



SUPERANNUATION

Q&A

Transition to Retirement Pensions

Superannuation is a tax effective structure to save and invest for your retirement. At some point however, there may be an advantage in commencing to access your super prior to retirement.

Determining when to begin accessing your super is an important issue and good advice can save you thousands of dollars over time .

Accessing your super prior to retirement

Superannuation is subject to preservation rules which restrict access to your super until certain conditions are met.

As a general rule, access to super is prohibited until an individual retires or attains age 65. Under transition to retirement rules however, super can be accessed on a restricted basis upon attaining preservation age (currently age 55) and there is no requirement to stop working.

Restrictions apply on how much can be withdrawn each year and you must access your super as a pension. When you do retire, or reach age 65, the restrictions are lifted and the pension continues.

Fund rules

The super fund's ability to pay a transition to retirement pension depends on the fund rules, generally contained in the trust deed.

The fund rules can usually be amended to allow transition pensions if the option is not currently available.

Starting or stopping a pension

You will need to make a request to the Trustee of the fund to start or stop a transition to retirement pension.

It is particularly important that appropriate and complete documentation is available evidencing the pension, and that the terms and conditions comply with the fund rules.

Minimum and maximum pension

You are required to draw at least a minimum pension each year. The minimum pension is based on your account balance and age at the beginning of the financial year.

The minimum pension is calculated by multiplying your pension account balance at 1 July each financial year (or on the date the pension commenced in the first year) by the relevant percentage factor which is determined by age as outlined below:

Minimum annual payment amount

Age of pension recipient	Percentage factor
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or older	14%

The maximum pension under transition to retirement rules is 10% of your pension account balance.

You have the flexibility of choosing and varying the level of income paid to you within these limits, as well as how frequently the income is paid.

The pension will normally be paid for as long as the capital lasts and this will depend on the long term returns achieved. You have the option of nominating a dependant, such as your spouse, to receive the pension after your death.

Taxation of pension payments

Generally pension benefits received on or after age 60 are exempt from tax.

Prior to age 60, some tax may be payable on the pension taken. Benefit payments are split into taxable and tax free components. The taxable component will generally be taxed at the recipient's marginal rate less a 15% pension tax offset. The tax-free component is not subject to any tax.

Taxable component

The taxable component typically comprises the portion of your benefit made up of employer/deductible contributions and investment earnings.

Tax free component

The tax-free component usually comprises the portion of your benefit made up of non-concessional contributions (formerly undeducted contributions).

Advantages

If you can access a pension under transition to retirement rules, you may have greater flexibility in the way your financial affairs can be structured.

Whilst some tax may be payable on the pension taken, this structure often leads to significant tax savings on fund income and may provide opportunities to increase your contributions to super.

The key is to maximise use of available tax concessions. Often, accessing earlier produces a better result than you would think.

Further information

Please ask your regular Pitcher Partners contact or any of the contacts below for further information.

Disclaimer: The information in this document is factual in nature and does not constitute financial product advice.

Your Pitcher Partners contacts



Melbourne

Vicki Macdermid

T +61 3 8610 5100

E vicki.macdermid@pitcher.com.au



Sydney

Hugh Taylor

T +61 2 9228 2202

E htaylor@pitcher-nsw.com.au



Adelaide

Ben Brazier

T +61 8 8179 2822

E ben.brazier@pitcher-sa.com.au



Perth

Julie Strack

T +61 8 9322 2022

E strackj@pitcher-wa.com.au



Brisbane

Nigel Fischer

T +61 7 3222 8444

E nfischer@pitcherpartners.com.au

Melbourne

Telephone +61 3 8610 5000
partners@pitcher.com.au

www.pitcher.com.au

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Sydney

Telephone +61 2 9221 2099
partners@pitcher-nsw.com.au

Perth

Telephone +61 8 9322 2022
partners@pitcher-wa.com.au

Adelaide

Telephone +61 8 8179 2800
partners@pitcher-sa.com.au

Brisbane

Telephone +61 7 3222 8444
partners@pitcherpartners.com.au