



Transition to Retirement Income Stream (TRIS)

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This month I thought it prudent to revisit the Transition to Retirement Income Stream (TRIS). The reason I have chosen this topic is that time could be running out if you have not already commenced your strategy.

What is a TRIS?

Well I am glad that you asked! The TRIS strategy utilises a special type of Account Based Pension which is non-commutable but allows you to access your Superannuation in the form of a pension even while you are working full time provided you are over 55 years of age. At its introduction in September 2007 the TRIS was the epitome of tax effective investing. The Government saw a need to allow people to be able to transition from full time work to part-time work i.e. semi-retirement and access their Superannuation to supplement their income. The benefit, in the eyes of the Government, of such a strategy was that people would be able to work longer reducing their reliance on the Government to fund their retirement.

It was not long before the financial planning industry indentified a creative way to utilise this strategy to enable those who wanted to continue to work full time to do so and effectively reduce their annual PAYG tax bill by over \$20,000 pa in some cases. It was also not uncommon for high income earners to be entitled to the Low Income Tax Offset (LITO) by salary sacrificing the majority of their income into Superannuation and replacing this income with tax-free non-assessable pension income. It didn't take the Government long to close the LITO loophole, but the massive tax benefits remained until the Labour government as part of the May 2009 Budget reduced the transitional Concessional Contribution Caps for those aged over 50 from \$100,000 to \$50,000. This was a major blow to a number of higher income investors who were utilising the TRIS strategy to maximise their retirement benefits.

It's all about Caps!

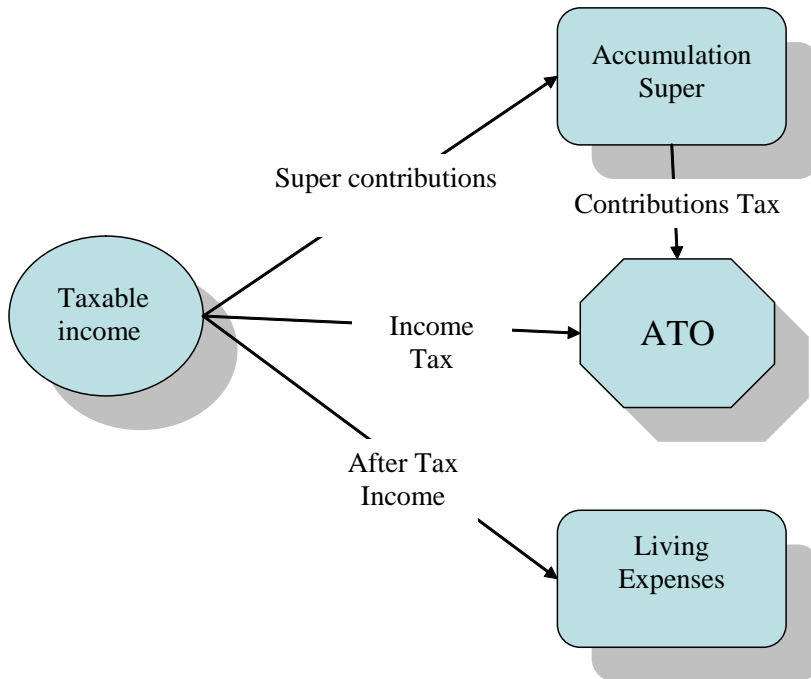
In September 2012 the Concessional Contribution Caps for those over 50 years of age are scheduled to drop from \$50,000 to \$25,000 p.a. under the current Labour Government. Should this reduction actually occur it may in fact see a reduction of the effectiveness of the TRIS strategy for some people, particularly those on higher incomes because the Concessional Contributions Cap includes, among others, the following types of contributions:

- Employer Superannuation Guarantee payments
- Employer voluntary contributions including where an employer pays for an employees personal insurance and/or fees within Superannuation
- Personal deductible contributions

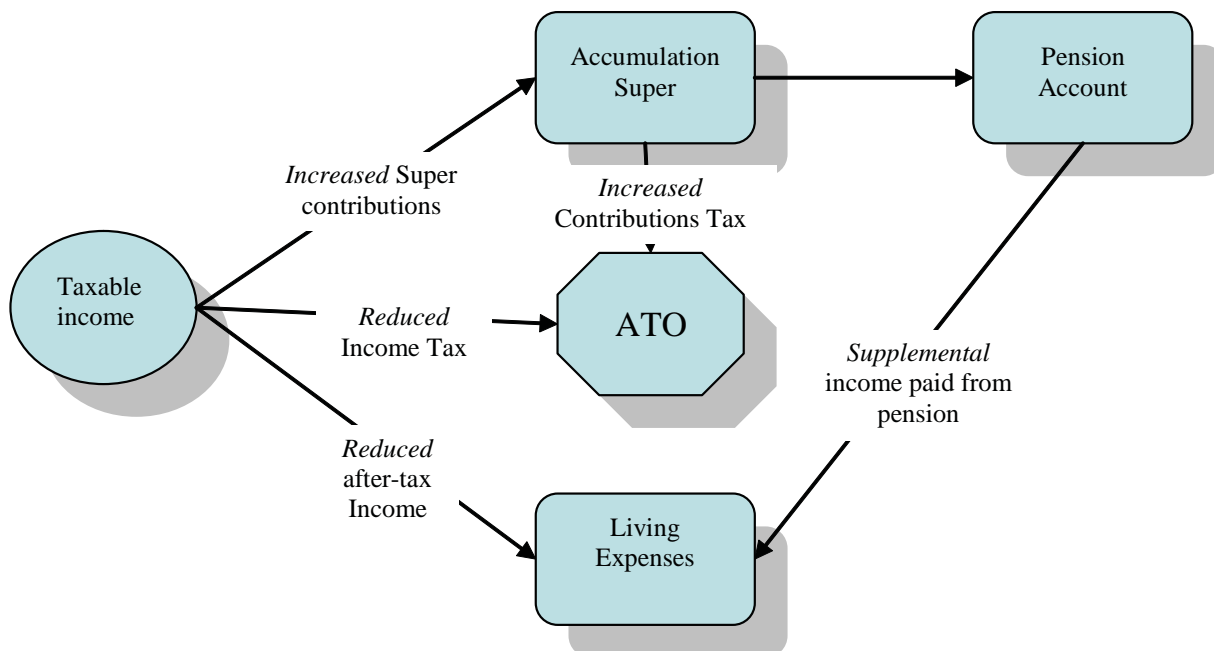
So for a person who earns say \$150,000 and receives \$13,500 in Employer SG contributions only \$11,500 of their cap remains for additional tax-effective contributions. That said, it is not a cause for alarm; investors still have the \$150,000 Non-concessional Cap which can be utilised to make after-tax contributions which still gives access to the most tax friendly investment environment available – Superannuation.

So how does a TRIS work?

The strategy itself is a redirection of pre-tax income away from the ATO and into Superannuation. A very basic illustration of a person's cash flow could look something like this:



After implementing a TRIS, cash flows are diverted away from the ATO and into the Superannuation fund, thus reducing taxable income and boosting super. In addition, a non-commutable Account Based Pension is commenced from which a tax effective pension can be paid. In some cases the pension is tax-free. This can be illustrated as such:



There are a number of pitfalls that it is important to avoid. The Superannuation landscape is dynamic and complex. Financial advice is recommended to ensure that this type of strategy is suitable for your particular situation. There are a number of areas that can have a significant impact on the suitability of a TRIS including:

- Age
- Tax components of Superannuation balance
- Income
- Years to retirement
- Types of remuneration received
- Surplus income

As with any investment strategy it is important to ensure that an adequate wealth protection strategy is in place.

EquitySuper provides specialist retirement planning and wealth protection advice.

Financial advice

For any further information or to discuss your financial situation, please don't hesitate to contact me on **0413 244 733** or email **simon.whiteley@eqtsuper.com**. I look forward to hearing from you.

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