TRANSITION TO RETIREMENT PENSIONS

"Maximise the use of available tax concessions"

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SUPERANNUATION | SPECIALISTS | ACCOUNTANTS

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Superannuation is a tax effective structure to save and invest for your retirement. At some point however, there may be an advantage in commencing a pension to access your super prior to retirement.

ACCESSING YOUR SUPER PRIOR TO RETIREMENT

Superannuation is subject to preservation rules which restrict access to your super until certain conditions are met. As a general rule, access to super is prohibited until an individual retires or attains age 65.

Under transition to retirement rules however, super can be accessed on a restricted basis upon attaining preservation age (currently age 55) and there is no requirement to stop working. Restrictions apply on how much can be withdrawn each year and you must access your super as a pension.

When you do retire, or reach age 65, the restrictions are lifted and the pension continues.

MINIMUM AND MAXIMUM PENSION

You are required to draw at least a minimum pension each year. The minimum pension is based on your account balance and age at the beginning of the financial year.

The minimum pension is calculated by multiplying your pension account balance at 1 July each financial year (or on the date the pension commenced in the first year) by the relevant percentage factor which is determined by age as outlined below:

	Minimum rate 2015/16	Maximum rate 2015/16
Under 65 years	4%	10%
65 to 74	5%	100%
75 to 79	6%	100%
80 to 84	7%	100%
85 to 89	9%	100%
90 to 94	11%	100%
Over 95	14%	100%

TAXATION OF PENSION PAYMENTS

Generally pension benefits received on or after age 60 are exempt from tax.

Prior to age 60, some tax may be payable on the pension taken. Benefit payments are split into taxable and tax free components. The taxable component will generally be taxed at the recipient's marginal rate less a 15% pension tax offset. The tax-free component is not subject to any tax.

TAXABLE COMPONENT

The taxable component typically comprises the portion of your benefit made up of employer/ deductible contributions and investment earnings.

TAX FREE COMPONENT

The tax-free component usually comprises the portion of your benefit made up of non-concessional contributions (formerly undeducted contributions).

ADVANTAGES

If you can access a pension under transition to retirement rules, you may have greater flexibility in the way your financial affairs can be structured.

Whilst some tax may be payable on the pension taken, this structure often leads to significant tax savings on fund income and may provide opportunities to increase your contributions to super.

The key is to maximise use of available tax concessions. Often, accessing earlier produces a better result than you would think.

FURTHER INFORMATION

To find out how smsf+options can assit you, or for further information regarding Transition to Retirement Income Pensions, please contact your adviser below.

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