

This fact sheet provides an overview of the key features and benefits of the transition to retirement strategy. Case study examples have been included to help you understand how a transition to retirement strategy could work for you.

Due to Federal Government changes to super from 1 July 2017, investment earnings from money in transition to retirement accounts are not tax exempt. For more information, visit gesb.wa.gov.au/budget2016.

What is a transition to retirement strategy?

Transition to retirement is a strategy that allows you to access your super as an income stream while you're still working. You might choose to reduce your work hours because the income you receive from your super benefits could help to make up for any loss of salary.

To be eligible for transition to retirement from your GESB Super account, you must have reached your Commonwealth preservation age¹.

Your super benefit must be used to start a regular pension which does not allow lump-sum cash withdrawals. This is known as a non-commutable income stream.

Our Retirement Income Pension can be set up as a non-commutable income stream and is a great option for commencing a transition to retirement strategy.

Features of a transition to retirement strategy

With transition to retirement you can:

- Access your super once you reach your Commonwealth preservation age¹
- Start a transition to retirement with part or all of your GESB Super benefit and start a non-commutable income stream with our Retirement Income Pension
- Choose to receive between the minimum 4% and a maximum of 10% of your pension account balance each financial year, as at the start of the financial year
- Change the amount of pension you receive each year, subject to minimum and maximum limits set by the Commonwealth Government
- Continue to work and have your contributions paid into your GESB Super account
- Change your super account structure if your personal circumstances change

The benefits of transition to retirement

There are a number of ways you can use transition to retirement to benefit you:

- **Increase your super** – you'll continue to work and can sacrifice some of your salary to super
- **Reduce your hours** – you can work less without reducing your overall income, as your pension can make up for your lower salary
- **Increase your income** – you'll be receiving an income stream from a pension as well as your normal salary

You can use a combination of these options to suit your needs and you have the flexibility to change your strategy as your circumstances change.

This is a complex area and we recommend that you see a financial adviser, accountant or tax adviser to help you decide if Transition to Retirement is right for you.

Meet John

John is 60. He has an annual salary of \$72,000, and has a GESB Super benefit of \$346,600. John decides to transfer all but \$1,000 of his GESB Super benefit to our Retirement Income Pension, and open a Transition to Retirement Pension, a non-commutable income stream.

No tax will apply on the transfer because GESB Super is a taxed scheme.

See the case studies overleaf to see the different ways John can implement his transition to retirement strategy.

¹ Your Commonwealth preservation age is dependent on your date of birth. For more information on your preservation age, read the 'Accessing your super' brochure available at gesb.wa.gov.au/brochures.

Scenario 1 John could increase his income

In this scenario, John doesn't change his employment arrangements and continues to work full-time. He decides to transfer all but \$1,000 of his GESB Super benefit into a Transition to Retirement Pension (\$345,600) and receive the maximum annual income.

	Full-time without Transition to Retirement Pension income	Full-time with Transition to Retirement Pension income
Employer salary	\$72,000	\$72,000
Salary sacrifice	-	-
Employer salary after salary sacrifice	\$72,000	\$72,000
Transition to Retirement Pension income	-	\$34,560 ²
Taxable income	\$72,000	\$72,000
Tax (including Medicare Levy ³)	\$15,857 ⁴	\$15,857 ⁴
Net income	\$56,143	\$90,703

On his transfer of \$345,600, the maximum Transition to Retirement Pension annual income payment John can receive is 10%. In the first year John will receive \$34,560. As John is aged 60, the income stream he receives from his Transition to Retirement Pension is tax free.

By not changing his employment arrangements, John has increased his net annual income by \$34,560 in the first year. Although John's super balance is reduced by 10%, contributions can continue to be paid into his GESB Super account which will start building his super again.

Scenario 2 John could increase his super

John decides to transfer all but \$1,000 of his GESB Super benefit into a Transition to Retirement Pension (\$345,600) and selects an annual income payment of 5%.

John also arranges with his employer to salary sacrifice contributions, so that his employer's SG contributions and his salary sacrifice contributions, equal his concessional contributions cap. Selecting a pension payment of 5% ensures John takes home a net income which is at least as high as his previous net income, while salary sacrificing up to his concessional contributions cap maximizes his retirement benefit. As John is aged 60, the income stream he receives from his Transition to Retirement Pension is tax free.

	Full-time without Transition to Retirement Pension income	Full-time with Transition to Retirement Pension income
Employer salary	\$72,000	\$72,000
Salary sacrifice	-	\$18,160 ⁵
Employer salary after salary sacrifice	\$72,000	\$53,840
Transition to Retirement Pension income	-	\$17,280 ²
Taxable income	\$72,000	\$53,840
Tax (including Medicare Levy ³)	\$15,857 ⁴	\$9,399 ⁶
Net income	\$56,143	\$61,721 ⁷

² As John is aged 60, his income from an allocated pension is tax free.

³ The figures are for the 2018/19 financial year (including the 2% Medicare Levy).

⁴ Includes the low and middle income tax offset of \$530.

⁵ Salary packaged into GESB Super. GESB Super is a taxed scheme and concessional contributions are generally taxed at 15%.

⁶ Includes the low income tax offset of \$192 and low and middle income tax offset of \$530 (total tax offset: \$722).

⁷ Calculated as Taxable income less tax (i.e. \$53,840 - \$9,399 = \$44,441), plus Transition to Retirement Pension income (\$17,280).

John continues to work full-time. The concessional contributions cap that applies in 2018/19 is \$25,000⁸. He can salary sacrifice \$18,160 into his GESB Super account, reducing his taxable income to \$53,840.

John's concessional contributions into super are \$25,000 which includes salary sacrifice of \$18,160 and 9.5% Superannuation Guarantee (SG) of \$6,840⁹. If John exceeds his cap then he may have to pay additional tax (see important considerations section).

By not changing his employment arrangements and salary sacrificing to his GESB Super account, he has contributed an additional \$18,160 into his GESB Super account while reducing his pension account by \$17,280.

Please note there is a contributions tax for very high income earners (see the 'Important considerations section for more information).

For more information on salary sacrifice, read the '**Salary sacrifice, GESB Super**' fact sheet available at gesb.wa.gov.au/factsheets.

Scenario 3 John could reduce his working hours

John decides to work part-time and to transfer all but \$1,000 of his GESB Super benefit into a Transition to Retirement Pension and receive the maximum amount (10%) from his pension. This option allows John to reduce his working hours by half but still increase his net annual income.

	Full-time without Transition to Retirement Pension income	Part-time with Transition to Retirement Pension income
Employer salary	\$72,000	\$36,000
Salary sacrifice	-	-
Employer salary after salary sacrifice	\$72,000	\$36,000
Transition to Retirement Pension income	-	\$3,560 ¹⁰
Taxable income	\$72,000	\$36,000
Tax (including Medicare Levy ¹¹)	\$15,857 ¹²	\$3,457 ¹³
Net income	\$56,143	\$67,103

The maximum annual income payment allowed is 10%. Therefore, for the first year John will receive \$34,560. As John is 60 years old, the income stream he receives from his Transition to Retirement Pension is tax free.

By reducing his working hours by half and receiving \$34,560 from his Transition to Retirement Pension (which is not assessable income for tax purposes as he is aged 60), John has increased his net income by \$10,960 for the first year.

However, his pension account balance will be decreasing by 10% due to the income payments. In this scenario, he has not increased his contribution levels to his super account by salary sacrificing. However, John's employer can still continue to contribute to his GESB Super account, which will start building his super again. The total amount of his SG contributions will be less due to the reduced salary.

⁸ The general concessional contributions cap is \$25,000 for the 2018/19 financial year, indexed annually in line with Average Weekly Ordinary Time Earnings in increments of \$2,500 rounded down.

⁹ Note: this assumes the salary sacrifice does not affect the amount John's employer contributes into his super. The current SG rate is 9.5%. If this rate increases in the future, John may need to reduce his salary sacrifice to avoid exceeding his concessional contributions cap.

¹⁰ As John is aged 60, his income from an allocated pension is tax free.

¹¹ The figures are for the 2018/19 financial year (including the 2% Medicare Levy).

¹² Includes the low and middle income tax offset of \$530.

¹³ Includes the low income tax offset of \$445 and low and middle income tax offset of \$200 (total tax offset: \$645).

Important considerations

There are a number of factors that you should consider before making any decision to use a transition to retirement strategy. Some parts of transition to retirement are complex to understand, so we recommend that you see a financial adviser, accountant or tax adviser to help you decide if transition to retirement – including any of the scenarios included in this fact sheet – are right for you.

You should consider:

- Due to Federal Government changes to super from 1 July 2017, investment earnings from money in transition to retirement accounts are not tax exempt. For more information, visit gesb.wa.gov.au/budget2016
- Fees apply for a Transition to Retirement Pension. For more information, read the '**Retirement Income Pension Product Information Booklet**' available at gesb.wa.gov.au/brochures
- You can start a transition to retirement with part or all of your GESB Super benefit. If you have more than one super account, it may be in your interest to contact us to find out what your options are
- Tax of up to 15% applies to investment earnings from a transition to retirement account
- The \$1.6 million transfer balance cap doesn't apply to transition to retirement income streams
- The tax treatment of your transition to retirement income depends on your age. If you're aged between the Commonwealth preservation age¹⁴ and 59, the taxable component of your transition to retirement income will be included in your assessable income. It will be taxed at your marginal tax rate and you'll receive a non-refundable tax offset of 15% on the taxable component
- When comparing options, you need to consider the impact on your retirement benefit. Using your benefit to pay a regular income stream may reduce the amount you have when you retire
- The general concessional contributions cap is \$25,000 for the 2018/19 financial year¹⁵
- If you exceed your cap, excess concessional contributions are included in your assessable income and taxed at your marginal tax rate. You will be entitled to a non-refundable tax offset of the 15% contributions tax paid by GESB Super. The extra tax charged to you will also be subject to an interest charge. You can choose to have up to 85% of your excess concessional contributions refunded from super. For more information, read the '**Tax and super**' brochure available at gesb.wa.gov.au/brochures
- The concessional tax treatment of certain super contributions has been reduced for very high income earners, under Division 293 of the tax legislation. An individual's income is added to certain super contributions (referred to as low-tax contributions) and compared to the high income threshold of \$250,000. Tax is payable on any excess low-tax contributions if the combined income and low-tax contributions exceed the \$250,000 threshold. There are special rules for defined benefit interests, constitutionally protected state higher level office holders, certain Commonwealth justices and temporary residents who depart Australia. For more information, read the '**Tax and super**' brochure available at gesb.wa.gov.au/brochures.

Next steps

Here are some steps to get you started.

- Step 1** Attend a transition to retirement seminar to learn more about how to use and set up a transition to retirement strategy. Visit gesb.wa.gov.au/seminars to register.
- Step 2** Consider a Retirement Options Service (ROS) appointment. ROS is a 45-minute, face-to-face meeting with one of our experienced consultants, who know and understand our unique schemes. They will provide you with information about your specific situation, answer any questions you may have and explain the options you have for your retirement. However, ROS does not provide holistic financial planning advice, in that it is limited to advice on GESB products. A fee applies for this service. For more information, visit gesb.wa.gov.au/ros or call 13 43 72 to request an appointment.
- Step 3** Discuss your transition to retirement options with your employer, especially if you are considering changing your working arrangements.
- Step 4** For more information or a benefit estimate, contact your Member Services Centre on 13 43 72.
- Step 5** Read the '**Retirement Income Pension Product Information Booklet**' available at gesb.wa.gov.au/brochures and complete the application form. Return the form to us along with all other required information.

¹⁴ Your Commonwealth preservation age is dependent on your date of birth. For more information on your preservation age, read the 'Accessing your super' brochure available at gesb.wa.gov.au/brochures.

¹⁵ Indexed annually in line with Average Weekly Ordinary Time Earnings in increments of \$2,500, rounded down.

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