End of year strategy

Asgard

Pre-retirement pensions

"Less work, same income..."

The strategy in a nutshell: If you're employed and you've reached (or are approaching) your preservation age, you can contribute additional funds to your superannuation before the 2005-06 financial year end knowing you'll be able to access them in the near future through a pre-retirement pension – even if you're still working.

Once you've reached your preservation age, you can access your super benefits in the form of a non-commutable income stream (known as a pre-retirement pension). There's no requirement for you to stop working. Simply reaching your preservation age is enough. This means:

- you can work fewer hours and still maintain a reasonable income without reliance on the social security system
- you can qualify for a superannuation rebate (subject to any excessive benefits). If the rebate entitlement is more than the tax payable on the assessable portion of your pension, you can offset the excess rebate against tax payable on your salary
- you can re-contribute excess income to super (and re-access it if you need to)
- any income generated from your pension may qualify you for deductible contributions to super
- depending on your circumstances, you may be able to recycle some of your super monies back as undeducted contributions and qualify for the Government co-contribution

The strategy

Since 1 July 2005, simply reaching your preservation age has been a condition of release. This rule removes the uncertainty regarding when you can access your super. So when you contribute today, you can be confident you can use your super savings and continue to work if you want to.

It makes sense to contribute more to your super now, so you can take advantage of the benefits outlined above in this rule.

Who can use this strategy?

This strategy is available to anyone who is employed and approaching their superannuation preservation age. Your preservation age (or the age at which you can access your super benefits) depends on when you were born, as shown in the table:

If you were born	Your preservation age is
Before 1 July 1960	55
Between 1 July 1960 and 30 June 1961	56
Between 1 July 1961 and 30 June 1962	57
Between 1 July 1962 and 30 June 1963	58
Between 1 July 1963 and 40 June 1964	59
After 30 June 1964	60

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Limitations and other considerations

It is important to understand that in general you won't be able to withdraw a lump sum from the money placed into the pre-retirement pension until you actually retire (as defined under superannuation law) or reach age 65.

Impact of 2006 Federal Budget

Pre-retirement pensions flyer

The 2006 Federal Budget announcements don't affect the benefits of this strategy. In fact, if you implement the strategy now, you will only be better off in the future as a result of the changes to personal tax rates from 1 July 2006.

The Government has also proposed that from 1 July 2007, if you are over 60 and withdraw money from super (as a lump sum or as a pension), it will be tax-free. Once Harold (in the case study opposite) reaches 60, he will only pay tax on the $25,000 salary. His tax would only be $2,250.

Harold also contributed $100,000 as an undeducted contribution. The Budget proposes to limit the annual level of undeducted (after-tax) contributions per person to $150,000 pa. This change will apply from 7:30pm AET on 9 May 2006.

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 $25,000. However, he needs to supplement his income from other sources.

Apart from his salary, Harold has $350,000 in super and $100,000 cash from the recent sale of an investment property.

As Harold has reached his preservation age, from 1 July 2005 he'll be able to access some (or all) of his superannuation monies in a non-commutable pre-retirement pension. Harold decides to contribute the $100,000 cash into superannuation as an undeducted contribution.

He chooses to place the entire $450,000 into a 31-year term allocated pension. This will give a first year payment of $24,010 and an annual deductible amount of $3,225.

	Under the old rules		Under the new rules
Hours of work	full-time	part-time	part-time
Pension	Not available	Not available	$24,010
Salary	$45,000	$25,000	$25,000
Gross income	$45,000	$25,000	$49,010
Superannuation rebate	Not available	Not available	$3,118
Tax liability	$10,347	$4,047	$7,476
After-tax income pa	$34,653	$20,953	$41,534

If Harold has money left over, he can re-contribute it to super as an undeducted contribution, and provided he makes an undeducted contribution of at least $407, he can qualify for his maximum co-contribution entitlement of $610.

As a result of this strategy, Harold has increased his pre-tax income, reduced his tax liability, increased his after-tax income, has the ability to contribute any surplus income to superannuation and qualify for a Government co-contribution. More importantly, he's been able to reduce his working hours, follow his retirement ambitions and maintain his income levels.

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