equip Super fair and square

Learn about super – transition to retirement pensions

Access your super while you're still working

A transition to retirement pension (TRP) allows you to start accessing your super even before you retire. To be eligible, you must have reached your "preservation age" (see below). You must draw at least a minimum income from your TRP every year.

Benefits of a TRP

- Flexible way to move gradually from work into retirement
- Make up for lost salary with income from your super, or create a strategy to grow your super at the same time

What is a TRP?

TRPs benefit from a unique tax treatment: the income you receive from your TRP may qualify for a 15% tax offset prior to age 60, and once you turn 60 it becomes completely tax free. However, other than in an account based pension, earnings are taxed up to 15%; this is reflected in the unit price of each investment option.

You must draw an income from your TRP every year, and take out at least 2%* of your account balance annually, and no more than 10%. You cannot draw additional lump sum payments.

When you retire permanently or reach age 65, your TRP automatically changes to an account based pension. If your circumstances change while you're still working, you can stop your TRP at any time and roll it back into your super.

You cannot contribute to a TRP once it has commenced, but any money in a TRP can always be rolled back into your super account.

* For the 2020/21 financial year.

A note on preservation age

The preservation age is the minimum age at which you can get access to your super. For people born before 1 July 1960, the preservation age is 55; this gradually increases to 60 for people born after 30 June 1964. There are usually other conditions that must also be met.

How does it work?

You can take advantage of TRPs in different ways. Two possible scenarios are summarised below:

Scenario 1	Scenario 2
Mary, 59, skilled technician, wants to dedicate more time to grandchildren and hobbies	Dan, 61, works as a supervisor in local government, still paying off a mortgage
Transitions to part time work	Continues working full time
No extra contributions to super	Salary sacrifices into super
Mary's employer sourced income is reduced	Dan's employer sourced income is reduced
Finances her income shortfall via her TRP	Finances his income shortfall from his TRP
Starts drawing down her super to maintain her net income, improves her work-life balance	Maintains his income, boosts his super via advantages achieved through tax differentials

Let's work the numbers for Dan in scenario 2. At 61, he is still employed full time. He earns $80,000 gross.

Step 1 — salary sacrifice

Dan maxes out his pre-tax contributions, which are capped at $25,000 for the year, and salary sacrifices an additional $17,400 into his super (on top of the of $7,600 super guarantee contributions his employer makes on his behalf). He pays 15% contributions tax on his pre-tax contributions. Because of salary sacrificing, his take-home pay is reduced by $11,336 (check the calculation on the next page).

Step 2 — establish a TRP

Dan rolls $275,000 into a TRP account and draws $11,336 from his TRP to make up for the take-home pay reduction in Step 1.

He could take out any amount between $5,500 (2% of his account balance) and $27,500 (10%).

Step 3 — Dan's net super increase

Although Dan is taking $11,336 from his TRP, he is adding to his super:

Salary sacrifice contributions of $17,400, less 15% contributions tax	$14,790
Less TRP drawdown	$11,336
Net increase in super per year	**$3,454**

The table below shows more detail on income, tax and salary sacrifice for Dan.

	No salary sacrifice	With salary sacrifice
Gross income	**$80,000**	**$80,000**
Employer 9.5% super contributions	$7,600	$7,600
Salary sacrifice	n/a	$17,400
Adjusted gross income	$80,000	$62,600
Income tax	$18,067	$12,003
Net income	$61,933	$50,597
Income from TRP	n/a	$11,336
Total income	**$61,933**	**$61,933**

Income tax rates are for 2020/21. They include the Medicare levy, the low income tax offset (LITO) and the low and middle income tax offset (LMITO).

The right thing for you?

Before purchasing an Equip TRP, you must carefully consider your overall retirement strategy. If, on a net basis, you take out more than you put back into your super (as Mary does in scenario 1), your super will run out much faster. We recommend you obtain financial advice before entering into a TRP.

TRPs can unlock opportunities

- Review your retirement objectives. Can you afford to work less? Do you still need to boost your super?
- Talk to your employer to see what your options are.
- Consult a financial adviser to work out the numbers and set up your TRP.

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Last updated July 2020