Retirement Income – Transition to Retirement Pension

A ‘transition to retirement’ (TTR) pension may enable you to use your accumulated superannuation savings to supplement your employment income before you are fully retired.

How it works

Once you reach your ‘preservation age’, you’re generally eligible to start what is commonly referred to as a ‘transition to retirement’ (TTR) pension from your accumulated superannuation savings. A TTR pension is non-commutable until you meet another condition of release (such as retiring or reaching age 65). This means, until then you won’t be able to make lump sum withdrawals, and your annual income payments will be capped at 10% of the account balance. However, you can commute and roll back to the accumulation phase of superannuation at any time.

Preservation age based on date of birth	
Date of birth	**Preservation age**
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Investment returns (including capital gains) from investments held in a TTR pension are taxed at up to 15%, until certain conditions are met (see ‘Transfer balance cap’ below).

Your TTR pension account balance will increase with investment earnings and decrease because of pension payments, negative returns, fees, tax and charges. These factors ultimately determine how long your TTR pension will last.

Pension income

TTR pensions are flexible, as you can vary the amount of income you take each year. But until you meet a full condition of release you will be limited to taking between the 4% minimum and 10% of the balance at commencement (in the first year) or at 1 July in each subsequent year.

Once you meet a full condition of release (such as turning age 65 or notifying the fund trustee that you have retired), your pension will become fully accessible allowing you to make lump sum withdrawals, or pension payments of any amount. Your pension will also move into 'retirement phase' which has other implications which are outlined below.

Taxation of your pension income

Your TTR pension may be made up of taxable and tax-free components. Generally, employer contributions, amounts you have salary sacrificed, personal contributions for which you have claimed a tax deduction, and any investment returns earned by your fund form part of the taxable component. Other amounts, such as non-concessional (after-tax) contributions and spouse contributions, will make up your tax-free component.

When you commence a TTR pension, the tax components of the pension will reflect the proportion of each tax component of your super account just before you commenced the pension.

All future pension payments you receive from your pension are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments would also be paid from the taxable component and 20% tax free component.

Whilst you are under age 60, pension payments from the taxable component are included in your assessable income. You will receive a 15% tax offset if you have attained preservation age or are permanently disabled. The tax offset reduces tax payable. Once you turn age 60, all pension income received is tax free. This tax treatment applies to payments from a taxed fund.

Transfer balance cap

A transition to retirement pension is not assessed as being in 'retirement phase' will not count towards your transfer balance cap until you satisfy a full condition of release.

Once you satisfy a full condition of release, your TTR moves into 'retirement phase'. This means that earnings on investments held within the pension are taxed at 0% rather than up to 15%. The account value is also assessed against your transfer balance cap (TBC). This will happen automatically when you turn 65, or at the time you notify your super fund that:

- you've retired
- you're permanently incapacitated, or
- you're terminally ill.

The transfer balance cap limits the amount that can be transferred into 'retirement phase' of superannuation which benefits from tax free earnings. The general transfer balance cap is $1.9 million for the 2023/24 financial year. Your cap may be between $1.6 million to $1.7 million if you have commenced a retirement phase income stream prior to 1 July 2023.

Penalties apply if you exceed your cap based on all your superannuation income streams determined to be in retirement phase.

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Social security

If either you or your spouse receives a payment, benefit or concession card from Centrelink/Department of Veterans' Affairs (DVA) your TTR pension may impact eligibility under the income and/or assets test. This will vary depending on the payment, benefit or concession applicable.

TTR pensions are assessed under the deeming rules for the social security income test for income support payments such as Age Pension, Service Pension, Disability Support Pension, and Carers Payment. This assessment also applies for some other payments and allowances. This means the assessable income from your pension account is calculated using an assumed rate of earnings, known as a deeming rate (set by the Government). The actual pension payments you receive may be more or less than the deeming rate.

However, if you commenced your TTR pension before 1 January 2015 and have been continuously receiving an 'income support payment' from Centrelink or DVA since 31 December 2014, the assessable income from your TTR pension may continue to be calculated under the 'deductible amount' rules. These rules may be more favourable as only a portion of the pension payment (above the calculated 'deductible amount') is assessed as income. If you commence a new pension, switch to a new pension provider or your Centrelink/DVA entitlements reduce to nil for any period, your TTR pension will revert to deeming rules.

Regardless of when your pension commenced, lump sums withdrawn do not count as income for Centrelink/DVA income support purposes. However, if your TTR pension income is determined under the 'deductible rules', lump sum withdrawals will reduce the pension's deductible amount going forward.

Note: Until you meet a full condition of release, you'll generally be unable to make lump sum withdrawals from a pension that is a transition to retirement pension (exceptions may apply).

If you're in receipt of certain benefits where entitlement is calculated based on your taxable income, lump sums withdrawn may impact your entitlement if included as part of your taxable income.

The account balance of your TTR pension is counted as an assessable asset.

Benefits

These may include:

- You could maintain your current lifestyle while also reducing your working hours.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.

Risks, consequences and other important things to consider

These may include:

- Accessing your superannuation now reduces your available funds at retirement unless you top this up with additional contributions such as through a salary sacrifice arrangement and/or personal deductible contributions.
- As you are under age 65, the minimum pension income is 4% per financial year. The minimum pension payment increases depending on your age.
- Your TTR pension is not guaranteed and may not last the rest of your life, pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.

- If you have made personal superannuation contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing a TTR pension or rolling your funds to another provider to commence a TTR pension.
- In the financial year that you either start or stop your TTR pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.
- Once you reach age 65 or notify the trustee that you have met certain other full conditions of release (e.g. retirement), the pension will move to retirement phase and be assessed against your transfer balance cap. If the amount is in excess of your available transfer balance cap, it will be necessary to commute (reduce) your pension by the amount of the excess, as well as associated earnings on the excess amount. The commuted amount can be rolled to the accumulation phase of superannuation where earnings are taxed at up to 15%. Alternatively, you can withdraw the money from the superannuation system. You will be liable for excess transfer balance tax. If you don't provide this instruction, the ATO will direct your pension provider to take the necessary steps.
- If you are a Centrelink/DVA customer, you are required to notify Centrelink/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account-balance.
- Fees may be charged for a TTR pension. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your fund.

Version: 6.0
Issue date: 1 July 2023