Fact Sheet

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
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

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.

Case study

Jack, aged 60. Jack has $500,000 invested in an ABP. This ABP generates tax-free earnings at, 8% p.a. which equals $40,000 in Year 1. If Jack draws an income of, $33,000 (indexed at 3% p.a.) at the end of each year, he will pay no tax. His account balance at the start of the next year will therefore be $507,000. And so on and so on, as you can see in Table 1.

In ten years' time, Jack's account balance is estimated to be $541,557, with earnings of $43,305. Jack's income will be $43,058, and this will be tax-free (although he will need to start taking a higher minimum percentage). Over those 10 years, tax-free earnings in the fund would total $419,865, and the total tax-free income Jack would draw would be $378,308. And Jack would still have an account balance of $541,557. Because Jack has been taking less than the fund earns each year the account balance has actually grown over the first 10 years. If he continues to take the indexed pension, his balance will eventually decline but he will still have $286,137 in the account by age 85 and will receive a tax-free pension payment from it of $69,095 in that year.*

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+, 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 2018/19).
- 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.

Account-based pension pros:

- highly tax effective
- may simplify estate planning
- regular income payments
- easy access to withdraw capital as needed
- full range of assets in which to invest.

Account-based pension cons:

- you must have met your preservation ages and retired to commence a retirement phase pension
- your income may not last your lifetime
- must draw at least a minimum income each year
- maximum amount you can invest is limited by transfer balance caps
- tax may be payable upon your death.