Sterling Grange
FINANCIAL PLANNING

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

Whilst everyone has their own goals heading into retirement, some may wish to transition into retirement by reducing their working hours. But how can one afford to meet their living expenses whilst working fewer hours? One potential solution is to use your super monies to commence a transition to retirement (TtR) account-based pension and draw down an income stream to supplement the reduction in income as a result of switching to part-time hours.

Who does this suit?

- If you want to cut down your working hours
- You must have reached preservation age[1]
- Have accumulated super savings and are willing to start drawing an income from your super
- Situations where the employer will allow the employee to switch to part-time work, and the terms have been agreed.

It works like this

- The TtR rules allow you to start drawing a super pension even if you keep working.
- A TtR account-based pension is commenced by moving funds you currently have inside the super environment from the accumulation phase to pension phase.
- By commencing a TtR account-based pension, you can continue to work and draw income as a pension of anywhere between 2% and 10% of the commencement value (or the 1 July balance for subsequent financial years)[2].
- Upon the earlier of 'retiring' or attaining age 65, your TtR account-based pension will continue as a retirement phase account-based pension. That is, the 10% maximum drawdown percentage no longer applies and lump sum drawdowns can also be made.

Super → Pension → 2-10% income

A TtR account-based pension is commenced by moving funds inside the **superannuation environment** from the accumulation phase to **pension phase**. To do so, you must have reached preservation age.[1]

By starting a TtR account-based pension you can draw income as a **pension anywhere between 2% and 10%** of the commencemnet value (or the 1 July balance for subsequent financial years).[2]

1 Preservation age: https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=11
2 By drawing down a pension, your super balance will reduce compared to if you had not utilised a TtR strategy.

Benefits

You could maintain a certain lifestyle whilst reducing your working hours.

Example

How could Simon maintain his take home income whilst reducing his working hours?

Example 1 – Transition to Retirement

Simon (age 62)

$400,000 in super

After tax income of $961.79 per week

The following compares 3 scenarios for Simon:

1. Continues to work full-time	Simon is currently working 40 hours per week, earning a salary of $60,000 p.a. and has $400,000 in his super.
2. Changes to part-time	Simon is considering moving to part-time work, until he is eligible for age pension, and wants to still be able to meet his living expenses of $900 per week. Simon's employer is happy for him to switch to part-time work of 20 hours per week and earn an annual salary of $30,000.
3. Changes to part-time work with transition to retirement strategy	Simon could consider changing to part-time work and using his $400,000 super to commence a TtR account-based pension, and draw pension payments of $21,900 p.a. (which is between the 2% minimum and 10% maximum requirement).

	1. Continues full-time work	2. Changes to part-time work	3. Changes to part-time work with transition to retirement strategy
Working time	40 hours	20 hours	20 hours
Salary	$60,000	$30,000	$30,000
Transition to retirement pension payments	$0	$0	$21,900
Income Tax (including Medicare)	$9,987	$1,887	$1,887
After tax income	$50,013	$28,113	$50,013
After tax income per week	**$961.79**	**$540.63**	**$961.79**

For the 2020/21 financial year, by adopting a transition to retirement strategy:

- Simon's take home income per week has returned to $961.79, 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 super by $21,900 p.a. This 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 age 57, under scenario 3, he would have to draw pension payments of up to $24,304 from the TtR account-based pension, and compared to scenario 2, his income tax liability would increase by up to $2,404 p.a.

This would reduce the available funds in his super by up to $24,304 each year, which would result in a greater reduction to his retirement savings over time.

Take note

Prior to adopting a transition to retirement strategy you should also consider:

- The potential reduction in your retirement savings as a result of drawing down from super prior to fully retiring.
- If you are under age 60, 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).