

A guide to pre-retirement pensions

A pre-retirement pension presents an opportunity for you to access your super once you reach your preservation age. Unlike other rules for accessing your super, you don't need to retire or change jobs to access your money.

Examples of how you could use a pre-retirement pension include:

- moving from full-time work to part-time work and replacing lost salary with a pre-retirement pension
- if you operate your own business, using a pre-retirement pension to supplement your income needs in quiet times.

A pre-retirement pension may also help reduce your overall tax bill while boosting your total super balance before you retire.

Here's how it works. You contribute part of your salary to super (where it's typically taxed at 15 per cent rather than at your marginal tax rate). You then use your super money to purchase a tax-free pre-retirement pension and draw a pension to supplement your salary. The tax effectiveness of the pension will help lower your overall personal tax liability.

Your preservation age

Under current superannuation law you must reach your 'preservation age' before you can access your super. Your preservation age depends on the date you were born.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 to 30 July 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Non-commutable income stream

Your pre-retirement pension must be via a 'non-commutable' income stream. Non-commutable means you can't convert the income stream to cash until you satisfy a full condition of release from super, such as retirement or turning 65.

Your pre-retirement pension will work in a similar manner to a standard superannuation pension, subject to the non-commutable requirements and restriction on the amount of pension you can withdraw. You can withdraw between 4% and 10% of the pension account balance each year and have the flexibility to vary the payment at any time during the year within these set ranges.

Case study

Harold has just celebrated his 55th birthday. He was working full-time on a salary of \$45,000 but now he'd like to work less so he can practice golf in preparation for retirement on the Seniors' Golf Circuit. Harold's employer is happy for him to work part-time on a reduced salary of \$22,500. But Harold needs to supplement his income from other sources. Apart from his salary, he has \$350,000 in super and \$100,000 cash from the recent sale of an investment property.

As Harold has reached his preservation age, he'll be able to access some (or all) of his super via a pre-retirement pension. He decides to contribute the \$100,000 cash into super as a personal contribution (non-concessional contribution).

Harold places the entire \$450,000 into a superannuation pension and draws a pension payment in the first year of \$22,500, which includes a tax-free payment of \$5,000. His pension payments in the second and subsequent years will be based on his pension account balance every 1 July and the impact of market returns.

The table shows the impact for Harold in the first year of starting a pre-retirement strategy. He has maintained his pre-tax income, reduced his tax liability, increased his after-tax income, and can contribute surplus income to super and qualify for a Government co-contribution. More importantly, he's been able to reduce his work hours, follow his retirement ambitions and maintain his income levels.

	Without a pre-retirement pension (\$)		With a pre-retirement pension (\$)
Hours of work	Full-time	Part-time	Part-time
Pension			22,500
Salary	45,000	22,500	22,500
Gross income	45,000	22,500	45,000
Superannuation rebate			2,625
Tax liability	7,575	1,612	3,175
After-tax income	37,425	20,888	41,825

It should be noted that with this strategy, Harold has started to draw down on his retirement savings so he'll have less later on. How much savings you have for retirement is an important issue to consider before you undertake a pre-retirement pension strategy.

Self managed super funds

If you plan to use this strategy through a self managed super fund you should make sure the trust deed is drafted broadly enough to allow you to take out any pension allowed under super law.

Things you should consider

Because a pre-retirement pension is non-commutable, you should set funds aside to offset those funds that are preserved.

You should also keep in mind the possibility of redundancy or a forced or unplanned early retirement once you're over 55, which could interrupt this retirement strategy. You may need to review the strategy so that you stop drawing from your retirement savings.

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IMPORTANT INFORMATION

This information was prepared by Securitor Financial Group Limited ABN 48 009 189 495 AFSL 240687. The information in this publication (including tax rates) is current as at 18 July 2008.