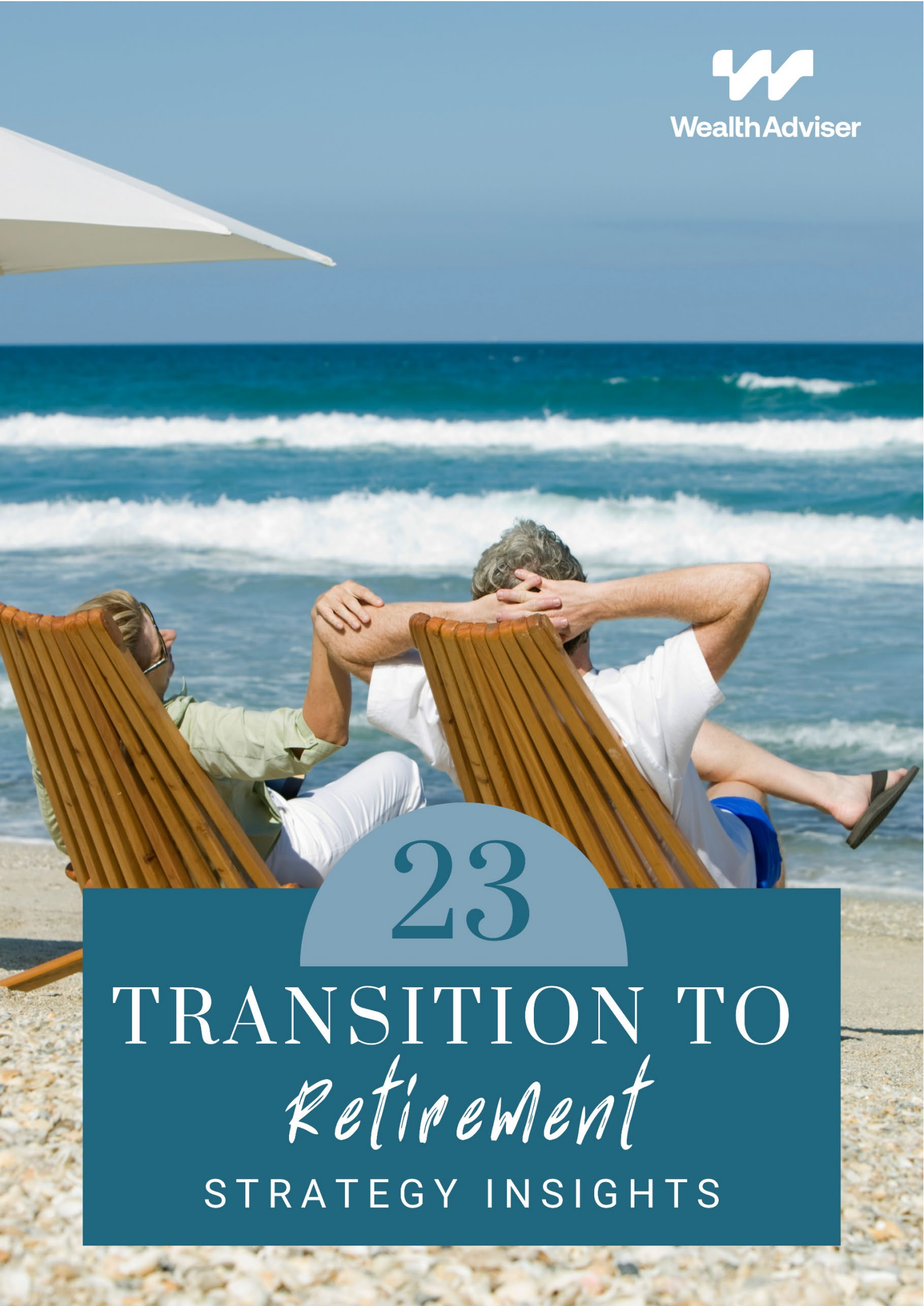




Wealth Adviser

A photograph of a man and a woman relaxing on a beach. They are sitting in wooden lounge chairs, facing away from the camera towards the ocean. The man is wearing a white shirt and blue shorts, and the woman is wearing a light green shirt and white pants. They are holding hands. The ocean has white waves breaking, and the sky is clear blue. A white beach umbrella is partially visible on the left.

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TRANSITION TO *Retirement*

STRATEGY INSIGHTS

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Before you get started

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- Wealth Today (AFSL 340289)
- Sentry Advice (AFSL 227748)
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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

Getting access to funds in your superannuation fund when approaching retirement used to be an 'all or nothing' affair. You either had to keep working, in which case your superannuation would be unavailable to you, or you had to formally retire. This meant that many people were, in a sense, forced into early retirement and that others had to continue working until the official retirement age in order to maximise their retirement income.

To address this issue and allow people to 'transition' to retirement, the government introduced Transition to Retirement measures, which came into force from 1 July 2005. These measures have allowed people who are still working, and who meet the eligibility criteria, to derive income from their superannuation funds. These types of income streams are accessible if you have reached your preservation age.

A transition to retirement income stream allows you to receive regular payments from your superannuation while you continue to work. A minimum of 4% and a maximum of 10% of the balance of the fund can be withdrawn each year.

Many people approaching retirement choose to work for fewer hours and then use the income drawn from their accumulated superannuation via a transition to retirement strategy to make up for the reduction in income.

We hope you enjoy this eBook, 23 Transition to Retirement Strategy Insights.me.



What is a Transition to Retirement Income Stream

Transition to Retirement measures allow people nearing retirement to access their superannuation benefits in the form of a non-commutable income stream. As discussed previously, superannuation benefits are otherwise generally not accessible until you are retired.

1. **Superannuation income streams specifically set up to comply with the transition to retirement measures are sometimes referred to as 'Transition to Retirement Account Based Pensions' (TRABPS) or 'Transition to Retirement Income Streams' (TRIS) or 'Transition to Retirement' (TTR).**

Whatever the name, these types of income streams simply mean that you can't withdraw a cash lump sum from the income stream until you meet a condition of release, such as retirement. Further, there are other restrictions on income levels that can be drawn each year.

The restrictive nature of accessing the capital in these income streams is transitional in nature until the age and employment based preservation requirements have been satisfied, which is discussed in the next section. At this time the income streams become commutable.

2. **Features of non-commutable income streams.**

Superannuation laws stipulate that in order to access a transition to retirement income stream, prior to permanently retiring the following conditions apply:

- a minimum of 4% of the balance of the income stream must be withdrawn each year
- a maximum of 10% of the income stream account balance can be withdrawn each year
- lump sum withdrawals are not permitted (except under very restrictive circumstances).

3. **Will my transition to retirement**

income stream always be classed as transition to retirement'? No.

Making use of a transition to retirement income stream does not mean you permanently waive the right to withdraw a cash lump sum from your superannuation fund.

Your TTR pension becomes fully accessible when you meet a condition of release, including retirement, discussed in the next section.

Once you meet one of the conditions of release, this will trigger your superannuation to be classed as unrestricted non-preserved. At this point in time you could commute (cash out the income stream), or a portion thereof; or continue the tax effective income stream, without the same maximum income payment imposed.

It is advisable of course, that you discuss your options with a financial adviser before making a final decision on setting up a non-commutable income stream.

When can I access my TTR Pension

Your superannuation entitlements are inaccessible until retirement, or other specified event. Depending on your age and work history you may be able to access part of your superannuation prior to retirement.

4. In short, full access to your TTR pension (no restrictions) is available when you meet one of the following specific definitions of 'retirement':

- Preservation age is reached and an arrangement of gainful employment has come to an end; and the trustee of the fund is reasonably satisfied you never intend to be gainfully employed for 10 hours or more each week. See the accompanying table for preservation age.
- You are over age 60 and have ceased a gainful employment arrangement (e.g. by changing employers) since that age
- You have reached age 65.

We explore the above points further below.

In addition to the above, you may meet one of the other specific conditions of release, such as death or terminal illness.

5. Preservation status of superannuation (including TTR pensions)

The ability to access superannuation monies is determined by the status assigned to each dollar of your superannuation benefit. There are three possible classifications of superannuation to determine accessibility:

- **Preserved Benefit:** Your money must remain in a superannuation fund (your current one or another eligible fund). Funds will only be released if you meet a condition of release such as meeting the definition of 'retirement' listed above, severe financial hardship or terminal illness.
- A TTR pension is generally commenced predominantly with preserved benefits.
- **Restricted Non-Preserved Benefit:** Most funds in this category are employment-related contributions made prior to 1 July 1999. If your employer contributed to the fund, it will become 'unrestricted non-preserved' (see below) upon the termination of your employment. Otherwise it will be treated in the same way as a preserved benefit.
- A TTR pension may contain a small proportion of non-preserved benefits.
- **Unrestricted Non-Preserved Benefit:** This is the scenario where you have the most options. Your money can stay in your current superannuation fund, be rolled over into another eligible fund, be paid out as a lump sum or be used to start an income stream investment.

6. Preservation age

Your preservation age depends on when you born:

If you were born	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
After 30 June 1964	60

The preservation age table above illustrates the basis for the introduction of the transition to retirement regulations – without these an individual would need to retire permanently or intend to leave employment permanently in order to rely on superannuation entitlements for income.

How can money be withdrawn from superannuation once it can be accessed?

Once your superannuation is unrestricted non-preserved it can be withdrawn in the form of an income stream, a lump sum (cash), or a combination of both.

With a superannuation income stream (sometimes called pensions or annuities) you receive an income stream as a series of regular payments from your fund.

Frequently Asked Questions

Before you make a final decision on transition to retirement you should, at the very least, ask yourself the following questions:

Is a transition to retirement strategy right for me?

Whilst a transition to retirement income stream can lead to significant benefits it is not a strategy that should be universally applied. The level of income for instance that can be withdrawn from such a strategy may not be appropriate to suit your needs.

Do I really want to reduce my working hours and, if so, is the option available to me?

The desire to work less is one of the main reasons why people choose to make use of the transition to retirement provisions. If

you decide to go down this route you need to be sure that you are emotionally and professionally ready for semi-retirement. You will obviously also have to enquire whether your employer will consider your request for reduced hours.

How will working fewer hours affect my income, and will the income from my superannuation be sufficient to make up any shortfall?

You will have to do a fair bit of number crunching before taking the final step to reduce your working hours. This will enable you to make an informed decision on whether you will be able to maintain your standard of living during this new phase of your life.

How will my choice impact future benefits?

If the employer superannuation contributions (and any voluntary contributions) are less than the income payments received, then the overall balance of your superannuation entitlements from this source will be depleted.

You should therefore do some projections on how your decision to access your pension early will affect your long-term income.

Maximising current income should be not at the complete detriment of your future income upon eventual complete retirement.

What will the impact of my choice be on my life insurance arrangements?

Commencing a transition to retirement strategy could cause any existing life cover to cease or reduce. The importance of having appropriate insurance arrangements in place (especially as far as income protection insurance is concerned) cannot be overstated.

Does my current superannuation fund offer a transition to retirement income stream?

Superannuation funds are not under any legal obligation to offer non-commutable income streams. You should therefore find out whether your provider offers a solution

that is compatible with the transition to retirement provisions. If they don't then it should be possible, under 'portability' arrangements, to move your superannuation to a provider that does. Before doing so however, you should ensure you comply with the relevant rules and eligibility criteria of the new fund and that you will not be losing significant benefits by switching.

What are the likely tax implications?

Part of the appeal of a transition to retirement strategy is that it allows you to benefit from the lower tax rates associated with payments from superannuation income streams which are entitled to a 15% tax offset.

A common strategy is to divert part of your employment income to superannuation as a 'salary sacrifice' contribution, thereby taxed at 15% upon entry to the fund, instead of your marginal tax rate, which is often much higher. This can obviously translate into growth of your fund since you will possibly be putting more money in than you are taking out.

Note: Higher income earners may also incur Division 293 tax on contributions. This is covered later in this eBook.

Each situation is unique, so take the time to determine whether this arrangement is right for your specific circumstances. You should, therefore, with the help of your financial adviser, sit down and do a full assessment on whether this is the right strategy for you in your particular circumstances.

How much tax will I pay on earnings on assets supporting a transition to retirement pension?

Prior to 1 July 2017, earnings on assets supporting TTR pensions enjoyed zero percent tax rates, often making the commencement of a TTR an easy decision for individuals over the preservation age.

Following the changes to superannuation that came into play from 1 July 2017, this concession was removed resulting in TTR assets being taxed at 15%. The key takeaway here being that this is now the

same as all superannuation assets in accumulation phase.

How do partial cash outs (commutations) will be taxed?

This is summarised as follows:

	Pension payments	Partial commutation (cashed out)
Counts towards minimum pension payment?	Yes	No
Tax treatment	Income stream benefit	Lump sum
Exempt pension income for assets supporting payment (assuming retirement phase)	Yes	Yes
Debit from transfer balance account?	No	Yes

Transition to Retirement in action

The purpose of the following case studies are to demonstrate the benefits of a transition to retirement pension. It is impossible to cover all the likely permutations in a document of this length.

Assumptions for all case studies:

Unless otherwise noted, the following assumptions apply:

- Individual belongs to a taxed superannuation fund
- Earnings of 4% income, 4% unrealised capital gain
- 15% tax applies to income in accumulation phase
- Salary, contributions caps and other thresholds are not indexed in future years.
- All TTR pensions contain a taxable component only, unless stated otherwise.
- Concessional contribution cap is \$25,000
- For comparison purposes, net income remains the same both before and after implementing the TTR strategy (note that a greater benefit may be obtained under a TTR strategy where net income can reduce, allowing additional superannuation contributions).
- No changes to the individual tax rates.
- Costs of advice are ignored.
- Superannuation Guarantee (SG) – 9.5%
- Annual pension payment (under age 65) – minimum 4%; maximum 10%.
- ‘Standard strategy’ refers to the popular TTR strategy of salary sacrificing to superannuation, whilst receiving pension payments from the superannuation TTR pension.

Case study 1 - Standard strategy: Under age 60, concessional cap not fully utilised

The first scenario considers an individual under age 60 with all taxable component in their super fund, undertaking a standard TTR and concessional contribution strategy.

James (age 56) has a salary of \$60,000 and a superannuation balance of \$250,000. James salary sacrifices \$19,300 and his employer pays SG contributions of \$5,700 (\$60,000 x 9.5%). When undertaking a TTR strategy, James converts his entire superannuation balance to a TTR pension, which allows him to draw pension payments of \$15,635.

For individuals under age 60 (with mostly taxable component in their superannuation balance), standard TTR strategies still provide some financial benefit, but the benefit is marginal.

Benefit of TTR over one year	TTR
Personal tax saving	\$770
Earnings tax saving	Nil
Total TTR benefit	\$770

Case study 2 - Standard strategy: Under age 60, high tax-free component

While standard TTR strategies for individuals under age 60 have generally become marginal since 1 July 2017, individuals with large tax-free components in their superannuation fund will receive a more beneficial outcome.

To analyse this, we have taken James from the last example, and calculated the overall benefit he would receive over four years by implementing a TTR strategy, for given levels of tax-free component within his superannuation fund.

James (age 56) has a salary of \$60,000 and a superannuation balance of \$250,000.

When undertaking a TTR strategy, James converts his entire super balance to a TTR pension.

Benefit of TTR over four years	TTR
No tax-free component	\$4,043
25% tax-free component	\$8,555
50% tax-free component	\$12,538
75% tax-free component	\$16,080

For individuals under age 60, receiving a portion of their TTR pension payments tax-free results in a personal tax saving which significantly increases the benefits of a TTR strategy.

For individuals under age 60, receiving a portion of their TTR pension payments tax-free results in a personal tax saving which significantly increases the benefits of a TTR strategy.

The higher the tax-free percentage, the higher the tax effectiveness of the strategy.

Note that in the situation where an individual has 100% tax-free component, the benefits would be the same as the following section for clients aged 60 or over.

Case study 3 - Standard strategy: Age 60, concessional cap not fully utilised

For individuals age 60 and over, standard TTR strategies may still provide a tax benefit.

The following scenario considers an individual age 60 with all taxable component in their super fund, undertaking a standard TTR and concessional contribution strategy.

Emily (age 60) has a salary of \$60,000 and a super balance of \$250,000. When undertaking a TTR strategy, Emily converts her entire super balance to a TTR pension, which allows her to draw pension payments of \$12,352 and salary sacrifice \$19,300.

Benefit of TTR over one year	TTR Benefit
Personal tax saving	\$4,053
Earnings tax saving	Nil
Total TTR benefit	\$4,053

Whilst the benefit of undertaking a TTR strategy was reduced from 1 July 2017, individuals aged 60 or over with some concessional cap available can still gain a significant benefit in undertaking a TTR strategy, due to the personal tax saving involved in swapping salary sacrifice for tax-free income stream payments.

Individuals on lower incomes may receive a larger benefit from a TTR strategy as they have more concessional cap available to salary sacrifice due to lower Super Guarantee contributions.

However, it is important to note that where clients can afford to make concessional contributions up to the cap without requiring pension payments from a TTR income stream, there may be no tax benefit from implementing a TTR strategy.

What are the benefits?

People make use of transition to retirement income streams for a variety of reasons. The main ones are:

- Reduce tax on salary/employment income, otherwise subject to personal marginal tax rates, to 15% (contributions) tax on salary sacrifice contributions to super (classed as concessional contributions).
- Receive tax-free income stream payments on the tax-free component of your superannuation compared to marginal tax rates on other income earned.
- Before reaching age 60, a 15% tax offset applies to the taxable portion of the income stream. This reduces the tax on income payments by 15% from this source, compared to marginal tax rates on other income earned.
- From age 60, receive tax free income stream payments, compared to income received from salary and wages which is taxed at marginal rates.

You can use transition to retirement income payments to provide extra income if your income from work is not enough to meet your living expenses. In addition, this can allow you to reduce your working hours in preparation for retirement, as the transition to retirement income payments can help cover the gap between your new work income and your required level of income.

Conclusion

It should be clear from the above examples that the transition to retirement measures can benefit people in a wide variety of ways. There is often, however, a wide gulf between general principles and individual circumstances. You should therefore find a solution that will work best for you. One way of doing this would be to ensure that you get the best possible advice by consulting an experienced financial adviser.

Before sitting down with the adviser we highly recommend that you think through your financial goals and be ready to provide your adviser with the following information:

- **Your current tax rate** - The rate at which you pay tax will be a decisive factor in determining whether you can benefit from salary sacrifice or whether you should perhaps investigate alternative investment avenues.
- **Your current superannuation arrangements** - It will have to be ascertained whether your current fund offers a transition to retirement income stream. In the case of SMSF's certain changes may have to be made to the fund's trust deed. The balance in your superannuation will also be a factor in making the decision on whether this will be an appropriate strategy for you.
- **Your investment and future planning profile** - How old are you? When would you like to fully retire? What are your financial goals? Are you looking to scale back your working hours? Is 'beefing up' your superannuation a very high priority? The answers to these questions will have a direct bearing on whether a transition to retirement income stream is appropriate for you and, if so, how it should be set up.

Approaching retirement can be both daunting and exhilarating. It is our sincere wish that you will be able to use at least some of the information contained in this

document to help to ease into, rather than stumbling into, retirement.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

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Time am/pm

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