

Transitioning to retirement

1 July 2019 (updated annually)

If you want to reduce your working hours or pay less tax without sacrificing your cash flow, a transition to retirement pension could be the answer.

Longer life expectancies mean many Australians are spending more time in retirement than ever before¹ - increasing the burden on our social security system and emphasising the importance of accumulating superannuation.

As a consequence, the Government is encouraging us to remain in the workforce beyond the traditional retirement age.

Did you know that you can access your superannuation while you are still working?

Using a transition to retirement pension you can generally access between 4-10 per cent of your super balance, as long as you've reached your preservation age (between 56 and 60 depending on the year you were born) and you are still working.

A better lifestyle on the same income

A transition to retirement strategy allows you to supplement your income by drawing a regular pension payment from your super fund.

There are a few ways you can benefit:

- continue to work full-time but reduce your tax by taking a pension and salary sacrificing some of your income into super
- moving from full-time work to part-time work and replacing lost salary with income from the transition to retirement pension,
- as a business owner/operator, you could use a pension to supplement your income needs in quiet times.

A transition to retirement pension may also help reduce your overall tax bill while boosting your total super balance before you retire.

This is how it works. You contribute part of your salary to super (where it is generally taxed at a maximum of 15 per cent² rather than at your marginal tax rate). You then move your super money into a 'transition to retirement' pension and use the pension income to supplement your reduced salary. The tax-effectiveness of the pension payments will help lower your overall personal tax liability. Note that from 1 July 2017 earnings on transition to retirement pensions are taxed the same as your accumulation accounts.

Your preservation age

Under current superannuation law you must reach your preservation age before you can access your super. Your preservation age depends on the date you were born.

Date of birth	Preservation age
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

Things to consider

Non-commutable income stream

Your transition to retirement pension income stream is non-commutable apart from any unrestricted non-preserved components within it. Non-commutable means you can't convert the income stream into lump sum cash until you satisfy a full condition of release from super, such as retirement or turning 65. However you can stop the pension anytime you want to.

Your transition to retirement pension will work in a similar way as a standard superannuation pension, subject to the non-commutable requirements and restriction on the amount of pension you can withdraw. You can withdraw between 4 per cent and 10 per cent of the pension account balance each year and have the flexibility to vary the payment at any time during the year, within these set ranges.

You should also keep in mind the possibility of your career not going exactly to plan - a redundancy or a forced or unplanned early retirement could interrupt this strategy and mean that you will have to review your circumstances with your financial adviser.

Another important point to consider is the concessional contributions cap of \$25,000. Also, these income streams are not exempt from earnings tax ie up to 15 per cent tax applies on earnings within the fund.

Self-managed super funds

If you plan to use this strategy through a self-managed super fund, you should ensure that the trust deed is drafted to allow you to commence any pension allowed under super law.

Tax treatment

Once you have reached age 60, your pension payments and any lump sum withdrawals will generally be tax-free. Under age 60 there may be personal tax payable on the pension payments.

A financial adviser can help you to structure your pension to legally minimise your tax obligations.

Note about salary sacrificing: Although salary sacrificing into superannuation is a great strategy for increasing your retirement savings, not all employers offer this feature to their employees. Also, under these arrangements your salary decreases and this could have a flow-on effect to other employment benefits you receive — eg compulsory SG contributions may be determined using actual (reduced) salary and may not take into account salary sacrifice contributions.

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1. Australian Institute of Health and Welfare - mortality data.
 2. Additional contributions tax of 15 per cent applies to high income earners earning over \$250,000 per annum.