SUPER: ACCOUNT-BASED PENSION

Account-based pensions offer a tax-efficient way to generate regular income from your superannuation savings to support your financial needs.

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Disclaimer: The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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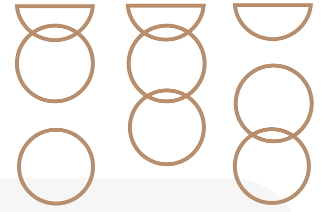


Account-based pensions offer a tax-efficient way to generate regular income from your superannuation savings to support your financial needs.

Benefits

- Account-based pensions are tax-efficient, particularly for individuals aged 60 or older, as the pension income becomes entirely tax-free.
- If you are under the age of 60, some portion of the income may be subject to taxation, but individuals above their preservation age or receiving disability pensions can claim a 15% tax offset.
- You have the flexibility to adjust pension payments as needed, with the requirement to withdraw a minimum amount each year.
- The account-based pension allows you to maintain investment flexibility, including the ability to discontinue the pension at your discretion.
- You have the option to designate a reversionary beneficiary or beneficiaries, employing various estate planning strategies to ensure the benefits are passed on upon your demise.

How it Operates

An account-based pension represents a stream of income disbursed from a superannuation fund. To initiate an account-based pension, you must first fulfill a condition of release or possess unrestricted non-preserved funds within your superannuation account.

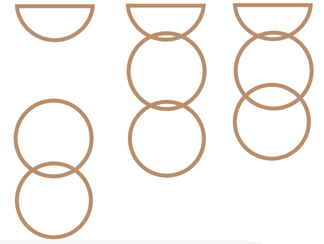
This account will automatically transfer regular income payments from your super into your bank account, with frequency options including fortnightly, monthly, quarterly, or annually.

The balance of your pension account can fluctuate, increasing due to investment earnings or decreasing because of pension disbursements, negative investment returns, fees, and charges. These variables collectively determine the longevity of your account-based pension.

Pension Income

An account-based pension is exceptionally flexible, allowing you to adjust the income amount as needed. The primary requirement is that you must withdraw a minimum income amount annually, but there are no restrictions on maximum withdrawals, and lump sums can be withdrawn at any time.

The minimum withdrawal amount is calculated based on your age and is determined as a percentage of your account balance at the commencement of the pension. This minimum amount is recalculated every 1st of July, considering your age and account balance at that time.



Taxation of your Pension

When initiating an account-based pension, the balance is divided into a taxable component and a tax-free component, reflecting the composition in your superannuation account just before starting the pension.

All subsequent pension payments, lump sum withdrawals, and death benefits are allocated to the same proportions. For instance, if your initial account balance consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments, lump sum withdrawals, and your final death benefit would be categorised as the taxable component.

While you are below the age of 60, the taxable component is included in your assessable income, with a 15% tax offset applicable if you are over the preservation age. However, once you reach the age of 60, all pension income becomes tax-free.

The Transfer Balance Cap sets a limit on the amount of superannuation held in the retirement (pension) phase. Balances and notional earnings surpassing this cap may be subject to excess transfer balance tax. Excess amounts can alternatively remain in the accumulation phase, where regular superannuation tax rates apply, or be held outside the superannuation structure.

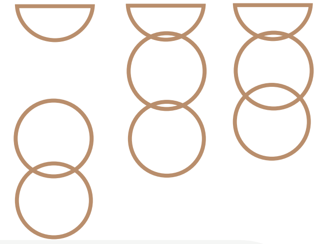
Centrelink

Account-based pensions are now assessed under deeming rules for the Centrelink income test. This means that the income assessment is calculated using a government-set deeming rate against your account balance.

If you initiated your account-based pension before January 1, 2015, and have continuously received a means-tested payment from Centrelink or Veterans' Affairs (DVA) since December 31, 2014, your account-based pension may still be assessed under the deductible amount rules, which could be more favorable as they assess only a portion of the income payments. However, if you switch to a new pension provider or your Centrelink/DVA entitlements reduce to zero, your account-based pension will be subjected to deeming rules.

Regardless of when your account-based pension commenced, lump sum withdrawals do not count as income for Centrelink/DVA purposes. However, under the deductible rules, these withdrawals reduce the non-assessable portion of future income payments.

The account balance of an account-based pension is considered an assessable asset.



Key Considerations

- If you have made personal superannuation contributions in the current year and plan to claim a tax deduction, you must submit a notice of deductibility form to your superannuation fund (and await confirmation of receipt) before starting an account-based pension
- In the financial year when you either commence or cease your account-based pension, the minimum required pension for that year is prorated. If the pension commences in June, no income needs to be taken in that financial year.
- Failing to withdraw the required minimum income will result in taxation on the account's earnings for the entire year.
- Your account-based pension is not guaranteed, and pension payments can only be made while funds remain in your account. Drawing income too rapidly or experiencing poor investment returns carries the risk of ceasing or reducing your pension income. • In the event of your death, any remaining account balance can be paid to your nominated beneficiary or estate, or payments can continue to a nominated reversionary.
- If you are a Centrelink/DVA recipient, you must promptly notify Centrelink/DVA within 14 days of initiating the pension, as it may affect your payments or any significant changes to your account balance.
- Switching from an existing account-based pension assessed under deductible amount rules to a new one will trigger a shift to deeming rules, which may be less favourable under the income test and could impact Centrelink/DVA entitlements and aged care fees.
- If the value of your pension interests exceeds the transfer balance cap, you are required to withdraw the excess by either transitioning back to the accumulation phase or withdrawing the excess from superannuation, or a combination of both.
- Fees may be incurred for your superannuation contributions; review the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund for detailed information.

References

You may wish to refer to the following websites for further information about account-based pensions:

- www.moneysmart.gov.au
- www.servicesaustralia.gov.au
- www.ato.gov.au

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