goldhurst
WEALTH MANAGEMENT

Maintaining your income

Transition to retirement in plain English

What is transition to retirement?

Transition to retirement is a strategy that can help you reduce your working hours while maintaining the same level of income. This is achieved by drawing a pension from superannuation using the 'transition to retirement' condition of release.

Everyone who is preservation age (currently 58) but less than 65 years of age is eligible to commence a non-commutable allocated pension.

Introducing TRISs

Transition to retirement income stream 'TRIS' have been popular since the federal government's transition to retirement rules were introduced in 2005. This is because TRISs allow older Australians access to their preserved super benefits without having to retire.

What are the benefits of this strategy?

Key benefits of an TRIS strategy may include:

- the opportunity to maintain your current income and boost your retirement savings through salary sacrifice (income swap strategy), or
- supplementing your income while reducing your work hours and gradually transitioning into retirement.

How does a transition to retirement income swap strategy work?

There are two main parts to a transition to retirement income swap strategy:

- Directing a portion of your before-tax salary into superannuation, known as salary sacrifice.
- Replacing the income you direct into superannuation with a regular payment from your super savings, otherwise known as a 'pension'.

A transition to retirement strategy changes the way you receive your income. Instead of receiving your income from one source (your employer), you receive income from two sources (your employer and your superannuation savings).

Can this strategy save you tax?

The benefit of an TRIS strategy comes from the differing tax rates that apply to regular income, superannuation and pensions.

A lower rate of tax generally applies to pension payments received from your super, compared with the marginal tax rates on employment income. This advantage is further increased because any investment earnings in a TRIS will be tax free. However from 1 July 2017 earnings in a TRIS are taxed at 15 per cent just like earnings in your accumulation super account.

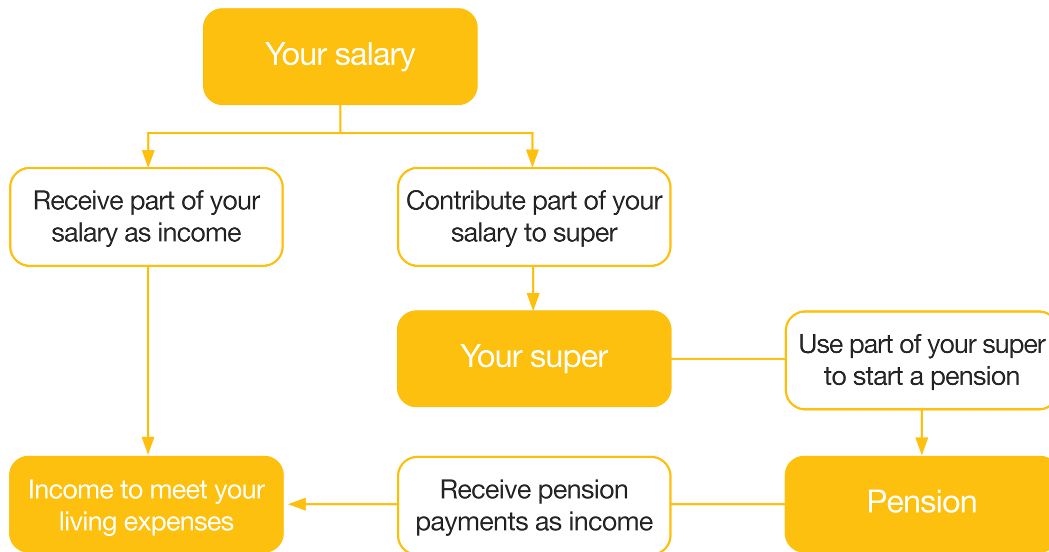
How transition to retirement income swap works

Your superannuation pension is taxed at more favourable rates than your salary. So, by replacing some of your salary with a pension, you can receive the same amount in your pocket while your superannuation savings grow each year.

Pulling it all together

A transition to retirement income swap strategy can be an effective way to boost your superannuation savings. But how much your savings grow will depend on the contributions you make into super through salary sacrifice, compared with the amount you withdraw as your pension. If you take out more money than you put back in, your savings will decline in value. This will result in you having less money to fund your retirement when you stop working altogether.

We can help you strike the right balance and determine whether a transition to retirement strategy is the best way for you to maintain your income and lifestyle as you move towards retirement.



Michael's story

Michael has reached 60 and starts a transition to retirement income swap strategy.

Michael's gross salary is $60,000 per year. He has accumulated $200,000 in super savings, and elects to use the full amount to start a non-commutable allocated pension and draws the maximum pension of $20,000.

Together with Michael's pension income, he can salary sacrifice $19,300 per annum and still receive the same amount of money in his pocket.

After a year, the transition to retirement strategy has resulted in:

- Michael paying $2,635 less tax.
- An increase of $2,635 in Michael's superannuation balance (a withdrawal of $13,770 and an after tax contribution of $16,405).

Transition to retirement in action

Results	No TRIS	With TRIS
Gross salary	$60,000	$60,000
Less salary sacrifice	$0	($19,300)
TRIS income	$0	$13,770
Less tax paid on salary and TRIS	$9,987	$4,457
Net income	$50,013	$50,013
Tax paid on additional super contributions	$0	$2,895
Net after-tax contributions to super	$0	$16,405
Total tax paid	**$9,987**	**$7,352**
Net additional contributions to super (after TRIS income payments)		**$2,635**

Based on Michael's (age 60) gross salary of $60,000 per year and $200,000 accumulated super savings; and
Michael salary sacrificed an amount of $19,300 for the 2020-21 financial year (allowing for $5,700 in employer SG contributions in addition to salary above).
Based on personal marginal tax rates and applicable tax rebates announced in the October 2020 Federal Budget and subsequently legislated

Other points in general:

- The 'income swap' strategy is generally of marginal at best benefit for someone below age 60, although there may be ways to make it much more attractive. This is largely because income payments to someone below age 60 are still taxable, even with the 15% tax offset.
- Since 1 July 2017 the investment earnings from assets backing the TRIS are taxed at up to 15% just like in accumulation phase, so this has also contributed to make the strategy less attractive.

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