complex. All are worth taking a look at if people want to maximise their retirement income.

STICK WITH IT

Rawson Verco financial planner Tim Lindsay said the recent focus on poor super investment returns in the past two years was like a recent divorcee saying they would not marry again.

"Marriage can still work, but it's the individual choices that make the difference," he said.

While some investments had fallen sharply, the superannuation rules offered great benefits – especially for people nearing retirement, he said.

Mr Lindsay said buying cheaper investments in today's market was like the post-Christmas sales. "But it isn't a bargain if it doesn't fit your risk appetite," he said.

"Most importantly, consider contributing into a cash or more stable portfolio and then choose super on its own merits – don't avoid it for the wrong reasons."

SALARY SACRIFICE

This is the most common strategy for building super and saving tax.

It involves your employer putting some of your gross, pre-tax salary into your super, so you pay just the 15 per cent contributions tax rather than your marginal tax rate of up to 45 per cent.

Mr Spears said it was a "simple tax minimisation strategy".

Higher income earners benefited the most because they saved more tax.

"People on 30 per cent or above get the best benefits. If you are on the 15 per cent tax rate, you are not worse off but your scope to do it may be reduced."

CO-CONTRIBUTION

Free money is always nice to receive, and the Federal Government's co-contribution scheme rewards low and middle income earners who put some of their own money into their super.

"You can put $1000 in and get up to $1500 from the Federal Government," Mr Spears said.

The payment must be a personal contribution, technically called a non-concessional contribution, and the government's money goes into your super fund, not your pocket.

Mr Spears said employees earning less than $30,342 a year could qualify for the full co-contribution, while those earning up to $60,342 could qualify for a part-payment.

"The same rules apply for self-employed people," he said.

Pre-retirees who have switched to part-time work might find they now qualify for the co-contribution because of their lower income.

SPOUSE CONTRIBUTION

This is a tax offset that can reward people with a spouse who does not work or earns less than $10,800 a year.

The tax-paying partner can put up to $3000 into their spouse's super – as a non-concessional contribution – and get an 18 per cent tax rebate, for a maximum of $540.

"I don't think it is widely known, but once people start doing it they will generally do it for as long as it's available," Mr Spears said. "Because it's a tax offset, it's not advertised as much and is often forgotten."

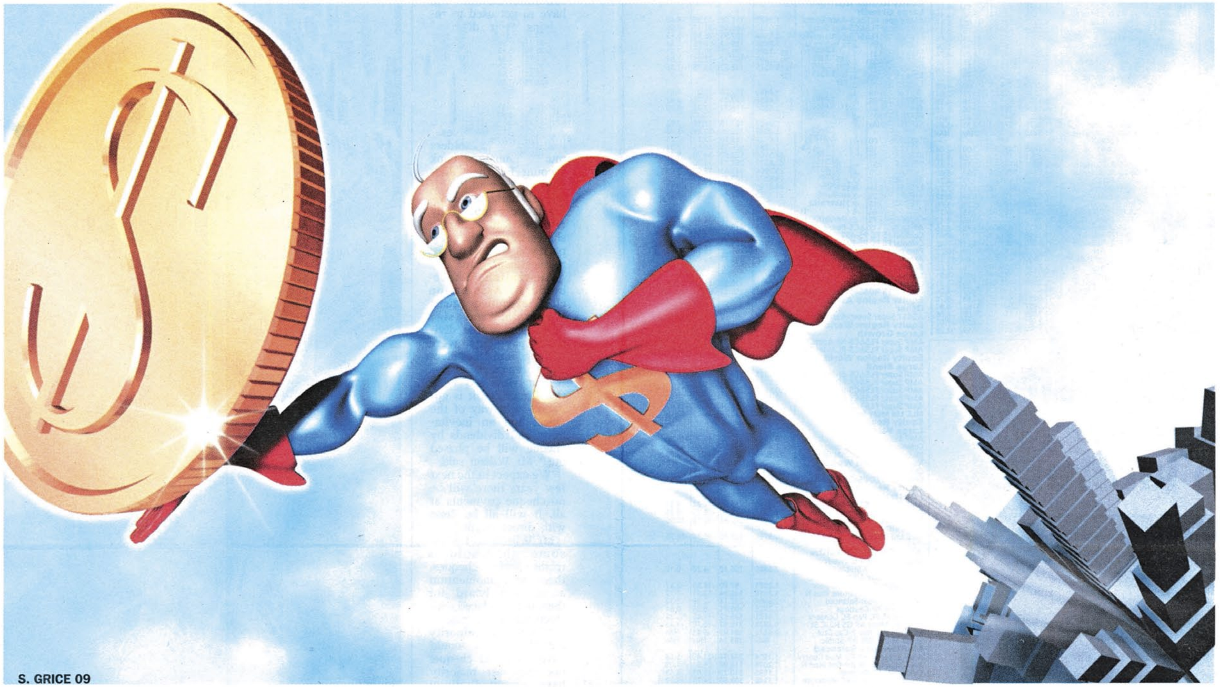
TRANSITION TO RETIREMENT PENSIONS

Savings & Loans senior manager financial planning Phil Butterfield said people approaching retirement and who could salary sacrifice into super would almost certainly benefit from a transition to retirement strategy.

"This strategy allows you to draw a tax-effective pension from your superannuation now, and the extra income to your salary sacrifice into super to boost your retirement benefit," he said.

Barker Wealth Management director Will Henwood said the strategy could be very powerful, because it captured the benefits of low tax rates available through super and retirement pensions.

"By swapping taxable salary for rebatable or tax-free pension income, a client can achieve an outcome where they pay less personal income tax and/or increase their eventual retirement benefit," he said. "However, investors need professional advice as certain variables can have a dramatic impact on the viability of such a strategy."



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Marinis Financial Group financial strategist Theo Marinis said combining a transition to retirement pension with an increased super salary sacrifice strategy could benefit everyone, "not just the big end of town".

SWITCHING ASSETS INTO SUPER

When you are retired, having all your investments in an allocated pension means you will pay no tax on any income or capital gains. Outside super these are taxed at marginal tax rates, which means a $100,000 capital gain on an investment property or shares sale could lead to a hefty tax bill.

There are also tax benefits from holding assets in super before it switches to the pension phase.

Mr Henwood said pre-retirees could consider taking advantage of low share prices to transfer assets held in their own name to their super fund.

"Depending upon the type of fund, this may be by making a cash contribution or transferring assets in-specie into their fund," he said. "The result will be a reduction in the income earned in their name, optimisation of the tax paid at marginal rates, and future earnings on that asset in the super fund will only pay tax at 15 per cent."

Care should be taken to identify CGT and stamp duty implications, Mr Henwood added.

William Buck financial services director Chris Kennedy said the decline in the value of growth assets presented an opportunity to restructure and control capital gains.

"However, you need to be aware of longer lead times to move assets into super," he said.

KEEP SOME CASH FOR A RAINY DAY

In investment terms, things have been very stormy recently.

Mr Kennedy said it was important in the current market to make sure people drawing down on their super had sufficient cash available to meet their needs, "so that selling down on growth assets is minimised".

"Cash and fixed interest are lowest risk generally, but there is a trade-off with income, especially in a low interest rate environment," he said.

"The right asset allocation is always the allocation that matches the individual's appetite for risk."

Most financial planners recommend that people drawing down from super keep at least two to three years of their income requirements sitting in cash.

SOCIAL SECURITY CHECK

Mr Butterfield said social security could play a significant role in a person's retirement income.

"Make sure you understand what your entitlements are, and how they're assessed, to get the most benefit," he said.

Mr Marinis said people made redundant as a result of the financial crisis should not see it as the end of the world.

"Talk to your adviser and Centrelink about the advantages of you volunteering to obtain Centrelink income support, and how you should structure your superannuation and investments to maximise Centrelink benefits," he said.

"Get good advice. Don't rely on Centrelink to help you maximise your rights. They will only answer questions, not recommend strategies to get the maximum benefits."

ESTATE PLANNING

Mr Butterfield said estate estate planning was critical at any time, but even more important as people got older.

"Can someone legally act for you if you become temporarily or permanently incapacitated – or even if you're just unavailable because perhaps you're travelling?" he said.

"Are you sure all your assets will transfer to the right beneficiaries, with the minimum amount of tax payable?"

Mr Lindsay said many people did not realise that superannuation usually did not form part of their estate upon death.

"It is generally dealt with by the fund trustees, quite separate from the executors managing their estate," he said.

"This can be an advantage or disadvantage to your loved ones, depending on how you look at it. The important thing is that, like wills, your super beneficiary nominations are well thought out and kept up to date."

STOP THAT MORTGAGE?

Mr Marinis said, if necessary, pre-retirees could stop paying the principal off their mortgage and "super-charge" their retirement savings by boosting their salary sacrifice into super.

But he also said it was important to get proper advice about making these types of decisions.

"Essentially, it's all about looking at how much is leaked to the tax system along the way and how much it earns in the end," he said. "This needs to be compared with how it could be working harder via a more tax-friendly system, such as super."

Mr Spears said the strategy could work if the investor's money was in high-growth assets, but was probably not worthwhile if their retirement savings were invested defensively.

"It depends on your risk profile, and the debate on whether your super or your house will perform the best over the long term," he said.

DOWNSIZING YOUR HOME

This might sound like a terrible option to free up money to fund retirement, but people who planned to downsize anyway might benefit from bringing it forward.

Mr Henwood said lower maintenance costs for a smaller home might also help counter the loss in retirement income.

"Retired investors aged less than 65 may see an attraction in the strategy of selling the home, buying a lower maintenance apartment and contributing the difference as a further capital injection into superannuation," he said.

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TIMING IS EVERYTHING

AMP financial planner Mark Haynes said it was important for people to be realistic about their retirement age and consider how much money they would need to fund their lifestyle.

"People nearing retirement who have been affected by lower super returns in the current economic climate may find it worthwhile considering working past their pension age," he said.

This could potentially deliver them a bonus payment through the Federal Government's Pension Bonus Scheme.

"People who defer claiming the age pension and stay in the workforce for at least 12 extra months may be entitled to a tax-free lump sum bonus when they eventually retire and claim the age pension," he said. "The longer a person defers claiming the age pension, the greater the bonus paid."

The payment can be more than $29,000 for someone working five years past pension age.