How to shift into pension mode

When and how you can access your super to start an account-based pension.

If our working years can be regarded as the time when we aim to build up our superannuation savings, our retirement years can equally be regarded as the time when we aim to spend them.

At least that's the objective for most Australians. Which generally leads to the question: how do I start accessing my super funds when I do stop working, or maybe even before I stop working?

This article focuses on the basics, including the general eligibility rules around accessing your super and how to switch your super accumulation account to an account-based pension.

What age can I access my super?

To legally access your super for retirement purposes, you generally need to have met a condition of release by reaching what's known as your preservation age.

That's slightly complicated. In the majority of cases it means you have already turned 60 and have either stopped working completely or are starting a transition to retirement income stream (see below).

However there's a small opening, that's about to close, allowing slightly earlier access. The preservation age also extends to people who are now aged 59 (born on or after 1 July 1963) and who will turn 59 on or before 30 June 2024. Those born after 30 June 1964 will need to wait until they turn 60.

How do I access my super?

Having reached your preservation age, you have the options of turning on a pension income stream, making a lump sum withdrawal, or doing a combination of both.

Importantly, to start accessing your super, and if you don't want to take out a lump sum, you will need to open a pension account and transfer some or all of your super across. You may need to contact your super fund to find out their process, but it's usually as simple as lodging a request with your fund by filling out a form and providing information such as where you want your pension payments to be made and some proof of identification.

You then decide how much you want to transfer, nominate the size and frequency of your pension account payments (there are minimum annual withdrawal amounts), and how you want the funds in your pension account invested.

There is a limit on the maximum amount that can be transferred as a tax-free retirement income stream from super to a pension account, known as the transfer balance cap. This is currently set at $1.9 million. The Tax Office keeps track of how much you transfer, and if you go over the cap it will levy an excess transfer balance tax.

If you have more than $1.9 million in super you have the option of keeping the excess in your super account and paying up to 15% tax on your earnings, or you can withdraw the excess as a lump sum. From 1 July 2025 a 30% tax rate will apply on earnings from super accounts with balances above $3 million.

How can I transition to retirement?

If you're still working you have the option of drawing down on your super by starting a transition to an account-based retirement income stream (TRIS). This can enable you to reduce your current working hours and use your TRIS pension payments to top up your part-time income.

At the same time, as you're still working, you will continue to receive compulsory super guarantee payments from your employer (which are taxed at the normal rate of 15%) into your super accumulation account.

What are the tax considerations in pension mode?

If you're aged 60 or over and retired, any income earned on your pension assets is tax free and so are pension payments you withdraw.

It's slightly different for those on a TRIS. If you're 60 and over you pay no tax on your TRIS pension payments. If you're under 60 and have a TRIS you are taxed at your marginal tax rate but receive a 15% tax offset on the taxable portion of your income stream. No tax is payable on the tax-free portion. Investment earnings in a TRIS are taxed at up to 15%.

What are the minimum pension withdrawal amounts?

There are restrictions on how much can be withdrawn tax free through a TRIS in a financial year if you're under 65, until you've met a condition of release. The minimum withdrawal amounts is 4% of your super balance and the maximum is 10%.

Once you've rolled over some or all of your super to an account-based pension you are required by law to withdraw a minimum pension amount each financial year, which is a percentage of

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your account balance based on your age. For new pensions, the minimum withdrawal amount is calculated on a pro-rata basis from when a pension commences to the end of the financial year.

The table below shows the required minimum withdrawal rates.

Age on 1 July of pension commencement and on each 1 July thereafter	Minimum withdrawal amount based on pension balance for 2024/2025
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95 and over	14%

Source: *Australian Tax Office*

Any amounts leftover in your pension account when you die will go to your nominated beneficiaries. Depending on the type of beneficiary (reversionary, spouse, dependant or non-dependant) the amounts can be paid as an ongoing pension stream until the account runs out or as a lump sum.

Consider getting professional advice

If you're wanting total financial flexibility in retirement, you could consider leaving part of your money in super, rolling over some of it into an account-based pension, and also withdrawing lump sums whenever you need to.

There are a range of benefits from adopting a combination of your options, although there may also be potential tax consequences for both you and your beneficiaries.

Managing the combination of a super accumulation account, an account-based pension, an Age Pension entitlement (if eligible), potential investment earnings outside of super, and irregular lump sum payments, can be highly complex.

Come and talk to us today so we can you weigh up all of your retirement options.

Source:

https://www.vanguard.com.au/personal/learn/smart-investing/retirement/how-to-shift-into-pension-mode

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