TRANSITION TO RETIREMENT PENSION

A "Transition to Retirement" pension allows you to utilize the savings you've accumulated in your superannuation fund to supplement your income from work before you reach full retirement.

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Benefits

- This pension can enhance your income if you opt to reduce your working hours.
- By combining a Transition to Retirement pension with a Salary Sacrifice arrangement, you can increase your retirement savings.
- If your marginal tax rate exceeds the Superannuation tax rate, this approach can potentially boost your effective earnings rate on your superannuation savings.

How it works

- You can only initiate an income stream once you've met a condition of release. However, Transition to Retirement is a condition of release that permits you to start a non-commutable Account Based Pension with your superannuation funds before retiring, provided you've reached your preservation age.
- There are yearly minimum and maximum withdrawal limits. This pension is non-commutable, meaning you cannot make lump sum withdrawals.
- If you wish to reduce your work hours, you can use the pension to supplement your income or replace your employment income.
- If you continue to work full-time, combining a Transition to Retirement pension with a salary sacrifice arrangement can reduce overall taxation while maintaining your disposable income level or directing more of your salary toward boosting your retirement savings.
- The Salary Sacrifice strategy allows your salary to be taxed at the superannuation tax rate within the fund (provided you don't exceed concessional contribution caps and aren't considered a high-income earner), and income drawn from the Account Based Pension is also taxed favourably. This is particularly advantageous if you're over 60 and can withdraw tax-free income from the pension.
- Account Based Pensions provide tax-effective income because:
- Pension income is tax-free from age 60.
- Pension income is taxable between preservation age and age 60, with a 15% tax offset to reduce tax payable.
- Your pension account balance fluctuates with investment earnings, pension payments, negative returns, fees, and charges, ultimately determining how long it will last.

Pension Income

Account Based Pensions offer flexibility in adjusting your annual income amount. However, until you meet a full condition of release, you're limited to withdrawing between 4% and 10% of the balance at commencement (in the first year) or at 1 July in subsequent years.

Once you meet a full condition of release, your Account Based Pension becomes 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 start an Account Based Pension, the balance is divided into a taxable component and a tax-free component based on your superannuation account's pre-pension split.

Under age 60, the taxable component is included in your assessable income with a 15% tax offset for those over preservation age. At age 60 and above, all pension income is tax-free.

Centrelink

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

The account balance of an Account Based Pension is considered an assessable asset.

Key Considerations

- Accessing your superannuation now reduces your retirement funds unless you supplement it with a Salary Sacrifice arrangement.
- Your Account Based Pension is not guaranteed, and payments are contingent on available funds. There's a risk of cessation or reduction if you withdraw income too quickly or experience poor investment returns.
- If you want to claim a tax deduction for personal superannuation contributions in the current year, you must submit a notice of deductibility form to your superannuation fund before rolling over to start an Account Based Pension.
- The minimum pension required for the financial year is pro-rated when you start or stop your Account Based Pension in that year.
- Additional tax may apply to your concessional contributions if your income exceeds the high-income threshold.

- Failure to take the required minimum income may result in tax on account earnings for the entire year. Different consequences may apply if your pension is managed by a self-managed superannuation fund.
- If you're a Centrelink/DVA customer, you must notify Centrelink/DVA within 14 days of starting the pension, as it may affect your payments or account balance.
- Government legislation regarding Account Based Pensions may change in the future.
- Be aware of any fees associated with rolling over funds to start an Account Based Pension by checking 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 Transition to Retirement:

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

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