Fact Sheet

Australian Unity

What is a Transition to Retirement Income Stream (TRIS)

The Government's 'Transition to Retirement' rules are designed to provide Australians with flexibility as they move from full-time work into retirement, by allowing access to preserved superannuation money to top-up their income. Other strategic opportunities are discussed in this fact sheet.

The key to this rule is that pre-retirees who are currently age 57 or over may be able to gain access to some or all of their accumulated superannuation balances through a non-commutable income stream. This is known as a Transition to Retirement Income Steam (TRIS).

How does a TRIS work?

A TRIS is basically an account-based pension (ABP) which uses preserved superannuation savings to pay you a regular and tax-effective income. The TRIS pays you a regular income comprised of interest and capital until your account runs out.

The minimum income you choose from a TRIS must be at least equal to 4% of the account balance as at commencement and then on 1 July each year.

The differences between a TRIS and normal account-based pension are:

- Until you meet a retirement 'condition of release', you can only draw an income up to a maximum of 10% of the account balance from a TRIS[i].
- Earnings are taxed at a maximum of 15% within the TRIS but are tax-free in a retirement phase ABP[ii].
- A TRIS does not count towards your $1.6 million transfer balance cap whereas ABPs do.

Once you reach a full condition of release you can convert the TRIS into a normal account-based pension.

What are the tax advantages of a TRIS?

Lump sum tax is deferred when you transfer superannuation money to a TRIS. The income payments may be split between taxable and taxable components (depending on your superannuation components). The taxable component is taxed at your marginal tax rate, but with a 15% tax offset[ii].

Once you reach age 60, all withdrawals and income payments are tax-free[iii].

How can pre-retirees use the rule?

There are three main ways pre-retirees can benefit from a TRIS:

- If you want to wind down your career by moving to part-time employment a TRIS could enable you to top-up your income using your superannuation. The income payments from a TRIS can be used to replace your forgone salary – so your net income remains the same, even though you are working less.
- Use superannuation to reduce/eliminate debt prior to retirement If you want to accelerate debt repayments when you are approaching retirement, you can start a TRIS and use the income to make additional repayments to debt.
- If still working full-time, top-up your superannuation without forfeiting net income. Here's how it may work:

60-year-old Peter works full time. In addition to his salary of $100,000 his employer SG contributions are $9,500 per year. He can contribute an additional $15,500 to superannuation before tax and still be within his concessional contribution cap of $25,000[iv]. Peter asks his employer to salary sacrifice $15,500 per year. Contributions tax of 15% is deducted leaving him $13,175 to invest in his superannuation fund. With income tax savings, Peter's salary reduces by just $9,703, despite salary sacrificing $15,500.

Peter uses his superannuation to start a TRIS with $400,000. He draws the minimum of $16,000 from his TRIS to replace the reduced salary. But as this is more than he needs, he contributes $6,297 back into superannuation as a non-concessional contribution. Overall, his personal contributions into superannuation exceed the drawings by $3,472.

Earns $100,000	No salary sacrifice	After tax salary **$73,503**	No TRIS	Total income **$73,503**	
Earns $100,000	Salary sacrifice **$15,500** less 15% contributions tax = **$13,175**	After tax salary **$63,800**	**$16,000** drawing from TRIS but contribute **$6,297** back into super	Total income **$73,503**	
Peter's Outcomes	Additional investment into superannuation **$13,175**	Salary reduction **$9,703**	Net drawdown from superannuation **$9,703**	Income reduction **$0**	Extra amount invested into superannuation **$3,472**

Note: the above example is based on the tax rates and thresholds for 2018/19 financial year.

This strategy has created a benefit through higher accumulation in superannuation. This is due to no tax on the pension income compared to marginal tax rates on salary. You should consult your tax adviser to discuss your individual situation.

To make this strategy work you can choose to either salary sacrifice or make personal deductible contributions to superannuation. It is important to note that employer superannuation contributions (superannuation guarantee), salary sacrifice and personal deductible contributions all count towards your concessional cap – currently $25,000[iv] per year.

Things you need to know before commencing a Transition to Retirement Strategy

- You must be at least your preservation age (currently 57) before you can start a TRIS
- If you are under age 60, your TRIS may generate additional taxable income, with a 15% tax offset
- If you are over age 60, TRIS income is tax free
- Earnings within your TRIS are taxed at up to 15%
- You cannot withdraw lump sums from a TRIS, drawdowns are limited to 10% of the account balance
- Drawing down your superannuation as a TRIS before you permanently retire increases the possibility that you will run out of money in retirement.

What is your preservation age ?

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

[i] By definition of "transition to retirement income stream" in SIS Regulation 6.01
[ii] ATO website – Transition to retirement income stream
[iii] ATO website – Schedule 13 – Tax table for super income streams
[iv] ATO website – concessional contributions cap
[v] By definition of "preservation age" in SIS Regulation 6.01