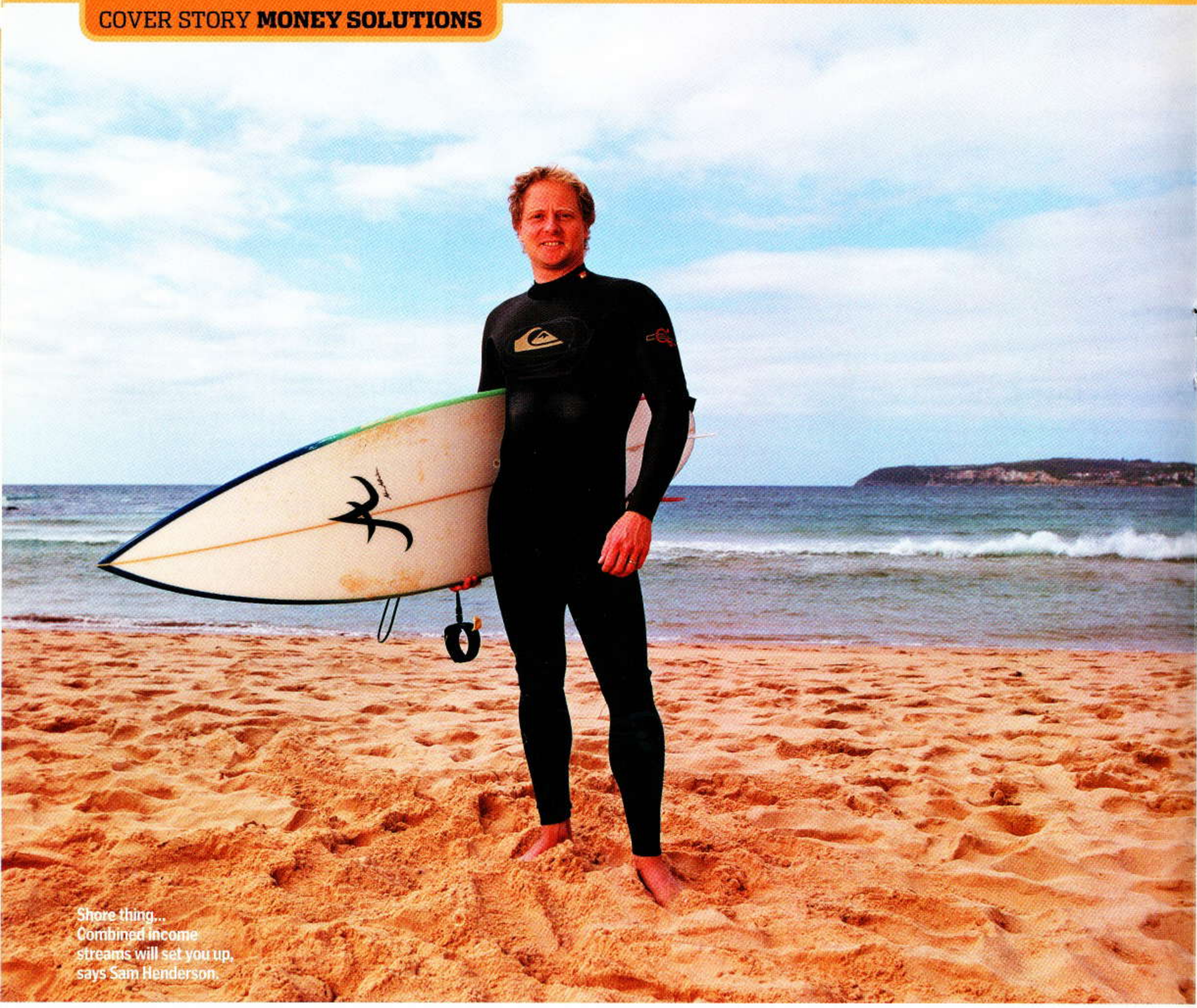
Shore thing... Combined income streams will set you up, says Sam Henderson.

Beating up those nest eggs

Money asked Sam Henderson, retirement and investment expert, to suggest strategies to maximise your retirement income

THE FACT IS, IF YOU NEED $40,000 a year in retirement you will need a lump sum of $780,000 at age 55 to be fully self-funded. At 60 it would be around $700,000 and at 65 around $625,000. The problem is, the average worker is now retiring with around $120,000.

This is what is commonly known as the "retirement savings gap". So how big is your gap and how can you close it?

Pre-retirement

Think about taking advantage of salary sacrifice. Quite simply, salary sacrificing is contributing a portion of your gross salary (before tax) into a superannuation fund rather than taking it and spending it. The superannuation fund will tax it at 15% rather than your normal marginal tax rate (thresholds of 0%, 17%, 30%, 42% and 47%).

Effectively, the federal government will reduce your tax if you promise to save for your retirement, thus easing the burden on Centrelink. As shown in the table on page 55, for those on higher salaries the savings can be as high as 32% of a portion of your salary. This is one of the key strategies to pre-retirement planning. After all, the government is giving you a 32% discount on tax – it's like sale time!

CALCULATE YOUR SAVINGS

INCOME THRESHOLDS	TAX RATE	SALARY	SALARY SACRIFICE	TAX SAVINGS
up to $6000	0%	$5000	-	-
$6001 to $21,600	17%	$15,000	$2000	$40
$21,601 to $63,000	30%	$50,000	$5000	$750
$63,001 to $95,000	42%	$80,000	$10,000	$2700
$95,001 to $120,000	47%	$120,000	$20,000	$6400

Source: www.ato.gov.au for 2005-06. Rates and calculations exclude Medicare levy.

Salary sacrifice is a tax-effective way of saving for your retirement, especially in the higher salary brackets.

FACT FILE

Maximum pension

Dependent on assets and income

The maximum pension rate per fortnight is:
- single – $488.90
- couple – $408.20 (each)

adjusted in line with the CPI. Once your assets/income exceed certain levels, you will only be eligible for a part age pension. Remember other benefits from Centrelink include; Health Care Card, Low Income Health Card, Pensioner Concession Card, Commonwealth Seniors Health Care Card. And apply for your state-based Seniors Card. These cards, subject to eligibility criteria, can increase your cash flow.

Source: www.centrelink.gov.au

Re-contribution

At retirement you must "cash" your superannuation by either taking an income stream or removing your super from the superannuation environment. While most people roll their super into an income stream without incurring any tax, another option is to cash out a concessionally taxed portion and then re-contribute back into either your own or your spouse's super as an undeducted contribution (no tax).

The only time you should consider selling or transferring quality assets like shares or property is at retirement. And the reason is to move them into a more tax-effective (often tax-free) environment and to reduce debt.

The funds can be placed into superannuation as either a deductible contribution (15% tax removed) or an undeducted contribution (no tax). By placing funds from your own name into superannuation, you can effectively reduce your capital gains tax bill (by up to 32%) by making a deductible contribution.

If you've owned a business for 15 years or more and are selling the goodwill and "active assets", you may pay no capital gains tax on the sale if you use the funds for retirement. For less than 15 years of ownership, you may roll over $500,000 into super and not pay capital gains tax. More exemptions apply and the complex rules need to be understood, but this could save you thousands at retirement.

At retirement

OK, now you've fully retired and need an income stream, what are your choices?

An allocated pension is simply an income stream purchased with money from superannuation – not so much a product but an entity under which you operate. An allocated pension attracts no capital gains tax, no tax on investment earnings, no tax on undeducted contributions and a 15% rebate on your income.

Basically, a vast proportion of people using these allocated pensions pay little or no tax. You can own shares, managed funds and property within an allocated pension (albeit under certain restrictions), and you may even get access to Centrelink if you meet their requirements.

Term Allocated Pensions (market-linked income streams) have the advantage of being 50% assets test exempt under Centrelink. TAPs are used to access the Age Pension or the Pension RBL (Reasonable Benefit Limit). Unless you have more than $648,946 you won't have an RBL problem. That leaves the majority of people using these vehicles to access Centrelink. Ensure that you have been made aware of the rigid restrictions surrounding the TAP before you jump into it.

For people over the age of 55 and still working, the new transitional allocated pension (TRAP) may be an option to cash-flow problems. Effectively you can now receive an income from your super while you work, as long as you are over 55. You receive all the trimming of an allocated pension (no capital gains tax, no tax on earnings etc).

Recycling funds and saving tax may be possible here for high-income earners, unless the tax office plugs the gaps. There are some great strategies needing much more explanation for people with RBL problems.

Centrelink has two tests, the Income Test and the Assets Test. The one that works out the worse for you is the one they assess you against – typical huh? For most people it's the assets test that's most applicable. Once your assets exceed $223,000 as a home-owning couple or $153,000 as a single, you will only be eligible for a part-Age Pension. Once you exceed $490,500 for a couple and $317,750 for a single, you will be ineligible for government assistance. Your primary residence is excluded, home contents are assessed as fire sale (usually set at $5000) and other lifestyle assets such as caravans, cars and boats are also assessed.

In many cases, I recommend a combination of all of these income streams to meet the complete needs, objectives and goals of a client. Everyone is different and each income stream has pros and cons of which you need to be aware. Caveat emptor, "let the buyer beware", is paramount in the process of retirement planning. You don't want to find yourself locked into a product or structure without the flexibility of choice later in life. There's the question of fees versus returns versus advice. It's important to find a balance between fees, returns and getting some good strategic advice. Remember, if the advice is good it should save or earn you thousands of dollars – it's value versus cost. There is huge value in good advice.

> "**Effectively you can now** receive an income from your super **while you work, as long as** you are over 55"

- **Sam Henderson is principal of Henderson Maxwell, specialising in investment and retirement solutions in Sydney, Melbourne and Canberra. He is a regular contributor to the financial press and was a speaker at Retirement Expo, Money Expo and Investment Expo in Sydney and Melbourne.**

MARTIN MISCHKULNIG