Retirement Income

Transition to retirement pension

Aon Hewitt Financial Education Series

You are able to start an income stream from your super while still working. This is known as a transition to retirement pension.

What is a Transition to Retirement Pension?

A transition to retirement pension is an income stream you can commence while still working if you are over your preservation age (starting at age 55 but increasing based on your date of birth). You are not able to make a lump sum withdrawal from your pension. When you reach age 65 or stop working, the transition to retirement pension can then become a normal income stream (also known as an account based pension) and you are then able to make lump sum withdrawals.

Transition to retirement pensions can benefit you if you want to reduce your working hours as it enables your reduced income to be supplemented by an income stream drawn from super benefits. In addition, it can be combined with a salary sacrifice strategy to build your retirement savings in a tax-effective manner.

How is the pension income taxed?

Income paid from a transition to retirement pension will be tax free and not assessable from age 60. This means it won't need to be included in your income tax return, and won't impact the tax payable on any other income.

If you are aged under 60, the income will be taxable, however part of the pension may be tax free depending upon the amount of your non-concessional contributions. The taxable portion of your pension will be entitled to a 15% tax rebate.

How does this work?

A transition to retirement pension allows you to invest your super savings to draw a regular, tax-effective, income stream.

They allow you to nominate an income amount between prescribed minimums and a maximum of 10% of your account balance which can be paid monthly, quarterly or annually to meet your retirement needs. Your pension will be paid until the account balance runs out. The minimum income level is 4% of the account balance. From age 65 onwards, you can choose to have your pension convert to an account based pension and the minimum percentage income withdrawals will increase, however you won't have a maximum withdrawal limit. Please refer to the fact sheet on 'Account Based Pensions' under the Retirement Income Financial Education Series for more information.

Your pension income amount is determined on 1 July each year, based upon your age and income requirements at that time. If the account value of your pension has fallen, then your pension income may also be reduced.

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What happens if I start my pension part way through the year?

If you start your pension part way through the year, your minimum annual pension will be reduced on a pro-rata basis. For example, if the full year's pension amount was $40,000 and you commenced the pension on 1 January, you would be required to draw half the annual pension amount, or $20,000.

The maximum pension is not pro-rated. If you commence your pension after 1 June, you aren't required to draw an income until the following financial year, beginning at 1 July.

Can I make a lump sum withdrawal from my pension?

No, lump sum withdrawals can't be made from a transition to retirement pension.

When you have retired from the workforce or reached age 65, and you have converted your pension to a standard account based pension, then lump sum withdrawals can be made. Please refer to the fact sheet on 'Account Based Pensions' under the Retirement Income Financial Education Series for more information.

Can I add additional funds?

You are unable to add funds to the pension after commencement. If you find that at some point in the future you have additional funds you wish to invest, you will need to either:

- Commence a second pension, or
- Roll the existing pension back into super, add the new funds, and then commence a new pension. You need to ensure you are able to meet the rules to make contributions into super. Your financial adviser can provide guidance in such a situation.

How are the earnings taxed?

If you invested in your personal name, you would pay tax on the income your investment earned at your marginal tax rate. With a transition to retirement pension, the super fund will pay tax on the earnings at up to 15%.

What is the impact on my General Transfer Balance Cap?

You are able to invest up to your transfer balance cap in tax free retirement income streams. The transfer balance cap started on 1 July 2017 at $1.6 million each.

As the earnings from a transition to retirement pension are now taxed, the balance does not count towards your transfer balance cap. However when you meet a condition of release, such as stopping work, or reaching age 65, you can convert your transition to retirement pension to a standard account based pension. At this point, it would count towards your transfer balance cap. We recommend you talk to your financial adviser who can assist you.

Please refer to the fact sheet on 'Transfer Balance Cap' under the Retirement Income Financial Education Series for more information.