

# *Preparing for Retirement*

Transition to retirement in plain english



## *What is transition to retirement?*

Transition to retirement is a strategy that can help you to reduce your tax obligations and boost your retirement savings through salary sacrifice.

This is achieved by drawing a pension from your superannuation using the 'transition to retirement' condition of release.

Everyone who is of preservation age (currently 55) but less than 65 years of age is eligible to commence a non-commutable allocated pension (NCAP).



### Did you know ?

Non-commutable allocated pensions (NCAPs) have been popular since the federal government's transition to retirement rules were introduced in 2005. This is because NCAPs allow older Australians access to their preserved super benefits without having to retire.

### Benefits of this strategy...

Key benefits of an NCAP strategy may include:

- the opportunity to maintain your current income and boost your retirement savings through salary sacrifice,
- supplementing your income while reducing your work hours and gradually transitioning into retirement, and;
- favourable tax rates that apply to pension payments for those aged 55-59.
- tax free income for those aged 60 years or over.

### Save you tax...

The benefit of an NCAP strategy comes from the differing tax rates that apply to regular income, superannuation and pensions.

Lower rates of tax generally apply to super, compared with the marginal tax rates on income. This advantage is further increased because any investment earnings in an NCAP will be tax free.

### How does it work?

There are two main parts to a transition to retirement strategy:

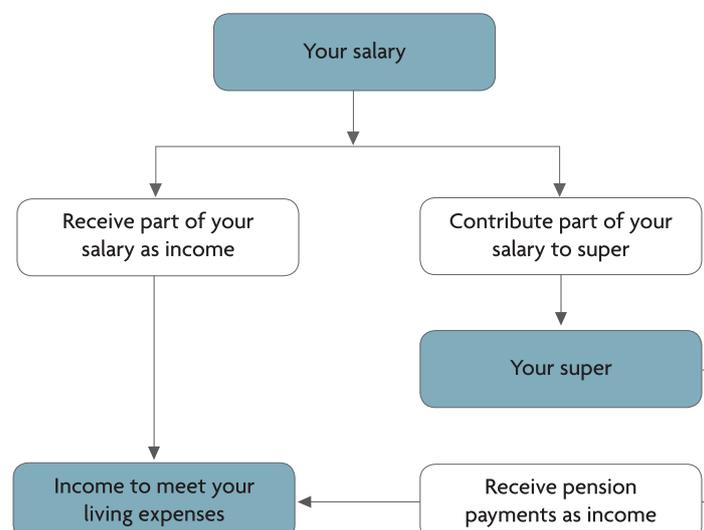
- Directing a portion of your salary into superannuation, known as salary sacrifice.
- Replacing the income you direct into superannuation with a regular payment from your super savings, other wise known as a 'pension'.

A transition to retirement strategy changes the way you receive your income. Instead of receiving your income from one source (your employer), you receive income from two sources (your employer and your superannuation savings).

Your superannuation pension is taxed at more favourable rates than your salary. So, to replace your salary with a pension, you can draw a smaller amount from super and receive the same amount in your pocket. This means that your superannuation savings should still grow each year.

### Pulling it all together

A transition to retirement strategy can be an effective way to boost your superannuation savings. But how much your savings grow will depend on the contributions you make into super through salary sacrifice, compared with the amount you withdraw as your pension. If you take out more money than you put back in, your savings will decline in value. This will result in you having less money to fund your retirement when you stop working altogether.





Your success is our success...

### Transition to retirement in action

Results	No transition to retirement	Transition to retirement
Gross Salary	\$60,000	\$60,000
Less salary sacrifice	\$0	(\$24,380)
Pension Income	\$0	\$20,000
Less tax paid on salary and pension	(\$11,847)	(\$7,196)
Net income	\$48,153	\$48,154
Tax paid on super contribution	\$0	\$3,567
After tax contribution to super	\$0	\$20,994
<b>Total tax paid</b>	<b>\$11,847</b>	<b>\$10,853</b>

### Michael's story...

Michael has reached 55 and starts a transition to retirement strategy.

Michael's gross salary is \$60,000 per year. He has accumulated \$200,000 in super savings, and elects to use the full amount to start a non-commutable pension.

Together with Michael's pension income, he can salary sacrifice \$24,380 per annum and still receive the same amount of money in his pocket.

### After a year, the transition to retirement strategy has resulted in:

- Michael paying \$994 less tax.
- An increase of \$994 in Michael's superannuation balance (a withdrawal of \$20,000 and an after tax contribution of \$20,994).
- The income that Michael has earned on the \$200,000 in his pension account will not be taxed (if these funds remained in his super account, the earnings would be taxed at 15 per cent).

### Think for a moment...

If you are looking to retire in the near future, a transition to retirement strategy might be the right solution for you to maintain your income and lifestyle as you move towards retirement.

Talk to us. We'll work with you to achieve the right balance and determine whether a transition to retirement strategy is right for you.

Use part of your super to start a pension

Pension



FINANCIAL  
SERVICES

*"Working together for your future"*

Crest Financial Services is a corporate authorised representative of Charter Financial Planning Limited, ABN 35 002 976 294, AFS Licence No. 234665, member of the AMP Group. This document provides general information only. Before making any financial or investment decisions, we recommend you consult a financial planner to take into account your particular investment objectives, financial situation and individual needs. Charter Financial Planning and its Authorised Representatives do not accept any liability for any errors or omissions of information supplied in this document.

**4933 3466**

97 Lawes Street  
EAST MAITLAND NSW 2323

**4929 2552**

Level 1, 116 Darby Street  
NEWCASTLE NSW 2300

**4984 3788**

Suite 1, 67 Magnus Street  
NELSON BAY NSW 2315

[www.crestfs.com.au](http://www.crestfs.com.au)