Transition to Retirement

Let's take a look at a couple of Transition to Retirement case studies.

Case study 1.

Meet David.
The goal here is to boost David's super in preparation for retirement.

David is 55 and earns $100,000 a year.
He intends to keep working full-time for a few more years yet, but he is a bit concerned about whether the $200,000 he has in super will be enough to maintain the lifestyle he wants in retirement..

David's financial adviser explores whether a transition to retirement (TTR) strategy could be useful in boosting his Retirement Savings

How will the strategy work?

David transfers most of his super to an account-based pension. This saves money as he no longer pays tax on investment earnings..
He salary sacrifices a large amount into super. This saves income tax, but reduces his take-home pay.
Then, he withdraws up to 10% of his pension balance each year, which boosts his overall income back to his current level.
So, in effect David is "swapping" taxable employment income for a more tax effective income stream .

Benefits:
Davids take-home pay stays the same. The overall tax savings mean that David's will have more money in super when he finally stops work.

Case Study 2.

Meet Grace
The goal here is for Grace to ease into retirement by reducing the amount of hours she works whilst replacing some of this lost income from her super.

Grace has just turned 60 and has a super balance of $150,000. She earns $48,000 a year after tax.

Grace would like to only work 3 days a week so that she can gradually ease into retirement and spend more time with her grandchildren. This means her income from work will drop to around $32,000 a year after tax. Grace can afford to reduce her take-home pay a little bit, but decides to speak to her financial adviser about how she can use her super to replace some of this lost income.

How will the strategy work?

Grace's adviser shows how she can have a take-home pay of around $41,000 using her super.
Grace transfers her super to an account-based pension and draws a pension of $9,000 each year, tax-free.

Benefits
Grace take-home pay only drops by around $7,000 a year. Her super continues to grow as she is still working part-time. She saves around $9,400 in tax each year
If Grace had retired, her super balance would be dropping by large amounts each year.

TIP!

Plan ahead. Don't leave Retirement Planning to the last minute!
Speak to your Financial Advisor today.