



Why Transition to Retirement deserves a second look

For many people approaching retirement, the transition from full-time work to retirement is no longer a sudden stop. Instead, it's often a gradual process that involves reducing work hours, maintaining cash flow and continuing to build retirement savings.

One strategy that can support this approach is a Transition to Retirement Income Stream (TRIS or TTR).ⁱ

While TTR strategies have been available for many years, they are often overlooked despite offering valuable flexibility for people in their 60s who are still working.ⁱⁱ

What is a TTR strategy?

A TTR strategy allows you to access some of your superannuation while continuing to work, provided you have reached your preservation age. For anyone born on or after 1 July 1964, preservation age is 60.ⁱⁱⁱ

The arrangement works by transferring part of your super balance into a TTR pension account. You then receive regular pension payments while continuing to earn employment income. This can help replace lost income if you reduce your working hours or supplement your cash flow while making additional contributions to super.

Unlike a standard retirement-phase pension, a TTR pension has restrictions. Generally, you must draw a minimum pension each year and cannot withdraw more than 10 per cent of the account balance annually. Lump-sum withdrawals

are generally not permitted while the TTR remains in the pre-retirement phase.^{iv}

Who might benefit?

A TTR strategy may suit people who:

- want to reduce their working hours without a significant drop in income
- are approaching retirement but are not ready to stop work completely
- earn a moderate to high income and wish to boost superannuation through salary sacrifice
- want greater flexibility in planning their transition from work to retirement.

For example, someone aged 60 might decide to move from working five days a week to three days a week. By drawing a pension from their super, they can help replace part of their lost income and ease gradually into retirement.

Combining work income and pension payments

One of the key attractions of a TTR strategy is the ability to combine employment income with pension payments.

If you are aged 60 or over, pension payments received from a TTR income stream are generally tax-free in your hands. Instead of experiencing a substantial reduction in disposable income, a tax-free pension payment can help bridge the gap.

The tax-saving strategy

Another commonly used TTR strategy involves salary sacrifice.^v

In this approach, an employee diverts part of their salary into superannuation through concessional contributions, which are generally taxed at 15 per cent within the super fund. The reduction in take-home pay is then partially replaced through tax-free TTR pension payments.

For people on higher marginal tax rates, this may improve tax efficiency because income that would otherwise be taxed at personal rates may instead be contributed to super and taxed at a lower rate. The TTR pension can then be used to maintain cash flow.

In some circumstances, this strategy may also help increase retirement savings while maintaining a similar standard of living before retirement.



Opportunities

• Smoother transition into retirement

One of the biggest benefits is flexibility. Rather than stopping work abruptly, a TTR strategy can support a gradual reduction in work hours.

• Tax-free pension payments after age 60

For many Australians, TTR pension payments received after age 60 are tax-free, which can improve overall cash flow and make part-time work more financially attractive.

• Continued super contributions

Even while receiving a TTR pension, your employer must continue making Super Guarantee contributions if you remain eligible. This helps replenish part of the super being withdrawn.^{vi}

• Potential tax efficiencies

For some higher-income earners, combining salary sacrifice with a TTR income stream may reduce overall tax and improve retirement outcomes.

Considerations

A TTR strategy may not be suitable for everyone.

• Reduced retirement savings

Drawing on super before fully retiring means your retirement capital may have less time to grow. If withdrawals exceed ongoing contributions and investment growth, your final retirement balance may be lower.

• Earnings within the pension are not tax-free

Many Australians are surprised to learn that TTR pensions no longer receive the same tax treatment as retirement-phase pensions.

Since the 2017 reforms, investment earnings on assets supporting a TTR pension that is not yet in retirement phase are generally taxed at 15 per cent. The fund cannot claim exempt current pension income on those assets until the member satisfies a full condition of release, such as retirement or turning 65.

• Government benefit implications

A TTR strategy may affect eligibility for certain government benefits or entitlements.

• Additional complexity

Managing pension withdrawals, contribution caps, salary sacrifice arrangements and tax consequences can become complicated. Professional advice is often valuable to ensure the strategy remains effective and compliant.

Is a TTR strategy right for you?

A Transition to Retirement strategy can provide valuable flexibility for people who want to scale back work, supplement their income or potentially improve the tax efficiency of their retirement planning.

But the benefits depend heavily on individual circumstances, including age, income level, super balance, retirement objectives and tax position. What works well for one person may offer little benefit for another.

If you are approaching retirement and would like to explore whether a TTR strategy could help you achieve your goals, please contact our office. We can help assess whether the approach aligns with your broader retirement and financial planning objectives.

i <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/transition-to-retirement>

ii <https://moneysmart.gov.au/retirement-income-sources/transition-to-retirement>

iii <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/super-withdrawal-options#Preservationage>

iv <https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/paying-smsf-benefits/income-stream-pension-rules-and-payments/transition-to-retirement-income-streams>

v <https://moneysmart.gov.au/retirement-income-sources/transition-to-retirement>

vi <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/transition-to-retirement#ato-SuperguaranteecontributionsandTRIS>

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