Perpetual Superannuation Limited

TRANSITION TO RETIREMENT PENSIONS

TRANSITION TO RETIREMENT PENSIONS CAN HELP EASE THE MOVE FROM FULL-TIME TO PART-TIME WORK.

WHAT IS A TRANSITION TO RETIREMENT PENSION?

A transition to retirement pension allows people between their preservation age (55 to 60 depending on date of birth) and 64 to access part of their super through a pension while still working.

It assists with the transition from full-time to part-time work and to supplement their earned income with pension income.

The good news is that it can also be used if working full-time and, when combined with a salary sacrifice strategy, can provide tax and savings benefits.

WHAT ARE THE BENEFITS?

- **Maintain Your Income while working less.** If you want to work fewer hours, a transition to retirement pension can supplement your part-time income so that you can maintain your current lifestyle.
- **Maximise your super.** As you are still working you can keep contributing to your super while using a transition to retirement pension. This includes 9.5% employer super guarantee and salary sacrifice. Also, it's not essential to need extra income to benefit from a transition to retirement pension. In combination with a salary sacrifice strategy, you can increase your super balance without reducing your after-tax income. (See case study).
- **Flexibility.** If your circumstances change, you can stop this type of pension and revert to simply accumulating your super.

HOW THE TAX SAVINGS WORK

Salary sacrificed contributions to a complying super fund are not subject to income tax or fringe benefits tax (FBT). Money contributed to superannuation within the concessional cap attracts a tax rate of 15%[1]. Your assessable income, and therefore your personal income tax liability, is reduced.

The Income that you draw from your transition to retirement pension receives a 15% tax offset while you're less than 60 years of age and is tax free after the age of 60.

1 Individuals will have to pay an extra 15% tax on some of, or all of their 'taxable contributions' if their income, plus 'taxable' contributions are greater than the $250,000 threshold.

CASE STUDY – MAXIMISING SUPER

David, aged 59, is an IT Manager earning $100,000 p.a which provides a net income of $73,368 as at 30 June 2018. He plans to continue working full-time until age 65 and is exploring ways to boost his retirement savings, without reducing his net income.

After speaking to his financial adviser, David decides to salary sacrifice $14,000 into super. To supplement his reduced salary, David uses part of his super to start a transition to retirement pension, drawing down $11,237 in the first year.

This strategy allows David to receive the same net income of $73,368, with an increase in his super balance of $8,738. This is because the money he salary sacrifices is only taxed at 15% when it enters his super account. In addition, David's pension income receives a 15% tax offset while he is aged 55 to 59.

In the second year, once David has turned 60, his pension income is tax free. This means he can continue to receive the same net income of $73,368 while lowering the pension income he receives. This further increases his super balance by $11,390.

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TABLE 1 – DAVID'S FINANCIAL POSITION

INCOME POSITION	NO STRATEGY	AGE 59 SALARY SACRIFICE & PENSION	AGE 60 SALARY SACRIFICE & PENSION
Gross Salary	$100,000	$100,000	$100,000
Pension Income	–	$11,237	$8,585
Gross Income	$100,000	$111,237	$108,585
Less Salary Sacrifice	–	$14,000	$14,000
Taxable Income	$100,000	$97,237	$86,000
Net Tax • includes Medicare levy • includes 15% pension tax offset – where applicable	$26,632	$23,869	$21,217
Net Income	**$73,368**	**$73,368**	**$73,368**
SUPERANNUATION			
Employer Super Guarantee	$9,500	$9,500	$9,500
Salary Sacrifice Contribution	–	$14,000	$14,000
Total Contribution*	$9,500	$23,500	$23,500
Less Contributions tax	$1,425	$3,525	$3,525
Less Pension Payment	–	$11,237	$8,585
Net Increase in Super	**$8,075**	**$8,738**	**$11,390**

*Please ensure you read key rules information on contribution caps.

PENSION REFRESH

A pension refresh involves combining the balance of your existing pension account with your superannuation account balance, and starting a new pension account. This also gives you the opportunity to add additional funds to your new pension account.

As a result of the refresh you will have additional money in your pension account, which allows you to take more income from your pension (up to a maximum of 10% p.a of your account balance).

STRATEGY CONSIDERATIONS

A transition to retirement pension and associated strategies can be complex. Here are a few things to consider:

- **Tax position.** A transition to retirement pension and salary sacrifice strategy will generally be most effective if you are in a high marginal tax bracket and salary sacrifice more than you draw down as a pension.
- **Impact on retirement savings.** If you use part of your super to access a transition to retirement pension, this may impact your future lifestyle. One way to avoid eroding your retirement savings may be to combine the pension with a salary sacrifice strategy.

KEY RULES

- Transition to retirement pensions can only be started by people who have reached their preservation age.
- You are limited to a maximum pension amount of 10% of your account balance each year.
- You can stop your pension and return your benefit to a superannuation accumulation account.
- Lump sum withdrawals are generally not allowed unless you meet a condition of release.
- Ensure you calculate how much your contributions will total for the financial year, taking into consideration any contribution caps. The annual concessional (before tax) superannuation cap is $25,000.
- Earnings from assets supporting a transition to retirement income stream are taxed at 15%.
- Transition to retirement pensions do not count towards the $1.6 million transfer balance cap.
- When a condition of release from super is met, such as reaching the age of 65, the:
  - withdrawal restrictions detailed above no longer apply
  - earnings from assets will be tax-free going forward
  - the balance will count towards the $1.6 million transfer balance cap.

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MORE INFORMATION

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