Income Booster strategy

With the July 2017 super changes imminent, you may be looking at ways to protect and grow your superannuation funds, so you are confident you can live the retirement lifestyle you have been planning for. The Income Booster strategy may be worth considering.

What is it?

The Income Booster strategy may provide more after-tax income by simply restructuring salary payments through super and commencing a super pension.

Depending on your financial situation, this strategy may or may not involve making pre-tax contributions (such as salary sacrificing) into super.

Making the most of your Income Booster depends on your financial goals. You could:

- reduce non-deductible debt
- fund pre-retirement home improvements
- utilise as a source of cash flow for the self-employed during trying times.

The amount of additional income you receive could result in an increase or decrease in retirement savings, so talk to your financial adviser about whether this is an appropriate strategy for you.

Case study

Patrick, aged 60, is a telecommunications technician who derives a salary of $75,000 p.a. and has a super account balance of $300,000. He plans to retire at age 65. After accounting for taxes and Medicare levy, Patrick's existing take-home pay is $57,578. Patrick is happy with his current level of retirement savings. However, he is looking at increasing his annual disposable income to $62,000.

The strategy

Patrick consults his financial adviser who explains that transition to retirement rules allows individuals who have reached preservation age (55-60, depending on date of birth) to access their retirement savings.

His financial adviser explains that he will need to use the money in his existing super account to open a Transition to Retirement (TTR) pension and that he can withdraw up to a maximum of 10% p.a. from the TTR pension account balance.

As Patrick has reached the age of 60, his financial adviser informs him that pension payments received from his TTR pension will be tax free.

His financial adviser suggests Patrick salary sacrifice $17,875 into super and draw an income of $15,987 p.a. from his TTR pension.

The following table shows Patrick's change in cash flow position before and after implementing a TTR strategy.

Patrick's income overview – year one	Current position ($)	With TTR strategy ($)
Original salary	75,000	75,000
Salary sacrifice super contribution	0	17,875
Cash salary	75,000	57,125
TTR pension (tax free)	0	15,987
Total income	75,000	73,112
Gross PAYG tax	(15,922)	(10,113)
Low income tax offset	0	143
Medicare levy	(1,500)	(1,143)
Net tax and Medicare levy	(17,422)	(11,112)
After-tax income	57,578	62,000

Patrick's forecasted super benefits to retirement

Patrick's cash flow target of $62,000 p.a. can be achieved with an appropriate financial plan.

Patrick's Income Booster strategy would increase his disposable income in year one by $4,422 ($62,000 – $57,578). Patrick's financial adviser explains that implementing this strategy may reduce his super benefit at retirement.

Want to know if the Income Booster strategy is appropriate for you? Contact us today so we can discuss your personal situation and implement any recommendations before the super rules change on 1 July 2017.