Media Release No: 70 **6th February 2017**

Rumours of the death of Transition to Retirement (T2R) are premature!

To the ill-informed, 'Transition to Retirement' (T2R) is dead and buried from 1 July 2017.

To them I say they have got it all wrong, just as they have since T2R was introduced about 10 years ago.

It is 'how, when and for whom' T2R will be utilised in the post 1 January 2017 retirement planning world (thanks also to the recent Age Pension Asset Test threshold changes) that has changed.

The critics of T2R miss the broader non-tax, lifestyle benefits, the flexibility and the lifestyle options it provides to those eligible to use this strategy (which may explain the regular claims that 80% of eligible people do not take advantage of it).

This could well be since it has not been fully understood by the people one would normally expect to make a competent analysis of the opportunities afforded by T2R.

If T2R has not provided valuable benefits to the users of this strategy, why then has the Coalition Government decided to clamp down on the tax benefits and in so doing, handed the next election to the opposition?

It remains the simplest, yet most effective, member friendly super change of the last 20 years. It was Peter Costello's best (dare I say, only positive) legacy for retirees and pre-retirees.

T2R was designed to assist Australians over preservation age (currently 56 years of age) to restructure their lives as they chose, by using this strategy as it best applied to their particular circumstances and objectives.

To use Treasury's own words at the time, the government hoped it would "encourage older Australians to maintain a connection to the workforce" by working at least part time and using their T2R pension to supplement their income as they TRANSITIONED to (full time) RETIREMENT later.

T2R has encouraged older Australians to connect to, and take greater interest in their super, as well as keeping them motivated to work (and pay tax) for longer. It has provided them with the incentive to grow their super and eventually, provide them with a better retirement position.

The quid pro quo for the government was later, reduced outlays for Age Pensions – which after all, is the basic premise of the entire super system.

That for me is the point of T2R which has been missed by most people – including/especially, the current Federal Government!

An important and often overlooked fact is that T2R can also be used to provide additional tax effective income to fund lifestyle choices (including home renovations and / or home upgrades) to reduce / clear debts, or to reduce assets in the lead up to age pension age.

This latter strategy of asset reduction or 'double dipping' (reaping the tax benefits of super now to implement a plan to qualify for maximum age pension entitlements later) has not been as popular in the last decade or so. However, it is now back in vogue with a vengeance, thanks to the Federal government's short sighted 1 January 2017 Age Pension Asset Test changes.

But whilst the Coalition Government has most certainly made T2R less attractive from a tax saving and super boosting perspective, it remains a significant tool in designing effective retirement and pre-retirement strategies.

From 1 July 2017, greater knowledge and analysis on a case by case basis will be required to determine if the tax and lifestyle benefits of a T2R strategy warrant its implementation or retention.

<u>The mechanics of T2R tax savings pre and post 1 July, 2017:</u>

T2R allows the working person over preservation age to sacrifice part of their salary to superannuation (above the 9.5% Super Guarantee and within a maximum contribution threshold) and then simultaneously draw a pension from their existing super fund, to tax effectively replace the net salary forgone, because of the increased salary sacrifice into superannuation.

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It remains a valid strategy for those who wish to work part-time after preservation age (the primary reason for which T2R was originally introduced); it allows the 'income valley' which comes with part time employment, to be filled by drawing down on super prior to permanent retirement.

The availability of the strategy is subject to rules surrounding preservation age (changing from 56 to 57 from 1 July, 2017) maximum concessional contribution caps, and other variables including current salary, existing super fund balances and the tax components of each person's super.

Described as a virtuous circle, T2R will still work this way, BUT with severely reduced tax savings due to the taxing of T2R pension income within the fund, and the reduction of the Concessional Contribution cap from $35,000 to $25,000, both legislated to take effect on 1 July 2017.

The examples below summarise the broad T2R outcomes under the current rules, and the rules post 1 July, 2017.

They assume a salary range of $80,000 pa - $100,000 pa, and are based on the worst-case scenario, of a super balance with a taxable component of 100%.

T2R under age 60	**Annual savings range**	
	1 year	5 years
Pre-1 July 2017	$3,600 - $4,000	$18,000 to $20,000
Post 1 July 2017	$1,000 - $1,400	$5,000 to $7,000

Logically, a T2R strategy can and should be used immediately by anyone not maximising their current $35,000 pa concessional contribution (CC) cap.

With such a low current CC (and an even lower threshold available from 1 July 2017) it makes sense for every working person to maximise super contributions (including using T2R where possible) ***'as soon as they can, as much as they can, for as long, as they can.'***

T2R over age 60	**Annual savings range**	
	1 year	5 years
Pre-1 July 2017	$7,300 - $8,300	$36,500 to $41,500
Post 1 July 2017	$3,180 - $4,500	$15,900 to $22,700

T2R is currently (and will remain post 1 July 2017) much more tax effective for those over 60 as the receipt of pension income is **100% tax exempt.**

Note:
The examples above are based on a worst-case scenario of a super balance with a taxable component of 100%.

A T2R pension commenced with a 100% Tax Free NCC (Non-Concessional Contribution) would achieve the same NET financial savings ranges per annum as those in the over 60 examples above, even for those not yet aged 60.

Clearly, with so many factors to consider, from 1 July 2017 the days of implementing a 'vanilla' T2R strategy yourself or with some 'simple' advice from your super fund, are well and truly over!

From 1 July 2017 T2R will not be as tax effective as it used to be, but it will still enable your working life to be structured in a manner which most suits you. It is clearly a strategy worth investigating and using according to your personal objectives; to continue to ignore it without seeking competent professional advice may well be a valuable opportunity lost.

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