

What is an Account-based Pension (ABP)?

The key to all retirement income stream products is that they provide a convenient way for you to use your retirement savings to meet your ongoing living expenses. Under new rules, an account-based pension may also be referred to as a retirement phase pension (RPP). This is a superannuation investment which pays you a regular and tax effective income in retirement.

How do account-based pensions work?

Once you meet a full condition of release, you can roll money from your superannuation fund into the pension phase. The pension then pays you a regular income comprised of earnings and capital until your account runs out. With an ABP, you choose the amount of income that you draw from the pension each financial year, but you must draw at least the minimum prescribed amount, based on your age and account balance. The minimum percentages are shown in the table below:

Your age	Minimum annual payment	Reduced by 50% for the 2019-20 and 2020-21 years
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

You can withdraw a lump sum for any reason and at any time. You choose the underlying investments for your ABP. This means you choose the level of risk that suits you in investing your retirement savings.

Temporary reduction to minimum pension drawdown in response to COVID-19

The government has temporarily reduced superannuation minimum drawdowns for ABPs and similar products by 50 per cent for 2019-20 and 2020-21 financial years. This measure will benefit retirees holding these products by reducing the need to sell investment assets to fund minimum drawdown requirements.

The 50 per cent reduction applies to the minimum drawdown calculated on 1 July of the current financial year (or starting balance of the pension where it is commenced part way through a financial year).

Case study

Jack is aged 60 and commenced an ABP¹ on 1 July with a balance of \$500,000. He chooses to receive an annual payment of \$20,000 which is above the minimum annual payment of 2% based on his age, that is \$10,000. He informs the pension provider that instead of a large lump sum he would prefer a regular monthly payment, that is \$1,667² per month.

Depending on market conditions and the underlying assets of his ABP, the balance of his pension will change over time. For example, if the underlying assets of the ABP grow by 5% and the minimum annual payment is 4%, the balance of his pension will increase by 1%. Similarly, where the minimum annual payment is greater than the return of the ABP, the balance of the pension will decrease.

Over time, the minimum annual payment will increase significantly with age after he turns 85 and he is required to draw down a greater proportion of the ABP over time. Based on the Moneysmart account-based pension calculator, Jack's ABP will run out by age 84¹.

¹ Moneysmart Account-based pension calculator, date of birth 01/07/1959, already retired, \$500,000 balance, current super income of \$20,000, medium pension fees, conservative investment option - <https://moneysmart.gov.au/retirement-income/account-based-pension-calculator>

² \$20,000/12 = \$1666.67 per month rounded to nearest whole dollar.

What are the tax advantages of ABPs?

- Lump sum tax is deferred when you transfer superannuation money to an ABP or other retirement phase pension. Once you are age 60 plus, lump sum tax will be eliminated while you are alive.
- No tax on earnings in the fund.
- Little or no tax on the pension income. In fact, once you are 60 or more, you will pay no tax on this income.

Do ABPs have a Centrelink advantage?

If you are purchasing a new ABP it will be assessed by Centrelink under deeming rules. If you are invested in underlying assets that produce a higher rate you will earn more income than is included in your Centrelink income test.

Some older ABPs are assessed under deductible amount rules which often resulted in even lower amounts of assessable income. The deductible rules only apply if you purchased the ABP before 1 January 2015 and have been in continuous receipt of an eligible income support payment since before 1 January 2015.

The full account balance is an assessable asset regardless of the purchase date.

The things you should know before starting an ABP

- To commence an ABP, you must have reached your preservation age and retired.
- The amount you can invest in an ABP is limited by the transfer balance cap. Currently the general transfer balance cap is \$1.6 million (for 2020/21).
- Your money may not last your lifetime. How long it lasts will depend on the performance of the underlying assets you've chosen to invest in and how much income you draw.
- Your ABP may not form part of your estate as the fund trustee may be able to choose who to pay any death benefits to unless you have nominated a beneficiary under a binding death benefit nomination or reversionary pensioner nomination.
- Beneficiaries who are not financially dependant on you may pay tax on the remaining account balance when you die.

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