TRANSITION TO RETIREMENT
WHAT YOU NEED TO KNOW

A transition to retirement strategy may give you more flexibility and allow you to take advantage of tax concessions to help you achieve the lifestyle and super balance you want.

Beginning the transition to retirement
The years before you retire can be challenging. While you are probably looking forward to having more time to do the things you enjoy, you may not be ready to stop working just yet. Many people are also concerned about whether or not they have saved enough to provide them with a comfortable retirement – especially with retirees living longer than ever before. A transition to retirement (TTR) strategy can help you ease into retirement and boost your super in a tax effective way.

What is a transition to retirement strategy?
Transition to retirement strategies are designed to give you greater flexibility as you move towards retirement. Once you reach what's known as your 'preservation age', you can access your super by starting a transition to retirement income stream (a regular income stream drawn from your super savings).

What's your preservation age?
By law, super contributions are generally locked away or 'preserved' until you reach your preservation age. Your preservation age is based on your date of birth (as set out in the table below). Once you reach your preservation age, you can start a transition to retirement income stream. You will need to check with your super fund as not all funds offer a transition to retirement income stream.

Date of birth	Preservation age
Before 1 July 1960	55
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
On or after 1 July 1964	60

What is a transition to retirement income stream?
A transition to retirement income stream allows you to draw a regular income from your super while you're still working, provided you have reached your preservation age. There are restrictions on accessing your super as a lump sum, and limits to the level of payments you can receive each year, during this pre-retirement phase.

Unlike retirement phase income streams, which are subject to a $1.6 million 'transfer balance cap' from 1 July 2017, there is generally no limit to how much you can transfer into a transition to retirement income stream from your super savings. So you don't have to worry about excess transfer balances until you reach age 65 or notify your fund that you have retired.

Since 1 July 2017, earnings on assets supporting transition to retirement income streams are taxed at up to 15% in the same way as assets supporting your accumulation phase super (prior to 1 July 2017, earnings on assets supporting transition to retirement income streams were tax free). However, once you reach age 65 or notify your fund that you have retired, are incapacitated or have a terminal illness, the assets supporting transition to retirement income streams are tax free.

Why start a transition to retirement income stream?
If you would like to ease your way into retirement, a transition to retirement strategy could enable you to reduce the number of hours you work. While working less will mean a smaller pay packet, if you decide to take out a transition to retirement income stream, you could supplement your work income with the pension payments. This would give you more time to do the things you enjoy, while maintaining your income and lifestyle.

If you continue to work without reducing your working hours, a transition to retirement income stream also gives you the flexibility to drawdown an income and at the same time make pre-tax super contributions (e.g., through salary sacrifice), in a way that may be more tax effective than just relying on your salary alone. In many cases, you'll pay less tax on your income stream income than you would on the same amount of salary or wages.

Depending on your circumstances, it could also be beneficial to use payments from your transition to retirement income stream to:

- make after tax contributions to your super account,
- make contributions to your spouse's super account
- pay off debt.

Is a transition to retirement income stream right for you?
Transition to retirement strategies don't suit everyone's circumstances. You should discuss the following factors with your financial adviser when deciding if a transition to retirement strategy is right for you:

- your age
- whether you have sufficient super to support drawing a transition to retirement income stream
- whether or not your employer will:
  - allow you to work part-time at a rate that suits you
  - allow you to salary sacrifice
  - agree to continue to pay your super guarantee (SG) contributions at the pre-salary sacrifice level
- your tax position
- your financial objectives and retirement needs
- the costs associated with this strategy.

Financial advice can make all the difference and help ensure you are not disadvantaged from a tax or social security perspective if you decide to implement this type of strategy.

Salary sacrifice
Once you're receiving payments from your transition to retirement income stream, the surplus income could allow you to salary sacrifice an equivalent amount to super (take care not to exceed the relevant concessional contributions cap). This could maintain your after-tax income while boosting your super with tax-effective contributions.

Salary sacrifice contributions are taxed at just 15%[1], unlike the salary they replace which would be taxed at your marginal tax rate (which could be up to 45% plus applicable levies). Salary sacrificing may therefore reduce the amount of tax you have to pay.

In addition, investment earnings on contributions made to your super are also taxed at 15% or less, compared to your marginal tax rate (which would generally apply to investment income on your investments outside super).

A word about contributions caps
When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps, and additional tax may apply where you exceed the caps[2].

The contributions caps for the 2017-18 financial year are[3]:

- A concessional contributions cap of $25,000 per financial year.
- A non-concessional contributions cap of $100,000 per financial year, or $300,000 over a three-year period (known as the bring forward rule) if you are under age 65 any time during a financial year. In addition:
  - Your non-concessional cap reduces to Nil once your total super balance[4] (just before the start of the year) is $1.6 million or more.
  - The cap you have available under the bring forward rule will reduce once your total super balance (just before the start of the year) is $1.4 million or more.
  - If you triggered a bring forward rule in 2015-16 or 2016-17 (the bring forward cap was $540,000 at that time) but did not use all of your cap by 30 June 2017, transitional rules will reduce the remaining cap you have available.

Transition to retirement income streams at a glance

- You must draw an income stream payment of between 4% and 10% of your account balance each financial year.
- Earnings on assets supporting transition to retirement income streams are taxable at up to 15% (prior to 1 July 2017 these earnings were tax free). Once you turn 65 or notify the fund that you have retired, are permanently incapacitated or terminally ill, the earnings are once again tax free.
- The value of your transition to retirement income stream will only count toward the $1.6 million transfer balance cap if you are age 65 or over or you have notified the fund that you have retired, are permanently incapacitated or terminally ill.
- Transition to retirement income streams can be started with preserved and restricted non-preserved superannuation benefits[5] (as well as unrestricted non-preserved benefits, which can be accessed at any time).
- Lump sum withdrawals can only be made from a pre-retirement pension if:
  - they are from unrestricted non-preserved benefits [5]
  - you have reached preservation age, have ceased a gainful employment

arrangement and do not intend to return to work for 10 hours or more per week
    - you are at least age 60 and have ceased gainful employment since turning 60
    - you have reached age 65.
- Once you are aged 60 or over in most cases you will pay no tax on the income stream payments you draw from your transition to retirement income stream. If you are between your preservation age and age 59, part of each payment you receive may be tax free, with the remaining assessable income in your hands and taxed at your marginal tax rate, but in most cases you will receive a 15% tax offset on the taxable payment.

1 If you have income greater than $250,000, an additional 15% tax may apply to some or all of your concessional contributions.

2 Contributions made in excess of your concessional contributions cap are effectively taxed at your marginal tax rate, plus an interest charge. You are also able to withdraw up to 85% of any excess concessional contributions. Contributions made in excess of your non-concessional contributions cap are taxed at 47%, however, you will generally instead have the option of withdrawing non-concessional contributions above your cap tax free, plus an associated earnings amount which is taxed at your marginal tax rate less a 15% tax offset. Interest charges may also apply to the amount of tax payable to cater for timing differences on when the tax is payable.

3 Contributions caps were significantly reduced from 1 July 2017. Higher concessional and non-concessional contributions caps applied for the 2016-17 financial year.

4 Total super balance is broadly the total of all your superannuation accounts, whether in the accumulation or pension phase.

5 Preserved and restricted non-preserved benefits are accumulated super benefits that are unable to be cashed out because you have not satisfied the appropriate condition of release e.g. being permanently retired after reaching your preservation age. Unrestricted non-preserved benefits may be accessed at any time. For more information, contact your super fund or seek professional financial advice.

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