

Transition to retirement

Enjoy the best of both worlds

Fact Sheet

November 2023

Transition to retirement refers to the opportunity for you if you have reached your preservation age (see table below) 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 **NGS Retirement Product Disclosure Statement** 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 taxed 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 a gainful employment arrangement 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 The total amount of super that is permitted to be transferred into the retirement phase (e.g. *NGS Income account*) is known as the transfer balance cap and is managed by the ATO. Each individual has a personal transfer balance cap that depends on when they commenced a retirement income stream and with how much. 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 4% 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 **NGS Retirement Product Disclosure Statement** 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 \$55,383 after tax and Medicare levy for 2023-24 (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 \$37,113, which is a decrease of \$18,270 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 \$18,270 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 <i>NGS TTR account</i> income | Nil | \$18,270 |
| Net income | \$55,383 | \$55,383 |

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 **NGS Retirement Product Disclosure Statement** 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.

⁴ The low income tax offset is available 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.

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. 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 4% 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 up to \$19,800 without exceeding the concessional contribution limit in 2023-24 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 \$12,722 from her NGS TTR account and
- contribute an additional \$19,800 into super (\$16,830 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 | \$19,800 |
| Adjusted taxable income | \$70,000 | \$50,200 |
| Less tax on taxable income | \$13,217 | \$6,782 |
| Less Medicare levy | \$1,400 | \$1,004 |
| Plus low income tax offset ⁴ (LITO) | \$0 | \$247 |
| Tax payable | \$14,617 | \$7,539 |
| Net salary income | \$55,383 | \$42,661 |
| Plus NGS TTR account income | Nil | \$12,722 ⁵ |
| Net income | \$55,383 | \$55,383 |

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 \$4,108 (after her income drawdown) in her super in the 2023-24 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.⁶ Claire will need to reassess her salary sacrifice amount each financial year (as the super guarantee rate is scheduled to increase), to ensure she does not exceed the concessional cap amount.

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).⁷ For further details of other fees that may apply, please see our **NGS Retirement Product Disclosure Statement** at ngssuper.com.au/PDS.

| Comparison of super contributions | | |
|-------------------------------------|---------------------------------|--------------------------|
| Source of income | Current situation — salary only | Transition to retirement |
| Super guarantee ⁸ | \$7,700 | \$7,700 |
| Plus salary sacrifice contributions | Nil | \$19,800 |
| Less contributions tax | \$1,155 | \$4,125 |
| Less NGS TTR account draw down | Nil | \$12,722 |
| Net cash flow to super | \$6,545 | \$10,653 |

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.⁶ 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.

⁵ Tax-free income as Claire is over age 60.

⁶ 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/factsheets

⁷ 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.

⁸ From 1 July 2023, this increased from 10.5% to 11% of your ordinary time earnings (OTE). We have used 2023-24 rate of 11% in our example. More information on OTE is available from the Australian Taxation Office (ATO) at ato.gov.au

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/factsheets

Lump sum withdrawals

A lump sum withdrawal from your *NGS TTR account* is permitted only 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 part or all of any super savings, to an *NGS Income account* where investment earnings are tax free and there is no limit on lump sum 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.

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 you may wish to seek financial advice.

Set up your account with Easy Default

A quick way to set up your *NGS TTR account* with a default payment amount, payment frequency, investment and drawdown strategy.

Visit ngssuper.com.au/easydefault to learn more.

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).

Fax: **(03) 9245 5827**

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MELBOURNE VIC 3001**

Need help?

If you are thinking about transitioning to retirement, consider obtaining professional advice for your personal situation.

We offer single-issue advice limited to your *NGS Super* account at no cost over the phone through our Financial Advice Helpline.

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

Important information

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.