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FINANCIAL SERVICES

Easing into *retirement*

As the nation drifts back to work and study after the summer break, it's often a time to start putting your New Year's resolutions into practice. For some, an extended holiday may have convinced you that you are ready for more of the good life and that it's time to retire.

In the past, that would have meant leaving work for good. These days, retirement is far more fluid.

You might simply want to wind back your working hours to give your mind and body room to breathe. Or you may want to leave your full-time job but keep your career ticking over with part-time or consulting work. Others may dream of leaving the nine to five to run a B&B or buy a hobby farm.

Changing retirement patterns

There are already signs that people's retirement plans are changing.

In 2019, the average retirement age for current retirees was 55 (59 for men and 52 for women[i]), but the age that people currently aged 45 intend to retire has increased to 64 for women and 65 for men.[ii]

There are many reasons for this gap between intentions and reality. Only 46 per cent of recent retirees said they left their last job because they reached retirement age or were eligible to access their super. Substantial numbers retired due to illness, injury or disability (21 per cent) while others were retrenched or unable to find work (11 per cent).[iii]

Retired women were also more likely than men to retire to care for others. But for people who can choose the timing of their retirement, there can be good reasons for delay.

Reasons for delaying retirement

As the Age Pension age increases gradually from 65 to 67, anyone who expects to rely on a full or part pension needs to work a little longer than previous generations.

We're also living longer. A man aged 65 today can expect to live another 20 years on average while a woman can expect to live another 22 years.[iv] So the longer we can keep working and building a nest egg the further our retirement savings will stretch.

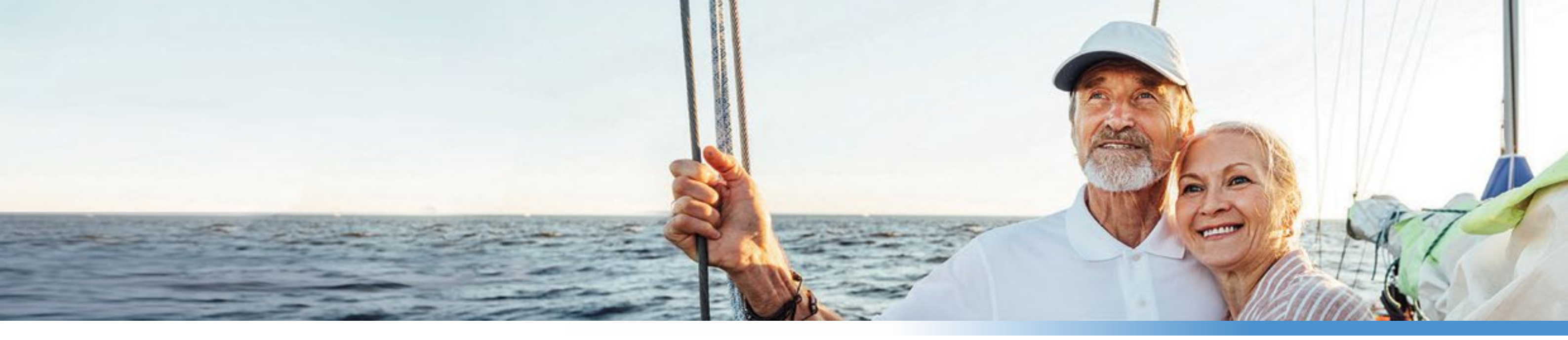
And then there's COVID. If you lost your job or your hours were reduced during the pandemic, you may need to work a little longer to rebuild your savings. Even if you kept your job, you couldn't go anywhere so you may have postponed your retirement plans. But now the COVID fog is lifting, and borders are reopening, retirement may be back on the agenda.

Whatever shape your dream retirement takes, you will need to work out how much it will cost and if you have sufficient savings to make it happen.

Sourcing your retirement income

The more you have in super and other investments the more flexibility you have when it comes to timing your retirement.

If you plan to retire this year, you will need to be 66 and six months and pass assets and income tests



to apply for the Age Pension. But you don't have to wait that long to access your super.

Generally, you can tap into your super once you reach your preservation age (between age 55 and 60 depending on the year you were born) and meet a condition of release such as retirement. From age 65 you can withdraw your super even if you continue working full time.

But super can also help you transition into retirement, without giving up work entirely.

Preservation age

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Source: ATO

Transition to retirement

If you're unsure whether you will enjoy retirement or find enough to do to fill your days, it can make sense to ease into it by cutting back your working hours. One way of making this work financially is to start a transition to retirement (TTR) pension with some of your super.

Case study

Ellie, a teacher, has just turned 60. She wants to reduce her workload to three days a week so she can explore other interests and gradually ease into retirement.
Her salary will drop but if she starts a TTR pension she can top up her income with regular monthly withdrawals.

Most super funds offer TTR pensions, or you can start one from your self-managed super fund (SMSF). You decide how much to transfer into a TTR pension account, but there are some rules:

- You must have reached your preservation age
- Money can only be withdrawn as an income stream, not a lump sum
- There is a minimum annual withdrawal amount, for example, 4 per cent of your TTR account balance (2 per cent until June 2022) if you are aged 55-64
- The maximum annual withdrawal is 10 per cent of your TTR account balance
- Income is tax-free if you are aged 60 or older; if you're 55-59 you may pay tax on the TTR income, but you receive a tax offset of 15 per cent.

One of the benefits of this strategy is that while you continue working you will receive compulsory Super Guarantee payments from your employer. A downside is that you will potentially have less super in total when you finally retire.

Retirement is no longer a fixed date in time, with far more flexibility to mix work and play as you make the transition. If you would like to discuss your retirement options and how to finance them, give us a call.

i, iii https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/latest-release

ii https://newsroom.kpmg.com.au/will-retire-data-tells-story/

iv https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

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