

Pre-retirement Tax Savings

Major tax savings for workers over 55

Pre-retirement Pensions

Superannuation rules allow people aged 55 and over to tap into their super by taking a pre-retirement pension and still keep working.

Called the 'Transition to Retirement' initiative, the intention is to make it easier for older Australians – including those who are self-employed – who wish to reduce their working week but do not wish to fully retire.

Individuals choosing this option can take their benefit in the form of a non-commutable pension, meaning they can draw a regular pension but cannot make lump sum withdrawals.

Importantly, pre-retirement pensions can receive the normal pension concessions including:

- A tax free component
- A 15% tax rebate
- 0% super fund tax on investment earnings and capital gains
- Completely tax free after 60

Salary Sacrifice to Superannuation

Employees are able to request their employer to transfer all or portion of their wage into superannuation before tax is deducted. Although the amount being contributed to superannuation will incur 15% contributions tax, this can be a significant tax saving compared to your marginal tax rates.

Combining Salary Sacrifice and Pre-retirement Pensions

While each of the above strategies can provide tax savings for individuals prior to their retirement, far more significant tax savings become available if the two strategies are combined.

As shown in the *Case Study* over the page, some of our clients are now covering a portion of their living costs by drawing a pre-retirement pension from their superannuation. This means they are less reliant on their salary to fund their lifestyle and so they can increase the level of salary sacrifice into superannuation.

This effectively provides a double taxation advantage by:

- replacing part of their fully taxable salary with a concessionally taxed pension, and
- diverting portion of their fully taxable salary to the concessionally taxed superannuation environment, and
- increasing their fund earnings through the elimination of income tax and capital gains tax within their superannuation fund

Case Study

Jack is aged 55 and employed as a painter with a local company. He is on a wage of \$50,000 per year and he and his wife have calculated that they need about \$26,000 a year to cover their living costs. Jack currently has \$150,000 in his superannuation fund earning an estimated 8% p.a.

Jack's accountant has advised him that he could save extra tax by starting a pre-retirement pension of \$12,350 and salary sacrificing \$35,000 of his wage to his super fund. Even though this means his super fund will pay more tax, Jack still ends up better off.

As a result of implementing this strategy, Jack's total tax savings in one year amount to \$4,944. A significant amount for a person on a \$50,000 wage.

	Current Position	Salary Sacrifice + Pension
Wage	50,000	50,000
Less salary sacrifice	0	35,000
Plus super pension	0	12,350
Net Taxable Income	50,000	27,350
Less tax	9,600	1,350
Net income	40,400	26,000
Super Fund Tax	1,944	5,250
TOTAL TAX PAID	11,544	6,600

**Over five years Jack will save \$23,985 in tax.
Larger savings will result for individuals on higher incomes with five year tax savings of \$122,000 possible for salaries of \$150,000.**

To find out more information, please our Financial Planning staff.



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