

Legislative change: reduction to minimum pension payment rates on 1 July 2020

On 1 July 2020 if you are in receipt of an account-based pension (ABP, including term allocated pensions) and have previously elected to receive the minimum pension payments, your pension payment will reduce by 50%.

With significant losses in financial markets impacting the retirement savings of many retirees, the Government has reduced the minimum annual payment required for account-based pensions and annuities by 50% for the 2019-2020 and 2020-21 financial years as outlined in the table below. This measure is intended to help retirees, and those close to retirement, manage the impact of volatile markets on their retirement savings.

The minimum pension payment is calculated using a percentage prescribed by law based on your age on 1 July and the account balance of the pension on that date.

Your age	Minimum annual payment rate based on age		
	% of account balance		
	2019-20 (pre-law change)	2019-20*	2020-21*
Under 65	4%	2%	2%
65-74	5%	2.5%	2.5%
75-79	6%	3%	3%
80-84	7%	3.5%	3.5%
85-89	9%	4.5%	4.5%
90-94	11%	5.5%	5.5%
95 or more	14%	7%	7%

*after law change

What does this mean for you?

Depending on the pension provider, some providers may opt to automatically reduce the annual pension payment for members who have elected to receive the minimum pension payment on 1 July 2020, by approximately 50% compared to what you were receiving in the previous year. You will also receive correspondence from your pension provider confirming the amount of the revised pension payment.

If you have previously elected to receive a pension payment equal to a fixed amount you will see no change as you are not affected by this legislative change.

What do you have to do?

If you are currently receiving the minimum annual payment, contact your provider to check if they are automatically applying the reduced annual pension payment from 1 July 2020.

If you would like to maintain your pension payment at the pre-1 July 2020 rate or receive an amount that is more than the minimum, you can adjust the pension payments to your preferred amount by following the instructions from your pension provider. It is important to bear in mind that drawing a higher pension payment can increase the chance that you may outlive your retirement savings.

If you are unsure of how much you should draw as a pension payment, please contact your financial adviser.

To help illustrate the effect of the 50% reduction in the minimum annual payment, please refer to the following example.

Example 1 – superannuation income stream commenced on 1 July

Richard is aged 67 and his account-based pension balance on 1 July 2019 was \$500,000. Richard's minimum annual payment was calculated at 5% (the percentage applicable to his age) of his pension balance, which is \$25,000. Richard didn't adjust his pension payment for the 2019-20 financial year as he needs the pension payments to meet his ongoing living costs.

Shortly after 1 July 2020, Richard receives a letter from his pension provider advising him that the balance of his account-based pension on 1 July 2020 is \$450,000 and his new minimum pension payment is 2.5%, which is \$11,250 p.a.

After some consideration Richard decides that he needs to draw a pension payment of \$20,000 p.a. to meet his ongoing living expenses. He informs his pension provider of his preferred pension payment.

Will this change impact my social security entitlements?

For social security purposes, there is no change to how your ABP will be assessed for the income test.

If you commenced your ABP on or after 1 January 2015 your ABP continues to be assessed for the income test under the deeming rules. The deeming rules assume your ABP earns a set rate of income no matter what it earns.

If your ABP is classified as a “grandfathered” income stream whereby the amount assessed is equal to the gross payment less the deduction amount, your pension provider will continue to automatically report details of your pension payment to relevant government departments.

For information regarding your social security entitlements and any other benefits that may be available due to a change in circumstances, please contact your financial adviser.

Important information

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