



Transition to retirement pension

You don't have to retire to have this type of pension, so it gives you great flexibility in how you organise your work, play and income arrangements. It may also be a tax-effective way to continue building your super at the same time.

Key features

If you like the thought of retiring but aren't ready to stop work just yet, using your super to buy a transition to retirement pension (TRP) might be the solution.

- Allows you to structure your working hours, pension income and super arrangements to suit your individual needs.
- Available once you reach your preservation age.
- 15% tax offset if you're 55 to 59.
- Tax-free pension income if you're 60 or over.
- Investment earnings are taxed at up to 15%.
- It's non-commutable, so you generally can't withdraw lump sums from your account.

Combine your work, super and income needs

A transition to retirement pension (TRP) offers a number of ways to combine your work, super and income needs. Here are some examples.

Less hours, same income

Cut back your working hours and use your TRP income to make up for your reduced pay.

Same hours, more income

Use the additional income from your TRP to cover extras such as those home renovations or overseas holiday.

More super, same income

Salary sacrificing some of your pay into super can be a tax-effective way to save and your TRP will help you to replace some or all of your 'lost' income.



How it works

How old do I have to be?

A TRP is available once you reach your preservation age.

When you were born	Preservation age
Before 1/7/60	55
1/7/60 – 30/6/61	56
1/7/61 – 30/6/62	57
1/7/62 – 30/6/63	58
1/7/63 – 30/6/64	59
1/7/64 or after	60

How much does it cost?

You will need a minimum initial investment of \$20,000 to open a TRP in smartMonday PENSION. This can be made up of preserved, restricted non-preserved and unrestricted non-preserved super and/or a directed transitional employment termination payment.

Can I withdraw lump sums from my TRP?

TRPs are non-commutable, which means that they generally cannot be cashed out or have lump sums withdrawn.

When you reach age 65 or you notify us that you satisfy a 'condition of release' such as permanent retirement or leaving employment after age 60, we will convert your TRP to a retirement pension which will allow you to withdraw lump sums.

How are TRP income payments taxed?

If you're age 60 or over, pension payments from a super fund are tax free and you don't have to include them in your tax return.

If you're under age 60, any taxable amount of your pension income is taxed at your marginal rate of tax plus the Medicare levy. You may be eligible for a tax offset of up to 15% on any taxable amount.

How are TRP investment earnings taxed?

Investment earnings on assets in a TRP are taxed at up to 15%.



Can I choose the amount of income I receive, and how often?

The Government has set minimum and maximum limits for the amount of income you can receive from a TRP each year.

The minimum limit is age based and is 4% pa (for the 2017/18 financial year) of your TRP account balance if you are aged between 55 and 64. Higher minimums apply to older ages. The maximum limit is 10% pa irrespective of age.

You can elect the percentage of your account balance you wish to receive as annual income (within the above limits) when you purchase your TRP. You can also elect to receive your regular payment monthly, quarterly, half-yearly or yearly.

Your annual income is prorated for the first year and then recalculated on 1 July each year based on your previously elected percentage of your account balance and your balance at 1 July. Alternatively you may elect a new percentage of your account balance.

Factors to consider

You'll need to consider a number of factors before deciding if a TRP is right for you and how to combine it with your work and super plans. For example:

- Your priorities—do you want to cut back on work, maintain your income, build your super, or all of the above?
- Salary sacrificing into super—how it might benefit you, how much to salary sacrifice, and the annual cap on concessional contributions.
- The pros and cons of replacing all your super with a pension—for example, the loss of insurance cover in your super fund.
- The parts of your super you should use to buy your TRP.
- How a pension could affect your social security (eg aged pension) entitlements
- The tax benefits that can help you build your super.
- Special issues relating to any superannuation defined benefits you may have.
- How much income you'll need, taking into account any other sources of income you may have.
- Getting financial planning advice.

Some strategies

A strategy of combining salary sacrifice into super with TRP income can be a tax-effective way to transition to retirement. The table on the next page compares the following scenarios and assumes you are under age 60.

- Existing position—No salary sacrifice into super, no TRP income
- Strategy A—Salary sacrifice into super but no TRP income
- Strategy B—A transition to retirement strategy that combines salary sacrificing into super and TRP income. This strategy assumes that you have \$300,000 in a TRP account and you draw a pension of \$30,000 a year. It also assumes that \$15,000 of the TRP income is taxable and \$15,000 is tax free*.

* Pension payments to people under age 60 may have taxable and tax-free components depending on contributions and eligible service period.

	Existing position No salary sacrifice, no TRP income	Strategy A Salary sacrifice but no TRP income	Strategy B (Transition to retirement) Salary sacrifice plus TRP income
Assessable income	\$80,000	\$80,000	\$80,000
<i>plus</i> taxable pension	n/a	n/a	+\$15,000
<i>less</i> salary sacrifice to super	n/a	-\$15,000	-\$15,000
<i>equals</i> taxable income	\$80,000	\$65,000	\$80,000
Tax on taxable income	\$17,547	\$12,672	\$17,547
<i>plus</i> Medicare levy	+\$1,600	+\$1,300	+\$1,600
<i>equals</i> gross tax payable	\$19,147	\$13,972	\$19,147
<i>less</i> 15% pension tax offset	n/a	n/a	-\$2,250
<i>less</i> tax offsets (LISTO)	n/a	-\$25	n/a
<i>equals</i> net tax payable	\$19,147	\$13,947	\$16,897
Taxable income	\$80,000	\$65,000	\$80,000
<i>less</i> net tax payable	-\$19,147	-\$13,947	-\$16,897
<i>equals</i> net income	\$60,853	\$51,053	\$63,103
Net income	\$60,853	\$51,053	\$63,103
<i>plus</i> tax-free pension	n/a	n/a	+\$15,000
<i>equals</i> total net income	\$60,853	\$51,053	\$78,103

This table uses PAYG tax rates for 2019/20 (as legislated at date of issue of this factsheet).

What does this table tell us? See Comparing the scenarios on the next page.

Comparing the scenarios

Existing position

- The cash salary of \$80,000 loses \$19,147 in tax—an average tax rate 23.9%. Let's compare this with Strategy A.

Strategy A

- \$13,972 of income tax plus \$2,250 of tax deducted from the salary sacrifice contributions is an average tax rate of 20.2%. Through salary sacrifice and a low income superannuation tax offset (LISTO) of \$25, this strategy has 'clawed back' \$2,950 of tax.
- This strategy also means less take-home pay (\$51,053 compared to \$60,853). The next step involves replacing some of the lost income through a TRP strategy. This leads us to Strategy B.

Strategy B

- TRP income receives tax benefits that are not available for income from your employer.
- This combination of salary sacrificing into super and taking a TRP income allows you to maintain your total net income while also adding to your superannuation balance.

The scenarios above show how strategies that include a TRP and salary sacrificing can benefit people who have high net income and large super balances.

Please note that the contribution tax on concessional contributions for people earning over \$250,000 a year is 30%. This needs to be considered when making strategy decisions. See our [Tax on super](#) factsheet for more information.

What about people who are on lower incomes or who have not built up a significant amount of super? Given that people who earn less than \$18,200 pa pay no tax on that income, these strategies are unlikely to benefit this group.

The strategy that's right for you

Getting advice


As you can see, there are many factors to take into account as you plan your transition to retirement. We recommend that you talk to your financial adviser before making any decisions. They'll focus on what's relevant to you and develop a transition plan around your priorities, personal needs and goals.

If you don't have an adviser, call us or email us to ask about the advice services you can access through your membership.

It all adds up



Done today
Smart easy actions



Positive actions
Grow your wealth



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Someday starts today

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