Retirement Income – Account based pensions

Account based pensions may provide tax-effective, regular income to help meet your income needs using your superannuation savings.

Please note that if you're starting a 'transition to retirement' pension and haven't met a full condition of release, different rules apply to these pensions. You should refer to the 'Transition to retirement' Understanding Series for more information.

Benefits

- Pension income you receive is tax-free if you are aged 60 or over (and paid from a taxed super fund).
- Some of the pension income may be taxable if you have reached your preservation age but are under age 60. You are entitled to a 15% tax offset on the taxable portion of your pension payments (if paid from a taxed source).
- If you're permanently disabled, you are also entitled to a 15% tax offset on the taxable portion of your pension payments (if paid from a taxed source).
- You will be required to draw a minimum amount from your pension each year, which is based on your age. You are also able to access lump sums or additional pension payments if you need access to additional funds.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.
- You can nominate eligible beneficiaries to receive the remaining benefits upon your death.

How it works

An account based pension is an income stream paid from a superannuation fund. To commence an account-based pension, you first need to meet a full condition of release or already have unrestricted non-preserved funds in your superannuation account. Full conditions of release include circumstances such as meeting the retirement definition for superannuation purposes, attaining age 65, and certain situations where you're classified as permanently disabled or terminally ill.

Account based pensions may be tax-effective because:

- Pension income paid to you from age 60 is not taxable (from a taxed fund).
- Taxable pension income paid to you between your preservation age and age 60, or due to permanent disability, is eligible for a 15% tax offset (from a taxed fund).
- Within the pension account, all earnings and capital gains from investments are tax exempt. This can boost the effective returns compared to other similar investments you may own personally.

Your pension account balance will increase and decrease over time due to factors such as positive or negative market movements, pension payments, fees and charges. These factors ultimately determine how long your account based pension will last.

Pension transfer balance cap

The total amount of superannuation money that you can transfer to a tax-free superannuation income streams is subject to a lifetime cap. In 2019/20 the general cap is $1.6 million (and may be indexed in future years). Superannuation savings in excess of the cap can be retained in your

accumulation accounts where tax at the concessional rate of up to 15% on earnings continues to apply.

Pensions assessed under the transfer balance cap rules include:

- Pensions you have commenced after you have met a full condition of release
- Death benefit pensions of which you're a recipient
- Defined benefit income streams (such as those paid from Government super funds), and
- Certain other types of superannuation income streams.

If you're receiving a transition to retirement pension, there are also circumstances where this type of pension will commence to be assessed under these rules.

Please refer to the 'Transition to Retirement Pension' Understanding Series for further information.

If the amount transferred to tax-free superannuation pensions exceeds the cap, an excess transfer balance occurs. This would exist for example, if the cap is $1.6 million and you commenced a pension with $1.8 million. In this case, you would have a $200,000 excess transfer balance amount.

In the case of an excess, it will be necessary to:

- reduce the amount held in pension phase (e.g. a partial commutation) and
- pay excess transfer balance tax.

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Pension income

An account based pension is very flexible, allowing you to vary the amount of income you take. One of the few requirements is that you must draw at least a minimum amount of income each year. There is no maximum and additional lump sums can be withdrawn at any time.

When you commence your pension, the minimum payments are calculated based on your age at that time, and your account balance. The minimum pension amount is then recalculated every 1 July based on your age and account balance at that time.

Your age on 1 July	Minimum for 2019/20
Under 65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95 or older	14%

Taxation of your pension payments

Your account based pension may be made up of taxable and tax-free components. Generally, employer contributions, amounts you have salary sacrificed and personal contributions that you've claimed a personal tax deduction for, plus any investment returns earned by your fund form part of the taxable component. Other amounts, such as after tax non-concessional contributions (after-tax contributions) and spouse contributions, make up your tax-free component.

When you commence an account based pension, the tax components of the pension reflect the tax components in the same proportions of your super account just before you commenced the pension. These tax components are fixed at commencement.

All future pension payments, or any lump sum commutations you take from your pension, are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments and lump sum withdrawals would also be paid from the taxable component.

Whilst you are under age 60 (but have reached your preservation age), pension payments from the taxable component are included in your assessable income with a 15% tax offset to help reduce your tax. This treatment may also apply if you are under preservation age and commenced your pension under the permanent incapacity condition of release. Once you turn age 60, all pension income is tax free. This tax treatment applies to pension payments made from a taxed fund.

Department of Human Services (DHS)/Veterans' Affairs (DVA) assessment

Account based pensions are assessed under the deeming rules for the DHS/DVA income test for income support payments such as Age Pension, Service Pension, Disability Support Pension, and Carers Payment. This assessment also applies for some other payments and allowances. This means the assessable income from your pension account is calculated using an assumed rate of earnings, known as a deeming rate (set by the Government). The actual pension payments you receive may be more or less than the deeming rate.

However, if you commenced your account based pension before 1 January 2015 and have been continuously receiving an 'income support payment' from the DHS or DVA since 31 December 2014, the assessable income from your account based pension may continue to be calculated under the 'deductible amount' rules. These rules may be more favourable as only a portion of the pension payment (above the calculated 'deductible amount') is assessed. If you start a new pension, which includes restarting your existing pension, or switching to a new pension provider, or your DHS/DVA entitlements reduce to nil for any period, your account based pension will revert to deeming rules to determine your future income support entitlements.
Regardless of when your account based pension commenced, lump sums withdrawn do not count as income for DHS/DVA purposes. However, if your account based pension income is determined under the 'deductible rules' lump sum withdrawals may impact the pension's deductible amount going forward. This may in turn impact the amount of income assessed under the income test.

In addition, if you're in receipt of certain benefits where entitlement is calculated based on your taxable income, lump sums withdrawn may impact your entitlement if included as part of your taxable income.

The account balance of an account based pension is assessed as an assessable asset regardless of when it was originally purchased.

Risks and Consequences

- If you have made personal superannuation contributions for which you wish to claim a tax deduction, you must lodge a Notice of Intent form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing an account based pension or rolling your funds to another provider to commence an account based pension.

- A minimum amount must be received each financial year as a pension. In the financial year that you either start or stop your account based pension, the minimum pension required for that financial year is pro-rated to reflect the number of days in the financial year that your pension was or will be running. If the pension is commenced in June, there is no mandated minimum pension payment in that financial year.
- If you do not take the required minimum income, tax will apply on earnings of the account for the whole year.
- Your account based pension is not guaranteed and pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- Upon death, any remaining account balance is paid to any valid beneficiary you have nominated, or to your estate. If you haven't made a valid binding/reversionary beneficiary nomination, the trustee of your super fund may decide to whom to pay the benefit or the benefit may be paid to your estate.
- If you are a DHS/DVA customer, you are required to notify the relevant Department within 14 days about any changes to your situation, including the commencement or cessation of an account based pension, significant changes in the account balance, or any lump sum withdrawals you make from your pension as it may affect your payment.
- If you have an existing account-based pension which is assessed by the DHS/DVA under the 'deductible amount' rules, switching to a new account-based pension will trigger a shift to the deeming rules. In some circumstances this may be less favourable under the income test and may affect your DHS/DVA entitlements as well as aged care fees (if applicable).
- If you transfer an amount in excess of your available transfer balance cap to an account based pension, it will be necessary to commute (reduce) your pension by the amount of the excess, as well as associated earnings on the excess amount. The commuted amount can be rolled to the accumulation phase of superannuation where earnings are taxed at up to 15%. Alternatively, you can withdraw the money from the superannuation system. You will be liable for excess transfer balance tax. If you don't provide this instruction, the ATO will direct your pension provided to take the necessary steps.
- You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

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