TTR Pensions: The BOOM is coming

July 2024

Thursday 25th July 2024

Welcome

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Presenter

Garth McNally, GM Super Consulting

Garth has worked in the Australian Superannuation industry for over 25 years with a specific focus on self-managed super funds. He provides ongoing support and training to individuals as well as to professionals working in the superannuation area, including advisers, accountants and lawyers.

Garth is a regular contributor to industry publications and to the leading professional bodies including Chartered Accountants Australia & New Zealand (CA ANZ) & CPA Australia (CPA).

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GM Super Consulting

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In particular, you should seek independent financial advice prior to making any investment decision.

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Today’s Webinar

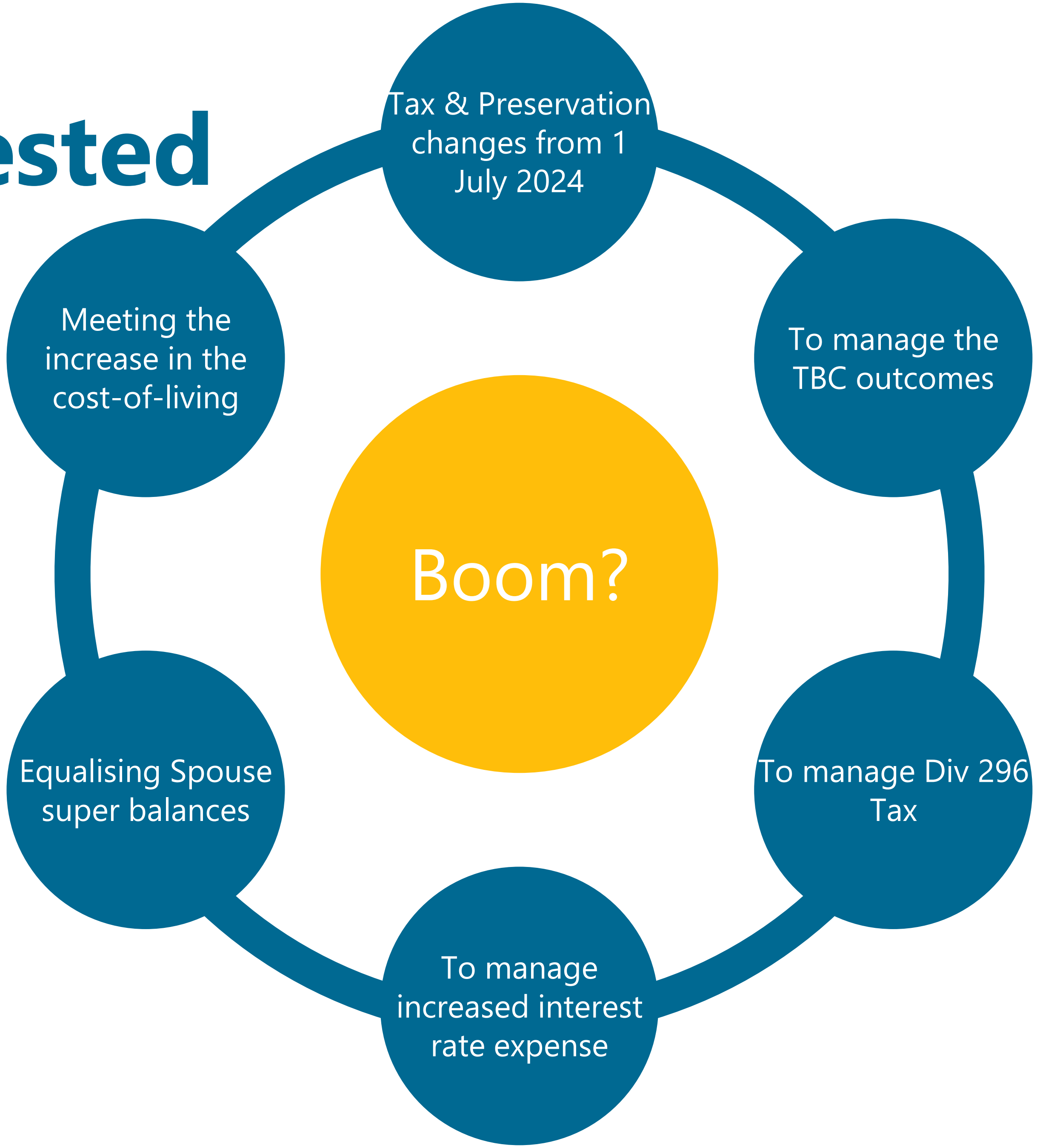
FY24 & FY25 Changes

Benefits of TTRs

TTR Risks to be aware of

Strategies & Scenarios

Why the suggested boom?



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Transition to Retirement Pensions

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Recap

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- Allows access up to a maximum 10% of pension balance **when the member has reached preservation age**

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	Minimum %	Maximum %
Pension Payments P.A.	4%	10%

Other Considerations
No lump sum payments allowed; payments need to be pension payments (at least 1 pension payment per year)

Recap

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At 65 is it better to go from accumulation onto a super pension or transition to retirement pension or none of the above?

Chris

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Can the amount paid out be determined by the individual? Or is it a percentage of the amount in the TTR?

Carol Mc

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Other than the 4% - 10% drawdown, is there any other restrictions on TRIS's; e.g. minimum duration, minimum number of drawdowns.

Terry B

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TTRs are not considered retirement phase income streams	
Member considerations	**Fund considerations**
➢ TTR payments received **before age 60** may be subject to tax: • Tax-free component of each pension payment is tax free • Taxable component of each pension payment is included in assessable income, and taxed at marginal rate LESS a 15% tax offset ➢ TTR payments received **after age 60** are tax-free ➢ TTR pension balances are not **initially** assessed against the members transfer balance cap	➢ The superfund DOES NOT get a tax exemption (ECPI) on the income supporting TTR payments • Essentially, the tax is the same as if the fund was entirely in accumulation phase ➢ A TTR will enter retirement phase when a further condition of release is met by the member

Recap

Are TTR pension payments Tax Free?

Leigh W

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A self-employed person, over 60, still working, has not otherwise met a condition of release and who is considering commencing a TTRP from a SMSF.
In the above situation would the SMSF assets that support the TTRP also become tax free, or would the main benefit be that the amount withdrawn from the SMSF each year as the TTRP is not considered taxable income for the purposes of the individual's taxable income?

Anon.

Recap

Brendan is **59 years old** and commenced a $700K TTR on 1 July 2023. In the 2024 financial year;

- he has a minimum pension requirement of 4% x $700,000 = $28,000
- he has a maximum pension allowed of 10% x $700,000 = $70,000

As Brendan is under age 60, the pension payments he receives are included in his assessable income and taxed at marginal rates less a 15% offset.

As the pension is a transition to retirement pension, his superfund will still be liable to pay tax on the relevant fund earnings.

Brendan turns **60 years old** on 1 July 2024 and his TTR continues to be paid.

Once Brendan reaches age 60, he is no longer subject to tax on the TTR pension payments that he receives after age 60.

However, his superfund will still be liable to pay any tax on the relevant fund earnings.

Recap

Preservation Age

Both age 60 from 1 July 2024

Tax Free Pension Payments

With the preservation age and "tax-free" pension payment age aligning, we should see an increase in the use of TTR pensions from 1 July 2024

Transition to Retirement Pensions

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Strategies to Consider

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<table>
<tr><td colspan="2">Reduce non-deductible personal debt:
Significant interest rate increase in recent years</td><td>Managing the $3M Div 296 Tax:
From 1 July 2025</td></tr>
<tr><td>Use TTR pension payments to make larger, deductible concessional contributions</td><td>Manage the HUGE increase in the cost of living: Supplement income with superannuation pension</td><td>Managing the various super caps (carried forward concessional contributions, transfer balance cap):
TTR payment to reduce balance below TSB limit</td></tr>
<tr><td colspan="2">Manage tax payable by a non-dependent on the death of a member:
TTR payment amount used to make NCC / recontribution strategy</td><td>Keep tax components separate by commencing TTR pre contribution:
Run multiple pension strategies</td></tr>
</table>

Strategies to consider

Why have a transition to retirement strategy if you have enough income now for your means

Leigh W

Reduce non-deductible personal debt: Significant interest rate increase in recent years		**…6 Tax:**
Use TTR pension payments to make larger, deductible concessional contributions	**Manage the HUGE increase in the cost of living:** Supplement income with superannuation pension	… super caps (… concessional contributions, transfer balance cap): **TTR payment to reduce balance below TSB limit**
Manage tax payable by a non-dependent on the death of a member: **TTR payment amount used to make NCC / recontribution strategy**		Keep tax components separate by commencing TTR pre contribution: **Run multiple pension strategies**

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Replace salary with super income

Most common strategy over the years:

- Salary sacrifice part of wages into super:
  - Reduced tax rates apply: 15% vs. Marginal Tax Rate
- Supplement this “lost” take home income with superannuation
  - Commence a TTR pension
- Tax free pension income if over 60!
  - Tax benefit obtained from the difference in tax between salary & wages when compared to superannuation contributions tax

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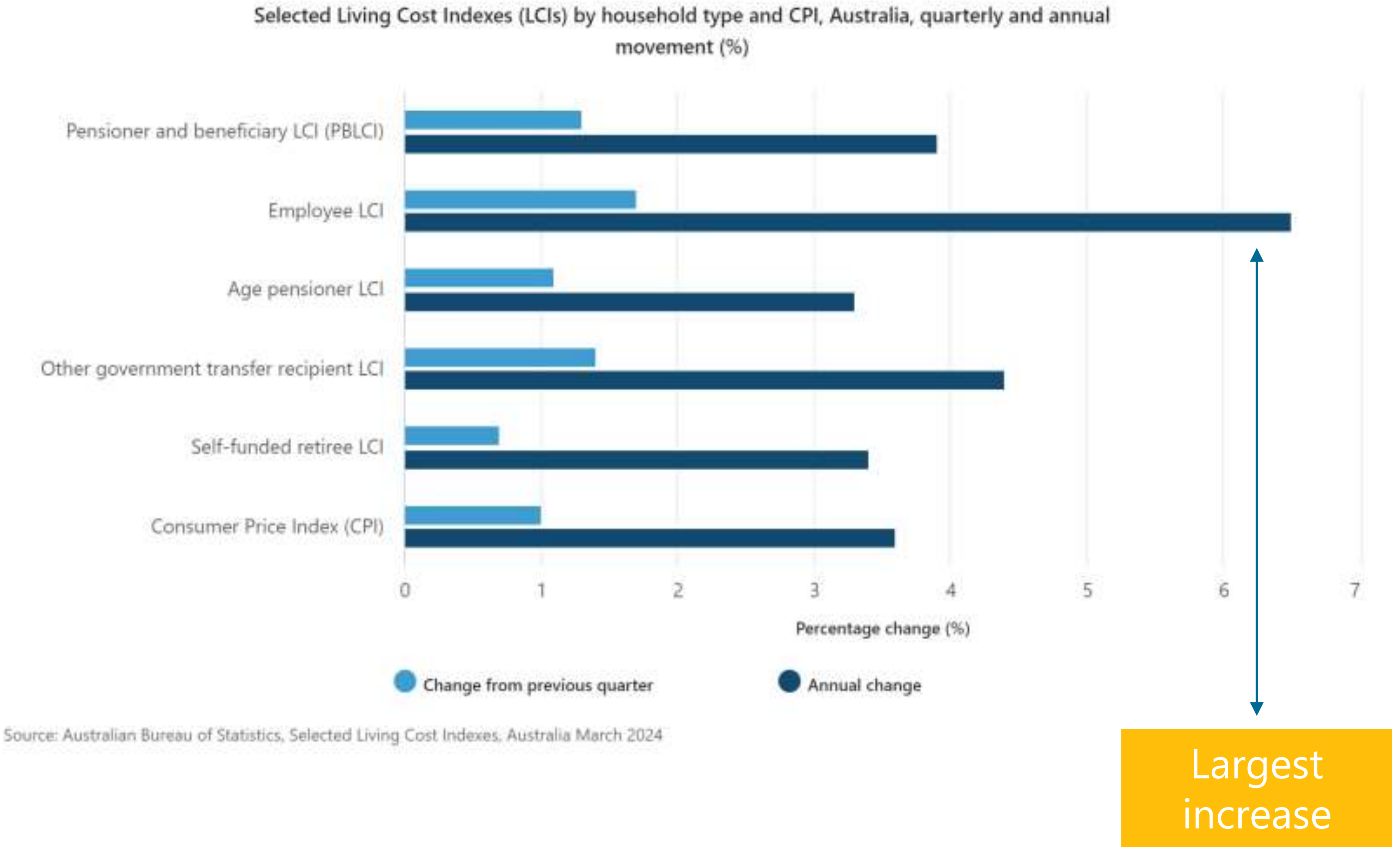
With increased concessional contribution cap, $30,000 from 1 July 2024, it may be even more beneficial!

Meet increase in cost of living

The largest increase to the cost of living is in the “employee” sector



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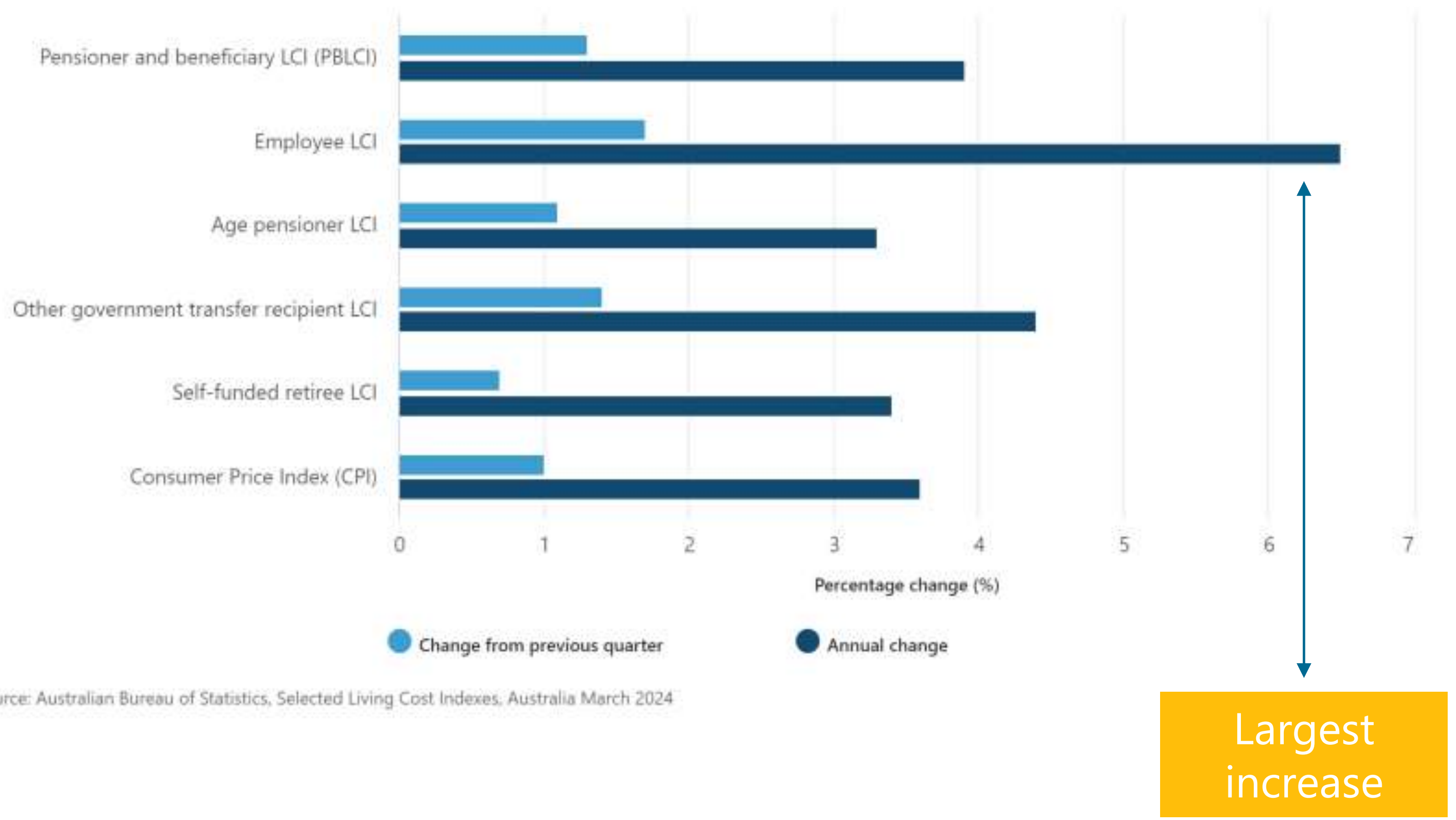
Where eligible, commence a TTR pension & use pension payments to fund higher living costs



Source: Australian Bureau of Statistics, Selected Living Cost Indexes, Australia March 2024

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Reduce personal debts

Interest rates on mortgages have significantly increased over the last 4-5 years:

2021: 2.14% p.a.
2024: 6.8% p.a.

Australian mortgage rates: 10 years

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Commence a TTR & use pension payments to reduce non-deductible debts: Mortgage, Personal Loans etc

Reduce the effect of “Super Death Tax”

- Non-dependents are subject to **tax on death benefits** they receive
  - Tax is only payable on the “taxable component”
- Members who access their own Super benefits after age 60 would not normally pay tax on these benefits:
  - If the member then re-contributes these to their superfund as a non-concessional contribution, they form part of the “tax-free” component
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Where you are not yet allowed full access to your superannuation BUT you have reached preservation age, you could consider commencing a TTR pension & then re-contribute these amounts back into Super, into your own super account; or your spouse's super account

This allows estate planning strategies to start earlier!

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How can I ensure my daughter gets the maximum benefit from my retirement savings in my estate.

Lesley M

Reduce the effect of Legislative change

Recent and upcoming Tax changes to superannuation:
It is now even more beneficial to maintain **relatively even spouse super balances:**

- The **Transfer Balance Cap** rules around limits on balances moved into the tax-free pension phase. Makes no sense to have one spouse above the cap and one below!
- **The Div. 296 ($3m balance cap)** for tax concessions on super balances. Again, makes no sense to have one spouse above the cap and one below!

HOWEVER, we can't just withdraw super when we want; there are restrictions on accessing benefits: you must meet one of the conditions of release.

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For those under 65 and still working, consider commencing a TTR for the higher balance spouse and then use these amounts to contribute for the lower balance spouse – this allows both spouses to fully utilise their TBA limits instead of having one spouse well over and one under!

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Is a TTR beneficial if you have a SMSF with a couple 4 years age difference & substantial difference in account amounts with wife being younger & minimal super.

Natalie S

Reduce the effect of Legislative change

Div 296 Tax ($3m balance)

- Some superfund members may decide that they want to manage the increase to tax on earnings relating to balances above $3M by reducing their overall super balances by withdrawing from super and investing elsewhere!
  - BUT you need to be ALLOWED to access your super for this to work!
  - You need to meet a condition of release

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Those under 65 and still working could consider commencing a TTR that would allow up to 10% to be withdrawn from their TTR pension each year – which can then be invested elsewhere.

Also remember that a TTR is not a retirement phase income stream, so the TBC doesn't apply. You could have a TTR well ABOVE the TBC.

Example: $5M TTR = maximum $500k p.a. pension

Fund larger tax-deductible contributions

A tax deduction can be claimed for concessional contributions which can be used to offset tax payable on other personal income, including capital gains tax.

- Where there is limited access to the required cash to make a concessional contribution, you could consider commencing a TTR and then using the pension payments you receive to make a concessional contribution
- Compare the tax payable by the super fund on the concessional contribution (around 15%) vs. the tax savings achieved by the deduction in the individual's name first

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Keep in mind the “carry-forward” unused concessional contribution rules, allowing unused CCs to be carried fwd. for a 5-year period; allowing a large CC (deductible) contribution to be made when needed (CGT event in individuals name)

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If someone has a Transition to Retirement (TTR) to generate tax-free income & then contributes that income to their spouse's super as a concessional contribution, what potential drawbacks could there be?

Kumara W

Transition to Retirement Pensions

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TTR: Issues to be aware of

Entering retirement phase

When a TTR recipient meets a further condition of release (with a nil cashing restriction), the TTR enters retirement phase. **It is still a TTR pension but is now a RETIREMENT PHASE TTR PENSION.**

- The TTR balance on that date is assessed against the members Transfer Balance Account.
- If above the relevant Transfer Balance Cap, there is an excess TBA automatically!
- You may need to deal with this by reducing your pension account balance PRIOR.

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TTR Balance
$2,400,000

Age: 64

20 November 2024

Turns 65

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30 June 2025

Excess TBA due to retirement phase TTR being above the TBC

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If you have an Excess Transfer Balance because you turn 65 (or meet another condition of release), and your TRIS is > your available TBC, what is the best way to deal with the excess?

Tony B

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Entering retirement phase

Condition of release	When TTR enters retirement phase
Attain age 65	Automatically at age 65
Death (reversionary pension)	On death (plus 12 months)
Retirement	When the member notifies the fund
Permanent incapacity	
Terminal medical condition	

What does this mean?
UNLESS the fund specific rules state otherwise, the TRIS is now subject to the same rules that apply to retirement phase income streams:

- The 10% limit is removed
- Commutation restriction removed
- The fund is eligible for ECPI

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You MUST check the fund rules / trust deed for any specific wording that may be relevant; i.e. That the 10% limit will ALWAYS apply, that commutations cannot be made etc.

Transition to Retirement Pensions

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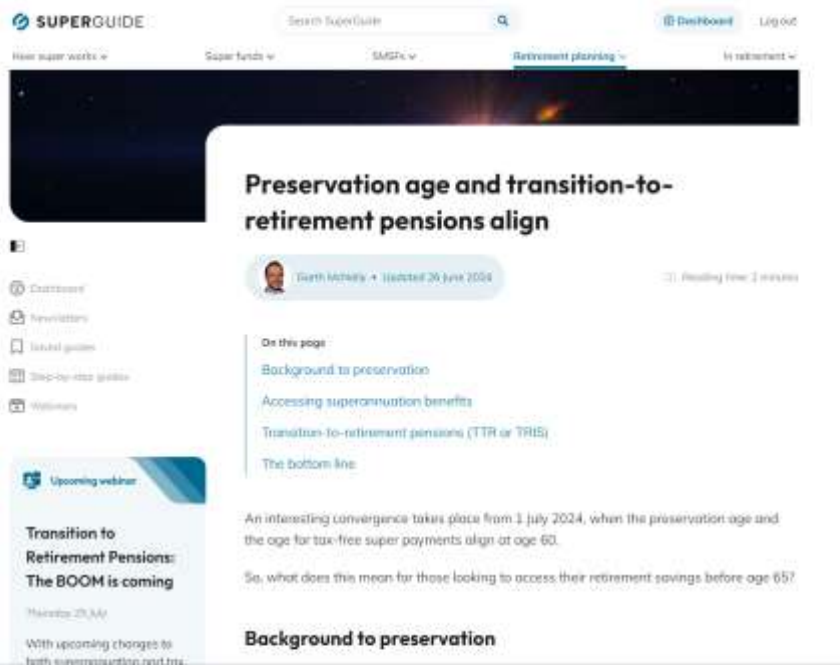
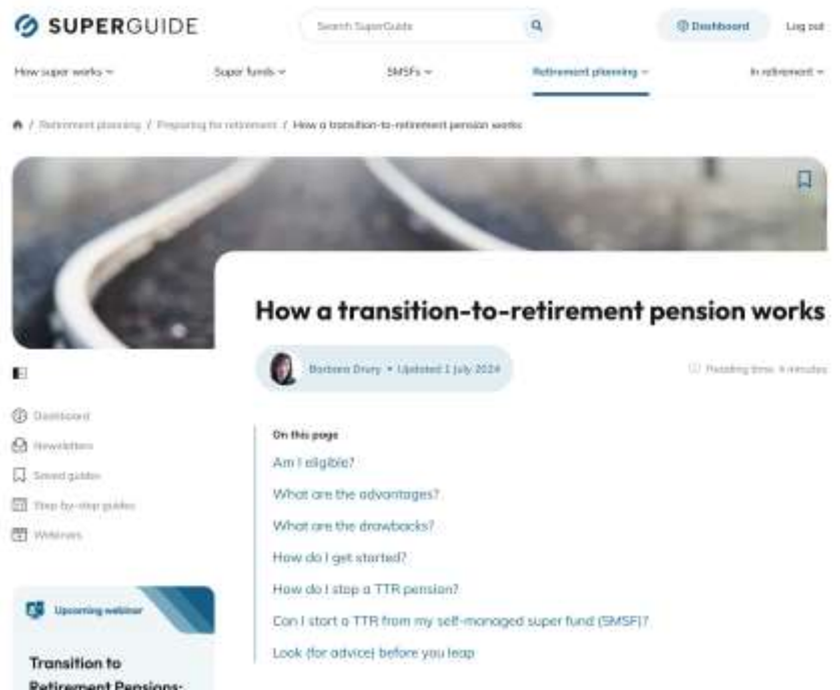
TTR: Final Comments

Entering retirement phase

- There has been a general view that TTR pensions had lost their usefulness: I couldn't disagree more!
- Where you are struggling with increased interest rates and the general increase in the cost of living, a TTR could provide that "little extra" income when needed.
- If you are looking to manage estate planning outcomes before turning 65, there could be a real benefit in using a TTR
- If you are looking to manage the effects of legislative change, consider how a TTR could prove beneficial
- For medium – higher income earning individuals, using a salary sacrifice TTR strategy could give a beneficial tax outcome
- For those looking to equalise their member balances, using a TTR can allow this strategy to be implemented as soon as you reach preservation age; without having to wait until you retire or turn 65! That 5-year period can make a real difference in outcomes.

Resources





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Questions

QUESTIONS

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Wrap up