

Transition to retirement and access your super early

Does the thought of semi-retiring appeal to you but the thought of reducing your income cause concern? Would you like to tip more money into your super savings without negatively impacting your income? There may be a way to help you achieve your goals—it's called 'Transition to Retirement'.

How does Transition to Retirement work?

Most of your super is generally preserved, which means you can only take it in cash if you meet a condition of release allowed by law. For most people, this will be when you reach your preservation age and permanently retire from the workforce.

Your preservation age depends on your date of birth:

If you were born:	Your preservation age is:
Before 1 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

With a transition to retirement strategy, you can begin receiving an income from your preserved super benefits once you reach your preservation age, even if you haven't permanently retired. There are, however, some rules.

What conditions apply?

Firstly, to take your super in cash under transition to retirement rules, you must have reached your preservation age (see table above).

Secondly, you must take your super as a non-commutable pension. This simply means a pension that you can't convert to a lump sum until you meet another condition of release (refer to OSF Fact Sheet 2 for more information on conditions of release). This helps ensure that your super lasts for as long as possible. A transition to retirement pension meets this non-commutable condition.

How much can I receive as a pension?

You can generally invest as much of your preserved super in a transition to retirement pension as you like.

The government sets a minimum and maximum amount that you can receive in total pension payments each financial year, calculated as a percentage of your account balance.

If you are under age 65, you must take a *minimum* of 2% of your account balance as a pension for 2010/11. From 1 July 2011, you must take a minimum of 4% of your account balance as a pension if you are under age 65.

A *maximum* of 10% of your account balance also applies.

Your opening account balance is used to calculate your minimum and maximum amounts for the first year of your pension (or pro rata amounts if you begin your pension after 1 July). Your account balance at 1 July of each following year is used to calculate your new minimum and maximum for that financial year.

EXAMPLE You are 56 years old and invest \$150,000 in a transition to retirement pension on 1 July 2010. The minimum amount in pension payments that you can receive for 2010/11 is \$3,000 (ie. 2% x \$150,000) and the maximum is \$15,000 (ie. 10% x \$150,000).

Are there any risks to consider?

The main purpose of super is to provide for you in your retirement. However, there is no guarantee that your super will last for the rest of your life.

Beginning a transition to retirement pension may impact on how long your super lasts. In addition, the larger your pension payments, the faster your account balance may decrease.

Everyone's individual circumstances are different so you will need to consider whether a transition to retirement strategy is right for you. You should consider seeking professional financial advice before making any decisions that affect your financial future.

How is a super pension taxed?

If you are under age 60, the taxable component of your pension payments is treated as income and subject to Pay As You Go Withholding tax. The amount of tax withheld from your pension payments depends on your age, your pension amount and whether you have provided your tax file number.

If you are aged 60 or over, your pension payments are tax-free.

Note: If you withdraw a lump sum from your pension account, different tax rates apply.

CASE STUDY 1: David semi-retires and maintains the same income

David's annual salary is \$50,000 and he has accumulated \$300,000 in super. At age 55, he's started thinking about his retirement plans.

On one hand, he would like more time now to play golf, go fishing and spend with his family. On the other hand, he enjoys his work and the salary it brings and doesn't feel ready to give it up entirely just yet.

Can David semi-retire and maintain the same level of after-tax income without disadvantaging himself financially?

If David fully retires now

To maintain the same after-tax income if he fully retires, David needs an annual pension payment of \$41,900:

Gross pension payment (p.a.)		\$42,540
Income tax and Medicare	-	\$5,951
15% pension tax offset	+	\$6,380
Net income	=	\$41,900

Note: David's income tax and Medicare levy amount includes tax offsets that, with the 15% pension tax offset, mean his only tax liability is for a Medicare levy of \$638.

David's gross pension payment of \$42,540 is around 14% of his pension account balance (ie. \$300,000). If he continues to receive pension payments at this rate, he will have exhausted his pension account by age 63.

OSF Transition to Retirement Pension

The OSF offers a Division F Transition to Retirement Pension, as well as an Account-Based Pension.

For more information about these products, please read the *Product Disclosure Statement for Division F Account-Based Pension and Transition to Retirement Pension*, available from www.osfsuper.com.au or OSF Investor Services.

If David semi-retires and uses a transition to retirement strategy to supplement his income

David works part-time with an annual salary of \$30,000, which he can supplement with transition to retirement pension payments as follows:

Gross part-time salary (p.a.)		\$30,000
Gross pension payment (p.a.)	+	\$16,230
Taxable income	=	\$46,230
Income tax and Medicare levy	-	\$6,760
15% pension tax offset	+	\$2,434
Net income	=	\$41,900

By using a transition to retirement strategy, David can maintain the same after-tax income between ages 55 and 65. In addition, he will continue receiving super contributions from his employer because he's still working part-time.

By the time David reaches age 65, his retirement savings will be \$304,942¹.

Here's how David's options compare:

Option	Retirement balance ¹ at 65	Minimum annual pension on that balance
Retire now at 55	\$0	\$0
Transition to retirement now and retire at 65	\$304,942	\$15,250 ²

Therefore David could start working part-time at 55 without disadvantaging himself financially.

CASE STUDY 2:

Judy uses a transition to retirement strategy to grow her retirement savings

Judy earns \$50,000 per year and has accumulated \$300,000 in super. Even though she's reached age 55, Judy loves her work and wants to keep working until she's 65.

Can Judy use a transition to retirement strategy to help her save more for her retirement over the next 10 years?

If Judy makes no additional contributions to her super

Over the next 10 years, Judy's salary remains at \$50,000 per year and her after-tax income is \$41,900. Employer contributions and investment earnings¹ over this period mean that her retirement balance at age 65 would be \$485,626¹.

If Judy begins a transition to retirement strategy at age 55

A transition to retirement pension gives Judy a 15% pension tax offset that her salary income doesn't. She can then sacrifice part of her salary to her super to offset the withdrawal from her retirement savings.

However, Judy's after-tax income doesn't change. Here's how:

Gross salary		\$50,000
Salary sacrifice to super	-	\$14,791
Minimum pension (p.a.) on \$300,000	+	\$12,000 ²
Taxable income	=	\$47,209
Income tax and Medicare levy	-	\$7,109
15% pension tax offset	+	\$1,800
Net income	=	\$41,900

Judy's retirement savings are helped by the additional salary sacrifice contributions and tax-free investment earnings on her pension. By age 65, her retirement balance could increase by over \$45,000 to \$530,753¹.

Here's how Judy's options compare:

Option	Retirement balance ¹ at 65	Minimum annual pension on that balance
Work full-time to age 65 with no additional contributions to super	\$485,626	\$24,280 ²
Work full-time to age 65 and part salary sacrifice. Supplement income with transition to retirement pension from age 55	\$530,753	\$26,540 ²

Therefore Judy could continue working full-time and use a transition to retirement strategy to save more for her retirement.

1- Source: Colonial First State (based on its understanding of relevant Australian laws as at 1 July 2010). Assumptions: Earning 7.7% p.a. after fees and before taxes with inflation at 3%. Using 2010/11 income tax rates. Pension is paid as an account-based pension. Superannuation guarantee contributions are 9% of gross salary before any salary sacrifice. All superannuation contributions and pension payments are made regularly throughout the year. A change to any of the assumptions and variables can provide significantly different results. These case studies are for illustrative purposes only. Your individual circumstances have not been taken into account.

2- Calculated using the minimum annual pension percentage that applies from 1 July 2011 for age 65 (ie. 5%) or age 55 (ie. 4%) as applicable.

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