



Transition to retirement case study

Pam and Noel would like to top up their super contributions

Pam is 61 years old and Noel is 56 but apart from their age difference, all other aspects of their super are identical.

Both Pam and Noel can draw on a maximum of \$160,000 for a 'transition to retirement' pension:

Contributor Financed Benefit (CFB)	\$113,000	←
Employer Financed Benefit (EFB)	\$209,000	
Basic Benefit (BB)	\$36,000	
Other Contributions (OC)	\$47,000	←
Total Deferred Benefit	\$405,000	

They both have a superable salary of \$60,000 and their contribution rate to their super is currently 6%:

EFB – Defined NTC	\$5,760
BB – Defined NTC	\$720
Salary sacrifice contributions (6%)	\$3,600
Total concessional contributions	\$10,080

Noel's 'transition to retirement' pension strategy

Noel's strategy is to draw a \$12,000 'transition to retirement' pension so he can top up his pre-tax contributions but still receive the same amount of take-home salary.

Firstly, the \$12,000 pension together with his 'top up' contributions will mean that Noel receives a slighter lower total taxable income:

	No TTR	TTR
Gross salary	\$60,000	\$60,000
- plus TTR income	\$0	\$12,000
Combined income	\$60,000	\$72,000
- less tax-free amount from pension	\$0	\$1,096
- less salary sacrifice contribution (6%)	\$3,600	\$3,600
- less salary sacrifice (top up)	\$0	\$14,892
Total taxable income	\$56,400	\$52,412

But Noel will pay less tax on his total income which includes the tax rebate on his 'transition to retirement' pension, and when we add the tax-free portion of his pension income, he will maintain the same level of take-home salary.

	No TTR	TTR
Total taxable income	\$56,400	\$52,412
Income tax (plus Medicare levy)	\$11,316	\$10,060
- less TTR pension rebate	\$0	\$1,636
Total income tax payable	\$11,316	\$8,424
Net income	\$45,084	\$43,998
- plus tax-free pension income	\$0	\$1,096
Combined net income	\$45,084	\$45,084

Transition to retirement case study

The result of Noel's strategy over the first twelve months is that he boosts his super contributions, makes a modest tax saving and the balance of his super increases by just over \$20,000:

Total tax payable (including contributions tax of \$2,774)	\$11,198
Tax savings from the TTR strategy	\$658
Approximate total balance after 12 months (including the TTR pension)	\$426,000

Pam's 'transition to retirement' pension strategy

Pam also take a \$12,000 'transition to retirement' pension and her higher 'top up' contributions will mean that Pam receives a lower total taxable income than Noel:

	No TTR	TTR
Gross salary	\$60,000	\$60,000
- plus TTR income	\$0	\$12,000
Combined income	\$60,000	\$72,000
- less tax-free amount from pension	\$0	\$12,000
- less salary sacrifice contributions (6%)	\$3,600	\$3,600
- less salary sacrifice (top up)	\$0	\$17,518
Total taxable income	\$56,400	\$38,882

But Pam will pay less income tax on her total income and because she is over 60, her 'transition to retirement' pension is entirely tax-free and this allows her to maintain the same level of take-home salary.

	No TTR	TTR
Total taxable income	\$56,400	\$38,882
Income tax (plus Medicare levy)	\$10,470	\$5,215
- plus Medicare levy	\$846	\$583
Total income tax payable	\$11,316	\$5,798
Net income	\$45,084	\$33,084
- plus tax-free pension income	\$0	\$12,000
Combined net income	\$45,084	\$45,084

The result of Pam's strategy over the first twelve months is that she boosts her super contributions, makes a sizeable tax saving and the balance of her super increases by over \$20,000:

Total tax payable (including contributions tax of \$2,774)	\$8,966
Tax savings from the TTR strategy	\$2,890
Approximate total balance after 12 months (including the TTR pension)	\$428,000

Greater financial benefit for people over the age of 60 years

If we compare the case studies it's clear that both Pam and Noel can benefit from a 'transition to retirement' pension but Pam will receive a greater benefit largely due to the fact that the income from her 'transition to retirement' pension is entirely tax-free.

	Pam (61)	Noel (56)
Tax savings from the TTR strategy	\$2,890 pa	\$658 pa
Approximate total balance after 12 months (including the TTR pension)	\$428,000	\$426,000