Transition to Retirement Strategy

If you have reached preservation age (between 55 and 60, depending on when you were born) but are less than 65 years and are still working it is likely that most of the money you have accumulated in superannuation, and any money you are contributing, will be preserved. Traditionally preservation rules have meant that you cannot access the money until you satisfy one of the preservations conditions, for example:

- *you permanently retire, or*
- *you become permanently incapacitated, or*
- *if you are over 60, you change jobs.*

There is however an option available for accessing preserved superannuation money once you are 56 through the introduction of “Non-commutable Allocated Pensions” (NCAPs).

These products allow people over preservation age to receive a regular income (but not a lump sum) from their preserved superannuation. You can transfer as much as you like of your preserved superannuation to a NCAP but you must take an income of between 4% and 10% of the account balance each year. Depending on the components of your superannuation some of the income may be tax free. A 15% rebate will apply to the taxable portion of the income.

Investment earnings will be taxed at a rate of up to 15%, the same rate that applies in accumulation phase. Prior to 1 July 2017 there was no tax on investment earnings for NCAPs.

The reason for allowing access in this way is to encourage people over 56 to continue working longer in the workforce, and thereby help in solving Australia’s skilled worker shortages. By allowing individuals to start taking an income from their superannuation it enables older workers to reduce their hours to part-time for lifestyle reasons and supplement their work income from their accrued superannuation.

Whilst this is an appropriate strategy for anyone in this position there are several other scenarios where what is referred to as the ‘transition to retirement strategy’ can provide additional benefits. These include:

- *Once you turn 60 there is no tax at all on the income from the NCAP and at this point there may be attractive tax savings available is you combine the strategy of commencing an NCAP and salary sacrificing income to super. Depending on how much you salary sacrifice you may also find you become eligible for the government’s superannuation co-contribution.*
- *If you are under age pension age and receiving Centrelink benefits it may benefit you to move some of your superannuation to a NCAP. The NCAP provides a regular income, but it is assessed by Centrelink so the correct amount to move must be carefully thought through.*

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