

Retirement Income – Transition to Retirement Pension

A 'transition to retirement' (TTR) pension may enable you to use your accumulated superannuation savings to supplement your employment income before you are fully retired.

Benefits

- You could maintain your current lifestyle while also reducing your working hours.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.

How it works

Once you reach your 'preservation age', you're generally eligible to start what is commonly referred to as a 'transition to retirement' (TTR) pension from your accumulated superannuation savings. A TTR pension is non-commutable which means until you meet another condition of release (such as retiring or reaching age 65) you won't be able to make lump sum withdrawals, and your annual income payments will be capped at 10% of the account balance. Your annual pension payments must be at least 4% of your account balance.

Preservation age based on date of birth	
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
From 1 July 1964	60

Important: This document contains general information about the benefits, costs and risks associated with certain product classes and strategies. It has been prepared without taking into account your objectives, financial situation or needs. Because of this you should, before acting on any advice in this document, consider whether it is appropriate to your personal circumstances.

Investment returns (including capital gains) from investments held in a TTR pension are taxed at up to 15%.

Your TTR pension account balance will increase with investment earnings and decrease because of pension payments, negative returns, fees, tax and charges. These factors ultimately determine how long your TTR pension will last.

Pension income

TTR pensions are very flexible, as you can vary the amount of income you take each year. But until you meet a full condition of release you will be limited to taking between 4% and 10% of the balance at commencement (in the first year) or at 1 July in each subsequent year.

Once you meet a full condition of release (such as turning age 65 or notifying the fund trustee that you have retired), your pension will become fully accessible allowing you to make lump sum withdrawals, or pension payments of any amount.

Taxation of your pension income

Your TTR pension may be made up of a taxable and a tax-free component. Generally contributions where a tax deduction has been claimed, including employer contributions and amounts you have salary sacrificed, and any investment returns earned by your fund form part of the taxable component. Other amounts, such as after tax non-concessional contributions and spouse contributions,, will make up your tax-free component.

When you commence a TTR pension, the tax components of the pension will reflect the tax components of your super account just before you commenced the pension, in the same proportions.

All future pension payments you receive from your pension are split in the same proportions. For example, if your account balance at commencement consisted of \$80,000 taxable and \$20,000 tax-free, then 80% of all pension payments would also be from the taxable component.

Whilst you are under age 60, pension payments from the taxable component are included in your assessable income, but receive a 15% tax offset. Once you turn age 60, all pension income received (from a taxed fund) is tax free.

Transfer balance cap

Once you satisfy a full condition of release, such as turning age 60 or retiring, your TTR can move into 'retirement phase'. This means that earnings on investments held within the pension are taxed at 0% rather than up to 15%.

The account value will also be assessed against your transfer balance cap (TBC). The transfer balance cap limits the amount that can be transferred into 'retirement phase' of superannuation and receive the benefit of 0% earnings tax. The cap is \$1.6 million for 2017/18.

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Penalties may apply if you exceed the cap based on all your superannuation income streams determined to be in retirement phase.

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Department of Human Services

If either you or your spouse receives a payment, benefit or concession card from Department of Human Services/Veterans' Affairs your TTR pension may impact eligibility under the income and/or assets test. This will vary depending on the payment, benefit or concession applicable.

Risks and Consequences

- Accessing your superannuation now reduces your available funds at retirement unless you top this up with a salary sacrifice arrangement and/or personal deductible contributions.
- As you are under age 65, the minimum pension income is 4% per financial year. The minimum pension payment increases depending on your age.
- Your TTR pension is not guaranteed and may not last the rest of your life, pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- If you have made personal superannuation contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intention form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing a TTR pension or rolling your funds to another provider to commence a TTR pension.
- In the financial year that you either start or stop your TTR pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.
- If you are a Department of Human Services/DVA customer, you are required to notify the Department of Human Services/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account-balance.
- Fees may be charged for a TTR pension. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your fund.

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