Retirement.

Strategy Information Flyer

Transition to retirement (TTR).

A TTR strategy may assist in managing your tax position when combined with salary sacrifice strategies.

Undertaken as a pre-retirement strategy, this strategy involves using a portion of your super to create an income stream (a retirement income account) while you are still working.

These two accounts work together, and may reduce the overall tax you pay:

- Your super account continues to receive contributions from your employer and any before-tax (salary sacrifice) contributions; and
- Your retirement income account uses some of your super savings to provide regular payments that top up your income.

Transition to retirement can work in two ways:

- Work less - you could reduce your work hours and supplement your reduced salary with payments from your retirement income account.
- Save more - depending on your income level, you can salary sacrifice some of your income directly into your super and save on tax. You can then replace this amount through payments from your retirement income account, so your take-home pay remains the same.

There are legislative conditions associated with a TTR strategy:

- You must have reached preservation age; and
- The benefit must be taken as a non-commutable account-based pension. This means no lump sum withdrawals.

There are also limits on the amount of income you can draw from your super pension under this strategy. These limits are as follows:

Age	Minimum percentage factor	Maximum percentage factor
Under 65	4%	10%

The advantages and benefits of a TTR strategy include:

- Income tax may reduce;
- The super balance can increase quicker than the amount drawn from the TTR pension;
- The tax rate applied to salary-sacrificed contributions entering a super fund is generally only 15% (this compares favourably to many personal marginal income tax rates and results in more funds being retained and available to invest by you); and

- This strategy will provide you with the flexibility to vary the yearly income from your TTR pension provided you remain within the prescribed limits outlined above.

TTR strategies vary and can provide the following opportunities:

- You can increase your income prior to retirement;
- You can reduce your hours of work and receive a similar level of income;
- You can reduce your tax payable prior to retirement;
- You can increase your retirement savings; or
- When you turn 65, (or meet another condition of release*), your TTR pension will be treated as a retirement phase income stream.

* A condition of release can be met by reaching 65, retiring permanently from the workforce after your preservation age or ceasing an employment arrangement after age 60.

If you die and there are funds in your account:

- The balance can be paid as a lump sum to your spouse, dependent, or your estate; or
- You can choose a reversionary beneficiary, such as your spouse or dependant to receive the income payments. Please note that this needs to be set up at the commencement of your TTR pension.

Salary sacrifice.

Salary sacrifice to super means giving up some of your before-tax salary in exchange for increased employer super contributions. This allows you to build your retirement savings in a tax-effective environment.

It is important that your total concessional contributions for the current year do not exceed the maximum limits although you may have the opportunity to access some of your unused concessional contribution cap from previous years if the total of all your super and pension accounts is less than $500,000 on 30th June in the financial year before the current year.

Contributions caps – summary table

Date from	Contributions cap
1 July 2026	$32,500

Any amount that is calculated by the Australian Tax Office (ATO) to be in excess of your concessional contributions cap will be included in your assessable income and taxed at your marginal tax rate. You will receive a non-refundable tax offset equal to the 15% tax paid by your fund on this amount. You can elect to have 85% of your excess concessional contributions released from super, and the released amount will not count toward your non-concessional contributions cap.

It is important to monitor the level of salary sacrifice and employer super guarantee contributions (SGC) made to your super fund if you don't want to exceed a cap inadvertently.

Timing of your contributions can also be important. Contributions are counted towards the cap in the year in which they are received and credited by your super fund. For example, your employer may send contributions to the fund in the month after each quarter, which means

that contributions for April to June will be received by the super fund in July and will, therefore, count towards the next financial year cap.

Account-based pension.

An account-based pension account is set up with your super funds, and you receive regular income payments from the account. This income stream is referred to as a pension.

The rules are:

- You can use your super assets to purchase an account-based pension up to your remaining transfer balance cap.
- From 1 July 2026, individuals will have a personal transfer balance cap between $1.6 million and $2.1 million depending on how much of the cap has already been used. Individuals who start their first retirement phase income stream on or after 1 July 2026 will have a personal transfer balance cap of $2.1 million.
- You can view your personal transfer balance cap in your my.Gov account.
- A minimum payment must be made to you at least annually - you can receive a regular income each month or at intervals of your choice (e.g. fortnightly, quarterly, six-monthly or annually);
- The amount of the minimum annual payment depends on your age and the size of your account. It is set as a percentage of your account balance, and the percentage increases as you get older;

Age	Minimum drawdown rates (%)
55 - 64	4.0%
65 - 74	5.0%
75 - 79	6.0%
80 - 84	7.0%
85 - 89	9.0%
90 -94	11.0%
95+	14.0%

- There is no limit on the maximum amount that can be withdrawn each year giving you access to your money at any time;
- You can choose the level of investment risk. By their nature, different investment strategies have varying levels of risk and potential returns. Generally, the higher the risk, the higher the potential return; and
- Your income payments will continue until your account is depleted.

If you die and there are funds in your account:

- The balance can be paid as a lump sum to your spouse, dependent, or your estate; or
- You can choose a reversionary beneficiary, such as your spouse or dependant to receive the income payments. Please note that this needs to be set up at the commencement of your account-based pension.

Account-based pensions offer great tax benefits:

- From age 60, no tax is payable on your income payments, lump-sum payments or capital gains.
- However, individuals with a total superannuation balance exceeding $3.0 million may be subject to additional tax under Division 296 of the Income Tax assessment Act 1997.

This measure imposes an extra tax on a proportion of a person's superannuation earnings that relates to the amount above a $3.0 million, and $10.0 million threshold. The tax is assessed to the individual (not their super fund).

Account-based pensions also offer disadvantages including:

- There is no asset-test exemption for Centrelink;
- You wear longevity risk as income payments stop when the account balance runs out;
- You take the market risk and, poor performance will shorten the life span of the income stream;
- They cannot be purchased with ordinary money (unless you are able to contribute to super);
- If you die, the balance of your account-based pension may be assessed against your partners or the beneficiaries transfer balance cap. This may mean your spouse or beneficiary will have to rollback their account-based pension to super or withdraw the amount from super altogether.

Commence a guaranteed (super) annuity.

An annuity is an investment purchased with either super or ordinary money that guarantees a fixed annual income, usually in the form of a series of payments throughout the year, in return for a lump-sum payment for an agreed period.

The main term is lifetime, although an annuity can also be a guaranteed income stream for a fixed term, such as 20 years or 15 years. You can arrange that you have no money left at the end of the fixed term or a certain amount that is repaid to you at the end of the term (residual capital value [RCV]). An annuity can be established to ensure that your income is indexed with inflation.

The payment amount is agreed at the start of the annuity, and you will generally receive this amount regardless of market movements unless you invest in a market-linked lifetime annuity.

Annuities are used to help lock in a guaranteed portion of regular income in retirement. For many retirees, and particularly those entering aged care facilities, certainty of income provides peace of mind.

Guaranteed annuities have some shortcomings, including:

- You cannot take out your money as a lump sum;
- You cannot generally choose how the fund manager invests your money;
- Returns built into the annuity tend to be lower than average market returns;
- You may not be able to transfer to an account-based pension;
- The amount in your annuity will be means-tested for the Age Pension (although concessional treatment applies to some annuity types – see below Centrelink treatment of retirement income streams);
- If you purchase a lifetime annuity and you die young, then your money goes to the annuity provider, unless you have a minimum payment term as part of the annuity contract. If you have a minimum payment term, then your spouse or dependents can continue to receive payments for the rest of the term, or they may be paid a lump sum.

Centrelink treatment of retirement income streams.

Four broad categories determine the means testing of retirement income streams. These include:

- Asset-tested (long-term) – annuities with a term longer than five years and, account-based pensions;
- Asset-tested (short-term) – a term of five years or less;
- Asset-test exempt – pre-20 September 2007 income streams with nil residual capital value; and
- Lifetime income streams – post 30 June 2019 income streams with a lifetime' term.

The assessment by Centrelink of each of these categories is outlined below:

Category	Centrelink asset test assessment	Centrelink income test assessment
Asset-tested (long term)	– Account-based pension – 100% assessable – Non account-based – Purchase price - ((Purchase price *less* RCV) / relevant number) x term elapsed)	– Account-based pension post 01/01/2015 – deemed – Other income streams – Annual payment – ((purchase price – commutations – RCV) / relevant number)
Asset-tested (short term)	– Purchase price - ((Purchase price *less* RCV) / relevant number) x term elapsed)	– Deemed
Asset-test exempt	– Pre-20/9/2004 & Defined Benefit – 100% asset-test exempt – Post 19/9/2004 and pre-20/9/2007 – 50% asset-test exempt Calculation: – Non account-based – 50% x (purchase price – (purchase price x (term lapsed / relevant number)))	– Defined benefit – Annual payment – deductible amount – Other income streams – Annual payment – (purchase price / relevant number)
Lifetime income stream (post 30/6/2019)	– 60% of purchase price assessable until age 85 (minimum of five years) then, – 30% of purchase price assessable for the remainder of life	– 60% of the annual payment

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