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The information in this document is factual information, and is not financial advice. The information is objectively ascertainable information and is not tailored to your personal circumstances. You should obtain financial advice before making a decision in relation to this information. All examples are provided for illustrative purposes only.

Account-Based pension

An Account-based pension converts superannuation benefits from accumulation phase into a retirement phase income stream.

Features of Account-based pensions

Account-based pensions have these basic features:

- Flexible payment options allowing choice in payment frequency and the amount received, subject to minimum payment requirements
- Additional withdrawals can be made at any time
- Investment earnings are tax-free
- Upon death, the pension can:
    - continue to be paid to a qualifying dependant if made as a reversionary pension
    - be paid as a death benefit pension to a qualifying dependant
    - be paid as a lump sum to qualifying dependants or an individual's estate.

All withdrawals from an Account-based pension are received tax-free by individuals aged 60 and over.

Any pension withdrawals from an Account-based pension prior to reaching age 60 will have to be pro-rated between a taxable and non-taxable portion, based on the proportion of such benefits at the time of commencing the pension. Tax will be payable at marginal tax rates on the taxable portion of any pension drawn, and a tax rebate of 15% will be applied to taxable portion of any pension drawn.

All income generated and capital gains realised on superannuation benefits held within an Account-based pension are received tax-free by the superannuation fund.

Investment returns are not guaranteed and depend on the performance of the superannuation funds investment portfolio. There is uncertainty around how long superannuation benefits held within an Account-based pension will last.

Who is eligible to commence an Account-based pension?

To be eligible to commence an Account-based pension an individual must satisfy one of the following conditions of release:

- Have permanently retired from the workforce after reaching their preservation age.
- Reached age 65.
- An arrangement under which the individual was gainfully employed has ended after turning age 60.
- Have become permanently disabled.

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Preservation age

An individual's preservation age is based on their date of birth as per the table below:

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

Once an individual becomes eligible, they can choose to commence an Account-based pension from their superannuation benefits.

Transfer Balance Cap

The general Transfer Balance Cap limits the amount of superannuation benefits that can be transferred into a retirement phase income stream, such as an Account-based pension to $1,700,000.

Individuals who commenced a retirement phase income stream in place prior to 1 July 2021 have a Transfer Balance Cap calculated by the Australian Taxation Office based on reported transfer balance transactions.

Lifetime and Life Expectancy defined benefit pensions are also assessed against the Transfer Balance Cap. These pensions will reduce the amount of superannuation benefits that can be used to commence an Account-based pension.

The commencement of a retirement income phase pension needs to be reported to the Australian Taxation Office and will be applied to an individual's Transfer Balance Account. Lump sum withdrawals from a retirement phase pension also need to be reported as they will reduce the amount applied to an individual's Transfer Balance Account. All reporting is required to be made by the superannuation fund where the retirement income phase pension is held.

Earnings on investments held to support the income stream and pension payments from the income stream do not affect the Transfer Balance Cap and are not required to be reported to the Australian Taxation Office.

Amounts above an individual's Transfer Balance Cap can be retained in super in accumulation phase where earnings are taxed at 15% within the fund.

Retirement phase income stream before 30 June 2021

Where an individual had a retirement phase income stream in place prior to 1 July 2021, the general Transfer Balance Cap was $1,600,000.

Individuals who previously transferred less than $1,600,000 of superannuation benefits into retirement pension phase received indexation to their Transfer Balance Cap on 1 July 2021. The indexation applied is calculated as follows:

Highest ever Transfer Balance Account balance / $1,600,000 x $100,000

For example if an individual transferred a total of $850,000 of superannuation benefits into retirement phase income stream, the indexation applied to their Transfer Balance Cap will be:

General Transfer Balance Cap prior to 1 July 2021	$1,600,000
Less: *Highest Ever Transfer Balance Account*	($850,000)
Balance of General Transfer Balance Cap	$750,000
Indexation applied ($750,000 ÷ $1,600,000 x $100,000)	$46,875
Individual Transfer Balance Cap	**$796,875**

Individuals with a highest ever Transfer Balance Account balance prior to 1 July 2021of $1,600,000 will not receive any indexation.

Minimum pension requirements

An individual can nominate the pension amount they would like to receive each financial year and can change this amount at any time as long as the amount is above the age-based minimum limits.

The Government sets age-based minimum levels of annual pension payments. The minimum pension is required to be calculated based on:

- The balance of superannuation transferred to an Account-based pension at commencement.
- The balance of an Account-based pension account on 1 July.
- The minimum percentage factor for an individual's age at commencement or 1 July.

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The standard minimum pension percentage factors are shown in the table below:

Age	Minimum pension % factor
Under 65	4.00%
65 - 74	5.00%
75 – 79	6.00%
80 – 84	7.00%
85 - 89	9.00%
90 – 94	11.00%
95 and over	14.00%

The minimum pension percentage factors have been reduced for the financial year ending 30 June 2023 and are shown in the table below:

Age	Minimum pension % factor
Under 65	2.00%
65 - 74	2.50%
75 – 79	3.00%
80 – 84	3.50%
85 - 89	4.50%
90 – 94	5.50%
95 and over	7.00%

Where a pension is commenced part way through a financial year the minimum pension is pro-rated, based on the remaining days in the financial year.

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