Understanding Account Based Pensions

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An Account Based Pension can provide a regular tax-effective income from your investments to help meet your living expenses in retirement.

The benefits of a pension are that:

- Earnings in the fund are added to your account tax-free;
- You can use your savings to provide regular income to meet your living expenses;
- Your income is received through regular payments (usually monthly, quarterly, half yearly, or yearly).

In addition to the income payment you select you can also choose to make lump sum withdrawals as required.

This strategy provides a tax-effective way of generating income to meet your living expenses.

Only superannuation can be used to start an account based pension once a person meets a condition of release.

The pension can be stopped (fully commuted) and be rolled back to the accumulation phase of superannuation or rolled to start another income stream, or be taken as a lump sum.

Account based pensions stop once the account balance is exhausted, the pension is commuted, or upon the death of the person unless there is an automatic continuation of the pension to a nominated reversionary beneficiary.

The maximum amount that may be used to commence a ‘retirement phase pensions’ is limited to an individual’s transfer balance cap. The transfer balance cap is currently $1.7m. Pensions paid under transition to retirement rules are not a retirement phase pension and are therefore not affected by the transfer balance cap.

Income Payments

You can select how much income to receive each financial year. This allows flexibility to meet individual needs. The rules for how much pension must be taken are:

- An income payment must be made at least once each financial year;

- A minimum level of income must be paid each year based on a percentage of the account balance at commencement and each 1 July (as shown in the table below). If the income stream commences part-way through a financial year, or is commuted before the end of a financial year, the minimum payment is pro-rated for that year.

Age	Income Factor	Reduced Percentage factor (2022-23 financial years) year
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 and over	14%	7%

Taxation of an Account Based Pension

Every withdrawal (income or lump sum or death benefit) from a pension is split into taxable and tax-free components in the same ratio that applied when the pension commenced. The tax on each component depends on the person's age as shown in the following table:

Age	Component	Taxation Treatment
Any age	Tax-free	No tax
60 or older	Taxable – taxed element	No tax
	Taxable – untaxed element	Marginal tax rate*, less 10% offset
Under age 60	Taxable – taxed element	Marginal tax rate*, less 15% tax offset
	Taxable – untaxed element	Marginal tax rate*,

** Plus Medicare Levy*

The following table shows the tax rates for lump sums withdrawn from the pension. The rules are different for lump sum death benefits.

Age	Tax-free Component	Taxable Component	
		Taxed Element	Untaxed Element
Under preservation age	Tax free	20%*	30%* up to $1,650,000#
			45%* over $1,650,000#
Preservation age to age 59		0% up to $230,000# 15%* above $230,000#	15%* up to $230,000#
			30%* from $230,000# to $1,650,000#
			45%* over $1,650,000#
Age 60 or older		Tax-free	15%* up to $1,650,000#
			45%* over $1,650,000#
			45%* over $1,650,000#

** Plus Medicare Levy*

 # Thresholds are applicable for the 2022/23 financial year. The low rate cap ($230,000) is reduced by previous lump sum payments. The higher untaxed plan cap ($1,650,000) is a per plan cap.

Earnings added to a pension account (excluding transition to retirement pensions) are tax-free.

Things you should know

- Starting to draw an income stream from your superannuation savings may erode the value of your savings if you draw more than the investment earnings added each year. However, it should be noted that investment earnings are added tax-free to your pension account to help boost the effective earnings rate;

- Breaching your personal transfer balance cap (currently $1.7m) may result in the need to reduce the amount held in your account based pension. Additional tax may be payable where a breach of the transfer balance cap occurs;
- Pension payments continue until your account runs out. How long your money will last depends on investment returns, fees and the amount you withdraw each year. You take on some risk that your money will not last for your full lifetime;
- The investment returns on your underlying assets can fluctuate (i.e. go up and down) and this will cause your balance to increase or decrease, affecting how long your money will last.
- You must draw a minimum level of income each year based on a percentage of your account balance. The factors to calculate this minimum increase with age. Over time you may find that you are required to draw more income than you need;
- Future changes to government policy and taxation may result in changes to the way in which superannuation contributions, account balances and benefit payments are taxed;

If you have made superannuation contributions to your current superannuation fund, and intend to claim a personal tax deduction for all or part of those contributions, it is imperative that you provide your current superannuation fund with a “notice of intention to claim a tax deduction” (as required under section 290-170 of the Income Tax Assessment Act 1997) and that the notice be acknowledged before you roll your current superannuation over to the proposed fund. Failure to lodge this notice will result in the loss of a tax deduction.