TRANSITION TO RETIREMENT PENSION

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A ‘Transition to Retirement’ pension enables you to use your accumulated superannuation savings to supplement your employment income before you are fully retired.

BENEFITS

- The pension can supplement your income if you decide to reduce your work hours.
- You can increase your retirement savings by combining a Transition to Retirement pension with a Salary Sacrifice arrangement.

You can potentially boost the effective earnings rate on your superannuation savings if your marginal tax rate is greater than the Superannuation tax rate.

HOW IT WORKS

An income stream can only be started once you have met a condition of release. However, Transition to Retirement is a condition of release which allows you to start a non-commutable Account Based Pension with your superannuation funds before retirement provided you have reached your preservation age.

There are minimum and maximum draw down limits you can take each year. The pension is non-commutable which means you cannot make lump sum withdrawals.

If you want to reduce your working hours the pension can be used to top-up your income or replace employment income.

If you are continuing to work full-time you can combine a Transition to Retirement pension with a salary sacrifice arrangement to reduce overall taxation. This boosts your wealth accumulation while still maintaining the same level of disposable income or you may reduce disposable income so that more of your salary can be directed to boost your retirement savings.

The Salary Sacrifice strategy allows salary to be taxed at the superannuation tax rate within the superannuation fund (provided you do not exceed concessional contribution caps and are not considered a high-income earner) and income drawn from the Account Based Pension is also concessionally taxed. This is particularly beneficial if you are over age 60 and can draw tax-free income from the pension.

Account Based Pensions are a tax-effective source of income because:

- Pension income paid to you from age 60 is tax-free.
- Pension income paid to you between preservation age and age 60 is taxable, but with a 15% tax offset to help reduce tax payable.

Your pension account balance will increase with investment earnings and decrease because of pension payments, negative returns, fees and charges. These factors ultimately determine how long your Account Based Pension will last.

PENSION INCOME

Account Based Pensions are very flexible, as you can vary the amount of income you take each year. But until you meet a full condition of release you will be limited to taking between 4% and 10% of the balance at commencement (in the first year) or at 1 July in each subsequent year.

Once you meet a full condition of release, your Account Based Pension will become fully commutable allowing you to take withdrawals and any amount of pension income above your age-based minimum.

TAXATION OF YOUR PENSION INCOME

When you commence an Account Based Pension the balance is split into a taxable component and a tax-free component. This is based on the split that was in your superannuation account just before you commenced the pension.

All future pension payments, lump sums and death benefits are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments, lump sum withdrawals and your final death benefit would be made up of a taxable component.

Whilst you are under age 60, the taxable component is included in your assessable income with a 15% tax offset to help reduce your tax if you are over preservation age. But once you turn age 60, all pension income is tax free.

CENTRELINK

If either you or your spouse receives a means-tested payment from Centrelink/Veterans' Affairs the Account Based Pension is assessed under deeming rules unless it was commenced before 1 January 2015. In some cases, pensions commenced before that date may be assessed under potentially more favourable deductible amount rules.

The account balance of an Account Based Pension counts as an assessable asset.

WHAT YOU NEED TO CONSIDER

- Accessing your superannuation now reduces your available funds at retirement unless you top this up with a Salary Sacrifice arrangement.
- Your Account Based Pension is not guaranteed and pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- If you have made personal superannuation contributions in the current year for which you wish to claim a tax deduction, you must lodge a notice of deductibility form with your superannuation fund (and wait for confirmation that they have received the notice) prior to rolling over to start an Account Based Pension.
- In the financial year that you either start or stop your Account Based Pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.
- If your 'income' is over the 'high income threshold' you may pay an additional tax on all or part of your concessional contributions.
- If you do not take the required minimum income, tax will apply on earnings of the account for the whole year. Additional consequences may apply if your pension is managed by a self-managed superannuation fund.
- If you are a Centrelink/DVA customer, you are required to notify Centrelink/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account balance.
- The government may change legislation relating to Account Based Pensions in the future.

- Fees may be charged for the balance rolled over to start an Account Based Pension. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your fund.

REFERENCES

You may wish to refer to the following websites for further information about a transition to retirement pension.

- www.ato.gov.au
- www.moneysmart.gov.au
- www.servicesaustralia.gov.au

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