Transition To Retirement Strategies

The drawdown amount has been halved for the 2009/10 financial year on account-based pensions including non-commutable allocated pensions (NCAPs).

Halving the minimum drawdown requirement allows pre-retirees to continue taking advantage of transition to retirement strategies while at the same time keeping more funds in the tax-free pension environment.

The transition to retirement rules allow individuals who have reached their preservation age to access their superannuation in the form of a non-commutable income stream.

As there is no requirement for work hours to be reduced in order to start a NCAP, anyone in full-time employment or self-employment, including those living on investment income, can legitimately use the strategy.

Tax benefits

The tax benefits associated with using a NCAP strategy generally help individuals to increase their retirement savings and can include:

- assets supporting the pension are exempt from both income and capital gains tax, but would otherwise be taxed at up to 15 percent in accumulation phase within the super fund.
- taxable pension income is either eligible for a 15 percent tax offset (prior to age 60) or tax free (from age 60), whereas other employment or investment income outside super is taxable at marginal tax rates.

Various approaches can be used in NCAP strategies, and for those approaching age 55 it is worth looking at different combinations to see what might suit them.

For example, someone semi-retired, living on investment income but with a large superannuation balance, could benefit from commencing an income stream from their super fund, thus removing the earnings tax upon the superannuation balance. If desired, the income received can then be re-contributed to superannuation as a non-concessional (or after tax) contribution.

As assets in pension phase are not subject to CGT, this may allow the assets within the pension to be re-structured tax effectively.

Anyone aged under 65 can take a minimum pension payment of two percent for the 2009/10 financial year, and will not be required take another payment until the end of the 2010/11 financial year.

The maximum annual income for a NCAP is limited to 10 percent of the account balance. With couples, where both spouses are using a combined NCAP and salary sacrifice strategy, the lower income spouse could consider reducing salary sacrifice contributions.

This allows the higher income spouse to increase salary sacrifice contributions, which could lower their combined tax liability.