Transition to Retirement Pensions and Carry-Forward Concessional Contributions

Entrust

For individuals planning to scale back on working hours in the lead up to retirement, beginning a transition to retirement pension can assist in supplementing reduced income. Due to changes implemented in 2017 to reduce the tax benefits of a transition to retirement pension, this strategy has received less attention in recent years. However, when combined with the since introduced 'carry-forward' concessional cap rules, individuals may be able to provide an overall boost to their super balances before retirement.

Specifically, a transition to retirement strategy can be used to make additional tax-deductible contributions to superannuation in the lead up to retirement. This strategy involves a couple of important features as outlined below.

Transition to Retirement (TTR) Pensions

The implementation of a TTR pension allows superannuation members who have reached their preservation age (but not retired) to begin drawing an income from super. This allows members to replace the income lost when reducing working hours i.e. 'transitioning to retirement'. Members are likely to pay less tax on the income received from the TTR pension when compared to ordinary salary or business income. Specifically, post age 60 withdrawals from super are tax-free. TTR pensions are restricted to annual withdrawals of 10% of the account balance.

TTR pensions receive the same tax treatment on earnings as the accumulation phase (i.e. maximum rate of 15%). Once a person meets a full condition of release (e.g. retirement or age 65) the tax rate on earnings can drop to zero (subject to lifetime limits on ordinary account-based pensions).

Carry-Forward Concessional Contributions

Under the carry-forward concessional contribution rules, a member is able to carry forward and contribute any unused concessional contribution cap amounts that accrue from the previous five years (commencing from 1 July 2018). Utilising this provision is subject to their total superannuation balance (TSB) at the end of the previous financial year being below $500,000. Unused amounts are available for a maximum of five years and expire after this.

These rules provide members with an important opportunity to make additional contributions in later years, or earlier if they are able to afford it. An example is shown in the below table:

Financial Year	2018/19	2019/20	2020/21
Annual Concessional Contribution Cap	$25,000	$25,000	$25,000
Concessional contributions	$10,000	$7,000	$9,000
Unused cap space	$15,000	$18,000	$16,000
Cumulative cap space	$15,000	$33,000	$49,000

Reaching Preservation Age

Attaining preservation age can become a trigger to implement strategies over and above the receipt of regular employer superannuation guarantee contributions. For example, individuals attaining preservation age could utilise a salary sacrifice arrangement to begin to utilise their unused concessional cap over one or more financial years. The commencement of a TTR pension could replace lost income from the salary sacrifice arrangement. Post age 60, this is likely to provide an arbitrage tax benefit whilst also boosting savings within superannuation.

Laurence is aged 62 with $440,000 in superannuation. He earns $110,000 per annum and has an unused 'carry-forward' cap amount of $49,000 in the 2020/21 financial year. Laurence could implement a standard salary sacrifice TTR strategy where his total employer contributions (super guarantee plus salary sacrifice) equals $25,000.

Alternatively, he could salary sacrifice so that his total concessional contributions are $49,000, whilst operating a TTR pension with his superannuation balance to provide sufficient income to meet ongoing living expenses. Post year 1, Laurence would need to reduce the salary sacrifice arrangement to align with the standard concessional cap.

Conclusion

There are a number of issues to consider before implementing either one or both of the above strategies. Please feel free to contact your adviser if you require further information.