Transition to retirement
OneAnswer offers you the opportunity to ease into retirement using a transition to retirement pension, which allows you to maintain your current level of income whilst reducing your work hours.

If you’re between 55 and 75 years old and still working, it’s quite likely that you could be better off.

About OnePath

Helping you shape and protect your future

OnePath is one of Australia’s leading providers of wealth, insurance and advice solutions. We have been helping Australians grow and protect their wealth for over 130 years, previously as Mercantile Mutual and more recently as ING Australia.

Now as a wholly owned subsidiary of Australia and New Zealand Banking Group Limited (ANZ), OnePath operates as ANZ’s Australian specialist wealth management and protection business.

ANZ is a leading global and local bank with operations in more than 32 countries including Australia, New Zealand, Asia, the Pacific, the Middle East, Europe and America. ANZ provides products and services to more than 5.7 million retail customers worldwide and employs over 39,000 people.

OnePath has a comprehensive range of wealth and insurance products available through financial advisers or direct to customers making it easier for you to find the solution that best suits your needs.

At OnePath we value and appreciate our customers, our staff and the communities we operate in. We are committed to acting with the highest standards and to meeting our corporate responsibilities. We also encourage and support staff involvement in volunteering and charitable activities supporting the wider community.

OnePath actively participates in forums looking at regulatory and industry change. We also regularly review and conduct research to ensure we are attuned to changing customer and market needs.
‘Transition to retirement’ rules were introduced to allow working Australians aged 55 and over access to their superannuation money while they are still working.

The intention of a transition to retirement pension is to enable workers approaching retirement to ‘transition’ towards retirement by reducing their work hours, and to supplement reduced employment income with pension income. However as there is no requirement for a reduction in working hours to commence a transition to retirement pension, a number of other transition to retirement strategies can be utilised by people who are not scaling back work activities.

Transition to retirement pension strategies include:

- Ease into retirement
- Super Booster
- Income Booster

Transition to retirement strategies have been popular since they were introduced, however changes to the concessional contribution limits have impacted such strategies.

The 2009 Federal Budget saw the Government halve the transitional concessional contributions cap for those aged 50-74 from $100,000 p.a. down to $50,000 p.a. (not indexed). From 2012, the transitional concessional contributions caps will halve again from $50,000 p.a. to $25,000 p.a. (indexed in $5,000 increments). This means that there is a limited opportunity to maximise your retirement savings and income through a transition to retirement strategy.

**Transition to retirement pension key features**

- Can be started by people who have reached superannuation preservation age (55 if you were born before 1 July 1960).
- Must be started with superannuation money.
- Pension payments are capped at a maximum of 10% p.a. usually until retirement or attaining age 65.
- Lump sum withdrawals or commutations are generally not allowed.
The possibilities

Ease into retirement

A transition to retirement pension can help you ease into retirement. By structuring your income differently, putting more of your pre-tax salary into superannuation, and receiving regular income from both your employer and a transition to retirement pension, you can pay significantly less tax, allowing you to maximise your retirement savings.

Super Booster

Although it may sound hard to believe, using a transition to retirement pension while still working full time can help boost superannuation savings without reducing your income. That’s more superannuation for when you retire, without having to give up any extra income today.

Income Booster

If you have sufficient retirement savings, you can use a transition to retirement pension while you are working full time to boost your income today. The increased income you receive can be put to work by reducing your debt or funding projects such as home improvements.

If you’re between 55 and 75, establishing a transition to retirement pension could help you:

• ease into retirement by reducing your working hours without reducing your income
• increase your retirement savings without impacting your income if you are still working full time
• boost your income today so you have more money to cover your everyday living expenses.
How does it work?

Superannuation is a tax-effective environment in which you only pay 15% tax on the contributions you make with pre-tax income, and up to 15% tax on investment earnings. You can also put money into superannuation from your salary before tax*.

This means, instead of being taxed at your marginal tax rate which can be as high as 46.5%, you only pay 15% when you choose to put your salary into your superannuation (up to certain limits). As most people 55 or over can have access to their superannuation through a transition to retirement pension, that money isn’t locked away until you retire.

There are even more benefits. When your superannuation money is being paid to you as a pension, related investment earnings are exempt from tax within the superannuation fund.

So when you move your superannuation savings into a transition to retirement pension, your investment earnings will no longer attract up to 15% tax within the fund.

Let’s look at three case studies:

1. Janet who’s looking to use a transition to retirement strategy to ease into retirement.

2. Roger who’s working full time to increase his superannuation savings for retirement.

3. Patrick who’s looking to boost his income.

* Concessional contributions include, but are not limited to, salary sacrifice contributions. An annual cap on concessional contributions applies on a financial year basis. A concessional contribution limit of $25,000 applies in 2010/11 if you are under 50 years of age on 30 June 2011; otherwise your limit is $50,000. Concessional contributions in excess of your cap will incur significant penalty taxes.
Case study 1

Ease into retirement

Janet, aged 58, is a retail assistant earning $35,000 p.a. ($31,925 after tax). She has a superannuation account balance of $240,000 and plans to fully retire from the workforce at age 65.

Her daughter has recently given birth to her first child and Janet is looking to reduce her work hours so she can help care for her grandchild when her daughter returns to work. Janet hopes to continue working three days a week, however she is concerned about meeting her living expenses if she reduces her working hours.

The strategy

By commencing a transition to retirement pension, Janet can still receive the same take-home income as when she worked full time – even after reducing her work hours.

Using a transition to retirement strategy that supplements Janet’s reduced salary of $21,000 with a pension payment amount of $11,612 p.a., she can still maintain the same take home income of $31,925.

It is important to be aware that drawing down superannuation benefits to supplement income can result in less superannuation in retirement. This is something that Janet must consider when deciding to reduce her work hours.

Assumption: Janet’s superannuation account balance of $240,000 is comprised of a 70% taxable component and 30% tax-free component.
Case study 2

Super Booster

Roger, aged 55, is an engineer earning $90,000 p.a. He enjoys his job and has no immediate plans to reduce his working hours. He does, however, feel that age 65 would be a good time to retire from the workforce to make the most out of his retirement.

He has a superannuation account balance of $325,000 invested in a balanced option that has historically earned 7% p.a. Roger has heard about the ‘transition to retirement’ rules and is interested to find out how he can benefit.

The strategy

Roger’s financial adviser suggests that he consider establishing a transition to retirement pension. This will mean that Roger will need to salary sacrifice a significant portion of his pre-tax salary into his superannuation account. Roger is initially concerned because he does not want to change his lifestyle or receive a lower take-home income.

His financial adviser explains that by implementing a transition to retirement pension, Roger can supplement his income from his retirement savings while sacrificing a portion of his income into his superannuation. Roger currently receives $67,400 in after-tax income.

Roger’s financial adviser explains that if he salary sacrifices $40,427 p.a., he will still receive $49,573 p.a. in income from his employer. He then explains that Roger can supplement his reduced income with pension payments of $32,500 p.a. from a transition to retirement pension using his existing superannuation savings. This will mean that after tax Roger will still receive $67,400.

Roger is happy that he will receive the same income and continue to live the lifestyle he enjoys, but wants to know how this will benefit his retirement savings. His financial adviser explains that in the first year his net salary sacrifice superannuation contributions exceed his transition to retirement pension payments of $32,500. This means that in the first year alone Roger’s retirement savings are boosted by an additional $4,329. And it gets better. When Roger turns 60, the payments from his transition to retirement pension are tax free. This means he can reduce his pension payment amount and increase his retirement savings further.

For example, if Roger was 60, he could still receive the same after-tax income of $67,400 by drawing pension payments of $26,275 and his retirement savings would be boosted by $10,796.

Assumptions: Roger’s superannuation account balance of $325,000 is all taxable and fully preserved. Superannuation Guarantee is assumed unchanged at 9% of the original earnings base. No taxation deductions have been claimed. Qualifying private hospital cover is in place.

‘Roger is happy that he will receive the same income and continue to live the lifestyle he enjoys.’
Case study 3

Income Booster

Patrick, aged 60, is a telecommunications technician who earns $58,800 p.a. ($47,286 after tax). He has a superannuation account balance of $400,000.

Patrick is looking for a way to supplement his income to meet his everyday living expenses until he retires at age 65. Patrick would like to receive $52,000 after tax.

The strategy

Patrick consults his financial adviser who explains that transition to retirement rules allow most individuals currently age 55 or over to access their retirement savings. His financial adviser explains that he will need to use the money in Patrick’s existing superannuation account to open a transition to retirement pension and that he can withdraw up to a maximum of 10% p.a. from the pension account balance.

As Patrick has reached the age of 60, his financial adviser informs him that pension payments received from his transition to retirement pension will be tax free.

The financial adviser suggests Patrick salary sacrifices $30,000 into superannuation and draw an income of $25,342 p.a. from his transition to retirement pension. This will increase his total annual disposable income to the desired $52,000.

The table below shows Patrick’s change in cash flow before and after implementing the strategy.

Patrick’s strategy would increase his disposable income in the first year by $4,714. The strategy will also marginally boost his retirement savings in year one by $3,176. Therefore, the total strategy benefit in year one is $7,890.

Assumptions: No taxation deductions have been claimed. Qualifying private hospital cover is in place.

<table>
<thead>
<tr>
<th>Current position ($)</th>
<th>With strategy ($)</th>
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<tbody>
<tr>
<td>Original salary</td>
<td>58,800</td>
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<tr>
<td>Salary sacrifice superannuation contribution</td>
<td>(0)</td>
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<tr>
<td>Cash salary</td>
<td>58,800</td>
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<tr>
<td>Transition to Retirement pension</td>
<td>0</td>
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<tr>
<td>Total income</td>
<td>58,800</td>
</tr>
<tr>
<td>Net tax and Medicare levy</td>
<td>(11,514)</td>
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<tr>
<td><strong>After-tax income</strong></td>
<td><strong>47,286</strong></td>
</tr>
<tr>
<td><strong>With strategy</strong></td>
<td><strong>52,000</strong></td>
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‘Patrick’s strategy would increase his disposable income in the first year, whilst also boosting his retirement savings.’
Do you want to retire with a better future? A transition to retirement strategy could help you reach your financial goals. Contact your financial adviser to find out how.
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