

TRANSITION TO RETIREMENT

Enjoy the best of both worlds

FACT SHEET 10

28 JULY 2021

Transition to retirement refers to the opportunity for you if you have reached your preservation age (see table on right) to start receiving an income from your super, through an account-based pension, without having to retire.

If you choose to stay in full-time employment or move to part-time work after reaching your preservation age, you may be able to start an *NGS Transition to retirement (TTR) account*. The payments from an *NGS TTR account* could be used to save tax or make up the shortfall in your income as a result of reducing your working hours.

This fact sheet explains some of the features of the *NGS TTR account* and gives examples showing how different transition to retirement strategies might work in practice. If you have retired from the workforce, or are over age 65, you may be eligible to commence an *NGS Income account* where investment earnings are tax free. For more information please read our [Income account guide](#) and our fact sheet [Understanding the NGS Income account](#) at ngssuper.com.au/PDS

NGS Transition to retirement account

The features and conditions of the *NGS TTR account* are similar to the *NGS Income account* with the following key differences:

- investment earnings are **not** tax free and are concessional tax at up to 15%
- there is a maximum payment limit of 10% of your account balance per financial year¹
- lump sum withdrawals cannot be paid until a condition of release occurs (generally, this is when you retire permanently after reaching your preservation age, terminate gainful employment after age 60 — even if you don't retire — or reach age 65).

If you meet a condition of release, you will need to let us know so your *NGS TTR account* can be converted to an *NGS Income account*, where there is:

- no tax on investment earnings
- no maximum drawdown limit
- no restrictions on making lump sum withdrawals in addition to receiving your regular income stream payments.

However, there are limits to the amount you can transfer to an Income account (retirement phase).²

What is my preservation age?

Your preservation age depends on your date of birth. If you were born before 1 July 1963 then you have already reached your preservation age.

Your date of birth	Preservation age
Between 1 July 1963 and 30 June 1964	59
After 30 June 1964	60

¹ Your account balance is calculated at commencement of your *NGS TTR account* and at 1 July each financial year after that.

² A transfer balance cap is the limit on the total amount of super that can be transferred into the retirement phase (e.g. *NGS Income account*) and is managed by the ATO. You can view your personal transfer balance cap through your Australian Taxation Office (ATO) linked account by logging into my.gov.au

How a transition to retirement pension works

Once your *NGS TTR account* is established, and prior to age 65, you:

- must receive an income payment at least once during each financial year
- must receive a minimum of 2% of your account balance³ each year
- can draw a maximum of 10% of your account balance each year.

Tax on your pension income

If you have reached your preservation age and are under age 60, tax will be payable on any income you receive from your *NGS TTR account*. The amount of tax applicable may be reduced by any tax-free amount you are eligible for and a 15% tax offset.

Payments for members aged 60 and over are tax free. For more information, read our fact sheet **Fees, cost and tax** at ngssuper.com.au/PDS

Transitioning to retirement

Example 1:

Transitioning to retirement and supplementing your income

Colin is aged 60 and earns \$70,000 a year, which leaves him a net income of \$56,463 after tax and Medicare levy for 2021/22 (for simplicity we have assumed that he has no other income). Colin would like to work for just 3 days per week but if he does so, his gross income will drop to \$42,000 and net income will reduce to \$37,743, which is a decrease of \$18,720 a year.

Colin has \$200,000 in super savings (defined benefit funds are excluded). He can commence an *NGS TTR account* and request to be paid an income of \$18,720 for the year. This would allow him to move to part-time employment while maintaining his lifestyle at the same income level he had before reducing his working hours.

What is Colin's annual cash flow?

Source of income	Full-time employment	Part-time employment
Salary (taxable income)	\$70,000	\$42,000
Less income tax	\$13,217	\$4,522
Less Medicare levy	\$1,400	\$840
Plus low income tax offset ⁴ (LITO)	\$0	\$475
Plus low and middle income tax offset ⁵ (LAMITO)	\$1,080	\$630
Plus <i>NGS TTR account</i> income	Nil	\$18,720
Net income	\$56,463	\$56,463

Before age 60, there may be some income tax payable on the *NGS TTR account* income, although it will still receive concessional tax treatment. The income tax payable will depend on the components of Colin's *NGS TTR account*. For further information on the taxable and tax-free components of super, please refer to the **Product Disclosure Statement** and our fact sheet **Fees, cost and tax** available at ngssuper.com.au/PDS

Building wealth for retirement

While the government originally designed the transition to retirement concept to provide replacement income to allow people to reduce their working hours, it can also be used to build up existing super in the years leading up to retirement — even if you continue working full-time. In this situation, you essentially switch taxable salary and wages, for income from your *NGS TTR account* that is:

- concessional tax if you have reached your preservation age and are less than age 60 or
- tax free from age 60.

This reduces your overall tax burden and may allow you to commence or increase your salary sacrifice contributions to super. The example on the following page shows how this scenario works.

³ Your account balance is calculated at commencement of your *NGS TTR account* and at 1 July each financial year after that. In the first year, where commencement is after 1 July, the minimum is proportional to the number of days remaining in that financial year. A reduced minimum rate of 2% applies for 2021/22 financial years. The standard minimum rate of 4% will apply from 1 July 2022.

⁴ The low income tax offset is available in 2021/22 if your taxable income is less than \$66,667. The maximum tax offset of \$700 applies if your taxable income is \$37,500 or less. The tax offset is reduced for each dollar of taxable income you earn above \$37,500 with no tax offset available if your income is above \$66,667. See the Australian Taxation Office (ATO) website ato.gov.au for more information.

⁵ A LAMITO is available in 2021/22 financial year if your income does not exceed \$126,000, and is payable in addition to the LITO. The maximum LAMITO available is \$1,080 and is calculated on your income after you lodge your tax return.

Example 2:

How an NGS TTR account can be used to build wealth

Let's assume Claire has an income of \$70,000, with a current super balance of \$200,000. Her employer contributes 10% Super Guarantee (SG) to her super (\$7,000 p.a.). Claire can commence an NGS TTR account (she has reached her preservation age), that can provide her an additional income of up to 10% of her account balance¹ each financial year (i.e. a maximum of \$20,000 in the first year). Claire can draw a smaller percentage if she wants, as long as she draws the prescribed minimum for her age which is 2% p.a. of her account balance. Claire can also change her payment amount at any time so long as it is within the prescribed limits.

Claire can organise salary sacrifice contributions of \$20,500 without exceeding the concessional contribution limit and receive an income from her account-based pension in order to maintain the same net income. The table to the right illustrates the salary sacrifice and NGS TTR account income payment Claire could receive if she wants to keep the same net income and is age 60 or over, resulting in the NGS TTR account income payment being tax-free.

As Claire is aged 60 or over, she could:

- receive income of \$13,170 from her NGS TTR account and
- contribute an additional \$20,500 into super (\$17,425 after 15% super contributions tax) and still retain the same net income.

What is Claire's annual cash flow?

Source of income	Current situation — salary only	Transition to retirement if aged 60+
Salary (assessable income)	\$70,000	\$70,000
Less super salary sacrifice	Nil	\$20,500
Adjusted taxable income	\$70,000	\$49,500
Less tax on taxable income	\$13,217	\$6,555
Less Medicare levy	\$1,400	\$990
Plus low income tax offset (LITO)	\$0	\$258
Plus low and middle income tax offset ⁵ (LAMITO)	\$1,080	\$1,080
Tax payable	\$13,537	\$6,207
Net salary income	\$56,463	\$43,293
Plus NGS TTR account income	Nil	\$13,170 ⁶
Net income	\$56,463	\$56,463

If Claire is under 60 the NGS TTR account income is taxable, but a 15% tax offset applies on the taxable component of the NGS TTR account income.

How much extra is going into Claire's super account?

Claire saves an additional \$4,255 (after her income drawdown) in her super in the 2021/22 financial year (see table below) which will give her super a significant boost and help achieve a higher retirement benefit. Claire's total before-tax (concessional) super contributions do not exceed her annual concessional contributions limit.⁷

If Claire was between her preservation age and age 60, there could be a benefit in using this strategy but it would be more modest.

The administration cost for an NGS TTR account is \$1.25 per week, plus an asset-based fee of 0.10% p.a. (capped at \$500).⁸ For further details of other fees that may apply, please see our fact sheet **Fees, costs and tax** at ngssuper.com.au/PDS

Comparison of super contributions

Source of income	Current situation - salary only	Transition to retirement
10% SG	\$7,000	\$7,000
Plus salary sacrifice contributions	Nil	\$20,500
Less contributions tax	\$1,050	\$4,125
Less NGS TTR account draw down	Nil	\$13,170
Net cash flow to super	\$5,950	\$10,205

Note: If you implement a transition to retirement and contribution strategy, as described in example 2, you will need to ensure you do not exceed your concessional contribution limit.⁷

This limit applies to all before-tax contributions, (including SG, salary sacrifice and personal contributions for which a tax deduction has been claimed) paid into your super accounts.

Any concessional contributions paid in excess of the limit will be taxed at your marginal rate plus an amount representing interest.

⁶ Tax-free income as Claire is over age 60.

⁷ There are limits on the amount that you can contribute each year as concessional contributions. However, you can carry forward any unused amount of your concessional contributions cap if you have a total super balance of less than \$500,000 on 30 June of the previous financial year. For further details, please see our fact sheet **Opportunities and limits for super contributions** at ngssuper.com.au/PDS

⁸ If at 30 June you have paid an asset-based fee greater than \$500 since the previous 1 July, a fee rebate will be credited to your account if your account is still open at the time the rebate is to be credited. The rebate will be in the form of additional units.

Preservation components

When your super is rolled into your *NGS TTR account*, we'll calculate the preservation components at the time and let you know what they are.

Payments from your *NGS TTR account* must be paid from the benefit components in the following order:

1. unrestricted non-preserved benefit
2. restricted non-preserved benefit
3. preserved benefits.

Unrestricted non-preserved benefits and restricted non-preserved benefits are fixed dollar amounts which are known at the time you start your *NGS TTR account*. For more information on preservation components, you can refer to our fact sheet

Gaining access to your super at ngssuper.com.au/PDS

Lump sum withdrawals

You can only make a lump sum withdrawal from your *NGS TTR account* in the following circumstances:

- to pay a super contributions surcharge
- on death

- from an unrestricted non-preserved benefit
- to give effect to a payment split under family law
- to purchase another non-commutable income stream.

If you become eligible, you may choose to transfer part or all of your *NGS TTR account* balance, plus any super savings, to an *NGS Income account* where investment earnings are tax free, and there is no limit on your withdrawals. You will be eligible if you:

- permanently retire from the work force after reaching your preservation age and before you turn 60
- cease an arrangement under which you were gainfully employed after age 60 even if you have not permanently retired
- reach age 65
- become permanently incapacitated.

You may choose to transfer part or all of your *NGS TTR account* balance plus any super savings, to an *NGS Income account* where investment earnings are tax free and there is no limit on your withdrawals.

Please note, the value of all your retirement accounts must not exceed your transfer balance cap.²

Will transition to retirement work for you?

The outcome of these strategies varies depending on the amount of other income you may have (such as interest, rental income and dividends), the amount of super savings and the components of your super account. If you are under age 60, the extra income from the *NGS TTR account* may affect payments such as Family Tax Benefit or child support payments.

Your own financial situation will determine whether an *NGS TTR account* will work for you. The calculations based on your personal circumstances may be complex and may have unforeseen consequences, so we recommend that you seek financial advice.

More information?

Contact us

You can contact us at ngssuper.com.au/contact-us or call us on **1300 133 177** Monday to Friday, 8am–8pm (AEST/AEDT).

Phone number for callers outside Australia: **+61 3 8687 1818**

Fax: **(03) 9245 5827**

Postal address:
**GPO Box 4303
MELBOURNE VIC 3001**

If you are thinking about starting an Income stream, consider getting professional advice to understand how this works for your personal situation.

We offer low-cost tailored advice through NGS Financial Planning. To make an appointment, phone us on **1300 133 177** or complete the **Financial planning enquiry form** on our website at ngssuper.com.au/advice

Important information

You should consider all the information contained in the **Product Disclosure Statement** dated 1 April 2021 and incorporated fact sheets before making a decision about investing in NGS Super.

The information provided in this fact sheet is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances and consider seeking professional advice.

NGS Financial Planning Pty Ltd, ABN 89 134 620 518, is a corporate authorised representative #394909 of Guideway Financial Services Pty Ltd, ABN 46 156 498 538, AFSL #420367 and offers financial planning services on behalf of NGS Super ABN 73 549 180 515.