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 'transition to retirement' income stream from super. Everyone who is 'preservation age' but still working and less than 65 years of age is eligible to commence a transition to retirement income stream. From July 1, 2023, if you were born on or after July 1, 1964, your preservation age is 60. If you were born before July 1, 1964, you would have already reached your preservation age.

Introducing Transition to Retirement Income Streams (TRISs)

Transition to retirement income streams '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.

You must draw at least the minimum level of income each year from TRIS.

The maximum income you can draw each year from TRIS is capped at 10% of the account balance.

What are the benefits of this strategy?

Key benefits of a 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.

SOUTHERNADVISORY

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 an 'account-based 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 a 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. Before 1 July 2017, this advantage was further increased because any investment earnings in a TRIS was 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. Income payments you receive when below age 60 have a 15% tax offset, and payments received after reaching age 60 are tax-free.

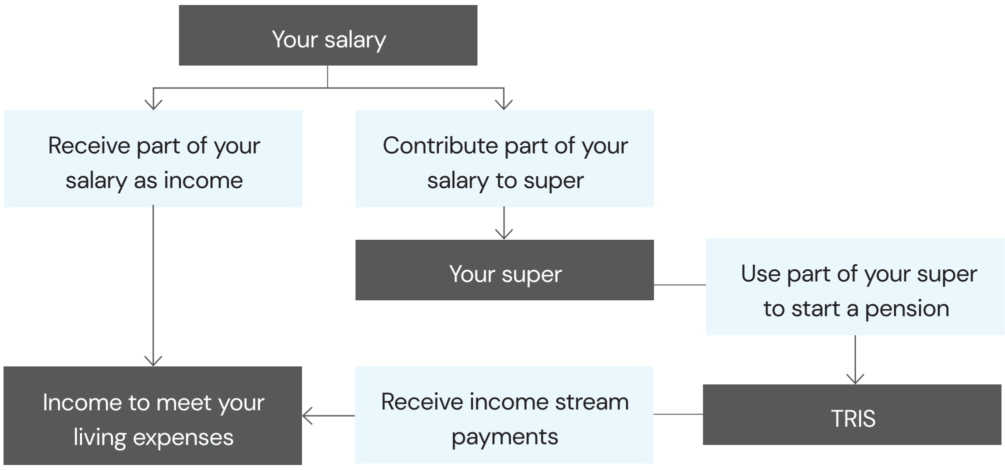
How transition to retirement income swap works

Your superannuation pension income payments are taxed at more favourable rates than your salary. So, by replacing some of your salary with a pension income, 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 superannuation 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 superannuation 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 started a transition to retirement income swap strategy. Michael's gross salary is $80,000 per year. He has accumulated $200,000 in super savings, and elects to use the full amount to start a TRIS and draws regular income of $12,200 pa.

Together with Michael's income payments from TRIS, he can sacrifice $18,700 pa and still receive the same amount of money in his pocket.

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

- Michael paying $3,727 less tax.
- An increase of $3,727 in Michael's superannuation balance

Transition to retirement in action

Results	No TRIS	With TRIS
Gross salary	$80,000	$80,000
Less salary sacrifice	$0	($18,700)
Pension income	$0	$12,200
Less tax paid on salary and pension income	$18,067	$11,535
Non-concessional contribution		$32
Net income	$61,933	$61,933
SG Contributions	$8,800	$8,800
Tax paid on super contributions	**$1,320**	**$4,125**
Net after tax contributions to super	**$7,480**	**$23,407**
Total tax paid	**$19,387**	**$15,660**
Net extra in super (after pension income payments)	**–**	**$3,727**

The case study is illustrative only and is not an estimate of the benefits or investment returns you will receive or fees and costs you will incur. This case study is based on the following assumptions:

a) Michael beginning a transition to retirement income swap strategy at age 60;
b) Based on Michael's gross salary of $80,000 per year, $200,000 accumulated super savings; and
c) Michael has sacrificed an amount of $18,700 for the 2023-24 financial year.
d) Michael can use catch-up concessional contributions amounts accrued in prior years so his contributions in 2023-24 remain within the cap.
e) Super Guarantee rate 11% in 2023-24.
f) Non-concessional contribution of $32 to equalise pre and post strategy net income position.

This information is correct as of July 2023.

Explore your options with the help of an expert

We are here to help you realise your goals and dreams, taking the time to get to know your circumstances and what's important to you. And we create a plan tailored just for you.

Southern Advisory
Suite 103, 304-318 The Kingsway
Caringbah NSW 2229
P 02 9524 6711
E info@southernadvisory.com.au
W www.southernadvisory.com.au