# *Preparing for retirement*

## Secrets to retirement success for GESB members

StatePlus

*Formerly State Super Financial Services*

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# *Preparing for retirement*

## Welcome to the *Preparing for retirement* guide, a handy toolkit to help you make the most of your GESB scheme

**This guide is packed with practical tips and resources to guide you through key retirement decisions about your West State Super and Gold State Super.**

We share real-life experiences from a GESB member and get you on the inside track on how to retire well. You'll be in-the-know and well equipped to answer important questions about your retirement:

- What do I need to consider when deciding when to retire?
- How can I boost my super before I retire?
- What strategies can help me successfully transition into retirement?
- What's the best way to manage my money before and during my retirement?

While the content in this guide focuses on West State Super and Gold State Super, much of it also applies to GESB Super members.

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# Transitioning to retirement

## You may have thought about your financial plan, but are you really ready to retire?

Do you have a plan in place to road test retirement, or will you dive straight in? Getting the timing (and strategy) right can help you maximise your GESB benefit and set you up for a better retirement.

### *GESB Secret*

**There are rules to be aware of when gradually transitioning to retirement.**

If you're a West State Super (WSS) or Gold State Super (GSS) member working past preservation age, you could enjoy significant tax savings with a Transition to Retirement (TTR) pension strategy. This is particularly the case with WSS, as there is no annual limit on pre-tax payments into this fund.

However, there are important things to bear in mind if you're considering this option. When you start drawing on either fund, whether it's a TTR pension or the full benefit, this means paying out any taxes owing on the value of the fund.

If you have accumulated benefits from before 1983, there are ways of reducing the tax payable on your fund at this stage. If you fall into this category and are considering TTR, it's a good idea to seek professional advice before you take any action.

Before deciding whether to take up a TTR pension, it's also worth getting an update on your current benefit multiple and seeking further advice if you've received tax benefits before 1 July 1983.

## Georgie's story: Freedom to make all the right choices

Since retiring, I wonder how I ever had time to work. There just aren't enough hours in the day for what I want to do — being with family and friends and exploring around Perth and overseas. I have a great life so it's good to be giving to other people with my volunteer work for Lifeline Crisis Support. It's intense but very rewarding.

Before I started my Transition to Retirement (TTR) pension, I was worried about having enough super to make choices after leaving work.

There's no point living until 90 if you're not going to enjoy it and money can make all the difference. Plus, I want to make sure my two daughters are looked after and help them get into their first home.

By following advice from my StatePlus planner, Roxanne, I was making a huge boost to my super in my last five years at work. It felt fantastic knowing I would have a good quality of life in retirement instead of just existing. It's well worth seeking advice like I did, because it's just so important to know you'll have choices when you retire. You can just slow down and appreciate things that matter.

# Clarify your vision for retirement

Before calculating how much money you'll need to live a comfortable retirement, it's helpful to get clear on what retirement will look like for you. You'll then be able to determine if your finances will be able to fund your desired lifestyle, or if you need to take steps to change your financial situation. Use this practical worksheet to unlock your vision.

**What top three things would I like to do during my retirement?**

**Would I like to keep working, and if so, how many hours a week?**

**What hobbies and interests would I like to pursue?**

**What kind of holidays would I like to take? And how often?**

## My Life List

Close your eyes and get creative about the goals you want to achieve.

| *At 60 I want to...* | *At 65 I want to...* | *At 75 I want to...* |
|---|---|---|
| Spend my weekends... | Spend my weekends... | Spend my weekends... |
| Spend my weekdays... | Spend my weekdays... | Spend my weekdays... |
| Look forward to... | Look forward to... | Look forward to... |
| Contribute to... | Contribute to... | Contribute to... |
| Have achieved... | Have achieved... | Have achieved... |

# Transition to Retirement (TTR) strategies

## How can a TTR strategy work for me?

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.

### 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.

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

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 Retirement Income (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 $1.48 million (2018/19) 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 this 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

= $51,000
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.

# Considerations for Untaxed Scheme Members (Gold State Super and West State Super)

- Transferring funds from the 'untaxed scheme' environment on 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*. Bear in mind that if you are also making contributions to another fund, the contribution caps apply and also penalties can apply if the cap is exceeded.

* 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.

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.

# The secret to a happy retirement

## If you're retiring soon, you may be thinking about reducing your working hours and trying your new life on for size.

Or perhaps you're planning to leave work altogether and start retirement right away. Whatever your strategy, here are some things to help you make a smooth transition into your new life.

### Explore new hobbies

Hobbies are a great way to stay engaged, keep active and learn new skills. By taking up a regular hobby you may also enjoy a sense of routine, something you might miss once you finish work. To find out what's happening in your local area, you can search online or take a look in your local newspaper.

### Surround yourself with loved ones

As human beings we crave interaction. Staying connected to those around us is essential to remaining happy and healthy. Reconnecting with friends and visiting family regularly are great ways to do this.

### Keep learning

If you've ever been interested in an area of study, retirement could be the time to pursue it. Undertaking study can bring new meaning and purpose to your life in retirement. Thanks to online technology there's plenty of options no-matter where you live. Two good places to start is your local TAFE and Adult Learning Australia.

### Assess where you live

It's important to assess where you want to live and ensure it's right for you in the long-term. Where you live today might not meet your needs later on in retirement.

## Getting your retirement formula right

Your formula for a happy retirement very much depends on what you'd like to do and how you want to enjoy your retirement. There are a lot of factors to think about and plenty of ways you can fill your days. They key is finding out what is going to work for you.

# Are you emotionally ready to retire?

## *Quiz*

**If you've been working your whole life, leaving the security and routine of employment may mean completely 'reinventing' what life looks life for you. Many retirees are busy working out the money side of things and often forget about getting emotionally ready to retire. Answer the questions below:**

### *Q1* Do you have a realistic plan for what retirement will look like?

A. No, I'm going to worry about that when I'm already retired

B. I have some idea of what I'd like to do when I'm retired

C. Yes, I can clearly picture my life in retirement and I know what I'd like to achieve.

### *Q2* Have you discussed your retirement with family and close friends?

A. No, it's my decision when and where I want to retire

B. Very loosely, I don't want to burden those around me

C. Yes, I am open and honest about my feelings and appreciate the advice.

### *Q3* Are you looking forward to leaving work?

A. No, I don't know what I'll do with my time

B. I am looking forward to some free time, but I will miss the routine and friendships

C. Yes, I am really ready to enjoy a well-earned break.

### *Q4* Do you have peace of mind that you will be adequately provided for in retirement?

A. No, I'm worried about whether my money will last my retirement

B. Some. I think I'll be OK, but it does still worry me

C. Yes, I'm confident that my financial plan is a good one and that I'll be OK.

### *Q5* Overall, do you feel positive about your retirement?

A. No, I'm worried about how I'll cope financially and otherwise

B. I'm looking forward to retirement, but I still feel nervous.

C. Yes, I am ready to enjoy the freedom to do as I please.

## If you answered mostly Cs: You're in good emotional shape

Great work, you've obviously put a lot of thought and consideration into your retirement. You're satisfied with where you are in life and feel ready for the next chapter. Before you enter retirement feet first, it's wise to do some final due diligence to check you have the right foundations in place. Here are some key questions to think about:

- Could I be doing more to maximise my GESB benefits?
- Is my investment strategy fit for retirement?
- Is there an optimum date to retire?

Making sure your financial plan can support your plans for retirement is the best way to ensure your retirement dreams come to fruition.

## If you answered mostly Bs: You're almost ready (but not quite)

You've done some thinking about your retirement plans – now it's time for action. Putting pen to paper about your retirement goals, sharing your hopes and dreams with your loved ones and ensuring you have a strong social circle close by are great steps forward. In relation to money, speaking to a planner could help put your mind at rest about things that might sometimes keep you awake at night. Here are some key questions to think about:

- Should I consider transitioning to part-time work before fully retiring?
- Am I making the most out of contributing to my West State super scheme?
- Am I averaging the maximum percentage into my Gold State super benefit?
- Is it time to talk to my partner and family and share my retirement plans?

Getting expert advice about your retirement plans is the best way to give yourself emotional and financial security.

## If you answered mostly As: There's still some work to do

You might be underestimating the impact that retirement could have on your life, and without some careful planning it might just take you by surprise. Taking some simple steps is often all it takes to build momentum and feel more positive about the future. Here are some key questions to think about:

- What would my ideal retirement look like?
- Who do I know that has already retired? What could I learn from them?
- How can I maximise my GESB scheme benefit/s and put myself in the best possible financial position?

The good news is, help is always on hand. Talk to those around you and enlist the help of a retirement expert who specialises in the unique attributes of the GESB schemes to put in place your financial plan.

# Investing for retirement

When it comes to managing your money, retirement is about being proactive and staying vigilant. Getting your investment strategy right could be the difference between a good retirement and a great one.

## *GESB Secret*

**In retirement, your money won't be protected from the markets.**

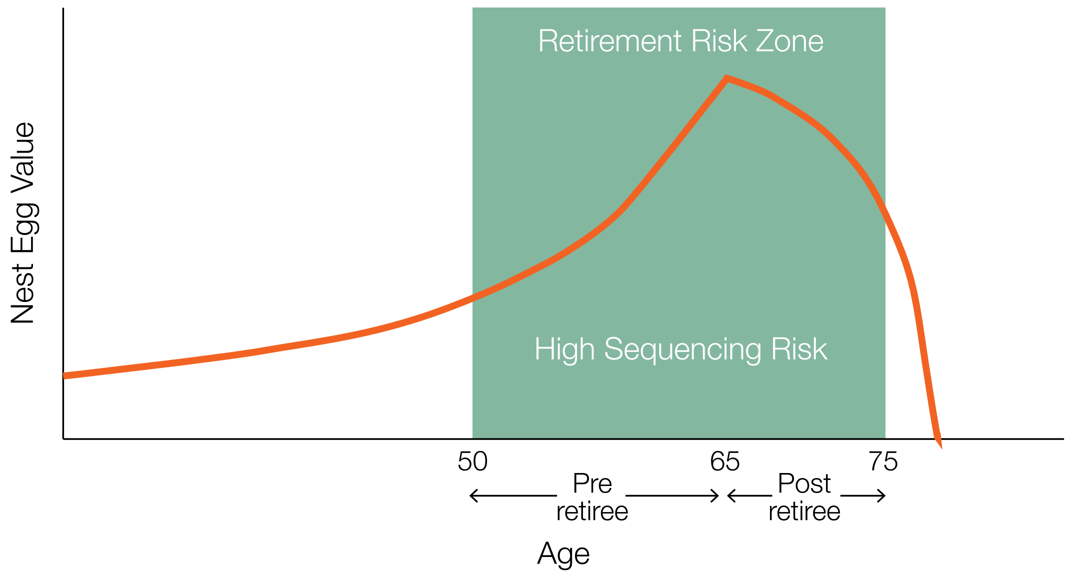
If you're a Gold State Super (GSS) member, the value of your super and final benefit is not affected by investment markets. The amount you'll receive from GSS at retirement is guaranteed by a formula so there is no market risk to your benefit. Once you retire, however, you'll need to decide how to invest your super to give you the best chance of having enough income throughout retirement.

Investing decisions are particularly important in the years just before and after retirement. This is known as the "retirement risk zone" because your super is at its peak in value. If some — or all — of your super is invested in market-linked assets, a downward trend can produce a significant fall in value. If you make a withdrawal to pay living expenses during a market slump, it can lock in losses, leaving you with less to invest and earn income from.

So, it's important to make informed choices about your investment strategy so you can make the most of your benefit from West State Super and/or Gold State Super in retirement.

### The Retirement Risk zone

Your savings are at their greatest during the five years before and after you retire, so during this period you are exposed to more risk if you experience any investment losses. This phase of the savings life cycle is commonly called the 'Retirement Risk Zone'.



# Why is investing for retirement different?

Every investor faces the risk of losing money, but the outcome for those approaching retirement (or already retired) can be particularly devastating. That's because it's much harder to recover losses when you are already drawing down on your money. Just one year of poor returns could lead to a significant dent in your portfolio and seriously impact your plans for the future.

That's why, it's important to understand the risks, and implement a plan that seeks to find the right balance between short-term risk and long-term growth.

### Investment risks in retirement

There are three key investment risks that must be taken into account when planning your investment strategy for retirement:

- Sequencing risk - When your money is held in super, as a retiree you face sequencing risk. This is when the order and timing of returns can have a significant effect on how much money you have available later on.
- Longevity risk - In simple terms, longevity risk is the risk of running out of money in retirement.
- Inflation risk – Inflation risk is the risk that the rising cost of living reduces the intrinsic value of your savings.

## How is investment risk managed before and during retirement?

### A diversified investment strategy

Having a greater diversity of investment strategies means that you are also diversifying the risk you are exposed to. This may reduce the potential losses and the length of time to recover when more traditional asset classes, such as shares and bonds, are performing poorly.

### Balancing income certainty with returns

Investing cautiously needs to be balanced with the need to take some modest investment risk. If you are too conservative with your investments, inflation will erode the value of your retirement savings. So, it's important to balance the right amount of investment risk, to achieve the right outcomes for you.

### Focusing on solid returns

Rather than chasing after the highest possible returns, it can be wise to prioritise strategies that generate solid returns over and above the rate of inflation, whilst providing protection from significant volatility at the same time.

### Staying invested during volatility

During periods of market volatility, it can be tempting to change your investment strategy and withdraw your investment, but this might in fact lock in your losses. Depending on your circumstances and long-term financial plan, it may be wiser to stay invested until the markets rise again.

# How well do you know your investment strategy?

Getting your investment strategy right could mean the difference between a good retirement, and a great one. Ask yourself these 5 questions to see where you are today, and what steps you might need to take next.

## 1 Do you know how your money is invested?

Knowing exactly where your money is invested is the first step to ensuring that your money is working as hard as possible on your behalf.

## 2 Do you know how long your money will last?

Understanding your current position today, provides some idea of how aggressively your money needs to grow in order to see you through retirement.

## 3 Do you understand your appetite for risk?

Understanding the level of risk that you're prepared to take to achieve greater returns, will inform your investment decisions.

## 4 Are your investments adequately diversified?

Making sure that your investments are appropriately diversified is an important step in protecting your money against significant market downturns.

## 5 Do you have a personalised, long-term financial plan?

Give yourself the best chance of a great retirement by avoiding common planning pitfalls and seeking professional advice from an expert. A StatePlus financial planner can assess your personal circumstances, and help you decide what strategy is right for you.

# Feel good about retirement with StatePlus

Navigating the complexities of your GESB scheme can feel daunting. The good news is, you don't need to make big decisions about retirement on your own.

Our expert planners can help you:

- Get clear on your retirement goals and how you might achieve them
- Maximise the benefits of your GESB scheme and reduce the amount of tax you pay
- Understand how much money you'll need to live in in retirement, and how you might make up for any shortfall
- Work out the best time to retire – and the right strategy for you
- Manage your money effectively in retirement

## We're easy to talk to

There's no need to go it alone. A StatePlus planner can talk you through your options, and help you assess what decision will put you in the best possible position for a happy retirement. A face-to-face conversation can often make complex decisions seem more straightforward.

We will:

- Listen to you and make sure you feel comfortable
- Work together to find out what matters to you the most
- Explain your options and any costs involved.

Our financial planners are salaried and do not receive product commissions, so you can rest assured that the advice you get, is in your interests only.

## Ready for expert advice about your retirement?

StatePlus planners are experts in GESB schemes. For a personalised financial plan designed around your needs, book an obligation-free appointment to see a StatePlus financial planner.

Call 9214 4141 or visit stateplus.com.au

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