



## Fact Sheet

### What you need to know to transition into retirement

If you are 55 or over and are still working, then you can access your super under the Transition to Retirement rules. Depending on your circumstances, this may help you:

- boost your retirement savings and reduce the amount of tax you pay, or
- reduce your working hours and supplement your income from your super.

This factsheet explains how the Transition to Retirement rules work and the things you need to consider before commencing your transition to retirement.

#### How it works

The Transition to Retirement rules allow you to purchase what is called a 'non-commutable account based pension' with your super and use it to provide you with a regular, tax-effective income. It works like this:

1. Use your super savings to set up a pension, such as the AustralianSuper Pension.
2. Draw a regular income from your pension.
3. Contribute the salary paid by your employer to super to grow your super savings.

#### Reduce the amount of tax you pay

Due to some generous tax concessions, Transition to Retirement can be a tax effective strategy:

- If you're 60 or over, pension payments are tax-free.
- If you're aged between 55 and 60, your pension payments are subject to income tax. But part of your pension payment may be tax-free and you'll receive a 15% tax rebate on the taxable part of your payments when you lodge your tax-return.
- No tax is payable when you transfer your money into a pension and investment earnings on your pension are tax-free.
- Contributions to super are taxed at 15% (within limits), which is lower than many people's income tax rate of up to 46.5% (including the Medicare Levy).

**Tax savings can make a big difference leading up to retirement.**

#### Is a transition to retirement strategy right for you?

To set up an AustralianSuper Pension under the transition to retirement rules, you must be aged 55 or older (but under 65), have a minimum of \$10,000 in super, and still be employed while the transition to retirement strategy is in place.

A transition to retirement strategy may suit you if:

- You want to boost your super in the lead-up to retirement and you can afford to heavily salary sacrifice into your super.
- You'd like to work part-time, but can't cover your living expenses on the reduced income.
- You are over 60, so will receive your income payments tax-free.

## Slow down prior to retirement or give your super savings a boost

How you use a Transition to Retirement strategy will depend on your retirement objective. You can ease into full retirement by working fewer hours, or you can accelerate your super savings in the years just prior to retirement.

If the idea of cutting back your working hours prior to full retirement appeals, but you don't think you could manage on the reduced income, then this option may suit you.

With a Transition to Retirement strategy, you can work less but maintain your income with payments from a pension to supplement your salary. With lower tax on income payments, you can also save on tax.

### Case study: How Marco increases his savings

At age 61, Marco realises he needs more super than the \$150,000 he has saved for retirement. But without any spare income to invest in super, he decides to move his super to an account-based pension using a transition to retirement strategy.

	Current situation	Using a transition to retirement strategy
<b>Annual income (before tax)</b>		
From work	\$60,000	\$37,519
From pension payments*	0	\$14,500
<b>Super contributions</b>		
Superannuation Guarantee	\$5,400	\$5,400
Salary sacrifice	–	\$22,481
Take-home pay	\$47,400	\$47,400
<b>Additional super savings before tax (salary sacrifice less pension payments)</b>	–	<b>\$7,981</b>
* This figure is a result of various calculations to maintain your income level. It's an example only and shouldn't be taken as financial advice in any way.  Source: AustralianSuper Transition to retirement calculator, July 2009.	Marco maintains his take-home pay with income from his AustralianSuper Pension account, while boosting his super by \$7,981 after just one year.  Of course, he could choose to reduce the income he receives to really super-size this boost.	

This example is for the financial year ending 30 June 2010. It assumes that salary sacrifice contributions don't reduce Marco's Superannuation Guarantee contributions from his employer.

### Case study: How Hilary goes part-time, on a full-time salary

Hilary celebrates her 55th birthday by going part time at work. She still has a few years of her mortgage to pay off but wants to slow down at work. Her full-time salary of \$60,000 gives her \$47,400 in take-home pay. But reducing her working week from five to four days would leave her out of pocket by \$7,740.

	Five days a week	Four days a week – using a transition strategy
<b>Annual income (before tax)</b>		
From work	\$60,000	\$48,000
From pension payments*	–	\$9,736
<b>Less tax payable</b>		
Income tax and Medicare levy	\$12,600	\$11,796
Less pension rebate	–	\$1,460
<b>Take-home pay</b>	<b>\$47,400</b>	<b>\$47,400</b>
* This figure is a result of various calculations to maintain your income level. It's an example only using \$150,000 in super and shouldn't be taken as financial advice in any way.  Source: AustralianSuper Transition to retirement calculator, July 2009.	Hilary uses a transition to retirement strategy to make up the shortfall of going part time and maintains her take-home pay.	

This example is for the financial year ending 30 June 2010.

## Getting started

Before you set up a pension using the Transition to Retirement option, here are a few important things to think about.

### If you want to boost your super, how much can you salary sacrifice?

Additional salary sacrifice contributions as part of a Transition to Retirement strategy can make a real difference to your final savings, depending on your circumstances.

Use our Transition to Retirement calculator to help you work out the optimum amount you can salary sacrifice into super. The calculator is available at [www.australiansuper.com/pension](http://www.australiansuper.com/pension) under Tools & Forms.

Salary sacrifice contributions are taxed at 15%, so salary sacrifice contributions become more beneficial the higher your marginal tax rate. Obtain professional advice from a qualified accountant or financial planner to determine whether salary sacrificing into super is appropriate for your circumstances.

There are some limits to how much you can salary sacrifice:

- The Government limits the amount of money you can contribute to super at the tax rate of 15%. Members aged 50+ can contribute up to \$50,000 pa. Amounts contributed over this limit are taxed at 46.5%. From July 2012, this limit will be reduced to \$25,000 pa. The limits also include any amount of Superannuation Guarantee contributions paid by your employer.
- Employers don't have to provide employees with a salary sacrifice arrangement. Find out from your Payroll Officer or Human Resource Manager if you can salary sacrifice into super. Your employer or industrial and/or workplace agreements also may impose limits on the amount you can salary sacrifice into super (eg. maximum of 60% of salary).
- Salary sacrificing into super may reduce the amount contributed by your employer through the Superannuation Guarantee. Again, check with your Payroll Officer or Human Resource Manager to determine whether this applies to you.

### How much income will you need to draw from your pension?

The amount of income you draw from your pension will depend on a number of factors, including:

- The size of your pension account balance - under Transition to Retirement rules, the maximum you can withdraw is 10% of your account balance (this restriction is removed when you permanently retire, change employment at or after age 60, or reach age 65).
- If you opt to reduce your working hours, the impact this will have on your employment income.
- Whether you have any other income to rely on.
- Your living expenses.

The AustralianSuper Transition to Retirement calculator will provide a guide as to the amount of income you can draw from your new pension.

## Can I withdraw lump sums from my AustralianSuper pension?

Pensions provide you with a flexible and regular income. When you set up a pension under Transition to Retirement, there are minimum and maximum amounts you can withdraw each financial year. The minimum amount is a percentage that is based on your age. Between age 55 and 64, the minimum is 4%. The maximum amount is 10% of your account balance.

Pensions under Transition to Retirement, must be 'non-commutable'. This means that generally you won't be able to make lump sum withdrawals from your pension account in addition to your regular pension payments. These restrictions apply until you permanently retire or reach age 65.

### Other important things to know are:

- Once you start receiving payments from your pension, you cannot make any further deposits, transfers or rollovers into your pension account. So, you need to make sure you combine all the funds you need before you set up your pension account.
- Centrelink will take into consideration the balance of your pension account and a proportion of your pension payments when assessing your eligibility for the Government age pension.
- If you die, the remaining balance of your pension account will be payable to your dependants and/or your legal personal representative.

### How much income tax will be deducted from your new pension?

If you are under 60, then the taxable portion of your pension payments will be taxed according to PAYG income tax rates. But you will receive a 15% tax rebate. AustralianSuper deducts income tax before payments are made.

If you earn other income (such as salary, rental and investment income), the amount of tax deducted by AustralianSuper may not be enough to fund your yearly tax liability. In this instance, you might want to vary the amount of tax deducted from your pension. To do this, we suggest you contact your accountant to determine the appropriate amount of tax to be deducted from your pension.

### Get professional financial planning advice

As you can see, there's a lot to consider before taking advantage of Transition to Retirement. So it's a good idea to think carefully about the information contained in this fact sheet and then consider seeing a professional financial adviser to help you implement your strategy. Take your AustralianSuper Pension Member Guide with you, which has the application form at the back.

Commission-free financial advice is available to you through Industry Fund Financial Planning (IFFP). As an AustralianSuper member, the initial consultation is free. You are then able to decide whether to proceed based on a fee-for-service approach. Call 1300 138 848 to arrange an initial discussion with IFFP.

AustralianSuper does not recommend, endorse or accept responsibility for these products and services. Terms and conditions apply – these should be obtained from IFFP.

### Need more information?

For more information on AustralianSuper Pension and Transition to Retirement, read the AustralianSuper Pension Member Guide, available at [www.australiansuper.com/pension](http://www.australiansuper.com/pension) under Tools & Forms or by contacting the Customer Service Centre on 1300 789 932.

For more information on retirement planning ask for Ready.Set.Retire full of hints and tips to help you plan.



### Why choose a pension with AustralianSuper?

AustralianSuper is one of Australia's largest super funds with more than 1.4 million members and over \$29 billion in funds. We're run only to profit members and our key purpose is to maximise their retirement savings. Anyone can join Australian Super.

The AustralianSuper Pension provides you with all the features you expect from a pension:

- Low administration and investment management fees
- Strong long-term investment performance
- You decide how much you receive as pension payments (within the minimum and maximum limits outlined).
- Choose how frequently you want to receive the payments.
- Invest in up to 15 investment options.

This factsheet was issued in November 2009 by AustralianSuper Pty Ltd ABN 94 006 457 987 AFSL 233788 Trustee of AustralianSuper ABN 65 714 394 898.

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