Your fund. Your wealth. Your future.

This document forms part of the Product Disclosure Statement dated 29 September 2017

TRANSITION TO RETIREMENT

Enjoy the best of both worlds.

FACT SHEET 10

29 SEPTEMBER 2017

'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 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 *Transition to retirement 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 *Understanding Income accounts* fact sheet available at **www.ngssuper.com.au/PDS**.

Transition to retirement

The features and conditions of the *Transition to retirement 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 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 *Transition to retirement account* can be converted to an *Income account*, where there is

- no tax on investment earnings,
- no maximum drawdown limit, and
- the flexibility to draw down lump sums in addition to regular income stream payments.

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

How a transition to retirement pension works

Once your *Transition to retirement account* is established, you must receive an income payment at least once during each financial year. You must receive a minimum payment based on your age and account balance in order to comply with superannuation law. You can draw a maximum of 10% of your account balance each year, which can be made as a single annual payment if you prefer.

The minimum amount that must be paid from your account-based pension each financial year is shown below.

Minimum income payments

Age[1]	Minimum% of account balance[1]
Under 65	4
65 – 74	5
75 – 79	6
80 – 84	7
85 – 89	9
90 – 94	11
95 or more	14

Tax and your pension

If you have reached your preservation age and are less than age 60, tax will be payable on any income you receive from your *Transition to retirement account*. The amount of tax that may apply may be reduced by any tax-free amounts for which you are eligible and a 15% super tax offset.

Payments for members aged 60 and over are tax free. For more information, read the *Fees, cost and tax* fact sheet, available at **www.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 $54,303 a year after tax and Medicare levy (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 $36,333, which is a decrease of $17,970 a year.

What is Colin's annual cash flow?		
Source of income	**Full-time employment**	**Part-time employment**
Salary	$70,000	$42,000
Transition to retirement pension income	Nil	$17,970
Gross income	$70,000	$59,970
Less income tax and Medicare levy[2]	$15,697	$5,667[3]
Net income	$54,303	$54,303

Colin has $200,000 in super savings (defined benefit funds are excluded). He can commence a *Transition to retirement account* and request to be paid an income of $17,970 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.

Before age 60, there may be some income tax payable on the *Transition to retirement account* income, although it will still receive concessional tax treatment. The amount payable in tax will depend on the components of his *Transition to retirement account*. For further information on the taxable and non-taxable components of super, please refer to the *Product Disclosure Statement* and *Fees, cost and tax* fact sheet available at **www.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 'top up' existing superannuation in the years leading up to retirement – even if you continue working full-time. In this situation, you essentially switch fully-taxed salary and wages, for concessionally-taxed (if you have reached your preservation age and are less than age 60) or tax-free (from age 60) income (i.e. the *Transition to retirement account* income). This reduces your overall tax burden and may enable you to make additional salary sacrifice contributions to your super. The following example shows how this scenario works.

[1] As at 1 July in the relevant financial year or at commencement of your *Transition to retirement* 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] In the 2017 Federal Budget, the government announced their intention to increase the Medicare levy from 2% to 2.5% from 1 July 2019. This has not yet been legislated.

[3] This amount is based on taxable income of $42,000 and includes the low-income tax offset. The low income tax offset is available 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 ato website **www.ato.gov.au** for more information.

Example 2:

How a *Transition to retirement 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 *Transition to retirement account* (she has reached her preservation age), that can provide her an additional income of up to 10% of her account balance 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 $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 *Transition to retirement account* income payment Claire could receive if she wants to keep the same net income and is age 60 or over, resulting in the *Transition to retirement account* income payment being tax-free.

[4] Tax-free income as Claire is over age 60.

[5] The concessional contributions limit for all individuals is $25,000. For further details, please see the *Opportunities and limits for super contributions* fact sheet available at **www.ngssuper.com.au/PDS**.

What is Claire's annual cash flow?

Source of income	Current situation – salary only	Transition to retirement If aged 60+
Salary	$70,000	$70,000
Less super salary sacrifice	Nil	$18,350
Taxable income after salary sacrifice (if any)	$70,000	$51,650
Less income tax and Medicare levy	$15,697	$9,141
Net income	$54,303	$42,509
Plus *Transition to retirement account* income	Nil	$11,794[4]
Net income	$54,303	$54,303

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

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

If Claire was 60 or older she could

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

resulting in her maintaining the same combined net income.

Claire saves an additional $3,803 ($15,597 less $11,794 income draw down) in her super in the 2017/18 financial year (see table below) which will give her super a significant boost and help achieve her retirement goals. Claire's total before tax (concessional) super contributions does not exceed her annual concessional contributions limit[5].

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.

Please note that the administration cost for an NGS *Transition to retirement account* is only $1.25 per week, plus an asset-based fee of 0.10% pa. For further details of other fees that may apply, please see the *Product Disclosure Statement* available at **www.ngssuper.com.au/PDS**.

Comparison of superannuation contributions

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 *Transition to retirement 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[5] 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 *Opportunities and limits for super contributions* fact sheet available at **www.ngssuper.com.au/PDS**.

Preserved components

When your super is rolled into your NGS *Transition to retirement 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 *Transition to retirement 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 *Transition to retirement account*.

When can you make a lump sum withdrawal?

You can only make a lump sum withdrawal from a *Transition to retirement 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 *Transition to retirement 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 *Transition to retirement account* may detrimentally affect payments such as Family Tax Benefit or Child support payments.

Your own financial situation will determine whether a *Transition to retirement 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 **www.ngssuper.com.au/financial-planning** or phone our Customer Service team on **1300 133 177**.

More information?

Contact us

You can contact us at **www.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 personal 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 **www.ngssuper.com.au/financial-planning**.

Important information

You should consider all the information contained in the Product Disclosure Statement dated 29 September 2017 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.

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