Can you afford to switch to part-time work by using your superannuation?

Whilst everyone has their own goals heading into retirement, some may wish to transition into retirement by reducing working hours. But how can one afford to meet their living expenses whilst working fewer hours?

One potential solution is to use superannuation to commence a transition to retirement (TtR) account based pension and draw income to supplement the reduction in income as a result of switching to part-time work.

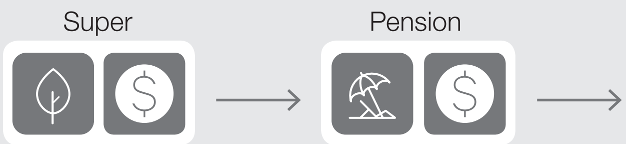
What is a TtR account based pension and what's in it for an account holder?

Upon the earlier of 'retiring' or attaining age 65, your TtR account based pension can continue as an account based pension. That is, the 10% maximum drawdown percentage no longer applies and lump sum drawdowns can also occur.

What needs to be considered?

There are a number of considerations including:

- Will an employer allow the employee to switch to part-time work, and if so what are the terms?
- If under age 60 has the individual considered the tax implications of commencing a TtR account based pension (as whilst tax concessions apply, pension payments from an account based pension are not tax free until age 60)
- Have they considered the potential reduction in their retirement savings as a result of drawing down from their superannuation prior to fully retiring?



4-10% income

A TtR account based pension is commenced by moving funds currently inside the **superannuation environment** from the accumulation phase to **pension phase**. To do so, you must have reached preservation age*.

By starting a TtR account based pension you can draw income as a **pension of anywhere between 4% and 10%** of the commencement value (or the 1 July balance for subsequent financial years).**

*Preservation age: https://www.ato.gov.au/individuals/super/accessing-your-super/
**By drawing down a pension, your superannuation balance will reduce compared to if you had not utilised a TtR strategy.

Example

Simon (age 62) is currently working 40 hours per week earning a salary of $60,000 p.a. and has $400,000 in his superannuation as a result of employer contributions and investment returns throughout his working life.

As he wishes to spend more time with his grandchildren, he is considering moving to part time work, until he is eligible for the age pension; however he is worried that he will no longer be able to meet his living expenses of $900 per week.

His employer is happy for him to switch to part time work whereby he will work 20 hours per week and earn an annual salary of $30,000.

The following compares 3 scenarios for Simon:-

1. Continues to work full-time

2. Changes to part-time work

3. Changes to part-time work and uses his $400,000 superannuation to commence a TtR account based pension and draws pension payments of $20,250 p.a. (which is between the 4% minimum and 10% maximum requirement)

	1. Full-time work	**2. Part-time work**	**3. Part-time work with TtR strategy**
Salary	$60,000	$30,000	$30,000
Transition to retirement pension payments	$0	$0	$20,250
Income Tax (including Medicare)	$12,147	$2,397	$2,397
After tax income	$47,853	$27,603	$47,853
Take home income per week	$920.25	$530.83	$920.25

For the 2016/17 financial year, by adopting the transition to retirement strategy:-

- Simon's take home income per week has returned to $920.25, the same as if he continued to work full-time, and enough to meet his $900 a week living expenses.
- As Simon is over age 60, his income tax liability does not increase.
- However, Simon should consider that given all else is equal, he has reduced the available funds in his superannuation by $20,250 p.a., which may have an impact on his ability to meet his living expenses in future years.

In this example, Simon benefits from tax free payments from his TtR as he is over age 60. If he was under the age of 60 and receiving income from his TtR, he may need to withdraw a higher level of income to achieve the same after tax result. If Simon was actually age 56, under scenario 3, he would have to draw pension payments of $23,704 from the TtR account based pension, and compared to scenario 2, his income tax liability would increase by up to $3,927.40 p.a. This would reduce the available funds in his superannuation by $23,704 each year, which would result in a greater reduction to his retirement savings over time.

For more information on using your super to switch to part-time work and other retirement planning strategies, please speak to your financial adviser.