This document forms part of the Product Disclosure Statement dated 1 July 2019

TRANSITION TO RETIREMENT

Enjoy the best of both worlds.

FACT SHEET 10

1 JULY 2019

'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, by way of 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 a 'transition to retirement' pension. The payments from your NGS *Transition to Retirement (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 the ***Income account guide*** and the fact sheet ***Understanding the NGS Income account*** available at **ngssuper.com.au/PDS**

Transition to Retirement (TTR)

The features and conditions of the *TTR account* are the same as for the NGS *Income account* with the following key differences:

- investment earnings are **not** tax free. They are concessionally taxed at up to 15%;
- there is a maximum payment limit of 10% of your account balance[1] per financial year; and
- lump sums 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 *TTR account* can be converted to an *Income account*, where there is

- no tax on investment earnings,
- no maximum drawdown limit, and
- 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:

Your date of birth	Preservation age
Before 1 July 1960	55
Between 1 July 1960 and 30 June 1961	56
Between 1 July 1961 and 30 June 1962	57
Between 1 July 1962 and 30 June 1963	58
Between 1 July 1963 and 30 June 1964	59
After 30 June 1964	60

[1] As at 1 July in the relevant financial year or at commencement of your *TTR account* if after 1 July. Where commencement is after 1 July, the minimum is proportional to the number of days remaining in that financial year.

[2] A transfer balance cap (currently $1.6m) applies on the amount of super you can transfer into the retirement phase (i.e. NGS *Income account*). This applies as a total across all your super accounts and not per fund.

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How a transition to retirement pension works

Once your *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 balance[1] each year
- can draw a maximum of 10% of your account balance[1] each year.

Tax on your pension income

If you have reached your preservation age and are less than age 60, tax will be payable on any income you receive from your *TTR account*. The amount of tax that may apply may be reduced by any tax-free amounts for which you are eligible 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***, available 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 $54,833 after tax and Medicare levy for 2019/20 (for simplicity we have assumed that he has no other income). Colin would like to work for just three days per week but if he does so, his gross income will drop to $42,000 and net income will reduce to $36,683, which is a decrease of $18,150 a year.

Colin has $200,000 in super savings (defined benefit funds are excluded). He can commence a *TTR account* and request to be paid an income of $18,150 for the year. This would allow him to move to part-time employment whilst 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	$14,297	$5,197
Less medicare levy	$1,400	$840
Plus Low Income Tax Offset[3] (LITO)	$0	$370
Plus Low and Middle Income Tax Offset[4] (LAMITO)	$530	$350
Plus *TTR account* pension income	Nil	$18,150
Net income	**$54,833**	**$54,833**

Before age 60, there may be some income tax payable on the *TTR account* income, although it will still receive concessional tax treatment. The amount payable in tax will depend on the components of his *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 *TTR* concept to provide replacement income to allow people to reduce their working hours, it can also be used to build up existing superannuation 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 that is:

- concessionally-taxed if you have reached your preservation age and are less than age 60, or
- tax-free from age 60

via your *TTR account* income.

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

[3] The low income tax offset is available in 2019/20 if your taxable income is less than $66,667. The maximum tax offset of $445 applies if your taxable income is $37,000 or less. This amount is reduced by 1.5 cents for each dollar of taxable income you earn over $37,000. See the Australian Tax Office website **ato.gov.au** for more information.

[4] A Low and Middle Income Tax Offset (LAMITO) is available if your income does not exceed $125,333, and is payable in addition to the Low Income Tax Offset (LITO). The maximum LAMITO available is $530 (2018/19 financial year) and is calculated on your income after you lodge your tax return. The government has indicated its intention to increase the LAMITO in the 2019/20 financial year and if legislated, this would slightly change the illustration.

Example 2:

How a *TTR account* can be used to build wealth

Let's assume Claire has an income of $70,000, with a current superannuation balance of $200,000. Her employer contributes 9.50% Superannuation Guarantee (SG) to her super ($6,650 p.a). Claire can commence a *TTR account* (she has reached her preservation age), that can provide her an additional income of up to 10% of her account balance[1] 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[1]. 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 $18,350 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 *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 *TTR account* income payment being tax-free.

As Claire is aged 60 or over, she could:

- receive income of $11,794 from her *TTR account*, and
- contribute an additional $18,350 into super ($15,597 after 15% super contributions tax)

resulting in her maintaining the same combined 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	$18,350
Adjusted taxable income	$70,000	$51,650
Less tax on taxable income	$14,297	$8,333
Less medicare levy	$1,400	$1,033
Plus Low Income Tax Offset (LITO)	$0	$225
Plus Low and Middle Income Tax Offset[4] (LAMITO)	$530	$530
Tax payable	**$15,167**	**$8,611**
Net salary income	$54,833	$43,039
Plus *TTR account* income	Nil	$11,794[5]
Net income	**$54,833**	**$54,833**

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

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

Claire saves an additional $3,803 ($15,597 less $11,794 income drawdown) in her super in the 2019/20 financial year based on eligibility for the LAMITO at 2018/19 rates (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].

If Claire was between her preservation age and age 60, there could be a benefit in using this strategy although 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 the ***Product Disclosure Statement*** available at **ngssuper.com.au/PDS**

Comparison of superannuation contributions[8]		
Source of income	**Current situation – salary only**	**Transition to retirement**
9.50% SG	$6,650	$6,650
Plus salary sacrifice contributions	Nil	$18,350
Less contributions tax	$998	$3,750
Less *TTR account* draw down	Nil	$11,794
Net cash flow to super	**$5,652**	**$9,456**

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[6] limit.

This limit applies to all before-tax contributions (both SG employer, 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.

For more information on contributions limits, you can refer to our fact sheet ***Opportunities and limits for super contributions*** available at **ngssuper.com.au/PDS**

[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. Currently this limit is $25,000. However, you will now be able to carry-forward any unused amount of your concessional contributions cap if you have a Total Superannuation 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*** available at **ngssuper.com.au/PDS**

[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] Based on eligibility for the LAMITO at 2018/19 rates.

Preserved 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.

Government regulations require that all payments from a *TTR account* be paid from the benefit components in the following order:

I. unrestricted non-preserved benefits
II. restricted non-preserved benefits
III. preserved benefits.

Unrestricted non-preserved benefits and restricted non-preserved benefits are fixed dollar amounts which are known at the time you start your *TTR account*.

When can you make a lump sum withdrawal?

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

- from an unrestricted non-preserved benefit
- to pay a superannuation contributions surcharge
- to give effect to a payment split under family law
- on death
- to purchase another non-commutable income stream.

If one of the following conditions occur

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

you may choose to transfer part or all of your *TTR account* balance plus any superannuation 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 the Transfer Balance cap which is currently $1.6m.

Will transition to retirement work for you?

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

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

Contact NGS Financial Planning for commission-free advice. For further information or to make an appointment visit us at **ngssuper.com.au/financial-planning** or phone our Customer Service team on **1300 133 177**.

More information?

Contact us

You can contact us at **ngssuper.com.au/contact-us** or call us on **1300 133 177** between 8.00am and 8.00pm (AEST or AEDT), Monday to Friday.

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If you are thinking about commencing an Income stream, consider obtaining 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/financial-planning**

Important information

You should consider all the information contained in the ***Product Disclosure Statement*** dated 1 July 2019 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.

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