



Transition to retirement and salary sacrifice

It is clear that transition to retirement (TTR) income streams have increased the number of options for people aged 55 and over. If you choose to work less hours, commencing a TTR pension can help to supplement your part-time income. Alternatively, you can maintain your current work hours while using smarter strategies to accumulate super.

Combining a TTR pension with a salary sacrificing strategy into superannuation may increase your overall tax savings because:

- Salary sacrifice contributions are taxed at 15% going into super. So for every dollar salary sacrificed into super 85c will be invested. Whereas if you elected to take this money in cash, for every dollar earned you pay tax at your marginal tax rate - up to 46.5%. This represents an after tax saving of up to 31.5%.
- Super pensions pay no income tax (interest or dividends) or capital gains tax on investment earnings.
- If you're between the ages of 55 and 59, pension income paid out will attract a 15% tax rebate.
- For taxpayers aged 60 years plus, pension income paid out is also **tax-free**.

Example

Let's take someone on a salary of \$100,000 per annum and a superannuation benefit worth \$250,000. All income is assumed to be spent. They then commence a TTR with the entire benefit and elect to take the maximum pension income of 10% or \$25,000 per annum.

Column 2 illustrates the results for someone in the 55 – 59 age bracket. To maintain the same level of net income (\$71,400), they should salary sacrifice \$31,410 per annum. This is a 'worst case' example in that it assumes the entire income stream is taxable, which won't always be the case. The outcome may therefore be even better in your situation.

Column 3 illustrates the results for someone age 60 or above. As the entire pension is tax-free, it allows more salary sacrifice contributions to be made, resulting in a higher tax saving and ultimately, a greater accumulation of superannuation savings.

	Salary only	TTR & salary sacrifice	
		If 55 - 59	If 60+
Gross Salary	\$100,000	\$100,000	\$100,000
Plus TTR Pension Income	\$0	\$25,000	\$25,000
Less Tax-free Amount from TTR Pension	\$0	\$0	\$25,000
Less Salary Sacrifice Contributions	\$0	\$31,410	\$40,146
Total Taxable Income	\$100,000	\$93,590	\$59,854
Income Tax Payable	\$27,100	\$24,536	\$12,556
Medicare Levy	\$1,500	\$1,404	\$898
Less TTR Pension Rebate	\$0	\$3,750	\$0
Total Income Tax and Medicare Levy Payable	\$28,600	\$22,190	\$13,454
Plus Contributions Tax	\$0	\$4,712	\$6,022
Total Tax Payable	\$28,600	\$26,902	\$19,476
Net Income	\$71,400	\$71,400	\$71,400
Income Tax Savings		\$1,698	\$9,124
Additional Super Contributions (net of Pension Income)		\$1,698	\$9,124



Other issues

It is important that you check with your employer that they won't reduce your "salary" for Superannuation Guarantee (SG) contribution purposes, as a result of a salary sacrifice arrangement. Most employers though, will base their 9% SG obligation on the total remuneration package.

Need further advice?

FuturePlus Financial Services was established by the Local Government Superannuation Scheme and the Energy Industries Superannuation Scheme to provide members with comprehensive financial planning services.

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