

Transition to Retirement Strategy

By Darren Royals – Lutheran Super

Some pre-retirees would like to make a gradual transition to retirement. Others are simply looking for ways to ramp up their super before they retire. And the financially astute are always looking for tax-effective strategies.

A Transition to Retirement strategy can be an effective way to increase super or can be used to maintain your income while reducing your working hours. It involves using your Superannuation to provide an income.

It may also involve making extra contributions into super.

More than two in five Australians aged 45 years and over who work full time and plan to retire in the future want a phased retirement (i.e. work part-time before retiring completely) and more than three in five working Australians aged 45 and over who plan to retire at a certain age are looking to work beyond age 65. The good news is that you can use your super to create an income stream to make the transition, and set a retirement date which suits you.

Using a Transition to Retirement strategy may allow you to either:

Tax effectively boost your super in the last few years before retirement.

Help you reduce your hours of work without reducing your income.

Bio – Darren Royals

Performed the role of the Executive Officer of Lutheran Super for the past 11 years. Previously in a number of positions with the BT Financial Group and the Bank of South Australia over a 14 year period, predominantly in the areas of Corporate Superannuation and Finance / Accounting.

Holds a Bachelors Degree in Business (Accounting), a Graduate Diploma in Financial Planning and a Graduate Diploma in Applied Finance and Investment.

Member of the South Australian State Executive of the Association of Superannuation Funds of Australia (ASFA), Full Member of CPA Australia and Fellow of FINSIA (Financial Services Institute of Australasia).

Lutheran Super

You're valued

Transition to Retirement

Presented by
Darren Royals



Important Notice

- This presentation has been prepared without taking into account any of your objectives, financial situation or needs. You must therefore assess whether it is appropriate, in light of your own individual objectives, financial situation or needs, to act upon this advice.
- You should ensure you obtain a Product Disclosure Statement for the Fund prior to making any decisions in respect to your membership of the Fund.

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What does retirement look like?



Retirement: What will it look like for you?

The longest holiday of your life

OR

A struggle to make ends meet?

- ✓ Part-time work
- ✓ Work satisfaction
- ✓ Friends and family
- ✓ Interests and hobbies
- ✓ Location – Sea/Tree change
- ✓ Health – fit for retirement

Where will your income come from?

- Superannuation
 - draw a regular income from your super to replace your salary
 - account-based pensions, annuities
- Non-super investments
 - Such as shares, property & term deposits
- Social Security
 - Government Age or Veterans Affairs pension
- Other
 - part time or casual work
 - hobbies



How much does it cost to live in Retirement?

Research Suggests



Modest

\$22,641 - Single * \$32,603 - Couple*



Comfortable

\$41,169 - Single * \$56,317 - Couple*

Centrelink Age Pension

Single homeowner
\$21,018 pa max[#]

Couple homeowners
\$31,689 pa max[#]

* Source: Westpac - ASFA Retirement Living Standard Detailed Budget Breakdowns (March 2013)

[#] Centrelink rates effective 1 July 2013 and incl. pension supplement (Source: Centrelink – www.humanservices.gov.au)

Achieving your retirement goals

- What strategies can you put in place to improve your situation?
 - Build up your savings, including super
 - Have adequate insurances
 - Work longer
 - Reduce tax
 - Downsize home
 - Reduce debt (eg, mortgage, credit card)
 - Borrow to invest/gearing
 - Transition to retirement
 - SMSF

It's important to seek personal financial advice as not all strategies will be relevant

Main threats to achieving your retirement goals

Outside of your control

Divorce

Retrenchment and no contingency plan

Health related problems

Inside your control

Children and under insurance

Inadequate financial advice
– too little and/or too late

Overspending on home

Poor investment decisions

Non-Super Investments

Non-Super Investments



■ Property

- Rental income
- Expenses
- Capital gains tax



■ Cash

- Fixed Interest
- Term Deposit



■ Shares

- Dividends
- Asset allocation
- Capital gains tax



■ Debt

- Reduction

Investing – Asset Classes



Defensive investments

Cash

Fixed interest



Growth investments

Property

Shares



Lower

Risk vs Return

Higher

Strategies to consider

Strategies to consider

- It is essential that you review your insurance cover
- If your retirement plans are not on track, insurance is even more important

Income
Protection



Income benefit

Trauma
insurance



Lump sum benefit

Total &
Permanent
Disability
insurance



Lump sum benefit

Life
insurance



Lump sum benefit

Borrowing to Invest

Positive

Neutral

Negative

Gearing = borrowing to invest
Investments should offer growth and income

Increase growth



More money to invest – access broader range of investments

Magnifies losses



Negative investment performance plus loan costs

Reduces tax



Interest on investment loan and expenses are tax deductible

Do you fit the gearing profile?

- ✓ Investing in growth assets (aggressive strategy)
- ✓ Long-term wealth creation (not tax deductions)
- ✓ Secure income and adequate insurance
- ✓ Tolerate high investment volatility
- ✓ High marginal tax rate
- ✓ Sufficient income to service the debt

Long-term capital growth must exceed
the cost of gearing to be effective



Super: How much can you contribute?

CONCESSIONAL

(Pre-tax)

Contributions over cap
taxed equivalent to 46.5%

\$25,000*
Employer contributions
+
Salary sacrifice

NON-CONCESSIONAL

(After tax)

Contributions over cap
taxed at 46.5%

\$150,000
After-tax contributions

**\$35,000 for those aged 60 and over from 2013/14 & for those aged 50 and over from 2014/15*

Transition to retirement

What is it and why use it?

- ✓ Access super without retiring
- ✓ Can continue working full-time or part-time
- ✓ Help meet your cash flow needs
- ✓ Tax savings can be used to build wealth
- ✓ Use super 'income' to top up other income

Transition to retirement

Turning your super into an income stream

Super money



Account-based pension

- Investment structure
- You have investment choice
- Tax free investment earnings



- Pays regular income (subject to limits)
 - Income is tax free from age 60

Current Position – Full Time Employment

Salary
\$100,000



Less Tax
\$26,447*

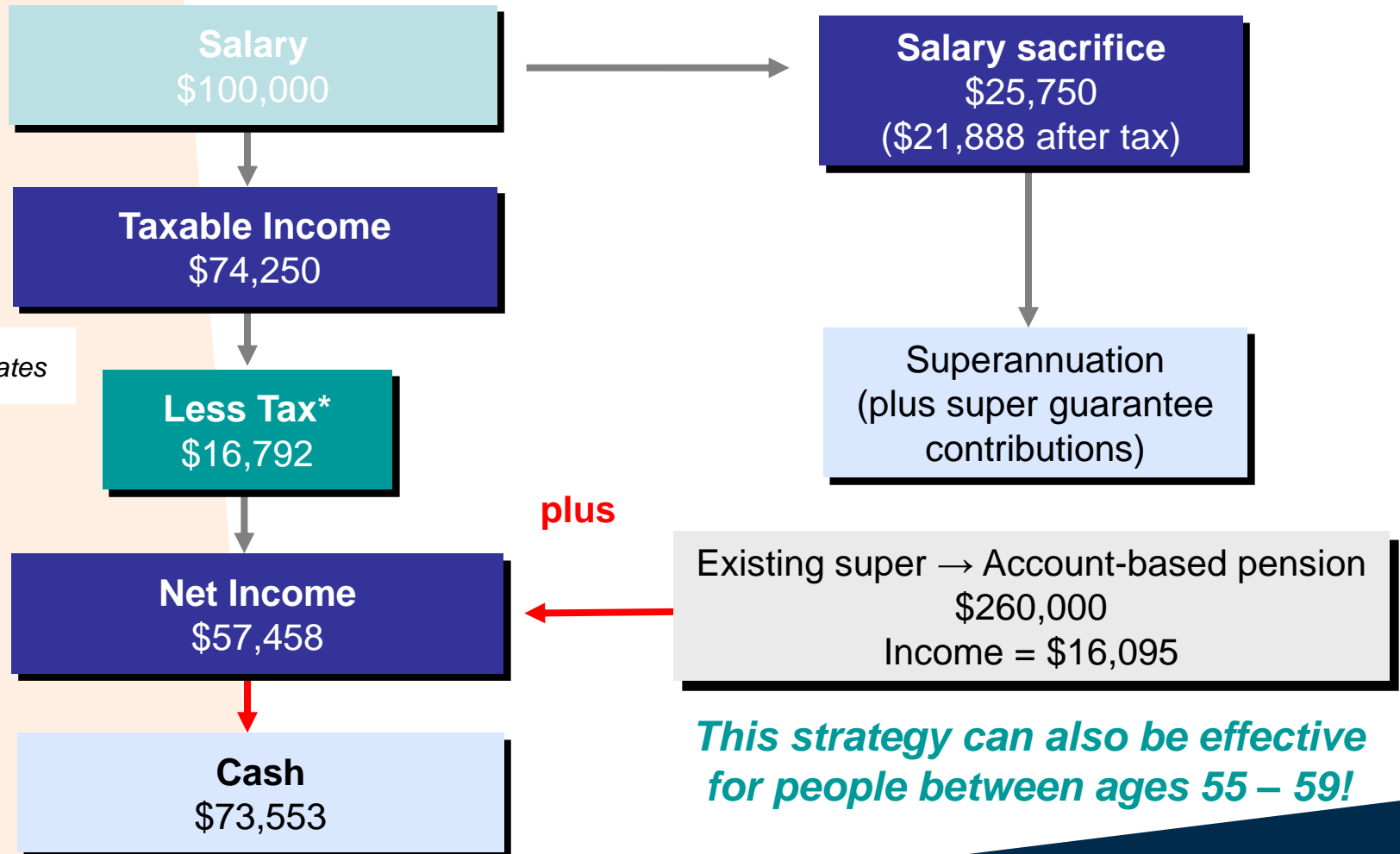


Cash
\$73,553

Existing super
\$260,000 Accumulation
(super guarantee contributions
of \$9,250 only)

*2013/2014 tax rates

Transition to Retirement Continue Full Time (60+)



Super Position – Year 1

	Current position	Transition to retirement
Employer SG contribution	\$9,250	\$9,250
Salary sacrifice	-	\$25,750
Contributions Tax	\$1,388	\$5,250
Net Inflow	\$7,862	\$29,750
Outflow	-	\$16,095
Plus tax savings in account based pension*	-	\$2,340
Net Benefit	\$7,862	\$15,995

Extra \$8,133 in super per year!

*Assuming \$260,000 invested in an account based pension with investment earnings of 6% pa

Transition to Retirement Part Time (60+)

Salary
\$60,000

Taxable Income
\$60,000

Less Tax*
\$11,697

Net Income
\$48,303

Cash
\$73,553

*2013/14 tax rates

plus

Existing super → Account-based pension
\$260,000
Income = \$25,250

*This strategy can also be effective
for people between ages 55 – 59!*

In Retirement – How does it work?

Retirement Income Streams

Are Annuities and Account-Based Pensions the same?

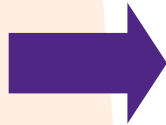
Annuities

- You 'purchase' the annuity with super or non-super money
- Makes regular, fixed payments to you
- Annuity payments are guaranteed and calculated at commencement
- Term of Annuity set at commencement (can be fixed term or lifetime)
- Earnings rates are generally set at commencement
- Generally don't have access to capital, only income

Account Based Pensions

Greater Flexibility

Super money



Account-based Pensions

- investment structure
- tax free investment earnings
 - value not lost on death
- you have investment choices

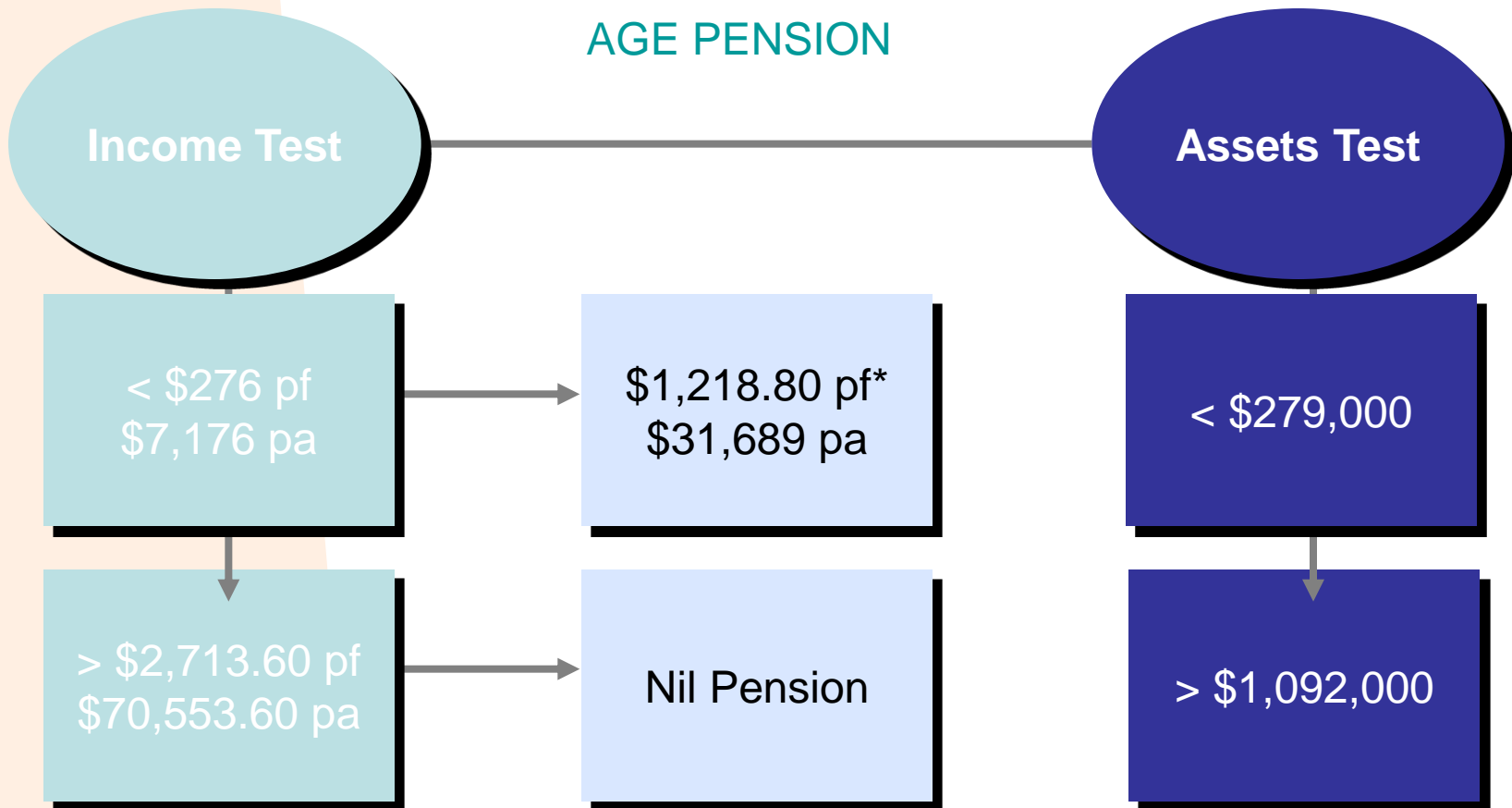


Pension Payment

- Pays regular income (subject to a minimum)
- Age 55-59, some tax may apply
 - Age 60+ tax free

Age Pension – How is it means tested?

Couple, both eligible for pension – Homeowners



* From 1 July 2013 incl. pension supplement (Source: Centrelink – www.humanservices.gov.au)

Age Pension and other Concessions

Pensioner Concession Card

- ✓ Full or part government pension
- ✓ Discounts on medical, transport, rates etc



Commonwealth Seniors Health Card

- ✓ Access to the Pharmaceutical Benefits Scheme
- ✓ Medical services funded by Australian Govt.



South Australian Seniors Card

- ✓ Public transport discounts
- ✓ Council rate and emergency services levy discounts



Estate Planning

Estate Planning – Other Issues

More than just a well-drafted will

- Involves all assets
- Ensures that on death:
 - ownership or control of assets goes to the appropriate person at the right time
 - non-financial issues are dealt with

The three basic estate planning concepts

1

Power of attorney

2

Wills

3

Assets not covered by a Will

Bringing you plan together

How can a Financial Adviser help?

YOU

goals, lifestyle, budget

Financial Adviser

Strategies to meet your goals

Tax

Investments

Estate Planning

Social Security

Insurance

Statement of Advice

The next steps ...

Obtaining financial advice

- Lutheran Super offers a comprehensive financial advice service to its members.
- The advice is provided by Johnston Grocke who are Lutheran Super's preferred licensed financial advisers. One of their licensed financial advisers – Anthony Klatt will be available in the Lutheran Super booth 39/40 on Tuesday 1 October, 2013 to provide an initial consultation to members.
- Advice is provided on a fee-for-service basis with all costs explained in writing before you undertake the service.
- If your advice relates to your super, part or all of the cost may be deducted from your Lutheran Super account balance.

The next step

Complete the enquiry form provided and someone from Lutheran Super will contact you

Make an appointment to meet our financial adviser Anthony Klatt at the ACLE Conference on Tuesday.

Visit the Lutheran Super staff at booth 39/40 to obtain further information

If you are unable to speak to a financial adviser during the ACLE Conference you can call 1800 007 920 or email lutheransuper@jgg.com.au to arrange an appointment

Questions ?

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