No matter how many hours you work, if you are over preservation age\(^1\), you can access your super as a transition to retirement (TTR) pension, even if you are still working full time. In some ways you get the best of both worlds.

A TTR pension could be used to help ease you into retirement or increase your super account without reducing your current income.

**What is a TTR pension?**

A TTR pension is a form of account based pension with additional restrictions on lump sum withdrawals. There is also a maximum yearly pension income limit of 10% of the account balance.

**How it works**

A TTR pension can provide regular income from your super without the need for you to fully retire. You can work full-time, part-time or casually while receiving this income.

If you are still working when a TTR pension is commenced, your super account must remain open so that your employer can continue to make contributions.

Generally lump sum withdrawals are not allowed until a condition of release is satisfied. Conditions of release include:

- reaching your preservation age (currently age 55 or over) and permanently retiring;
- terminating employment after you reach age 60; or
- simply reaching age 65.

Other features of TTR pensions are:

- the total amount of pension income you can receive is between 4% (minimum) and 10% (maximum) of the account balance per annum;
- you can decide how to invest the TTR pension account, however, you will also bear the investment risk such as market movements;
- you can nominate who will receive your account balance or pension upon your death;
- income and capital gains from the assets backing the pension will be exempt from tax.

**How is income from the TTR pension taxed?**

Income drawn from a TTR pension is taxed in the same way as an account based pension.

This is because the taxable income payments from a TTR pension attract a 15% offset between preservation age\(^1\) and 59 and your income payments are tax-free at age 60 or over\(^2\).

**TTR strategies**

There are two main TTR strategies to consider:

1. Grow your super without reducing your income
2. Top up your salary when moving into part-time employment.

---

\(^1\) Preservation age is 55 for those born before 1 July 1960 and will gradually increase to 60 depending on your date of birth (see FAQs).

\(^2\) Assumes the TTR pension is commences from a taxed super fund.
Strategy 1: Grow your super without reducing your income

If you’re preservation age\(^1\) or over and plan to keep working, you may want to sacrifice some of your pre-tax salary into a super fund and use a TTR pension to replace your reduced salary.

What are the benefits?

By using this strategy, you could:

- take advantage of a tax-effective income stream investment while you’re still working, and
- build a bigger retirement nest egg without reducing your current income.

How does the strategy work?

This strategy involves:

- arranging with your employer to sacrifice part of your pre-tax salary directly into a super fund
- investing some of your existing preserved or restricted non-preserved super in a TTR pension, and
- using the regular payments from the TTR to replace the income you sacrifice into super.

By taking these steps, it’s possible to accumulate more money for your retirement, due to a range of potential benefits. For example:

- salary sacrifice super contributions are generally taxed at up to 15\(^%\)\(^2\), rather than at marginal rates of up to 49\(^%\)\(^3\)
- earnings in a TTR are tax-free, whereas earnings in a super fund are generally taxed at a maximum rate of 15\(^%\), and
- the taxable income payments from the TTR pension will attract a 15\(^%\) pension offset between preservation age\(^1\) and 59. Also, when you reach age 60, the TTR pension income payments are completely tax-free\(^4\) and you don’t have to include these amounts in your annual tax return (which could reduce the tax payable on your non-super investments).

While the magnitude of the tax savings will depend on your particular circumstances, combining salary sacrifice with a TTR could be a powerful pre-retirement strategy\(^5\).

To find out whether you could benefit from this strategy, please speak to a financial adviser or registered tax agent.

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\(^1\) Preservation age is 55 for those born before 1 July 1960 and will gradually increase to 60 depending on your date of birth (see FAQs).

\(^2\) Your concessional contributions may attract an additional 15\(^%\) tax if you have an income and concessional super contributions of more than $300,000 in one year.

\(^3\) Includes Medicare Levy and Temporary Budget Repair Levy and assumes you have quoted your TFN to your fund.

\(^4\) Assumes the TTR is commenced from a taxed super fund.

\(^5\) Limits apply as to how much you can contribute to super (see FAQs).
Strategy 1: Grow your super without reducing your income

Case study
Craig, aged 56, earns a salary of $90,000 pa and, on top of this, his employer pays 9.5% Superannuation Guarantee (SG) contributions. He wants to ensure he’ll have enough money to retire comfortably in 10 years but, in the meantime, would like to maintain his after-tax income which is currently $66,953 pa.

To help him achieve his goals, Craig’s financial adviser recommends he:

• use his existing super balance of $300,000 to start a TTR pension
• elects to receive income from the TTR pension of $21,230 in the first year, and
• sacrifices $26,450 into his super fund, in the first year.

In year one
<table>
<thead>
<tr>
<th></th>
<th>Before strategy</th>
<th>After strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax salary</td>
<td>$90,000</td>
<td>$63,550</td>
</tr>
<tr>
<td>TTR income</td>
<td>Nil</td>
<td>$21,230</td>
</tr>
<tr>
<td>Total pre-tax income</td>
<td>$90,000</td>
<td>$84,780</td>
</tr>
<tr>
<td>Less tax payable</td>
<td>$23,047</td>
<td>$17,827</td>
</tr>
<tr>
<td>After-tax income</td>
<td>$68,953</td>
<td>$66,953</td>
</tr>
<tr>
<td>SG contributions</td>
<td>$8,550</td>
<td>$8,550</td>
</tr>
<tr>
<td>Salary sacrifice contributions</td>
<td>Nil</td>
<td>$26,450</td>
</tr>
</tbody>
</table>

Below we show the value this strategy could add over various time periods. For example, if Craig uses this strategy for the next 10 years, he could increase his retirement savings by a further $74,645 without compromising his current living standards.

Tips and traps

• When using this strategy, you need to consider the following:
  - To replace salary sacrifice contributions, you need to invest a sufficient amount of super in a TTR pension.
  - A minimum and maximum income limit apply to a TTR pension (see FAQs) and lump sum withdrawals can only be made in certain circumstances.
  - If your SG contributions are based on your reduced salary, this strategy could erode your wealth.

• There may be an advantage in splitting some of your salary sacrifice or other taxable super contributions with your spouse (see your financial adviser for more information).

• You will pay tax on the taxable component of your TTR pension payments at your marginal rates less a 15% pension tax offset between preservation age and 59 (see FAQs).

Assumptions: Craig’s super balance of $300,000 consists entirely of the taxable component. Craig has private patient hospital cover and does not pay the Medicare Levy Surcharge. He continues to receive 9.5% SG contributions based on his package of $90,000 pa, even after he makes salary sacrifice super contributions. Craig’s financial adviser monitors and reduces Craig’s salary sacrifice each year as required to remain within his concessional contribution cap. He commenced the strategy on 1 July 2015. Both the super and TTR pension investment earn a total pre-tax return of 7.74% (split income of 3.68%, growth of 4.06% and franking of 28.55%). Salary is indexed at 3%. From age 60, Craig’s adviser also recommends he commute and repurchase the TTR pension each year, invest any surplus income in super as a non-concessional contribution and draw the maximum income. All values are after CGT (including discounting). The value added by the strategy is represented in future dollars.
Strategy 2: Top up your salary when moving into part-time employment

If you’re preservation age\(^1\) or over and plan to scale back your working hours, you may want to invest some of your super in a TTR pension.

**What are the benefits?**

By using this strategy, you could:

- receive a tax-effective income to replace your reduced salary, and
- pay less tax on investment earnings.

**How does the strategy work?**

To use this strategy, you need to invest some of your preserved or restricted non-preserved super in a TTR pension.

The key benefit of doing this is you can receive an income from the TTR to replace the salary you’ll forgo when reducing your working hours.

However, you should also keep in mind that you’re likely to pay less tax on the income you receive from the TTR than you do on your salary or wages.

This is because the taxable income payments from a TTR attract a 15% tax offset between preservation age and 59 and your income payments are tax-free at age 60 or over\(^2\).

As a result, you’ll generally need to draw less income from the TTR to replace your reduced salary.

Another key benefit is that no tax is payable on investment earnings in a TTR, whereas earnings in super are generally taxed at a maximum rate of 15%.

So getting super money into a TTR can also enable you to reduce the tax payable on investment earnings going forward.

There are, however, a range of issues you’ll need to consider before starting a TTR. For example:

- you’ll need to draw a minimum income each year
- you can’t draw more than 10% of the account balance each year, and
- you can only take a cash lump sum (or purchase a different type of income stream) once you permanently retire, reach age 65 or meet another condition of release.

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1 Preservation age is 55 for those born before 1 July 1960 and will gradually increase to 60 depending on your date of birth (see FAQs).

2 Assumes the TTR is commenced from taxed super fund.
Strategy 2: Top up your salary when moving into part-time employment

Case study

Mark, aged 58, works full-time, earns a salary of $80,000 pa (or $60,853 after tax) and has $400,000 in super. He wants to cut back to a three-day working week so he can spend more time with his grandchildren and play more golf.

While Mark’s salary will reduce to $48,000 pa, he doesn’t want to compromise his living standard. To help him achieve his goals, his financial adviser suggests he invest his entire super benefit in a TTR pension and draw an income of $26,038 over the next 12 months.

By using this strategy, he’ll be able to replace his pay cut of $32,000 and continue to receive an after-tax income of $60,853 pa.

Note: The main reason he only needs to receive $26,038 pa from his TTR pension to cover his pay cut of $32,000 is because, unlike his salary, the TTR pension income attracts a 15% tax offset.

<table>
<thead>
<tr>
<th>In year one</th>
<th>Before strategy</th>
<th>After strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax salary</td>
<td>$80,000</td>
<td>$48,000</td>
</tr>
<tr>
<td>TTR pension income</td>
<td>Nil</td>
<td>$26,038</td>
</tr>
<tr>
<td>Total pre-tax income</td>
<td>$80,000</td>
<td>$74,038</td>
</tr>
<tr>
<td>Less tax payable1</td>
<td>($19,147)</td>
<td>($13,185)</td>
</tr>
<tr>
<td>After-tax income</td>
<td>$60,853</td>
<td>$60,853</td>
</tr>
</tbody>
</table>

Mark could achieve his after-tax income goal if he invests as little as $260,380 in the TTR pension and draws the maximum income of $26,038. However, by investing his entire super balance of $400,000 in the TTR pension, he’ll benefit more from the fact that no tax is payable on earnings in the pension. He’ll also have the flexibility to increase his income payments if he wants to cut back his working hours even more in the future.

Tips and traps

- Many people on reduced hours will continue to receive Superannuation Guarantee contributions. It’s therefore important to check whether your super fund has any minimum account balance requirements before starting a TTR.
- If you have other financial resources (and you plan to reduce your working hours), you may be better off keeping your benefits in super and using this other money to replace your reduced salary.
- If you have met a condition of release and you don’t have other financial resources to draw on, you should consider investing your super in an account based pension, rather than a TTR. This is because an account based pension is not subject to the maximum income and withdrawal restrictions associated with a TTR.
- A TTR could also be used to maintain your living standard when making salary sacrifice super contributions (see Strategy 1).

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3 Mark’s super benefit consists entirely of the taxable component.
4 In two years time, when Mark reaches age 60, he’ll pay no tax on the TTR pension income payments. He’ll therefore only need to draw an income of $12,853 from his TTR pension to maintain his after-tax income.
5 The tax payable takes into account the 15% pension tax offset available to account based pensions (see FAQs).
Frequently asked questions

Who can contribute to super?

Subject to the fund rules, the following types of superannuation contributions can be made by you or on your behalf:

<table>
<thead>
<tr>
<th>Contribution type</th>
<th>Age</th>
<th>Mandatory employer</th>
<th>Voluntary employer (including salary sacrifice)</th>
<th>Personal</th>
<th>Spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt; 65</td>
<td>Yes</td>
<td>Yes, so long as you’ve worked at least 40 hours over a consecutive 30 day period during the financial year</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>65–69</td>
<td>Yes</td>
<td>Yes, so long as you’ve worked at least 40 hours over a consecutive 30 day period during the financial year</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>70–74</td>
<td>Yes</td>
<td>[blank]</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>75 +</td>
<td>Yes</td>
<td>[blank]</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

An existing super benefit can be rolled over at any time. You will also need to satisfy these conditions if you want to roll over an employment termination payment (if eligible) or invest the proceeds from the sale of a business in super.

How much can you contribute to super?

Assuming you’re eligible to make contributions, certain caps apply. These include the non-concessional contribution cap, the concessional contribution cap and the CGT cap. Each of these caps/limits is outlined below.

What are the preservation ages?

The age at which you can withdraw your super depends on when you were born. The table below shows the current preservation ages.

<table>
<thead>
<tr>
<th>Date of birth</th>
<th>Preservation age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1 July 1960</td>
<td>55</td>
</tr>
<tr>
<td>1 July 1960 – 30 June 1961</td>
<td>56</td>
</tr>
<tr>
<td>1 July 1961 – 30 June 1962</td>
<td>57</td>
</tr>
<tr>
<td>1 July 1962 – 30 June 1963</td>
<td>58</td>
</tr>
<tr>
<td>1 July 1963 – 30 June 1964</td>
<td>59</td>
</tr>
<tr>
<td>1 July 1964 or after</td>
<td>60</td>
</tr>
</tbody>
</table>

What is the non-concessional contribution (NCC) cap?

The NCC cap is a cap that applies to certain super contributions that include, but are not limited to: personal after-tax contributions made and spouse contributions received.

The cap is currently $180,000\(^1\) pa. However, if you’re under age 65, it’s possible to contribute up to $540,000\(^2\), provided your total non-concessional contributions in that financial year, and the following two financial years, don’t exceed $540,000\(^2\).

Since 1 July 2013 if the cap is exceeded you can elect to have excess NCCs plus 85% of associated earnings (this amount is determined by the ATO using a formula) refunded. The full amount of associated earnings is added to your assessable income and taxed at marginal tax rates with a 15% tax offset. If no election is made to have the excess amount refunded, the excess contributions are, in most cases, taxed at 49% (which includes the Temporary Budget Repair levy of 2%).

What is the concessional contribution (CC) cap?

The CC cap is a cap that applies to certain super contributions that include, but are not limited to:

- all contributions from an employer (including salary sacrifice), and
- personal contributions claimed as a tax deduction (where eligible).

In 2015/16 the concessional contribution cap is:

<table>
<thead>
<tr>
<th>Age on 30 June 2015</th>
<th>Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>48 or under</td>
<td>$30,000(^3)</td>
</tr>
<tr>
<td>49 or over</td>
<td>$35,000(^3)</td>
</tr>
</tbody>
</table>

From 1 July 2013, excess concessional contributions are treated as assessable income and taxed at your marginal tax rate. An excess CC charge (interest) also applies.

You have the choice to have up to 85% of the excess concessional contribution amount refunded. If you have the excess CCs refunded, it no longer counts against your cap. If you retain the excess CCs in your super fund, the excess amount counts against the cap and also against the NCC cap.

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1 This figure applies in 2015/16.
2 The $30,000 cap may be indexed in future years.
3 This cap is unindexed.
Where to from here?
Thinking about your next steps you may want to consider:
If you are planning to cut down your working hours or boost your super before retirement.
The effectiveness of these strategies will depend on your personal situation. To obtain more information:
- Contact us on 1300 55 7586 to obtain further information around TTR pensions.
- Seek Advice. We can also put you in touch with a qualified financial adviser who can work with you to determine how you could structure your TTR strategy and if it is appropriate for you.

Seek advice
These strategies may help you either boost your super or supplement your income in a tax-effective manner, but implementing the most effective approach may prove difficult and potentially costly without the right advice.
To help you make sure your transition to retirement is a successful one, it’s important to seek professional advice. A financial adviser can help you understand your options and recommend the best approach for you to consider.

Did you know...
As a member you can call us for help about your super. We can provide you with free phone based advice on a range of super strategies. If you need more in-depth help, you can access personal face-to-face advice via a Momentum financial adviser. To access any of these services, just call us on 1800 602 977, from 8:30am to 6pm AEST Monday to Friday.

Contact us
If you would like further information, visit the Member section of our website plum.com.au
Call us on 1300 55 7586 from 8am to 7pm AEST (8pm daylight savings time) Monday to Friday.

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