Super strategies

Top up your income when cutting back work

If you plan to scale back your working hours, starting a transition to retirement pension could help you to replace your reduced income.

How does the strategy work?

To use this strategy, you need to invest some of your super in a transition to retirement (TTR) pension.

The key benefit of doing this is you can receive an income from the TTR pension to replace the income you'll forgo when reducing your working hours.

Also, you're likely to pay less tax on the income you receive from the TTR pension than you do on your salary or business income.

This is because even though the taxable income payments from a TTR pension are taxed at your marginal tax rate, they will attract a 15% tax offset between preservation age[1] and 59. Also, the income payments are tax-free[2] at age 60 or over.

As a result, you'll generally need to draw less income from the TTR pension to replace your reduced salary, as the Case study on the opposite page illustrates.

Other key considerations

There are some key issues you'll need to consider before starting a TTR pension. For example:

- you'll need to draw a minimum income each year, which is 4% of the account balance per annum
- you can't draw more than 10% of the account balance each year, and
- you can only take a cash lump sum (or purchase a different type of income stream) once you permanently retire, reach age 65 or meet another 'condition of release'.

Seek advice

A financial adviser can help you assess all the issues that need to be considered and determine whether a TTR pension suits your needs and circumstances.

[1] Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60 depending on your date of birth.

[2] Assumes the TTR pension is commenced from a taxed super fund.

Are you retiring?

If you have reached your preservation age and retire permanently (or meet another condition of release) you may be able to invest your super in an ordinary account based pension, rather than a TTR pension.

No tax will be payable by your fund on investment earnings in an account based pension, whereas earnings in a TTR pension are taxed at a maximum rate of 15%.

Also, an account based pension is not subject to the maximum income and withdrawal restrictions associated with a TTR pension.

However, lifetime limits regulate how much you can transfer into an account based pension. In 2017/18, this limit is $1.6 million (subject to indexation).

These rules are complex. More information on starting an account based pension can be found in our super strategy card, called **'Convert your super into a tax-effective retirement income'**, or speak to your financial adviser.

Top up your income when cutting back work

MLC

Case study

Mark, aged 58, works full-time, earns a salary of $80,000 pa (or $60,853 after tax) and has $400,000[3] in super. He wants to cut back to a three-day working week.

While Mark's salary will reduce to $48,000 pa, he doesn't want to compromise his living standard.

To help him achieve his goals, his financial adviser suggests he invest his entire super benefit in a TTR pension and draw an income of $26,038 over the next 12 months.

By using this strategy, he'll be able to replace his pay cut of $32,000 and continue to receive an after-tax income of $60,853 pa.

He will also pay $5,962 less tax. This is because the TTR income payments attract a 15% tax offset[3], whereas his salary is fully taxable at his marginal rate.

Finally, Mark could still achieve his after-tax income goal if he invests as little as $260,038 in the TTR pension and draws the maximum income of $26,038.

However, by investing his entire super balance of $400,000 in the TTR pension, he will have the flexibility to increase his income payments, should he need to, up to the maximum of 10% of the account balance per annum.

In year one	Before strategy	After strategy
Pre-tax salary	$80,000	$48,000
TTR pension income	Nil	$26,038
Total pre-tax income	$80,000	$74,038
Less tax payable[4]	($19,147)	($13,185)
After-tax income	$60,853	$60,853

[3] Mark's super benefit consists entirely of the taxable component.

[4] The tax payable takes into account the 15% pension tax offset available on taxable pension payments from preservation age to age 59.

Important information and disclaimer

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