Transition-to-retirement pensions:
Strategies and benefits

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Welcome

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Presenter

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Garth has worked in the Australian Superannuation industry for over 25 years with a specific focus on self-managed super funds. He provides ongoing support and training to individuals as well as to professionals working in the superannuation area, including advisers, accountants and lawyers.

Garth is a regular contributor to industry publications and to the leading professional bodies including Chartered Accountants Australia & New Zealand (CA ANZ) & CPA Australia (CPA).

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IMPORTANT

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Todays Webinar

transition to retirement (TTR)

commence a TTR

Tax consideratio ns for TTRs

Strategy consideratio ns for TTRs

traps for existing

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Introduction

- Legislation that covers TTR pensions came into existence in July 2005
- TTRs were introduced to keep older Australians in the workforce by allowing them access to their retirement savings whilst maintaining employment – reduced hours at work supplemented by a pension from retirement savings

What was the reason for transition to retirement pensions

Alexander B

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Introduction

- Accessing benefits by way of a TTR is only necessary where you have not yet met another condition of release that allows full access to your superannuation benefits
  - Retirement
  - Attaining age 65

- If you have met another condition of release and hence have unrestricted non-preserved benefits, these amounts can be accessed without the need for a TTR
  - Consider using a retirement phase income stream
  - Consider lump sum access
  - Consider a combination of both

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Introduction to TTRs

What is a TTR

Gloria A

A pension that can be commenced when you reach your preservation age, even if you are still working, that allows access to your superannuation savings – up to a maximum of 10% of the pension balance. A minimum payment requirement must be met each year.

Are there minimum & maximum amounts I can take in a TTR?

Raimondo V

Introduction to TTRs

Gloria A.
and
Raimondo V

A pension that can be commenced when you reach your preservation age, even if you are still working, that allows access to your superannuation savings – up to a maximum of 10% of the pension balance. A minimum payment requirement must be met each year.

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**
After 1 July 1964	60

Age	Minimum percentage factor
Under 65	**4%**

	Maximum pension payment
Transition to retirement	**10%**

Introduction to TTRs

Does my TTR balance get assessed under my $1.7M transfer balance cap?

David M

Is income from a TTR included in personal tax after age 60

Chris

TTRs are not considered retirement phase income streams, so:

- Earnings on benefits held in a TTR **ARE NOT** tax free; your superfund may need to pay tax on these fund earnings
- Amounts transferred into a TTR **DO NOT** get included in your transfer balance cap
- Pension amounts received after age 60 **ARE PAID** tax-free to the pension recipient

Example

- Penny, working full time, has just turned 61 and has already met her preservation age
- Penny contacts her super fund and requests that **$500,000** of her superannuation balance be used to start a TTR pension. She currently has $750,000 in her fund.
- Penny has an annual minimum pension requirement of **4%** x pension balance = **$20,000**
- Penny has an annual maximum pension payment of **10%** x pension balance = **$50,000**
- The pension balance used for these calculations is the pension starting balance in year 1 and then the pension balance on 1 July in each year after
- As Penny is over age 60, these pension payments are received tax free
- As the pension being paid is a TTR, Penny's superfund still pays tax on the fund earnings

How do I calculate the 10% for withdrawal?

Nadia O

Can I split part of my super into a TTR pension account and leave rest of super in accumulation?

Raimondo V

Important

Can I move money each year from my super into my TTR prior to the EOFY to maximise the balance of my TTR before taking a 10% drawdown the next FY?

Antony A

- Once you commence a TTR (or any other pension), you can't add further capital to that pension
- If you want to move further amounts into pension, you need to commence a new TTR or cease and recommence a larger TTR

"It's very common for contributions to be made for a member while they are being paid a TRIS. A contribution received after a pension has started can't be added to the capital supporting the pension. So, you, as trustee, will be required to account for the contributions, and any rollovers, received for the member in a way that keeps them separate from the account balance of the TRIS. If a member wants to combine accumulation monies (including a contribution) with their existing TRIS, they must first choose to fully commute the original TRIS and then apply for a new pension using the increased balance."

ATO Website

Introduction to TTRs

Do all funds offer transition to retirement pensions?

Anon

It is not compulsory for any super fund to offer TTRs to their members:

- Most funds do
- If you have a SMSF, check your trust deed. Most trust deeds would allow a pension that meets the legislative requirements
- SMSF trust deeds may have fund specific requirements that need to be met so it is always worth checking

TTR strategies to consider

Strategies to consider		
Use TTR pension payments to make larger, deductible concessional contributions: **TTR pension payment amount used to make CC**	Manage tax payable by a non-dependent on the death of a member: **TTR payment amount used to make NCC / recontribution strategy**	Managing the $500K cap on carried forward concessional contributions: **TTR payment to reduce balance below TSB limit**
Reduce personal, non-deductible debt: **Pay off mortgage, car loan, credit card etc.**	Manage your transfer balance cap before age 65 / retiring: **Use TTR payments to get below cap**	Keep tax components separate by commencing TTR pre contribution: **Run multiple pension strategies**

Since losing tax-free status on TRIS earnings, in what situations would you recommend a TRIS

Kate H

Strategies to consider

Reduce personal, non-deductible debt:
Pay off mortgage, car loan, credit card etc.

- Cost of living increase could be offset by supplementing income with a TTR
- You need to consider what effect this will have on your end retirement balance
- You need to compare the cost of these non-deductible expenses with the return you would otherwise receive on your Superannuation balances
  - Mortgage rate etc. vs. Super rate of return

If I am currently already working part time but need more funds, is a transition option still viable?

Kathy M

Strategies to consider

Manage tax payable by a non-dependent on the death of a member:
TTR payment amount used to make NCC / recontribution strategy

- Non-dependents, including adult children, are subject to tax on death benefits paid from your Superannuation on your death. Tax is only payable on the "taxable component" of your death benefit
- If you access your OWN superannuation benefits after age 60, then you do not pay tax on these benefits
- If you then re-contribute these to your super fund as a non-concessional contribution, then they form part of your "tax-free" component
- Your tax-free component is paid to your beneficiaries, including adult children, tax free. No tax is payable
- If you are still working or do not have full access to your superannuation (but have reached preservation age) you could consider commencing a TTR and re-contribute these amounts back into your spouse's super

Strategies to consider

Manage tax payable by a non-dependent on the death of a member:
TTR payment amount used to make NCC / recontribution strategy

This is referred to as the recontribution strategy

Strategies to consider

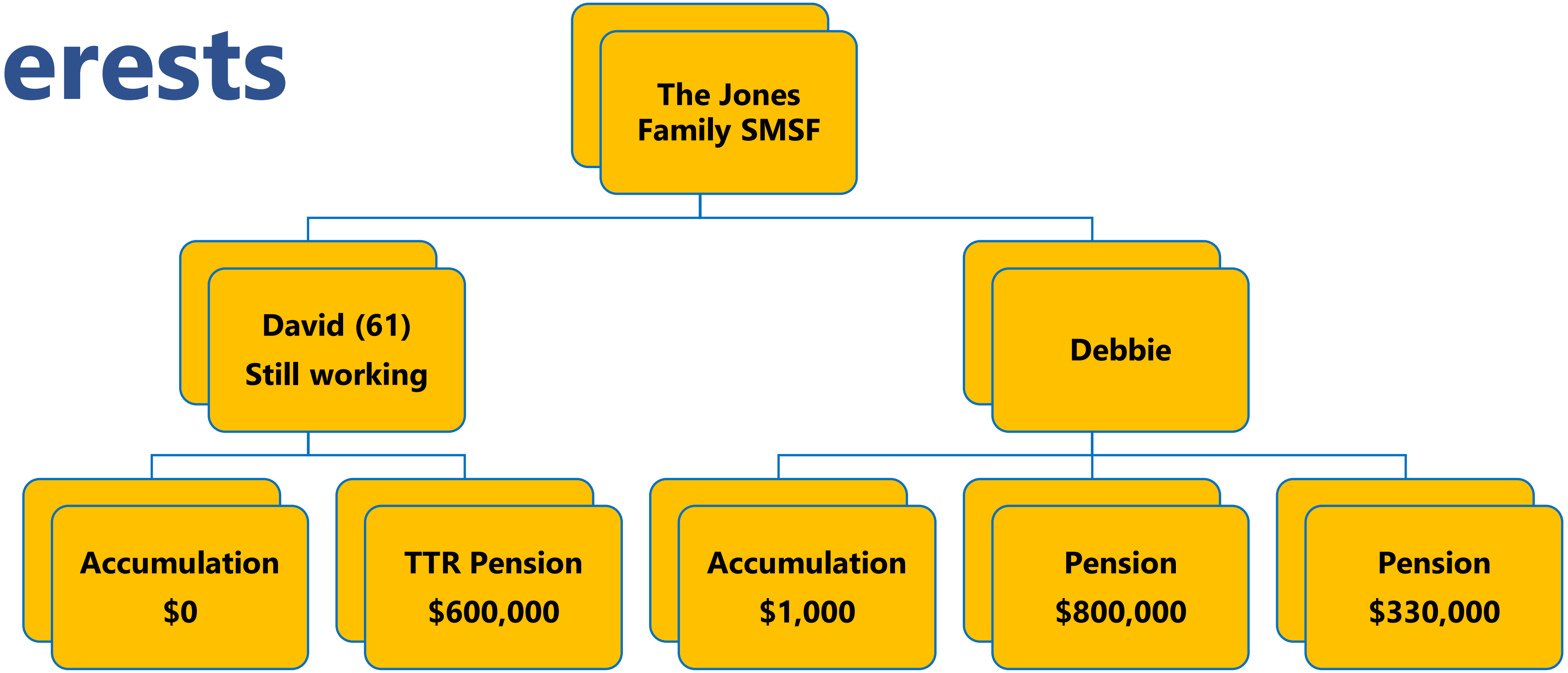
Keep tax components separate by commencing TTR pre contribution:
Run multiple pension strategies

- Estate planning strategy used to isolate tax-free component of Superannuation from other taxable components
- This can be achieved by commencing a pension PRIOR to making non-concessional contributions so that your accumulation account only consists of non-concessional / tax-free component
- If you then commence a pension with these amounts, the entire pension can remain tax-free
- These amounts can then be passed to adult children tax-free on death
- Often referred to as maintaining separate “member interests”

Member interests

- Each member can only ever have 1 accumulation interest in their fund
- Each member can have multiple pension interests in their fund (deed permitting)
- Each superannuation interest is then broken into tax components that are relevant only to that member interest: pension, accumulation etc.
    - **Tax-free component** (Personal after-tax contributions)
    - **Taxable component** (Employer / Tax deductible contributions & earnings)
- **Proportioning rule:** When accessing super benefits (pension, lump sum, rollovers) the benefit must be paid out proportionately from the tax components of that member interest!
    - Tax-free %
    - Taxable %

Member interests



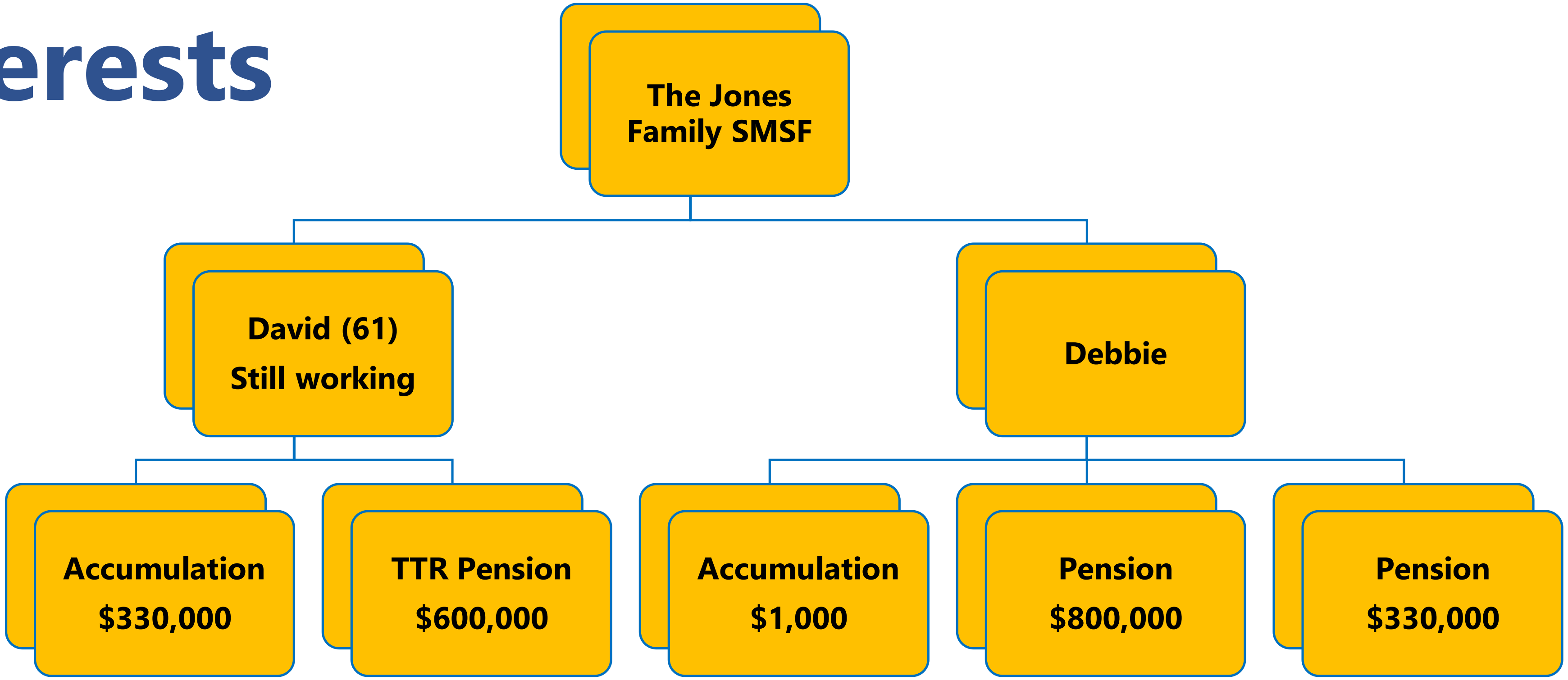
David has 2 super interests:
- 1 accumulation interest
- 1 pension interest

Debbie has 3 superannuation interests:
- 1 accumulation interest
- 2 pension interests

Member interests

All contributions must go to accumulation interest.

In this example, $330,000 NCC to David's Accumulation



David has 2 super interests:
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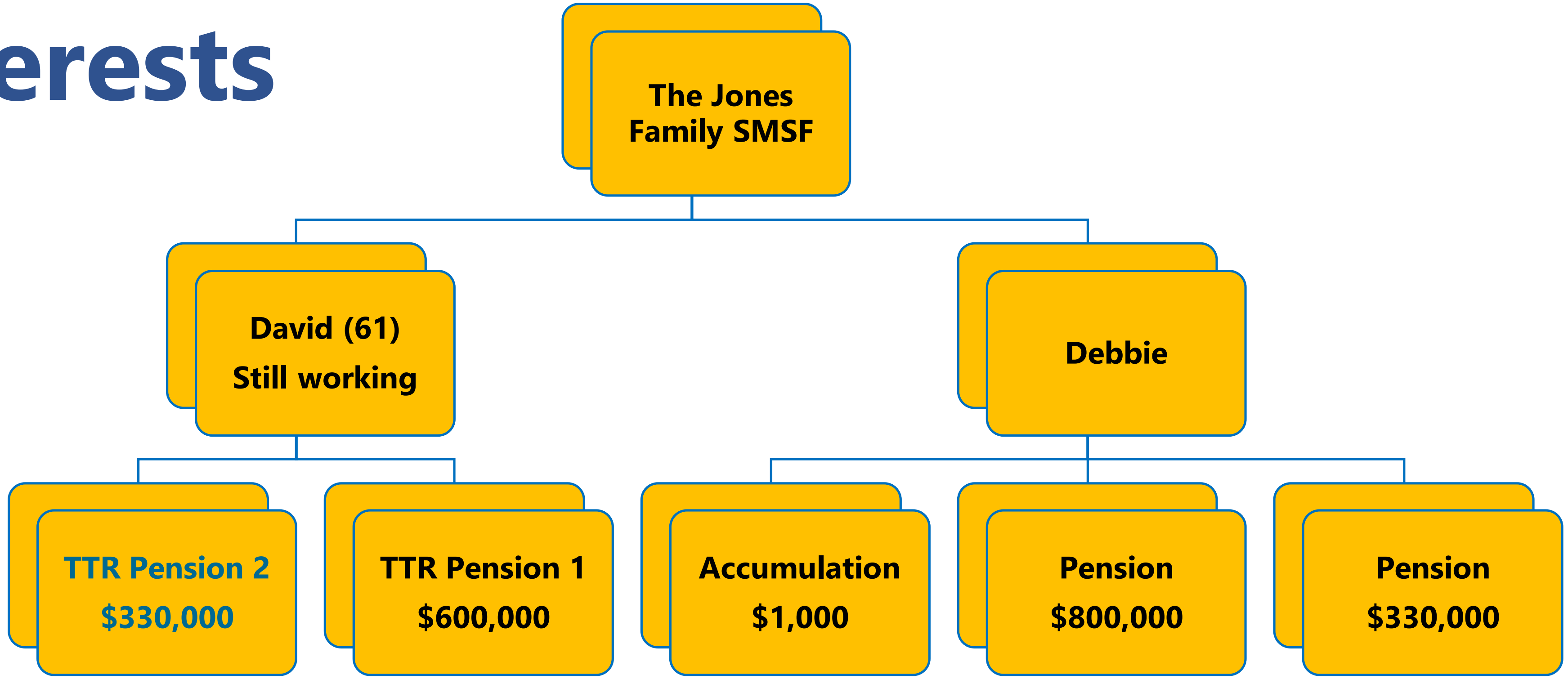
Member interests



Once contribution is made, a NEW TTR pension can be created from the accumulation account. If the contribution was all NCC, then the new pension will be 100% tax-free component

David has 2 super interests:
- 2 pension interests
- The tax components can be kept separate

Debbie has 3 superannuation interests:
- 1 accumulation interest
- 2 pension interests

Strategies to consider

Maintain relatively equal spouse balances within Super

Recent changes and proposals mean it is now even more important to maintain relatively even spouse super balances:

- The **Transfer Balance Cap** rules around limits on balances moved into the tax-free pension phase. Makes no sense to have one spouse above the cap and one below!
- The **proposed $3m soft cap** for tax concessions on super balances. Again, makes no sense to have one spouse above the cap and one below!
- You could consider commencing a TTR for the higher balance spouse and then use these amounts to make a contribution for the lower balance spouse

Strategies to consider

TTR pension payment amount used to make CC

A tax deduction can be claimed for concessional contributions. This deduction can be used to offset tax payable on other income and even capital gains tax.

- If you do not have access to cash to make a concessional contribution, you could consider commencing a TTR and then using the pension payments you receive to make a concessional contribution
- You need to compare the tax payable by your fund on the concessional contribution (around 15%) vs. the tax savings achieved by the deduction in your personal name

Taxation Issues

Fund considerations

Member considerations

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Tax considerations

Fund considerations

- A TTR is not a retirement phase income stream, so your super fund DOES NOT get a tax exemption on the income supporting the pension payments
- Essentially, the tax is the same as if the fund was entirely in accumulation phase

Does the tax exemption on pension earnings apply when I receive a TTR below age 60?

Andrew M

Tax considerations

Do I have to pay tax on TTR pension payments?

Nicole G

Member Considerations

- TTR payments received after age 60 are tax-free
- TTR payments received before age 60 may be subject to tax:
  - Tax-free component of each pension payment is tax free
  - Taxable component of each pension payment is included in your assessable income, and you pay tax at your marginal rate LESS a 15% tax offset

Tricks and traps for existing TTR pensions

Entering retirement phase

Order of cashing benefits

Allocation of earnings

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When you meet a further condition of release

TRIS automatically enters retirement phase. TRIS balanced on that date assessed against members TBA. Excess TBC automatically! Should have dealt with this and reduced Pension account balance.

1 July 2023

TTR Balance $2,400,000

Age: 64

20 November 2023

Turns 65

TTR Balance $2,200,000

30 June 2024

Preservation Components

Preserved Benefits

- All contributions & all earnings since 30 June 1999, are preserved.
- Can only be cashed voluntarily if a condition of release is met: ***For a TTR this is "attaining preservation age"***
- These benefits may be subject to cashing restrictions as part of the condition of release. ***TTR restriction of 10% and no lump sum access***
- Cashing restrictions tell you how benefits can be accessed

Unrestricted Non-Preserved Benefits

- These benefits don't require a condition of release to be met and may be paid on demand by the member.
- They include, for example, benefits for which a member has previously satisfied a condition of release and decided to keep the money in the super fund.

Preservation components and TTRs

Certain issues arise where you commence a TTR with “blended preservation components”

- Earnings on TTRs need to be allocated to the preserved component.
- There is a strict cashing order which must be followed
  - Must access your unrestricted non-preserved benefits first; when extinguished
  - Must then access your restricted non-preserved benefits* next; when extinguished
  - Must then access your preserved benefits

* Restricted non-preserved benefits related to employment contributions (other than employer contributions) made before 1 July 1999. Restricted non-preserved benefits can't be cashed until the member meets a condition of release specific to these benefits such as a nil cashing restriction or where the employment, they relate to, has been terminated.

Preservation Components

Example

Brendan is 61 years old and commenced a $700K TTR on 1 July 2022 with the following benefits:

- Preserved: $650,000
- Unrestricted non-preserved: $ 50,000

Brendan is accessing the maximum 10% p.a. from his TTR, being $70K p.a.

On 30 June 2023, Brendan has a pension balance (after earnings) of $580,000. This would include:

- Preserved: $580,000
- Unrestricted non-preserved: $0

Preservation Components

Example

Brendan is 61 years old and commenced a $700K TTR on 1 July 2022 with the following benefits:

- Preserved: $650,000
- Unrestricted non-preserved: $ 50,000

Brendan is accessing the maximum 10% p.a. from his TTR, being $70K p.a.

On 30 June 2023, Brendan has a pension balance (after earnings) of $580,000. This would include:

- Preserved: $580,000
- Unrestricted non-preserved: $0

Due to the cashing order requirements, Brendan no longer has any unrestricted non-preserved benefits.

Preservation Components

Alternate example

Brendan is 61 years old and commence a $650K TTR on 1 July 2022 with the following benefits:

- Preserved: $650,000
- Unrestricted non-preserved: $0

Brendan did not use any of his existing $50,000 unrestricted non-preserved benefits to commence his TTR. He retained this in his accumulation account.

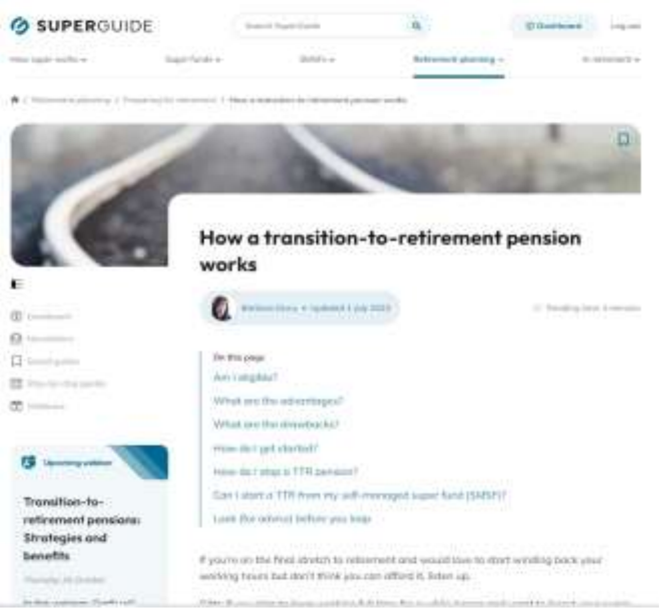
Brendan is accessing the maximum 10% p.a. from his TTR, being $65K p.a.

On 30 June 2023, Brendan has a pension balance (after earnings) of $585,000. This would include:

- Preserved: $585,000

BUT Brendan can also access all or any part of his unrestricted non-preserved benefit as a lump sum from his accumulation account whenever he chooses to.

Resources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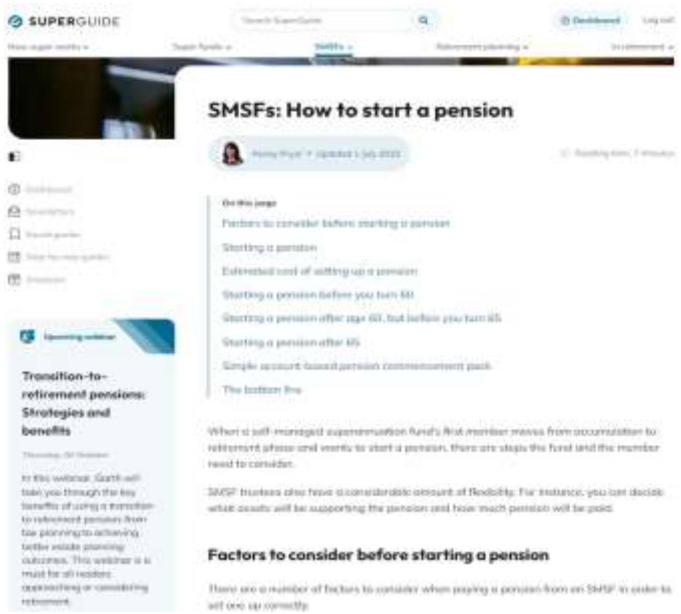
How a transition-to-retirement pension works
Transition-to-retirement pensions: Strategies and benefits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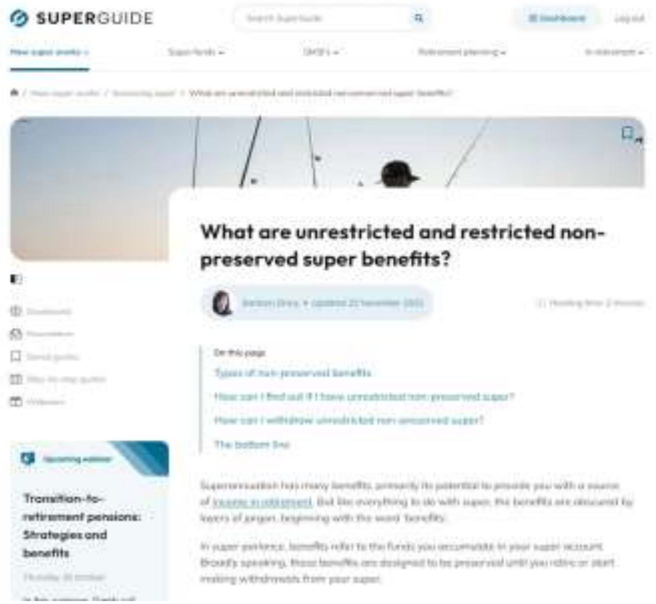
SMSFs: How to start a pension
Transition-to-retirement pensions: Strategies and benefits
Factors to consider before starting a pension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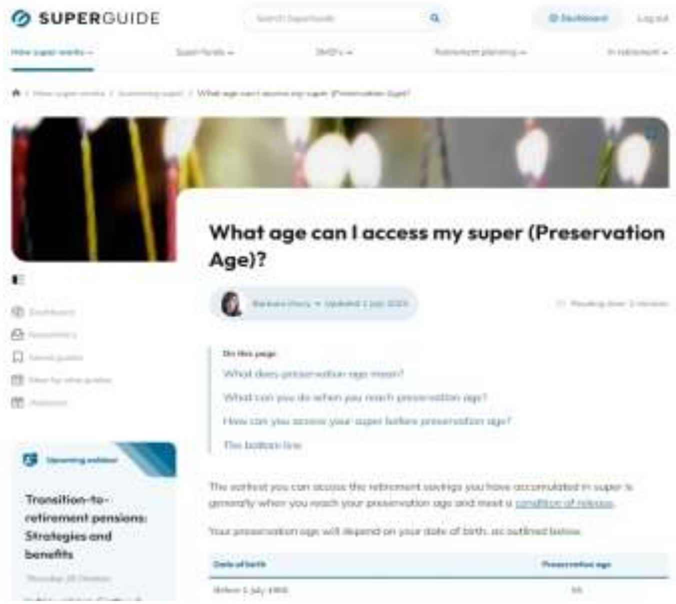
What are unrestricted and restricted non-preserved super benefits?
Transition-to-retirement pensions: Strategies and benefits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What age can I access my super (Preservation Age)?
Transition-to-retirement pensions: Strategies and benefits

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Wrap up