Are Transition to Retirement (TtR) Strategies Still Worthwhile?

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Questions

1. Transition to retirement (TtR) refresher

- When can a transition to retirement (TtR) pension be commenced?
- 4% minimum pension requirement (2% for 2019/20 and 2020/21)
- 10% maximum pension payment requirement
- 15% tax on most investment earnings
- When does a TtR pension cease?
- Under what circumstances could a TtR still be of benefit for a client?

1. Transition to retirement (TtR) refresher

Tax assessment of TtR's	Preservation age to age 60	Age 60 to age 65
Tax on earnings rate	15% on most investment earnings	
Tax on pension payments	Tax-free portion is tax-free Taxable portion is taxable with a 15% non-refundable tax offset	Tax free

Social Security assessment of TtR's	Preservation age to age 65
Social Security assets test	Assessed
Social Security income test (if grandfathered)	Formula
Social Security income test (if non-grandfathered)	Subject to deeming

2. TtR income swap strategy

- Simple tax arbitrage
- Assumptions
- Not as effective post 1 July 2017, but keep a look out for some variations

2. TtR income swap strategy

- Malcolm (age 62) would like to boost his super without affecting his lifestyle as he requires a net income of $2,424 per fortnight. His current superannuation balance is $250,000.

- He earns a salary of $80,000 p.a. (therefore super guarantee = $7,600) and currently does not salary sacrifice.

- How can a TtR strategy benefit Malcolm? Let's look at:-

1. Status quo
2. Commence TtR – Concurrently salary sacrifice $17,400 p.a. and draw pension payments from the TtR of $11,336 p.a.

2. TtR Income swap – Case study 1 – age 62

2020/21 (age 62)	1. Status quo	2. Income swap strategy
Salary	$80,000	$80,000
Salary sacrifice		$17,400
Taxable income	$80,000	$62,600
Income tax (including Medicare)	$16,987	$10,923
TtR pension (tax free)		$11,336
Net income	$63,013	$63,013
Net contribution to super	$6,460	$9,914
Benefit of strategy		**$3,454**

2. TtR Income swap – Case study 1 – preservation age to age 60

2020/21 (preservation age to age 60 – no TF component)	1. Status quo	2. Income swap strategy
Salary	$80,000	$80,000
Salary sacrifice		$17,400
TtR pension (taxable portion)		$14,158
Taxable income	$80,000	$76,758
Income tax (including Medicare)	$16,987	$13,745
TtR pension (tax free portion)		$0
Net income	$63,013	$63,013
Net contribution to super	$6,460	$7,092
Benefit of strategy		**$632**

2. TtR Income swap – Case study 1 – preservation age to age 60

2020/21 (preservation age to age 60 – 50% TF component)	1. Status quo	2. Income swap strategy
Salary	$80,000	$80,000
Salary sacrifice		$17,400
TtR pension (taxable portion)		$6,314
Taxable income	$80,000	$68,914
Income tax (including Medicare)	$16,987	$12,215
TtR pension (tax free portion)		$6,314
Net income	$63,013	$63,013
Net contribution to super	$6,460	$8,622
Benefit of strategy		**$2,162**

3. Using a TtR to access funds

- Some clients simply wish to use a TtR to access funds.
- In many situations this will be to ‘replace’ their reduced income from switching from full-time to part-time work.
- However some may use to repay debt or purchase a car etc.
- Must at least consider tax implications if between preservation age and age 60.
- Main consideration is longevity and ‘is this the most effective use of limited retirement funds’?

3. Using a TtR to access funds

- Jessica (age 63) is an employee who has recently moved from working full-time (38 hours per week) to part-time (19 hours per week).

- Her salary is her sole source of income and has reduced from $60,000 to $30,000 p.a. Whilst she is still working wishes to received the same net income as when she worked full-time ($50,013 p.a. = $1,923.58 p/f).

- Jessica has $300,000 in superannuation.

- How can a TtR strategy benefit Jessica? Let's look at:-

1. Full-time
2. Part-time
3. Part-time with TtR to replace reduced income

2. TtR replace reduced income – Case study 2 – age 62

2020/21 (age 63)	1. Full-time	2. Part-time	3. Part-time with TtR
Salary	$60,000	$30,000	$30,000
Salary sacrifice			
Taxable income	$60,000	$30,000	$30,000
Income tax (including Medicare)	$9,987	$1,887	$1,887
TtR pension (tax free)			$21,900
Net income	$50,013	$28,113	$50,013

- Strategy achieves desired outcomes, but at a cost of $21,900 to Jessica’s retirement savings

2. TtR replace reduced income - Case study 2 – preservation age to age 60

2020/21 (preservation age to age 60 – no TF component)	1. Full-time	2. Part-time	3. Part-time with TtR
Salary	$60,000	$30,000	$30,000
Salary sacrifice			
TtR pension (taxable portion)			$24,304
Taxable income	$60,000	$30,000	$54,304
Income tax (including Medicare)	$9,987	$1,887	$4,291
Net income	$50,013	$28,133	$50,013

- Strategy achieves desired outcomes, but at a cost of $24,304 to Jessica’s retirement savings
- This is $2,404 more than the age 60+ example

3. Using a TtR to access funds

Question to discuss

- Can I commence a TtR ABP, draw 10% of the purchase price as a pension payment, then rollover to another TtR ABP and draw another 10% maximum etc?

4. Variations, less frequently used and quasi TtR strategies

- Remember Malcolm from case study 1? (62 years old, $250,000 in super, $80,000 salary)

- We recommended a TtR income swap strategy which had a 2020/21 benefit of $3,454 and allowed Malcolm to retain the same net income.

- Could we have done better?

4. Case study 3 - Boost Malcolm's income swap strategy

Probably…

- Let's assume he received concessional contributions of $10,000 for both 2018/19 and 2019/20.
- He satisfies the criteria to utilise carry forward concessional contribution and therefore for 2020/21 has a concessional cap of $55,000 ($75,000 - $10,000 - $10,000).
- How to boost Malcolm's income swap strategy?

4. Case study 3 – Boost Malcolm's income swap strategy

2020/21 (age 62)	**1. Status quo**	**2. Income swap strategy**
Salary	$80,000	$80,000
Salary sacrifice		$37,669
Taxable income	$80,000	$42,331
Income tax (including Medicare)	$16,987	$4,318
TtR pension (tax free)		$25,000
Net income	$63,013	$63,013
Net contribution to super	$6,460	$13,478
Benefit of strategy		**$7,018**
Extra benefit compared to CS1		**$3,564**

4. Case study 4

- Helen (age 58) is self employed and earns taxable income of $150,000
- She has never previously used superannuation, but has significant assets outside super
- TtR opportunities for Helen?
- $300,000 NCC and then TtR income swap

4. Case study 4 – Non-concessional injection

2020/21	1. Status quo	2. Income swap strategy
Taxable income	$150,000	$150,000
Personal concessional		$49,008
Taxable income	$150,000	$100,992
Income tax (including Medicare)	$43,567	$24,559
TtR pension (tax-free portion)		$30,000
Net income	$106,433	$106,433
Net contribution to super	$0	$11,657
Benefit of strategy		**$11,657**

4. Other variations, less frequently used and quasi TtR strategies

- Re-contribution strategies
- Spouse variation including contributions splitting
- Rollback to accumulation phase
- Facilitate sale of assets outside super
- Paying off debt sooner, or switching home loan repayments to interest only
- Using death benefit pensions
- Others

Summary

- A TtR strategy may still be of benefit to some clients
- Not as favourable as pre 1 July 2017
- Look for opportunities to use variations to improve the outcome
- Case by case

Questions?

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