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 drawing down a pre-retirement pension (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 begin drawing a pre-retirement pension. You will need to check with your super fund as not all funds offer pre-retirement pensions.

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 pre-retirement pension?
A pre-retirement pension 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 during this pre-retirement phase.

Why start a pre-retirement pension?
A pre-retirement pension gives you the flexibility to drawdown an income and at the same time contribute to your super, e.g. through salary sacrifice, in a way that may be more tax effective than just relying on your salary alone. In most cases, you'll pay less tax on your pension income than you would on the same amount of salary or wages.

Do I have to stop working to draw a pre-retirement pension?
No. In fact, transition to retirement strategies are generally most effective when you continue to work and contribute to your super while you draw a pre-retirement pension.

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 or retire part-time. While working less will mean a smaller pay packet, if you decide to take out a pre-retirement pension, 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.

A transition to retirement strategy could also be beneficial if you have reached your preservation age but want to continue working full-time. The tax concessions on offer can make this a great way to boost your super balance in the years before you enter full retirement.

In the 2016 Federal Budget, the government proposed a number of changes to superannuation, including:

- Restriction on the amount that can be transferred from accumulation to pension phase of $1.6 million from 1 July 2017
- Removal of the tax exempt status of income from assets supporting a transition to retirement stream from 1 July 2017. If legislated, this

change can significantly reduce the tax effectiveness of a transition to retirement strategy.

How can I boost my super with a pre-retirement pension?
There are a number of techniques for boosting your super with pre-retirement pensions. For example, you might decide to continue working full-time while drawing the minimum pre-retirement pension from your super balance. This would, of course, give you more income than you need.

Salary sacrifice
To reduce your income down to its previous level, you could salary sacrifice to super, an amount equivalent to the pre- retirement pension you are drawing (take care not to exceed the relevant concessional contributions cap). This would maintain your after-tax income while offsetting the reduction in your retirement savings from the pension payments.

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).

Is a pre-retirement pension 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:

- whether you have sufficient super to support drawing a pre-retirement pension
- 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.

Professional 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.

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.

The contributions caps for the 2016-17 financial year are:

- $30,000 (indexed) for pre-tax (concessional) contributions if aged under 49 at 30 June 2016, or $35,000 (non-indexed) if aged 49 or over at 30 June 2016
- $180,000 for after-tax contributions (non-concessional) or $540,000 over a three-year period if you are under 65 years any time during the financial year you make the contribution.

It's important to keep your financial adviser informed about any contributions you make so they can ensure you don't exceed these caps. Contributions over these caps may be taxed at up to 49%.[2]

Proposed Changes
In the 2016 Federal Budget, the following changes to contributions caps were proposed:

- Pre-tax (concessional contributions) cap reducing to $25,000 from 1 July 2017, regardless of age.
- After-tax (non-concessional contributions) made after 7.30pm AEST 3 May 2016, subject to a lifetime cap of $500,000. This includes all after-tax contributions made since 1 July 2007.

Pre-retirement pensions at a glance

- Minimum (4%) and maximum (10%) income limits apply to pre-retirement pensions.
- Pre-retirement pensions can be started with preserved and restricted non-preserved superannuation benefits[3] (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 [3]
  - you have reached preservation age, have ceased a gainful employment relationship 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 you will pay no tax on the income payments you draw from your pre-retirement pension. If you are between your preservation age and age 60, the income that you receive will be assessable income in your hands and taxed at your marginal tax rate. However, part of each payment may be tax-free and, if not, you may qualify for tax offsets which reduce the tax payable on your taxable income.

1 If you have income greater than $300,000, an additional 15% tax may apply to some or all of your concessional contributions. In the 2016 Federal Budget, the Government has proposed reducing this income threshold from $300,000 to $250,000 from 1 July 2017.

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 49%, 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.

3 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 able to declare retirement. For more information, contact your super fund or seek professional financial advice.

Speak to us for more information

If you have any questions, please speak to your Batey Vigors Financial Services Financial Adviser.

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