

Transition into retirement at your own pace

Are you aged between 55 and 65? Want to save tax and supercharge your super? Or cut your work hours without reducing your income? A TTR strategy could be the answer.

After working hard over the last few decades, you might be starting to dream about all the things you would love to do when you retire – travel, buy that house at the beach, play more golf, or spend time with the grandchildren. At first blush that sounds like bliss but you know in your heart that you would be bored silly after the first six months. Is there a way to ease into retirement and have the best of both worlds? Yes, there is! You can transition into retirement.

What is a Transition to Retirement (TTR) strategy?

If you have reached your Preservation Age, a TTR Pension can enable you to access some of your super benefits whilst you continue to work.

What is your Preservation Age?

Date of Birth	Preservation Age
Before July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60



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A TTR strategy can be very beneficial as it can help you ease into retirement and provide you with significant tax savings.

What's the difference between super and a pension?

The main difference between a super account and a pension account is the tax rates applicable to the withdrawal options and investment earnings.

a) Withdrawals

You cannot withdraw lump sums from your super account until you have reached Preservation Age and have fully retired (or have met another condition of release). You can; however, access some of your super as a pension without the need to fully retire.

Before withdrawing from your pension fund, your financial adviser will need to determine the tax-free and taxable components of your super balance.

The split between these components

will determine the tax payable on your pension payments.

Any withdrawals from the tax-free component of your pension are not taxed.

If you have reached your Preservation Age but are still under age 60, you will need to pay tax on the taxable component of your pension payments. This will be added to your assessable income and taxed at your marginal tax rate. However, you will receive a 15% tax offset for the tax paid on this component.

Once you have reached age 60, all pension payments are received tax free.

b) Tax on investment earnings

Investment earnings on funds held within the super environment are subject to a 15% concessional tax environment whereas investment earnings on funds held within pension phase are completely tax free.

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IF YOU WOULD LIKE TO DISCUSS ANY OF THE FINANCIAL TOPICS FURTHER PLEASE CONTACT OUR OFFICE



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How does a TTR work?

There are two ways to use a TTR strategy – with a lifestyle focus or a tax-saving focus.

1. Lifestyle Focus:

A TTR strategy can enable you to reduce your work hours and still maintain the same level of income. Effectively, you draw down an income stream from your super benefits in order to top up the shortfall in your income.

For example

Peter is 56 and works as an accountant earning an income of around \$130,000 per annum (including super - \$84,473 per annum after tax). Peter has \$800,000 in his super account.

Peter decides that he wants to reduce his work hours to travel while he is fit and healthy before he fully retires from the workforce at age 65. As a result, Peter's income will reduce to \$65,000 pa (including super).

As Peter is over 49 years of age, he can make before-tax contributions to super up to a maximum level of \$35,000 pa. After speaking with his financial adviser, he decides to Salary Sacrifice \$28,825 pa to super. To top up his income, Peter rolls over his super benefits (\$800,000¹) to a TTR Pension and starts drawing a TTR Pension income of 7.65% pa (\$61,200 pa).

As a result, Peter will work less hours but still maintain the same level of after-tax income of \$84,473 pa.

2. Tax-Saving Focus:

On the other hand, you can also use a TTR strategy while you continue to work full time to help minimise your tax and maximise your retirement savings - and maintain the same level of income. Using this strategy you commence drawing an income stream from your super benefits and make Salary Sacrifice (before-tax) contributions to super in order to boost your retirement savings.

Back to our example

Let's look at Peter's situation again. Let's say he decides to continue to work full time until age 65 to maximise his retirement savings.

After speaking with his financial adviser, he decides to Salary Sacrifice \$28,825 pa to super. As a result, his pre-tax income reduces to \$95,000 pa.

Peter then rolls over his super benefits (\$800,000) to a TTR¹ Pension and starts drawing a TTR Pension income of 4% pa (\$32,000 pa).

As a result, Peter will maximise his super savings whilst maintaining the same level of after-tax income of \$84,473 pa.

The benefits of this strategy

Before using the lifestyle-focus TTR strategy, Peter's total tax payable was \$12,026 pa. However, after implementing this strategy his total tax payable will be reduced to \$6,671 pa.

Before using the tax-saving TTR strategy, Peter's total tax payable was \$34,248 pa. However, after implementing the strategy his total tax payable will be reduced to \$28,069 pa.

The tax-focus TTR strategy will bring about an additional benefit, as it will enable Peter to boost his retirement savings by around \$2,774 at the end of year one. He will also save tax on super investment earnings of around \$5,859 pa.

The risks

Using the lifestyle-focus strategy, Peter's retirement benefits will reduce by around \$41,904 pa when compared to his current arrangements (working full time). This takes into account pension payments and a reduction in investment earnings².

Peter (56)

Things to consider

There are restrictions in relation to how much you can draw from your TTR Pension. The **minimum pension requirement for a TTR Pension is 4% pa** and the **maximum drawdown is 10% pa** of your account balance.

If your super benefits are held within a Self-Managed Super Fund (SMSF), you will need to ensure your funds' Trust Deed allows for this type of pension to be paid. The assets and liabilities of the fund will then need to be valued to determine the value that will support each member's pension.

If you have reached your Preservation Age and wish to consider a TTR Strategy, contact us for individual guidance and advice.

¹ Assumes tax-free component of 60% of account.

² Assumes investment earnings of 5% pa.

Link your insurance and save

Research shows that around **one-fifth of Australians aged between 21 and 64 will suffer from a medical event**, such as an accident, injury or terminal illness that will leave them unable to work.

Despite this alarming statistic, it is estimated that **95% of Australian families have inadequate levels of personal insurance cover** in place, with many relying solely on the default cover held within super to protect them.

This is of great concern as insurance cover held through super can be very limited, with some types of cover prohibited from being held within the super structure.

What insurance cover can I hold within super?

You can hold:

- Life,
- Total and Permanent Disablement (TPD) with an 'Any Occupation' definition, and
- 'Indemnity Value' Income Protection

insurance cover within super without any potential problems.

However:

- Trauma,
- 'Own occupation' TPD, and
- 'Agreed Value' Income Protection

insurance cover is generally not available within super as a result of legislation that came into effect from 1 July 2014. Since then trustees of regulated super funds (including SMSFs) can no longer provide insurance policies to members unless the benefits satisfy a condition of release such as death, total and permanent disablement or reaching age 65, in the event of claim.

To address some of these restrictions, new styles of policies have emerged including flexi-linked Trauma and TPD, and income-linked Income Protection.

What is flexi-linking?

Trauma and 'Own occupation' TPD insurance cover can be 'flexi-linked' to Life and TPD insurance cover held within super. This is treated as one policy.

The way flexi-linked policies work is that the super fund trustee owns the portion of the policy that

can be released from super in the event of a claim e.g. 'Any occupation TPD' or the attached Life insurance cover (which can be released from super in the event of death). Whereas the individual owns the portion of the policy which would not meet a super condition of release in the event of a claim e.g. 'Own occupation TPD' and Trauma insurance cover.

What is income-linking?

Similar to flexi-linked policies, Income Protection insurance cover held personally can be linked to cover held within super via the 'income-linking' structure.

The benefits of linking

- You can still fund the majority of your insurance premiums from your super fund whilst being able to access additional insurance features generally not available through super, including crisis benefits and specified injury benefits.
- Premiums for flexi-linked Trauma and 'Own Occupation' TPD are generally cheaper than 'stand-alone' policies.
- Rather than paying two sets of policy fees, you will only need to pay one, reducing the premiums.
- You will generally be entitled to a tax deduction for the portion of your Income Protection insurance premiums funded via your personal cash flow.

The risks associated

- In the event of a claim, any benefit paid under the flexi-linked policy reduces the linked cover by the amount paid.
- The level of flexi-linked cover cannot exceed the level of linked Life cover.
- If the cover held within super is cancelled for any reason, such as the non-payment of premiums, the linked cover is also cancelled.

If you're looking for insurance cover and want to keep premiums affordable, a linked policy may be for you. Please contact us for personalised information.



Affording a higher education

School leavers furthering their studies face university costs that leave many with a legacy of debt while others won't be able to attend uni at all. A fortunate few have parents who planned ahead. Which best describes your situation?

According to the latest government figures, the cost of a university degree can be around \$37,000 per annum – higher for courses like medicine.

Parents are known to mortgage family homes to fund their child's tertiary education, while students rely on part-time jobs to follow their dreams.

These are common solutions to an increasingly costly problem, but there are alternatives.

HELP debt

This is a government-supported loan provided to eligible students to assist in meeting education costs.

The HELP scheme encourages student contributions to their university fees by reducing the overall cost of the course, although this may change if proposed legislation is passed.

The Australian Taxation Office (ATO) is advised of the amount of debt accruing on your HELP account. If your income exceeds \$54,126 in the 2016 tax year you must start repaying some of your debt – even if you're still studying. This figure increases each year.

HELP debt repayments are deducted from your income and submitted to the ATO by your employer in addition to your PAYG tax.

"Help, I'm a student with a HELP debt!"

The government encourages voluntary HELP payments but students usually can't afford to make them. But you may be surprised what you can afford if you set up a realistic budget.

Ask to meet your parents' financial planner. Not only can he or she show you how to clear your debt, they can develop a strategy to help establish future financial security – and a good adviser probably costs less than you think!

What can parents do?

Parents are considering education costs in their overall financial strategies. Through **targeted savings** plans with attainable goals, small, regular contributions really add up. An **investment bond** might be a good way to start small when your child is young. When ready, he or she could receive a sizeable sum of money to pay towards their higher learning. Bonds attributed to educational purposes attract significant tax concessions and if held longer than ten years, a bond is paid free of capital gains tax.

There are other options including insurance policies that may suit different family needs.

Higher education is expensive but with the right strategy in place, no goal is out of reach. Contact us for more information on how to reduce the stress associated with education.

More information:

HECS HELP www.studyassist.gov.au
"Help paying my fees"

Know your limits

When applying for loans, most people believe that lenders record credit card balances.

Wrong. Lenders record the full limit of every card – whether it's used or not!

So, if you have a card with a \$10,000 limit, the lender assumes it is a future debt and allocates a minimum monthly repayment of up to \$300 to satisfy that "debt"; even if you have used only \$100 of that limit. If you have three cards with a \$10,000 limit on each, there goes \$900/month!

A good idea is to reduce the limits or cancel unnecessary cards before you apply.

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