



Super strategies for a successful retirement

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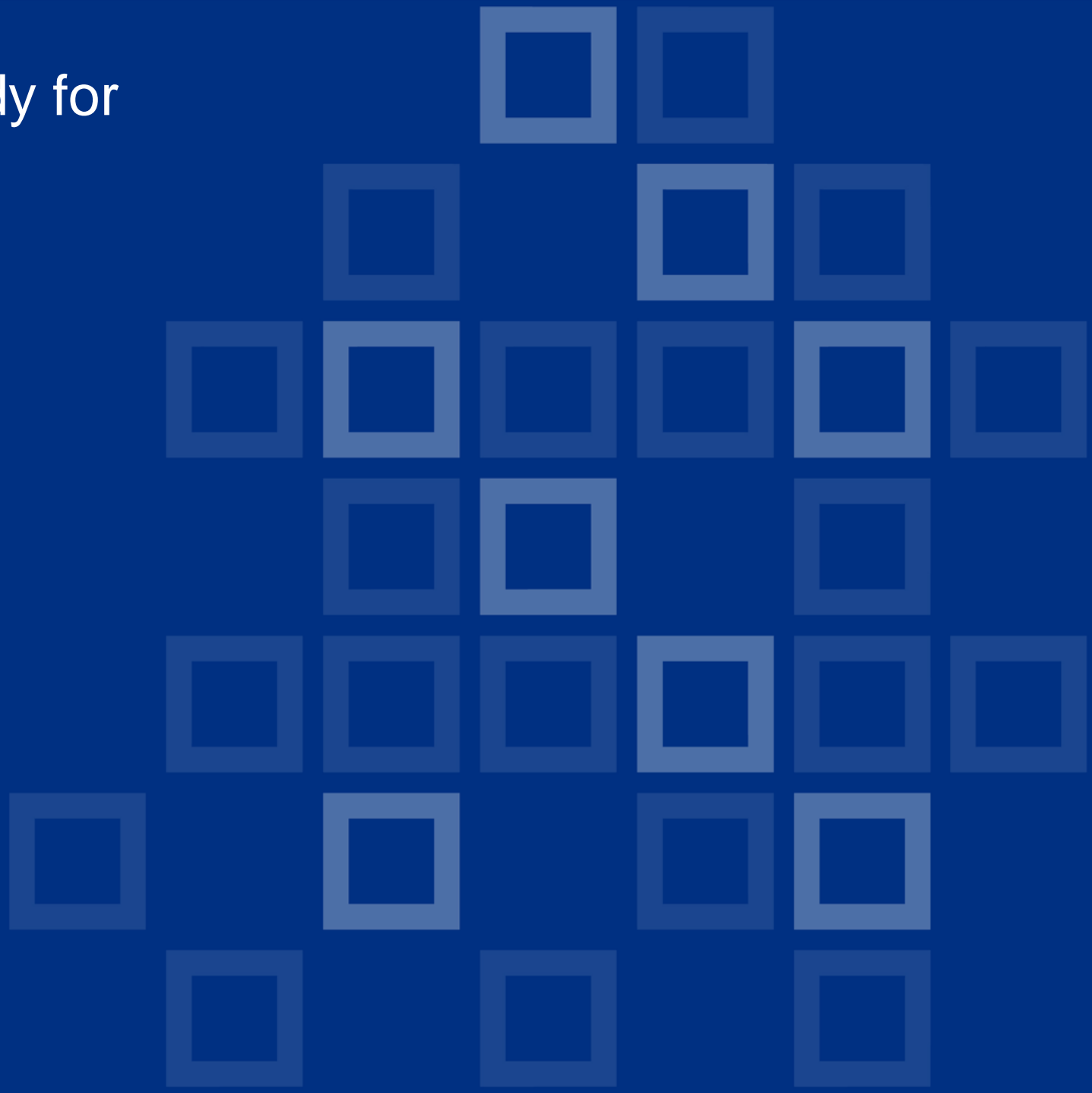


Agenda

- Getting ready for retirement
 - Benefits of super
 - Super strategies
- Making the most of the ‘transition years’
- How to pay little or no tax in retirement



Getting ready for retirement



Benefits of super

Tax concessions can be received when money is contributed into super, but what happens once it's there?

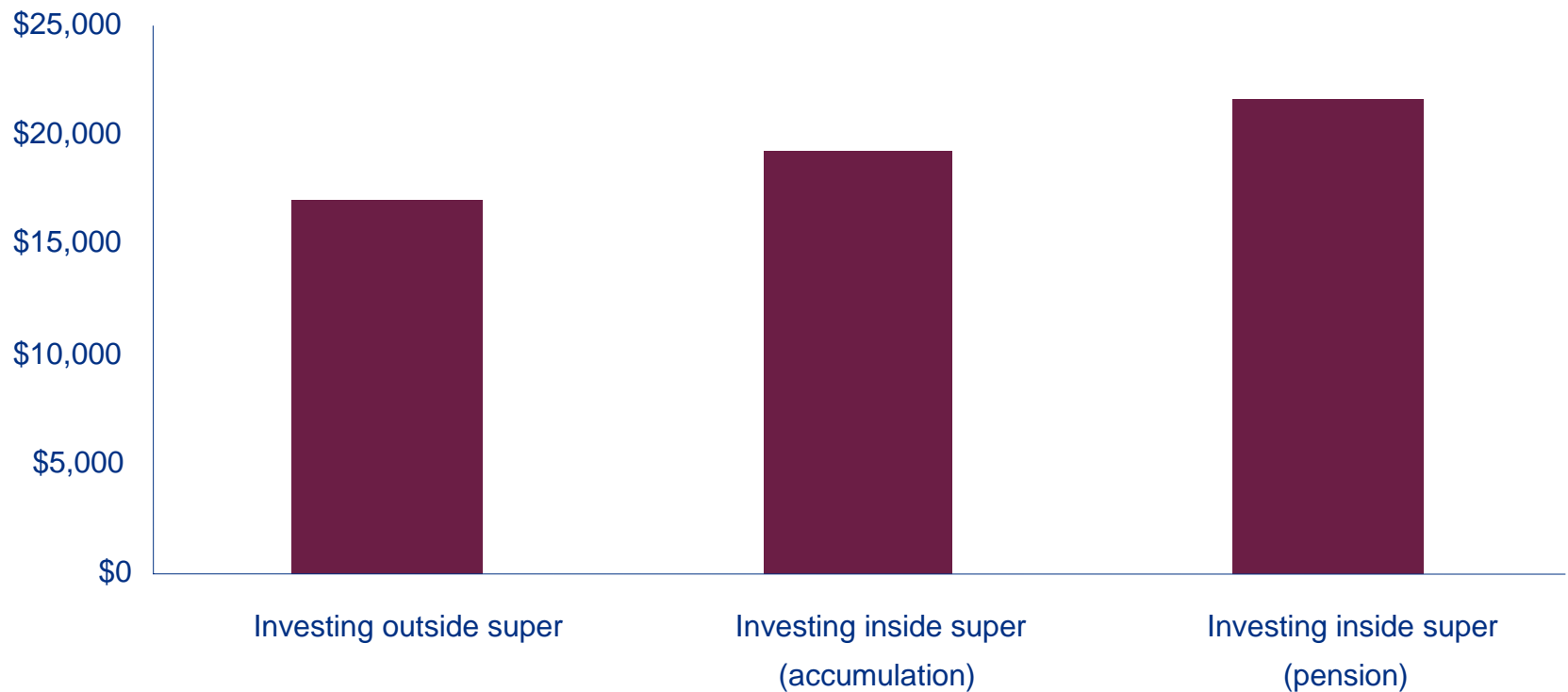
The benefits of super

- Builds retirement savings
- Is a tax concessional earning environment (earnings are taxed at 15% in the accumulation phase and at 0% in the pension phase)



Benefits of super

\$10,000 investment at 8% return



Source: Perpetual

Assumptions: Return after tax assuming 30% MTR held for one year assuming constant return



Benefits of super

Be aware of the restrictions of super

- Any money in super will remain there until a condition of release is met
- Current preservation age is 55, but this can differ depending on date of birth
- May not be suitable for people who need to access their money before retirement and preservation age (currently 55)



Super strategies

Personal deductible contributions

Create deductions to reduce taxable income and also increase super

- Those who are 'eligible persons' can claim a **full** deduction for contributions into super
- Eligible persons include:
 - self-employed
 - substantially self-employed
 - retired
 - unemployed

The rule

You can claim the deduction if you have less than 10% of total assessable income from employment as an employee



Super strategies

Personal deductible contributions – example

Craig, aged 45, was employed as a pastry chef from July to November, earning \$20,000. In December he opened his own bakery, earning \$220,000 from December to June.

Does he pass the 10% test?

Total assessable income	=	\$240,000
Employment income	=	\$20,000
Percentage of employment income	=	8.3%

Craig passes the 10% test and therefore can claim a deduction on contributions into super



Super strategies

Personal deductible contributions – tips and traps

- The deduction can be used to offset any assessable income for that year including capital gains
- Common situation where a retiree will contribute the proceeds from a sale of investment property into super
- Deduction on after-tax contribution partially/wholly offsets the capital gain incurred on the investment property



Super strategies

Using deductible contributions to minimise CGT – example

- Michelle, age 59, is retired
- She owns several investment properties and has decided to sell one to fund a trip around the world
- She bought the property for \$150,000 in 1993 and sold it in 2009 for \$500,000
- The capital gain is \$350,000 of which 50% can be disregarded as she has held the property for more than 12 months
- Therefore the assessable capital gain is **\$175,000**



Super strategies

Using deductible contributions to minimise CGT – example

	No super contribution	Super contribution
Assessable capital gain	\$175,000	\$175,000
Contribution to super/deduction	Nil	\$50,000 [^]
Contributions tax	Nil	(\$7,500)
Taxable income	\$175,000	\$125,000
Tax on taxable income*	(53,949)	(34,949)
Net package	\$121,051	\$132,551

As a result Michelle is \$11,500 better off

* Excluding Medicare levy. For purpose of case study any other income has been ignored.

[^] Transitional concessional contributions limit

Source: Perpetual



Super strategies

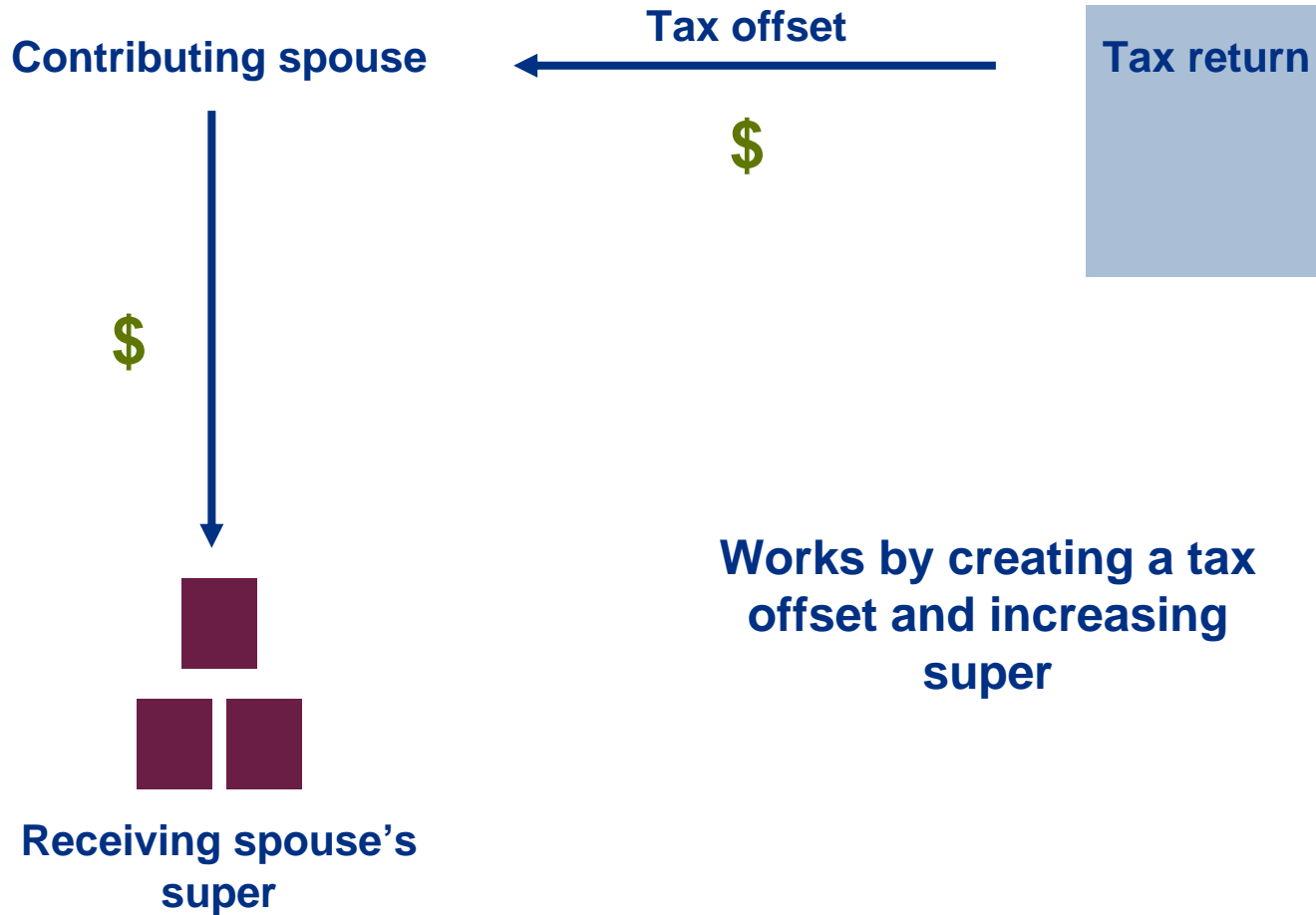
Using deductible contributions to minimise CGT – tips and traps

- Beware of the pre-tax contribution limits – otherwise penalty tax
 - if under 50, limit is \$25,000 pa
 - if 50 or over, limit is \$50,000 pa (until 30 June 2012)



Super strategies

Spouse contributions



Super strategies

Spouse contributions

- The contributing spouse can claim a tax offset on **after-tax** contributions they make into their spouse's super account
- The receiving spouse needs to have less than \$13,800 pa assessable income
- The receiving spouse must be working a minimum of 40 hours in 30 consecutive days in the year if aged 65 – 69
- Spouse contributions **cannot** be made once the receiving spouse has turned 70

The calculation is the lesser of:

- 18% of the contribution and
- 18% of [$\$3,000 - (\text{assessable income} - \$10,800)$]



Super strategies

Spouse contributions – example

- Linda, aged 66, works 10 hours per week as a florist
- Her assessable income for this year is \$12,000
- Her husband Peter makes a spouse contribution of \$3,000

What amount does Peter get as a tax offset?

Calculation: Lesser of $18\% \times \$3,000 = \540 or
 $18\% \times [\$3,000 - (\$12,000 - \$10,800)] = \mathbf{\$324}$



Super strategies

Spouse contributions – tips and traps

- Offsets are much more powerful than deductions as they reduce your tax bill dollar for dollar
- Spouse contributions can be used in single income situations where the receiving spouse is under 65
- Spouse contributions in excess of \$3,000 will not attract any further tax offset
- Beware of the after-tax contribution limits, otherwise penalty tax
 - if under 65, limit is \$450,000 pa over three years or \$150,000 pa
 - if aged 65 or more, limit is \$150,000 pa providing the work test is satisfied



Super strategies

Government co-contribution

Your super contribution

\$1,000

Government co-contribution

\$1,000



\$2,000

Your super account

Example based on an income of \$31,920 pa

Please note benefit reduces for income above \$31,920 and no benefit is available above \$61,920

Note: 100% maximum contribution until 30 June 2012, 125% for 2012/13 and 2013/14 and 150% from 2014/15 onwards



Super strategies

Government co-contribution

- You must make an after-tax contribution into super
- You must have at least 10% of total income paid from employment or business income
- You must be aged less than 71 at the end of the financial year
- To receive any co-contribution you need to have less than \$61,920 pa in income
- You must lodge a tax return
- You cannot be on an eligible temporary visa at any time during the financial year

The calculation is the lesser of the contribution (up to a maximum of \$1,000) and

$$\$1,000 - (\text{income} - \$31,920) \times 0.03333$$



Super strategies

Government co-contribution

Employed versus self-employed

- To qualify, you must have 10% or more of income from employment or business
 - if you are employed, ‘income’ is assessable income + reportable fringe benefits + reportable employer contributions
 - if you are self-employed, ‘income’ is **gross business income**
- When calculating the co-contribution, you must have less than \$61,920 pa of income
 - if you are employed, ‘income’ is assessable income + reportable fringe benefits + reportable employer contributions
 - if you are self-employed, ‘income’ is **gross business income less business deductions**



Super strategies

Government co-contribution – example

Christine, aged 30, is employed as an accountant. Her salary is \$40,000 pa. She also owns an investment property that generates \$12,000 pa in income. She makes a \$1,000 after-tax contribution into super this year.

Christine's total assessable income is \$52,000. Her employment income represents 77% of her total assessable income.

Christine passes the 10% test and therefore may be eligible for a co-contribution

How much co-contribution will Christine receive?

Calculation:

Lesser of contribution amount (\$1,000) and

$$\$1,000 - (\$52,000 - \$31,920) \times 0.03333 = \mathbf{\$331}$$



Super strategies

Government co-contribution – tips and traps

- Beware of the after-tax contribution limits, otherwise penalty tax
 - if under age 65, limit is \$450,000 pa over three years or \$150,000 pa
 - if aged 65 or more, limit is \$150,000 pa if work test is satisfied
 - the co-contribution itself will not count towards the limit, however the after-tax contribution you make will count



Super strategies

Salary sacrifice

How does it work?

Reduces PAYG tax and increasing super:

- salary sacrifice reduces assessable income and increases super savings
- instead of paying marginal tax rate, will only pay 15% contributions tax
- amount of saving depends on your marginal tax rate (MTR)

Marginal tax rate	Tax saving (excludes Medicare levy)
15%	Nil
30%	15%
38%	23%
45%	30%

Source: Perpetual



Super strategies

Salary sacrifice

Who may suit salary sacrificing?

- Anyone with a tax rate higher than 15%
- Most beneficial for those:
 - with higher tax rates
 - approaching or over preservation age (currently 55 but can differ depending on date of birth)

Remember that money in super must remain there until you meet a condition of release



Super strategies

Salary sacrifice – example

Daniel is 52 years of age and currently earns \$85,000. He has agreed with his employer to salary sacrifice \$40,000 pa.

	Without salary sacrifice	Salary sacrifice
Gross salary	\$85,000	\$45,000
Income tax (including Medicare levy)	(\$21,024)	(\$8,025)
Low income tax offset	Nil	\$750
Employer contribution	\$7,650 (SG)	\$47,650 (SG + S/S)
Contributions tax	(\$1,148)	(7,148)
Net package	\$70,478	\$78,227

As a result Daniel is \$7,749 better off each year

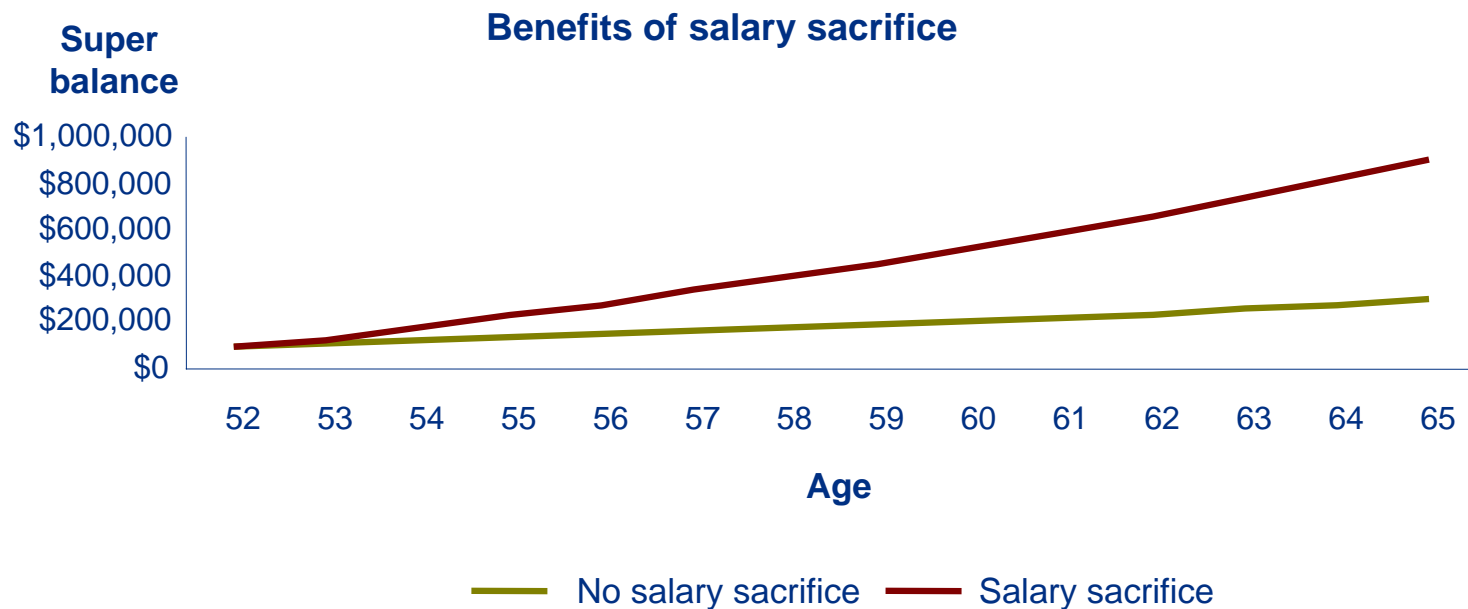
Source: Perpetual



Super strategies

Salary sacrifice example

What does this mean for Daniel's retirement savings? At age 52, Daniel has a super balance of \$100,000.



Source: Perpetual. Example shows current dollars, assumes rate of return of 8% and inflation of 2.5%



Super strategies

Salary Sacrifice – tips and traps

- Cashflow
 - if aged less 55, can you live on less?
 - if aged 55 or more, will you need a transition to retirement pension to supplement your income?
- Salary sacrifice arrangements may affect your employment entitlements
 - check with your employer
- Beware of the concessional contribution limits – otherwise penalty tax
 - if under 50, limit is \$25,000 pa
 - if aged 50 or more, limit is \$50,000 pa
- Salary sacrifice is most beneficial for those in the higher tax brackets

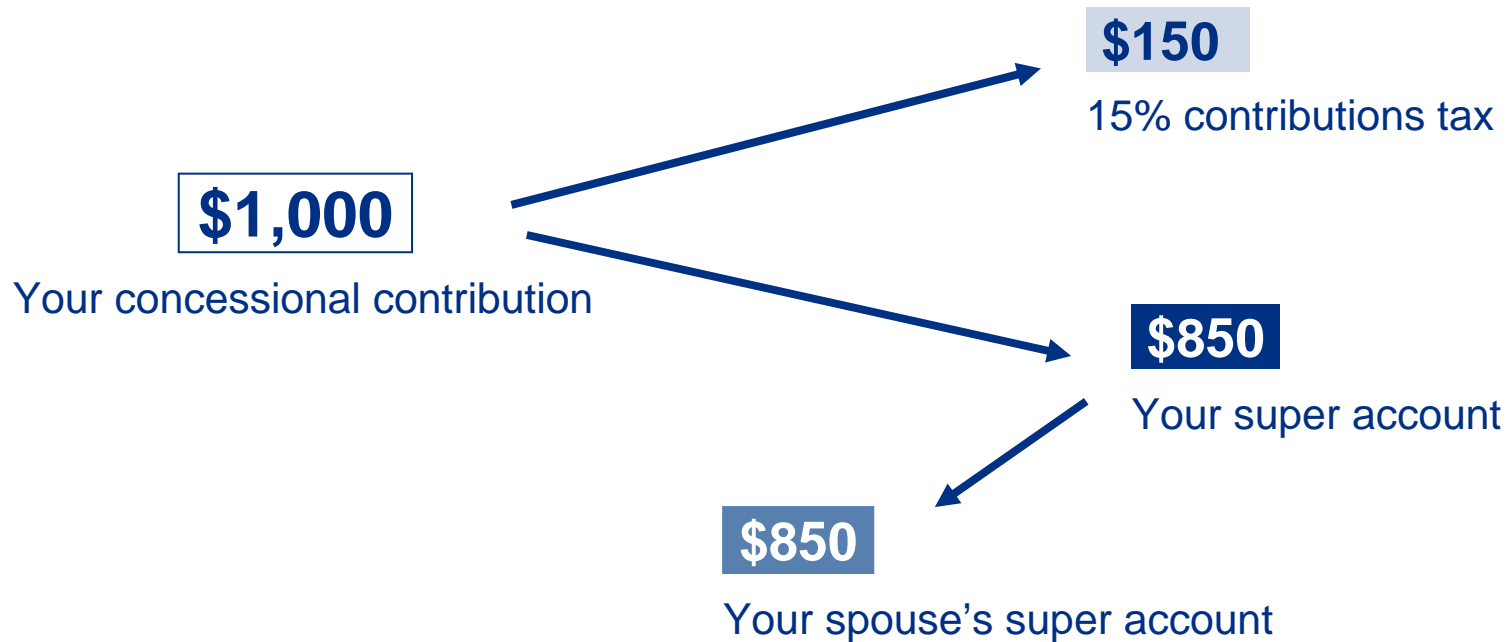


Super strategies

Contribution splitting

How does it work?

Increases a spouse's super to decrease future tax (by splitting future lump sums / income)



Super strategies

Contribution splitting

- Can only split to your spouse – married or de-facto (including same-sex)
- Up to 85% of last financial year's concessional contributions (maximum of concessional contribution limit) can be split to your spouse's super account
- Can only split contributions made in previous financial year (not rollovers nor account balances) unless rolling to a another fund
- Only one split per year
- Cannot split to your spouse if they are aged 65 or older (instant access)
- Cannot split to your spouse if they are aged between preservation age (currently 55) and 65 and retired (instant access)



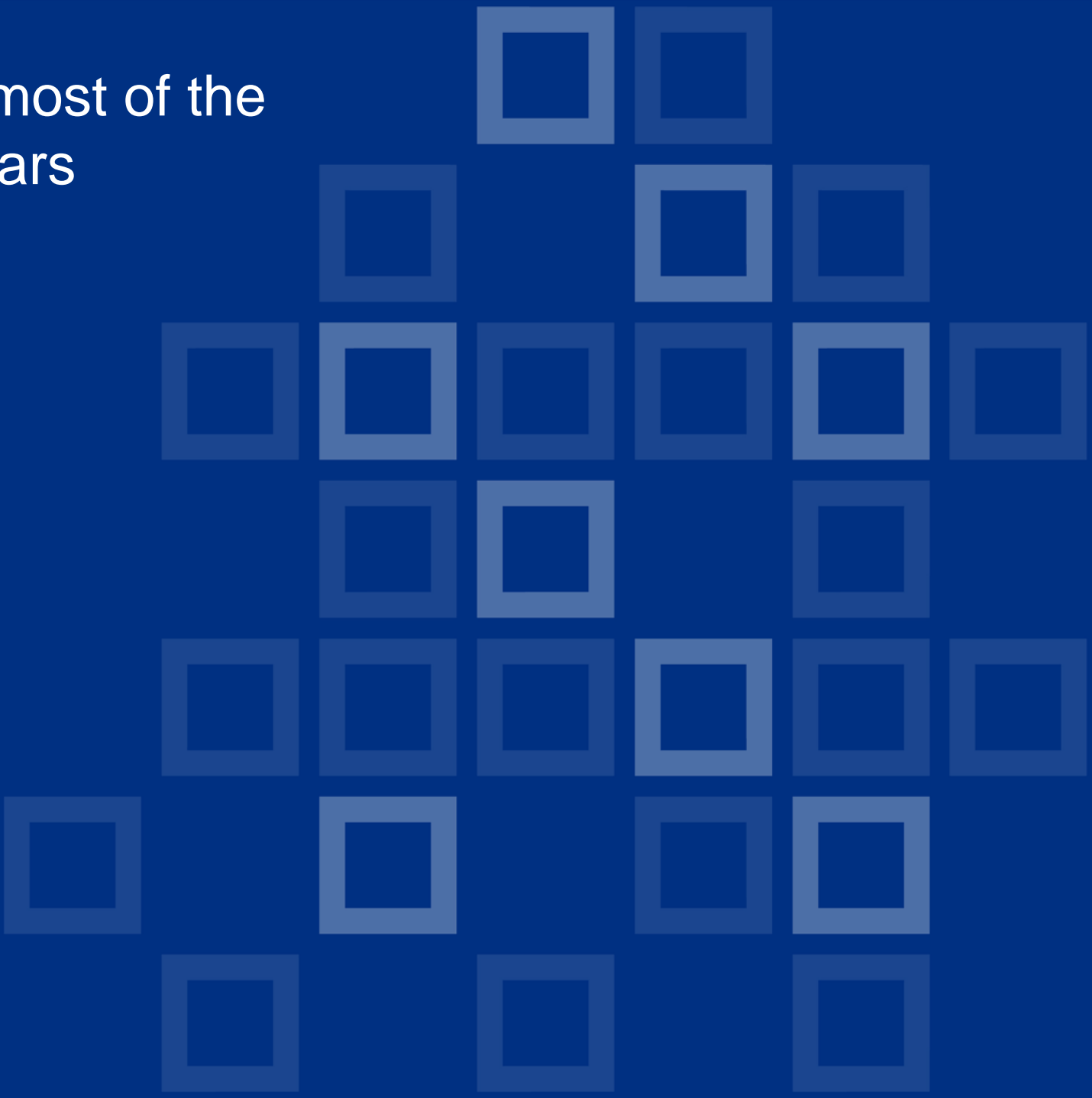
Super strategies

Contribution splitting – tips and traps

- Can split to an older spouse so that super can be accessed earlier
- Can split to a younger spouse to minimise assets for Centrelink purposes
- A way to equalise super accounts across partners
- A way to use the low rate cap (\$150,000 in 2009/10) for both partners
 - The low rate cap is the threshold where the taxable portion of a lump sum is received tax-free
- A way to produce income splitting effects later when in pension phase
- The amount that is split to the receiving spouse is not counted under any contribution limit, however the initial contribution made will count towards the contributing spouse's limit



Making the most of the transition years



Making the most of the transition years

Key features

- A transition to retirement (TTR) pension allows you to start a pension once you have reached preservation age – currently 55
- There is no requirement to retire so may be suitable for those still working
- It becomes a regular pension upon retirement
- It can be stopped and rolled back to super at any time



Making the most of the transition years

Key features

- No lump sum withdrawals allowed until condition of release met
- Required to take a minimum of 4% of account balance (2% for 2009/10 financial year)
- Restricted to maximum of 10% of account balance



Making the most of the transition years

Who should consider a 'transition to retirement pension'?

If you are aged between 55 and 65 years of age and still working and you would like to do one of the following:

- Reduce the number of hours you are working
- Maximise your retirement savings by combining with salary sacrifice



What are the benefits?

- Maintain living standard while moving into part time work
- If you are aged 55 and 59 years of age, receive a 15% tax offset on pension income
- If you are aged 60 and over, receive tax free pension income



Reduce the number of hours you are working

- James is aged 60 and currently working full time, but would like to reduce the number of hours he is working
- As a result, his income would reduce from \$60,000 pa to \$30,000 pa
- He would like to continue earnings the same amount of net income
- He has \$250,000 in his super account which can be used to commence a transition to retirement pension to supplement his income



Reduce the number of hours you are working

	Working full time	Working part time combined with pension
Gross salary	\$60,000	\$30,000
TRP income	Nil	\$19,950
Taxable income	\$60,000	\$30,000
Tax payable	(\$11,850)	(\$3,600)
MAWTO	\$150	\$500
LITO	Nil	\$1,350
Medicare levy	(\$900)	(\$450)
After tax income	\$47,400	\$47,400



Reduce the number of hours you are working

Results

- James maintains the same net income
- His pension balance reduces as a result of the pension payments being made (however much better financial position than full retirement)

Tech tip

James only needs to draw a pension of \$19,600 despite a pay cut of \$30,000 pa



Maximise retirement savings

- John is 62 years of age, earning \$120,000 pa
- He would like to continue earning the same after-tax income
- He has \$400,000 in superannuation and would like to retire in three years at age 65
- He would like to know how he could maximise his retirement savings upon retirement without changing the net amount of income he receives each year

John's adviser has recommended he salary sacrifice a portion of his income into superannuation each year and for him to supplement his income by commencing a transition to retirement pension.



Maximise retirement savings

	Current position	Using a transition strategy
Salary	\$120,000	\$120,000
Salary sacrifice	n/a	\$39,200
Super guarantee	\$10,800	\$10,800
Contribution tax	(1,620)	(7,500)
Pension	\$0	\$23,715
Taxable income	\$120,000	\$80,800
Less income tax payable	(\$33,050)	(\$18,153)
Less Medicare levy	(\$1,800)	(\$1,212)
Total tax	\$34,850	(\$19,365)
Net income	\$85,150	\$85,150
Annual package (including super benefit and net of pension income)	\$94,330	\$103,935



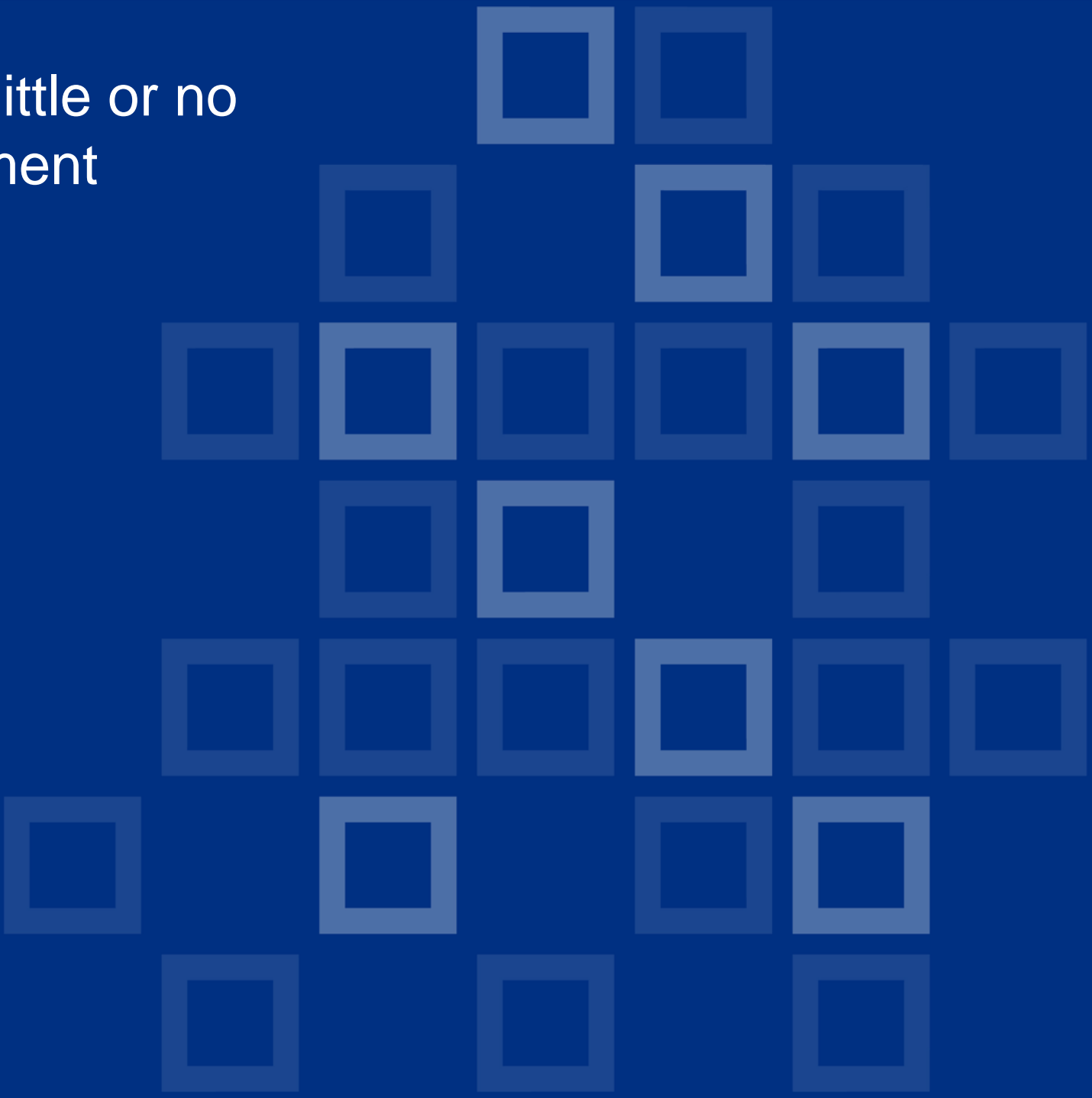
Maximise retirement savings

As a result of using combined salary sacrifice/transition to retirement strategy –

John is \$9,605 pa better off



How to pay little or no tax in retirement



How to pay little or no tax in retirement

- Commence an account based pension
 - Investment earnings are tax free
 - Income payments are tax free (once 60 years of age+)
 - 50% of minimum for 2009/10 financial year

Age	Minimum percentage
Less than 65 years	4%
65-74 years	5%
75-79 years	6%
80-84 years	7%
85-89 years	9%
90-94 years	11%
95 years+	14%



How to pay little or no tax in retirement

- Barrier to paying tax is not having enough time to maximise amount invested in superannuation

- Watch out for:
 - Contribution rules
 - Contribution limits



Final words

- It's never too early or too late to start planning for your retirement
- Make sure you don't miss out – speak to your financial adviser today



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