Transition to Retirement Income Streams

Fact sheet

The information in this Fact sheet is directed at members who have reached their preservation age and want to know more about their superannuation options, including the ability to access some of their super while continuing to work. This Fact sheet has been prepared to help you understand how Transition to Retirement Income Streams work, some of the potential benefits and what conditions you must meet to qualify.

What is a Transition to Retirement (TTR) Income Stream?

Transition to Retirement Income Streams are designed to assist workers in transitioning to retirement and allowing them to access their super while continuing to work. It can open up a whole range of opportunities to restructure your working hours and your superannuation as you approach retirement.

TTR Income Streams allow you to access some of your superannuation monies while you continue to work. You receive regular payments (income) from your super, which allows you to reduce your working hours, or salary sacrifice more of your salary into super, without having to forfeit your income.

A TTR Income Stream is an account based income stream, with minimum and maximum payment limits. The income stream is set up by transferring a sum from a superannuation account into an income stream account. Regular payments are made from this account to give you an income. The amount you receive, the frequency of the payments (monthly, quarterly, etc), and duration for which you receive payments, depend on the amount that you use to open the account.

There are no work test requirements associated with a TTR Income Stream.

Depending on your circumstances, a TTR Income Stream can be used to provide you with a tax effective income from your super if you:

→ Have reached your preservation age (preservation age is currently age 55 but your preservation age may be 56 or more if you were born on or after 1 July 1960), and

→ Do not yet have full access to your super (you can check how much of your super you have access to, known as your 'Unrestricted Non-Preserved' or 'Cashable' benefits, by contacting us or checking your *Annual Statement*).

While a TTR Income Stream enables you to receive an income from your super, it doesn't enable you to make a lump sum withdrawal unless you have 'Unrestricted Non-Preserved' funds or have met a condition of release such as having ceased work after age 60 or permanently retired after age 55.

How does it work?

ESI Super offers a TTR Income Stream, which you can start by transferring some of your money from your ESI Super Defined Contribution (DC) account, or the accumulation portion of your Defined Benefit (DB) account, to an ESI Super Income Stream account.

The main differences between having an income stream account started as a Transition to Retirement Income Stream and establishing an income stream after you retire are:

1) You can only make lump sum withdrawals in limited circumstances (see the *ESI Super Income Stream PDS* for more information), and

2) There is a restriction on the maximum income you can receive each year.

The minimum amount you need to commence an ESI Super Income Stream is $30,000. Once you have transferred money into your income stream account, regular payments will start.

You are required to receive a minimum amount from your TTR Income Stream each year and this is a set percentage of your income stream account balance. The minimum increases based on age (for example, the minimum payment if you are aged between 55 and 64 is 4% per annum and increases to 5% if you are between 65-74 years old. You are able to choose the amount you receive, provided it is between the minimum and maximum requirements).

The Government has put in place arrangements to halve the minimum amount for the 2009-2010 financial year, so if your required minimum was 4%, it is 2% for this financial year only.

While the maximum yearly pension payment is limited to 10% of your TTR Income Stream account balance, the maximum rule stops once you retire permanently or reach age 65 years.

The minimum and maximum amounts are re-set on 1 July each year based on your TTR Income Stream account balance at that time.

Unlike your super account, an income stream account cannot be added to. Consequently, any super contributions made by you or on your behalf or rollovers from other funds must be made to a super account. This means that if you wish to take advantage of the TTR rules and have not yet retired it is more than likely you will need to keep your super account open and transfer a sufficient amount to provide you with a TTR Income Stream. You should leave a minimum balance of $1,000 in your super account to pay for insurance cover if you are still eligible for the Death and Total and Permanent Disablement insurance cover currently available to you through your ESI Super account.

What if I am a Defined Benefit (DB) member?

You cannot access the DB component of your DB account to start your income stream. Only the accumulation portion of your account (i.e. voluntary contributions and/or rollovers) can be used.

Alternatively, depending on your circumstances and subject to agreement with your employer, you can transfer your total DB account to a DC account and use $30,000 or more of this money to commence an ESI Super TTR Income Stream.

However, transferring from your DB account to a DC account may have an impact on the value of your superannuation benefits and your insurance coverage.

If you switch out of your DB account you cannot transfer your money back at a later date.

It is recommended that you seek advice from a licensed financial adviser before you make any decision in this regard.

As there are particular forms that need to be signed by you and your employer to undertake the transfer process from Defined Benefit to Defined Contribution, please contact ESI Super for further information.

Please note: *It is important that you notify your employer when you wish to transfer to the DC section of the Fund. This is essential as your employer needs to complete the relevant paperwork to terminate your DB account and change payroll systems to pay the appropriate contributions to your new DC super account. Depending on your pay frequency, this may have an effect on when your TTR Income Stream commences.*

What are some of the potential benefits of a TTR Income Stream?

Increase or supplement your income

You can use TTR Income Stream payments to provide extra income if your work income is not enough to meet your living expenses. If you have decided to reduce your working hours in preparation for retirement, TTR Income Stream payments can help cover the gap between your new work income and your required income.

Taxation savings

Income streams are generally taxed more favourably than your salary. While your salary is taxed at your personal marginal tax rates, income streams are completely tax free if you are aged 60 or more. If you are aged 55 – 59 income stream payments receive the following tax advantages:

- The ‘taxable’ portion of your income stream payments are subject to tax at marginal tax rates but also receive a tax offset of 15%.
- The ‘tax free’ portion of your income stream payments are not subject to tax and are not included in your tax return.

If you reduce your taxable salary by salary sacrificing more into super, and replace the lost income with payments from an income stream, you may have more tax savings.

Possible increase in your retirement savings

Receiving concessionally taxed income from your super may mean you can afford to make greater contributions to your super account (e.g. by way of salary sacrifice). Depending on your personal situation, combining salary sacrifice super contributions with a TTR Income Stream can be a tax effective retirement savings strategy.

While your salary is taxed at your personal marginal tax rate, salary sacrifice super contributions are only taxed at 15%, which can result in an increase in your retirement savings from increasing your super contributions as well as paying less tax. You need to monitor the level of your employer and salary sacrifice contributions to ensure you do not exceed the annual concessional contribution cap of $25,000 (or, until 2012, $50,000 if you are aged 50 or over). If you exceed this cap excess contributions tax may be payable. Please refer to our *Salary sacrifice* Fact sheet (available on our website – **esisuper.com.au**) for further information.

Save tax on your investment earnings

Investment earnings in your accumulation super account are concessionally taxed up to 15% but there is no tax on investment earnings in an income stream account. This means it is possible to get a higher after tax investment return on your TTR Income Stream in comparison to your super account, further boosting your retirement income.

Possible Centrelink/DVA entitlements

Income streams are usually treated more favourably than your salary for the Centrelink and Department of Veterans Affairs (DVA) income tests. This is because a portion of your income stream payments is considered to be a return of your capital and is not counted as income. For some people this may mean increased Centrelink/DVA benefits.

What are the potential pitfalls of a TTR Income Stream?

A TTR Income Stream may not suit your needs

By law, the payment amount you choose must be between the maximum and minimum amounts set by the Australian Government. This may mean, depending on your circumstances, that the amount available to you via a TTR Income Stream might not suit your needs.

Possible reduction in the amount of super you can access

The rules for the payment of income streams are that they are deducted from your benefits in the following order: 'Unrestricted Non-Preserved', 'Restricted Non-Preserved' then 'Preserved'. This may impact on the availability to take a lump sum until you meet another condition of release such as retirement.

There may be complex tax and cash flow issues involved.

You will need to monitor your cash flow in order to ensure you are achieving your income needs. The calculations involved in achieving this can be very complex.

Possible reduction in your retirement savings

Ongoing employer contributions may not be sufficient to cover the amount you are drawing down as an income stream, which may cause your benefit when you permanently retire to be lower than it would have been had you not undertaken a TTR Income Stream.

Possible decrease in Centrelink/DVA entitlements

If you are below Age Pension age (visit **centrelink.gov.au** to find out whether you are eligible for the Age Pension), your super will not be counted under the Assets Test or Income Test for Centrelink purposes. However, if you commence an income stream before you reach pension age, the income stream balance will be counted as an asset, and part of the income you receive may also be counted. Once you reach Age Pension age, all your super and income stream balances will be counted as part of your assets as well as part of the income you receive (or are deemed to receive), and this may impact on any Centrelink or DVA entitlements you receive. For example, if your partner receives an Age Pension, moving your super into an income stream will increase the amount of assets counted for the assets test and could possibly reduce their age pension. Some exceptions may apply if your super is in the Defined Benefit category.

Please note: *Careful calculation of all of the relevant factors may help you determine if a TTR Income Stream is right for you. It is recommended that you seek advice from an licensed financial adviser before commencing a TTR Income Stream.*

What happens if I want to stop my ESI Super Income Stream?

You can stop your income stream at any time and transfer back into a super account but you will not be able to cash it out as a lump sum until you have met a condition of release such as having permanently retired or ceased work after turning age 60. If you do meet a condition of release, you should advise us in writing as soon as possible so that we can update our records accordingly.

How long will it last?

A TTR Income Stream is not a lifetime pension – there is the possibility that you may outlive your account balance. Some of the factors that may affect the balance of your account, and how long it lasts are:

- The performance of your chosen investment option, or
- The amount you choose to take out in your nominated payments, or
- Any fees, charges or taxes deducted from your account.

Is a TTR Income Stream right for me?

Before deciding to transition to retirement with ESI Super, you must read the *ESI Super Income Stream Product Disclosure Statement*. We recommend you seek professional advice from a licensed financial adviser before deciding to commence a TTR Income Stream.

ESI Super offers a subsidised financial advice service to members through ESI Financial Services Pty Ltd. Please call for more information.

How to contact ESI Super

You can contact ESI Super by:

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