Transitioning to retirement (13) BONUS

Thinking about easing into retirement and maintaining your lifestyle? The transition to retirement (TTR) strategy can help you achieve this and help you access some of your superannuation while you keep working.

How the TTR strategy works

If you've reached your preservation age (between 55 and 60) and are still working, setting up a TTR pension could provide you with greater financial flexibility by enabling you to withdraw up to 10% of your superannuation each financial year while continuing to work.

You can start a TTR pension by transferring some of your superannuation to an account-based pension (ABP), which is a regular income stream bought with money from your superannuation fund.

However, you should keep some money in your superannuation fund to continue to receive your employer's compulsory superannuation guarantee (SG) contributions, or any other voluntary contributions you wish to make to your fund.

There are two main TTR strategies that can be used to help you:

- Supplement your income if you reduce your work hours, or
- Boost your superannuation and save on tax while you keep working full time.

Using a TTR strategy to reduce your work hours

If you want to reduce your work hours and ease into retirement, a TTR strategy can top up your income.

Some of the main advantages of this strategy include:

- Ease into retirement – you can start easing into retirement without retiring completely.
- You continue to receive SG contributions – these contributions help to replace the money you take out as pension payments.
- You pay less tax on income (discussed below).

Using a TTR strategy to reduce your tax

By setting up a TTR pension, you could choose to work less, or continue working the same hours while salary sacrificing or making personal, deductible contributions into superannuation.

In both cases, you could use the income from your TTR pension to supplement any reduction in your take-home pay.

Some of the main advantages of this strategy include:

- Boost your superannuation – a TTR pension can be used with salary sacrificing to top up your superannuation as you approach retirement.
- Save tax – you pay 15% tax on salary sacrificed contributions which is likely to be lower than your marginal tax rate (MTR).
- You pay less tax on income (discussed below).

How much can be withdrawn from my TTR pension?

You must draw a minimum of 4% with a maximum of 10% of your TTR pension balance at the start of each financial year. This means you can choose pension payments anywhere between your minimum and maximum payment limit each year.

But note that a TTR pension doesn't allow you to withdraw your superannuation as a lump sum. This can generally only be done once you've reached your preservation age and met certain conditions of release, such as retirement.

How are TTR pensions taxed?

- If you are 55 to 59, the taxable amount of your income from a TTR pension is taxed at your MTR, less a 15% tax offset.
- Once you turn 60, your TTR pension payments are tax free.
- Investment earnings of a TTR pension are subject to the same maximum 15% tax rate as superannuation accumulation funds.

What happens when I decide to permanently retire?

Once you reach age 65 or advise your superannuation fund that you've retired permanently, your TTR pension will automatically convert to an ABP.

Although a TTR pension has the same rules as an ABP, it does have the following additional restrictions:

- Lump sum withdrawals are generally not permitted, and
- A 10% maximum income stream payment restriction applies each financial year.

Thus, a TTR pension converting to an ABP may have more advantages/flexibility as it will continue to give you a regular income in retirement and you won't be limited to what you can withdraw, even though there are annual minimum withdrawal amounts that must be made each year.

Seek advice

You should seek financial advice before deciding if a TTR strategy is right for you as it could help you understand the possible benefits and implications for your particular circumstances.

This information is general in nature. It has been prepared without taking into account your objectives, personal or business circumstances, financial situation or needs. Because of this, you should, before acting on this information, consider in consultation with your adviser, its appropriateness, having regard to your objectives, personal or business circumstances, financial situation and needs.