

Making a smooth transition

From 1 July 2005, the Government introduced an initiative, allowing people aged 55 and over to tap into their super by taking a pension and still keep working at the same time.

Called the 'Transition to Retirement' initiative, the intention is to make it easier for older Australians – including those who are self-employed – who wish to reduce their working week as they transition into retirement. There will be no work test imposed, nor will there be a cap on the level of benefits a person can access.

Individuals choosing this option must take their benefit in the form of a non-commutable income stream, meaning it generally cannot be commuted to cash.

(Until now, this has been a strategy for the self-employed, or small business owners who could decide they didn't like retirement after a few months, and easily return to the same income earning activity – but difficult for employees who could not be sure of their position being available.)

The Mechanics of Transition to Retirement

Transition to Retirement is quite a simple concept. Any person who has reached preservation age (currently 55) but does not meet the *Superannuation Industry (Supervision) Regulations 2004* definition of retirement, can fully or partially roll over their superannuation benefits into a "non-commutable income stream". This has been regulated in terms of a limited condition of release.

Importantly, pre-retirement pensions can receive the normal pension concessions including:

- deductible amount
- up to 15% tax rebate
- 0% super fund tax on investment earnings
- Completely tax free after age 60

This "non-commutable" requirement means exactly that – no cash payments in addition to the pension or annuity instalments, subject to certain exceptions, until a full condition of release is met – eventual retirement, or permanent incapacity, for example.

The limited access to cash commutations occurs where part of a person's benefits is unrestricted non-preserved – this is available for part commutations from an account based pension.

Another exception to non-commutation, and the real beauty of the policy, is that a person is able to commute back into the accumulation phase of superannuation. One key advantage here is that it allows a person to respond to any legislative changes that may make the income stream, or any strategies associated with the income stream, detrimental.

However, where an annuity or non-account based pension is commenced, a person will generally not be able to commute back to accumulation phase, after six months from commencement of the complying pension due to the "complying" requirements.

To find out more information, please contact our Financial Planning staff.

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