FACTSHEET

Commencing an Account Based Pension (ABP)

SMSF WORKS
SELF MANAGED SUPER FUND SPECIALISTS
ABN 62 606 479 903, **AFSL** 485833

An account based pension is a pension which will allow you to access your Transfer Balance Cap, limited to $1.6 million. Once the pension has commenced you will access/drawdown your superannuation in the form of an income stream. The account based pension will continue until the assets of the fund have been fully drawn or if the pension is fully commuted.

Account based pensions have the following features:

- You must meet a condition of release to commence an account based pension.
- You are required to drawdown a minimum pension amount each year based on your account balance as at 1 July and your age (see table on next page);
- There is no maximum drawing limit. Effectively you can draw up to 100% of your account balance at any time should you wish. This can be done by choosing regular pension payments or ad-hoc payments throughout the year;
- Once you have reached preservation age, turned age 65, retired and or have reached age 60, payments from your pension account are tax free. In addition, both earnings and realised capital gains within the fund do not incur a tax liability. From 1 July 2017 this is limited to $1.6 million and is known as accessing you transfer balance cap; and
- The pension may be commuted back into superannuation accumulation phase (pension ceases) at any time as long as the pro-rated pension payments for that year have been paid.

Meeting a condition of release to commence a pension or annuity

The preservation age depends on when you are born:

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 Jun 1964	59
After 30 June 1964	60

Preservation means that the money must remain in the fund until one of the prescribed conditions of release are met.

Superannuation funds are prescribed three preservation categories – preserved, restricted non-preserved and unrestricted non-preserved.

Preserved and restricted non-preserved benefits must remain in the fund until a condition of release is met. These two categories transform into unrestricted non-preserved once a condition of release has been met. Once the category of funds changes to unrestricted non-preserved you can access the funds immediately by either lump sum withdraws or by regular pension payments.

Once you have reached preservation age the most common conditions of release in paying out superannuation benefits are:

- **Retirement**: From age 60 if employment has ceased there are no restrictions in cashing out superannuation benefits. If retirement is under age 60 you must have reached your preservation age (see table), and you must reasonably expect not to be gainfully employed for more than 10 hours per week in future;
- **Reaching age 65:** A member that has reached age 65 can cash out their benefits at any time whether gainfully employed or retired. However, it is not compulsory to do so.

Minimum payments when taking an income stream from an account based pension

The minimum pension payment is determined at the start of each financial year (1 July) and is based on your age and the member account balance at that time. In order to retain the tax exemption status on earning on the fund assets financing the pension payments, the fund will be required to pay the minimum balance in the following financial year.

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The minimum payment to retain the exempt tax status is as follows:

Age of pension account-hold	Percentage factor
Under age 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 and over	14%

Tax and superannuation account based pension

The amount of tax that you will pay on an account based pension will depend on the age when you started it and what it was purchased with. Superannuation benefits are made up of two components, taxable and tax free.

The taxable (concessional) component consists of:

- Employer contributions;
- Salary sacrifice contributions; and
- Contributions made where a personal tax deduction was claimed.

The tax free (non-concessional) component consists of:

- After tax personal contributions; and
- Government co-contributions.

The table below sets out how an account based pension taxes the taxable component (no tax is payable on the untaxed component at any stage):

Preservation age to 59	Marginal tax rate* less 15% tax offset
60 and over	Not taxed

*Plus Medicare levy

Documentation

The Australian Taxation Office have confirmed that the terms and conditions of the pension or income stream be agreed by the trustee and member and the rules set out in the governing rules of the fund.

The SMSF Works Pension Agreement forms part of the governing rules (trust deed) and clearly indicates if the pension has a Reversionary Beneficiary.

SMSF Works can assist in the preparation of documentation to commence an account based pension inclusive of:

- Minimum and maximum pension calculations
- Draft letters and minutes
- Pension agreement (in duplicate)
- Product Disclosure Statement

The above information is of a factual nature only and should not be used or seen as specific advice.
From 1 July 2016, anyone providing personal advice must be licensed to do so with the advice being presented in a written Statement of Advice (SoA). For further information please contact your adviser or info@smsfworks.com.au

Other Factsheets on various SMSF topics are available on our website at www.smsfworks.com.au

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