Understanding Transition to Retirement

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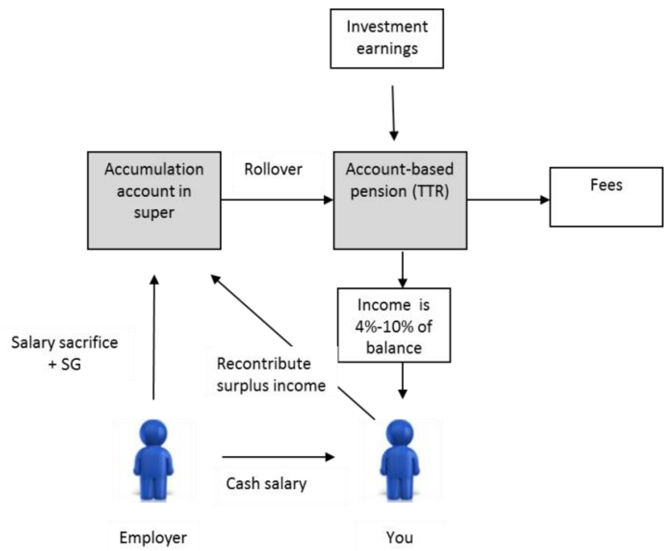
A Transition to Retirement strategy can boost your superannuation savings.

If you are over preservation age you can consider the opportunity to start an account-based pension under the Transition to Retirement rules in conjunction with a salary sacrifice arrangement with your employer (or via personal concessional contributions to superannuation).

Starting a Transition to Retirement pension combined with a salary sacrifice (or personal concessional contributions) arrangement can provide you with overall tax advantages. The result can provide you with the same disposable income to meet your current income needs but an increase in your total superannuation balances due to the tax savings.

This results from tax concessions being available on pension income when compared to salary and other personal income.



The Transition to Retirement strategy is only available to people who have reached their preservation age as set out below:

Date of birth	Preservation age
Before 1/7/60	55
1/7/60 – 30/6/61	56
1/7/61 – 30/6/62	57
1/7/62 – 30/6/63	58
1/7/63 – 30/6/64	59
After 1/7/64	60

Commencing a Pension

Once you are over age 65, you are able to establish an Allocated Pension as part of your Transition to Retirement strategy. This is a flexible and tax-effective means of converting your superannuation into regular pension payments.

An Allocated Pension provides you with flexible payment options allowing you to choose the frequency (generally monthly, quarterly or yearly) and the amount you wish to receive (subject to a minimum amount).

Only superannuation can be used to start an account based pension once a person meets a condition of release.

The pension can be stopped (fully commuted) and be rolled back to the accumulation phase of superannuation or rolled to start another income stream, or be taken as a lump sum.

Account based pensions stop once the account balance is exhausted, the pension is commuted, or upon the death of the person unless there is an automatic continuation of the pension to a nominated reversionary beneficiary.

The maximum amount that may be used to commence a 'retirement phase pensions' is limited to an individual's transfer balance cap. The transfer balance cap is currently $1.7m. Pensions paid under transition to retirement rules are not a retirement phase pension and are therefore not affected by the transfer balance cap.

Income Payments

You can select how much income to receive each financial year. This allows flexibility to meet individual needs. The rules for how much pension must be taken are:

- An income payment must be made at least once each financial year;
- A minimum level of income must be paid each year based on a percentage of the account balance at commencement and each 1 July (as shown in the table below). If the income stream commences part-way through a financial year, or is commuted before the end of a financial year, the minimum payment is pro-rated for that year.

Age	Income Factor	Reduced Percentage factor (2022-2023 financial year)
Under 65	4%	2%
65 – 74	5%	2.5%
75 – 79	6%	3%
80 – 84	7%	3.5%
85 – 89	9%	4.5%
90 – 94	11%	5.5%
95 and over	14%	7%

Taxation
Every withdrawal (income or lump sum or death benefit) from a pension is split into taxable and tax-free components in the same ratio that applied when the pension commenced. The tax on each component depends on the person's age as shown in the following table:

Age	Component	Taxation Treatment
Any age	Tax-free	No tax
60 or older	Taxable – taxed element	No tax
	Taxable – untaxed element	Marginal tax rate*, less 10% offset
Under age 60	Taxable – taxed element	Marginal tax rate*, less 15% tax offset
	Taxable – untaxed element	Marginal tax rate*

** Plus Medicare Levy*

The following table shows the tax rates for lump sums withdrawn from the pension. The rules are different for lump sum death benefits.

Age	Tax-free Component	Taxable Component	
		Taxed Element	Untaxed Element
Under preservation age	Tax free	20%*	30%* up to $1,650,000#
			45%* over $1,650,000#
Preservation age to age 59		0% up to $230,000# 15%* above $230,000#	15%* up to $230,000#
			30%* from $230,000# to $1,650,000#
			45%* over $1,650,000#
Age 60 or older		Tax-free	15%* up to $1,650,000#
			45%* over $1,650,000#

** Plus Medicare Levy*
 # Thresholds are applicable for the 2022/23 financial year. The low rate cap ($230,000) is reduced by previous lump sum payments. The higher untaxed plan cap ($1,650,000) is a per plan cap.

Earnings added to a pension account (excluding transition to retirement pensions) are tax-free.

Salary Sacrificing
Salary sacrifice involves your employer making contributions to superannuation in lieu of cash salary. As you do not need the additional income from the Transition to Retirement Pension putting money back into superannuation via salary sacrifice can help to boost your retirement savings and reduce personal tax liability.

Restructuring your salary in this way enables you to contribute more to superannuation on a net basis than if you were to receive your salary in cash and then making after-tax contributions to superannuation or invest outside superannuation.

It is recommended to ensure that employer contributions do not exceed the concessional contribution cap of $27,500. Other contributions (including superannuation guarantee) may also be included in this cap. We suggest that you monitor the contributions being made by your employer at regular intervals to minimise the risk of exceeding your concessional contribution cap. If it appears you are likely to exceed your cap, it may be necessary to further amend your salary sacrifice arrangement.

Personal Deductible Contributions
Individuals, including those who are employed and self-employed may be eligible to claim tax deductions for personal contributions to superannuation.

These contributions are treated as concessional contributions and 15% contributions tax applies. An additional 15% tax is payable on contributions made by a person with an adjustable taxable income of more than $250,000p.a.

Non-Concessional Contributions

A non-concessional contribution is a personal contribution made to superannuation for which you can't claim a tax-deduction. This also means that the superannuation fund does not deduct any tax from the contribution, the full amount is invested.

A non-concessional contribution can be made by a person under age 67 regardless of whether they work or not. Between age 67 and 74 a work test needs to be met if the person wants to claim a tax deduction on the contribution. This requires the person to have already worked at least 40 hours within a 30 consecutive day period in the current financial year. No contributions can be made once the person reaches age 75 (no later than 28 days after the end of the month in which the member reaches age 75).

Please note: The Work Test Exemption allows a once in a lifetime exemption for eligible members aged between 67 to 74 years with a super balance of less than $300,000 and who have met the work test in the previous year to contribute to super;

Non-concessional contributions cannot be made by individuals that have a total superannuation balance of more than $1.7m as the 30 June prior to wishing to the contribution.

The non-concessional cap can also include other amounts such as excess concessional contributions and transfers from foreign superannuation funds.

A tax deduction cannot be claimed for a non-concessional contribution

Things you should know

- All contributions to superannuation are preserved. You will not have access until you satisfy a condition of release such as retiring after your preservation age. This means you need to be comfortable that you may not have access to your money for a period of time;
- Starting to draw a pension from your superannuation savings may erode the value of your savings if you draw more than is added from investment earnings and contributions;
- Pension payments continue until your account runs out. How long your money will last depends on investment returns, fees and the amount you withdraw each year. You take on some risk that your money will not last for your full lifetime;
- The investment returns on your underlying assets can fluctuate and this will cause your superannuation and pension balances to increase or decrease, affecting how long your money will last;
- Account based pensions are assessable under the Centrelink assets test and an income test assessment may also apply. If you are receiving Centrelink/Veterans' Affairs income support, starting a pension may reduce your eligible payments;
- Breaching your personal transfer balance cap (currently $1.7m) may result in the need to reduce the amount held in your account based pension. Additional tax may be payable where a breach of the transfer balance cap occurs;
- You must draw a minimum level of income each year based on a percentage of your account balance. The factors to calculate this minimum increase with age. Over time you may find that you are required to draw more income than you need;
- Contribution caps apply to concessional and non-concessional contributions. Penalty tax will apply if more than the cap is contributed. Refer to the Superannuation Annexure within this Statement of Advice for further information on this;
- Personal Concessional and Salary Sacrifice contributions will form the taxable component within the fund and tax is payable if withdrawn before reaching age 60 or if paid to a non-death benefits dependent (for example an adult child);
- The Australian Taxation Office provides guidelines on "effective" salary sacrifice arrangements. Where a salary sacrifice arrangement is not effective, contributions made under the arrangement may be disallowed

and will be taxed at your marginal tax rate. Correct structuring of a salary sacrifice arrangement can help reduce this risk;

- Employer contributions (including salary sacrifice) that apply to salary earned towards the end of a financial year may not be paid until the beginning of the following financial year. This may limit the ability to make salary sacrifice contributions in the following financial year due to the impact on contribution caps;
- If your level of taxable income changes during the course of a financial year (for example due to pay rise, receipt of a bonus, or realised capital gains) the effectiveness of your salary sacrifice arrangement may alter. Should you experience changes in your income (either a reduction or increase), you should seek a review of your salary sacrifice arrangement to ensure it remains appropriate;
- Salary sacrifice contributions are treated as employer contributions. As such, your employer could choose to use these contributions to offset their Superannuation Guarantee (SG) liability. You should check with your employer to determine whether they will continue to base future SG contributions on your salary prior to entering a salary sacrifice arrangement. Other employment benefits could be reduced and you should check details with your employer;
- Legislation could be changed in the future to affect the rules for pension and superannuation including how contributions, account balances and benefit payments are taxed;
- Tax outcomes should be checked with your accountant or registered tax agent;
- If you have made superannuation contributions to your current superannuation fund, and intend to claim a personal tax deduction for all or part of those contributions, it is imperative that you provide your current superannuation fund with a “notice of intention to claim a tax deduction” (as required under section 290-170 of the Income Tax Assessment Act 1997) and that the notice be acknowledged before you roll your current superannuation over to the proposed fund. Failure to lodge this notice will result in the loss of a tax deduction.