How can a transition to retirement (TTR) strategy work for me?

StatePlus

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If you'd like the flexibility of working part-time or if you want to boost your super as you approach retirement, a transition to retirement (TTR) strategy could be for you. In this fact sheet we'll talk about how TTR works for GESB scheme members.

What is a transition to retirement (TTR) strategy?

A transition to retirement (TTR) strategy enables you to keep working whilst drawing down some of your super as income from a pension prior to retirement. By doing this, you can:

- supplement your salary so you can further reduce your debt prior to leaving the workforce;
- supplement your salary so that you can maintain your lifestyle even though you're working fewer hours; or
- boost your retirement savings in a tax-effective way when you combine a TTR pension with salary sacrifice.

To start a TTR pension, you must have reached your preservation age (between 55 and 60 depending on your date of birth).

Strategy 1

Reduce your debt sooner

Perhaps you want to clear more of your debt before you leave the workforce, but you are currently paying the highest repayments you can, based on your current income.

A TTR strategy could enable you to draw income from funds you have already accrued and reduce your debt that little bit faster.

Strategy 2

Moving to part-time work

If you'd prefer to ease into retirement, a TTR pension could help you supplement your employment income if your part-time income alone is not enough to maintain your lifestyle. You will continue to receive employer contributions which may help compensate for part of the amount you take out in pension payments.

Using a TTR strategy in this way could provide you with an opportunity to explore new hobbies and start planning what you might like to do when you're fully retired. Retirement can feel scary, so this can be a good way to test the waters.

Strategy 3

Boosting your retirement savings

Combining a TTR pension with salary sacrificing can help build up your super savings ahead of retirement, especially if you have reached age 60. The reason this strategy is particularly tax effective after age 60 is because your fully taxed salary is swapped for tax free pension income, which reduces your overall tax burden and allows further salary sacrifice contributions to be made. If you are between preservation age and 60, the tax effectiveness of this strategy will depend on your particular situation.

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How Georgie boosted her super by $51,000 and saved nearly $10,000 in tax

Background

Georgie was 56 years of age and her goal was to retire at 60. She was a member of West State Super (WSS) and had a GESB RI Allocated Pension, plus a managed investment. She was single, with two teenage children, a home owner with no mortgage.

Having reached preservation age, Georgie had commenced an RI Allocated Pension through a TTR strategy but was not receiving enough income to support her desired lifestyle. Having already gained an understanding of the TTR strategy, she wanted expert advice to improve her position, increase her super prior to retirement and better utilise the options available to her through her WSS scheme.

The strategy

Thanks to the unique rules of WSS (and her particular situation), Georgie was entitled to make unlimited concessional contributions without breaching the cap rules. After seeking advice from a StatePlus planner, Georgie salary sacrificed her entire income (approx. $100,000) into her WSS account to save on tax and boost her super, while replacing her sacrificed income with a concessionally taxed pension income.

Notes: The ability to contribute more than the annual concessional contribution cap of $25,000 is only available to WSS members*.

No contributions tax is paid on the salary sacrifice contributions when they are made, rather tax is paid when you access your benefit – 15% tax on the first $1.445 mil (2017/18) of untaxed component.

*Some rules apply to the WSS limits so we recommend personal circumstances be taken into account prior to taking action.

The numbers

As a result of the strategy:

- Georgie paid less income tax, but more super tax. Once these adjustments were taken into account, Georgie saved a total of $9,993.
- Over a 4-year period, Georgie increased her super balance by $51,000.

Salary sacrifice to WSS account	**$100,000**

After tax adjustments

= **$9,993**
SAVED ON TAX

Over a 4-year period

= **$51,00**
INCREASED SUPER BALANCE

The outcome

Using this strategy, Georgie was able to reduce her tax whilst taking home the same amount of money each year. At the same time, her super balance was growing at a faster rate, putting Georgie in a stronger position to achieve her goals and dreams for retirement at 60.

Note: This example was based on Georgie's personal scenario and the strategies available at the time of implementation.

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Considerations for Untaxed Scheme Members

(Gold State Super and West State Super)

- Transferring funds from the 'untaxed scheme' environment of Gold State and West State Super into the 'taxed scheme' of a TTR will trigger the payment of 15% tax on the untaxed element of your benefit up to the untaxed plan cap (untaxed amounts in excess of this are taxed at 45%)
- Gold State members can access up to 100% of their benefit to commence a TTR, however, access to all or part of your benefit will reduce your Benefit Multiple
- If you have an eligible service date prior to 1 July 1983, there may be some factors to take into account with crystallising the tax components of your benefit
- If you're a Gold State Super member, whatever portion of your benefit you use for your TTR pension, that portion will be subject to the ups and downs of the market, based on your chosen investment option (rather than the risk free formula of GSS)
- As an 'untaxed scheme' West State Super doesn't have annual limits on before tax (concessional) contributions, so drawing income from a TTR, along with a salary sacrifice strategy could allow greater tax savings*

*Untaxed plan cap of $1.48 million over lifetime limit for constitutionally protected funds for 2018/2019 financial year.

Things to consider before you start

Probably the biggest disadvantage of a TTR pension is that you begin drawing down on your super savings before retirement. If the funds you are drawing down are not replaced, this could increase the risk of your super funds not lasting your lifetime.

However, on the flip side, if you are re-contributing funds into your superannuation via salary sacrifice, you could be saving in tax and boosting up your retirement savings at the same time.

Next steps

The outcome of a TTR strategy will depend on your individual circumstances, such as your cash flow requirements, salary and other income, ability to salary sacrifice (including your scheme allowances), and the tax components of your super. In addition to this, transition to retirement rules can be complex. Before you decide which strategy is right for you, it's a good idea to seek expert advice.

To find out more about how we can help you, call us on 9214 4141. Our local WA experts can provide personal advice on your GESB benefit.

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