

## MEDIA RELEASE

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### **LESS WORK, SAME MONEY: OLDER WORKERS SET TO EMBRACE NEW SUPER RULES**

Older workers keen to work less while earning a similar salary will increasingly be approaching employers with proposals for flexible work, an HR expert told a breakfast in Melbourne recently.

Right Management's Regional Practice Leader, Tim Roche, also told HR professionals at the breakfast, entitled "Managing Boomers in the new Superannuation Environment", that employers need to take a proactive approach to accommodating older workers if they are serious about retaining them.

"When the Federal Government's Better Super regime took effect in July 2007, it handed employers a powerful tool for engaging and retaining their older workforce. However, it also created a catalyst for change, and will reshape the way baby boomers approach work and retirement. A growing number will seek to leverage the new superannuation rules to enhance their work/life balance, and employers must ensure they are geared up to meet these expectations, or risk losing these valued people altogether," Mr Roche said.

The implementation of a 'Transition to Retirement' strategy makes it possible for some older workers to work less while continuing to earn a comparable income (see case study). Individuals who have reached their preservation age but are still working can access their accumulated superannuation while maintaining employment, drawing from their preserved benefits, and salary sacrificing back into superannuation. Many of the principles contained in Better Super enhance this strategy and make it an attractive option.

This has the effect of moving a proportion of gross salary away from the income tax environment of up 46.5 per cent, to being directed to super and incurring 15 per cent tax. Moreover, after reaching 60 years of age, current superannuation benefits, where earnings are taxed at 15 per cent, can be moved to the pension environment where earnings are exempt from tax. The result is that people can work less while earning a comparable income.

"The ageing population presents fundamental challenges for employers, who face both a shrinking labour pool and a potential exodus of baby boomers. As individuals begin to take accountability for their pathway to retirement, employers must also get on board. Their challenge is being able to say "yes" to older workers when presented with a plan for flexible or part-time work, which now makes economic sense for them.

“Moreover, employers will give themselves a huge advantage attracting and retaining the ‘grey workforce’ if they proactively embrace such a model and offer it to staff,” Mr Roche said.

Right Management’s approach to the challenge tackles the problem from both sides through its Life Options program.

“Life Options works by empowering individuals and giving them the tools to plan for the next phase of their life. It’s a process of assessment and exploration followed by the development of a transition plan to their future lifestyle.

“At the same time, Life Options assists employers to meet the needs of these individuals from an organisational perspective. The new paradigm may take some adjustment for both sides; but if it means people can continue in their job, satisfied and engaged, beyond the minimum retirement age, then it’s a win-win situation for everyone,” he said.

Meeting the needs of older workers can also be an effective driver of employee engagement, as Right Management’s engagement data reveals that on average, 69 per cent of employees aged 50 – 65 are disengaged at work, compared to 60 per cent for those in their 30’s and 40’s.

“Employers who develop a retention strategy aimed squarely at the needs and aspirations of baby boomers can effectively demonstrate that they value, understand and most of all, want to keep their older workers. Knowing you are appreciated makes all the difference when it comes to engagement and retention - regardless of age,” Mr Roche said.

### Hypothetical Case Study

- Sam is 60 years of age and working on a full-time basis. Sam is considering scaling back to 3 days per week. Sam currently earns a full-time salary of \$160,000 and this would be pro-rated to \$96,000. In order to supplement the reduced income, Sam has been advised to commence a non-commutable allocated pension (NCAP) by accessing the superannuation balance of \$680,000.
- To maintain take home pay Sam elects to receive a NCAP at 5.5% of superannuation balance (minimum pension level 4%, maximum 10%). Sam’s after tax and superannuation positions are illustrated in the table following.
- Sam is also keen to maximise and retain the superannuation balance. To do this, Sam considers a salary sacrifice strategy. To complement this strategy, Sam is determined to reduce living costs to \$80,000 per annum. Sam can achieve this by salary sacrificing part of his salary to superannuation and by taking a minimum NCAP at 4%.
- The outcome is that if Sam works 3 days, reduces his living costs, increases his salary sacrifice and draws a NCAP, he will have a take home pay of \$83,740, while his superannuation balance will only decrease marginally – from \$692,240 to \$677,994.

See table on following page.

	CURRENT	REDUCED HOURS & TTR PENSION PAYMENT	SALARY SACRIFICE, TTR PENSION PAYMENT
Salary	\$160,000	\$96,000	\$75,000
Pension	-	\$37,400	\$27,200
<b>Total Income</b>	<b>\$160,000</b>	<b>\$133,400</b>	<b>\$102,200</b>
Tax Liability (including Medicare)	\$54,210	\$27,170	\$18,460
<b>Take home pay</b>	<b>\$105,790</b>	<b>\$106,230</b>	<b>\$83,740</b>
SGC – 9%	\$14,400	\$8,640	\$6,750
Salary sacrifice	-	-	\$22,890
<b>Total Contribution to Super</b>	<b>\$14,400</b>	<b>\$8,640</b>	<b>\$29,640</b>

#### SUPERANNUATION BALANCE

Opening Balance	\$680,000	\$680,000	\$680,000
SGC Contributions	\$14,400	\$8,640	\$6,750
Salary sacrifice contributions	-	-	\$22,890
<b>Sub-Total</b>	<b>\$694,400</b>	<b>\$688,640</b>	<b>\$709,640</b>
Less: 15% Contributions tax	(\$2,160)	(\$1,296)	(\$4,446)
Pension payment	-	(\$37,400)	(\$27,200)
<b>Closing Balance</b>	<b>\$692,240</b>	<b>\$649,944</b>	<b>\$677,994</b>

#### Case Study Assumptions

1. Superannuation is held in a 'taxed' fund
2. Superannuation balance is all post-June 83, no undeducted component
3. Minimum pension payment is 4% and maximum pension payment is 10% of superannuation balance
4. No tax payable on Superannuation withdrawals (pension, lump sum) as Sam is over age 60
5. Sam's Total Employment Cost (TEC) after reduced hours is \$104,640. The salary sacrifice strategy maintains this level of TEC
6. Superannuation fund earnings have not been calculated. When fund is in 'pension mode', earnings are tax free (tax at 15% whilst in accumulation mode)

- Ends -

#### Editor's Note: The Right Story

Right Management is the leading global provider of integrated consulting solutions across the employment lifecycle, committed to helping clients maximise the return on investment in their people, while assisting individuals to achieve their full potential.

Right Management's solutions draw on the expertise of its people as well as proven processes, methodologies and tools from any or all of the four areas of the employment lifecycle:

- **Attract and Assess** – Planning for and measuring the organisation's talent
- **Develop** – Developing people for current and future roles
- **Engage and Align** – Improving employee engagement and effectiveness
- **Transition** – Optimising human capital deployment

For over 25 years business people around the world have chosen to work with Right Management because of its expertise, flexibility, global access and local knowledge.

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