Account Based Pensions

Superannuation can be used to start an account based pension once a person retires (or meets another condition of release).

This allows income to be received as a series of regular payments (usually monthly, quarterly, half yearly, or yearly).

A minimum amount of income needs to be paid each year and additional lump sum withdrawals can generally be made at any time. The pension can also be stopped (fully commuted) and be rolled back to the accumulation phase of superannuation, or rolled over to start another income stream, or be taken as a lump sum. Restrictions apply to taking lump sum withdrawals where the pension is being paid under transition to retirement rules.

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 $1.6m. 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

The person can select how much income to receive each financial year. This allows flexibility to meet individual needs. The only 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 of the account based pension and again at the start of each financial year. 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

The minimum payment factors are shown in the following table (with the resultant dollar amount being rounded to the nearest $10):

Age	Income Factor - Standard	Income Factor - 2019-2020 & 2020-2021
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%

Pensions being paid under transition to retirement rules are subject to a maximum income limit of 10% of the account balance.

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 table below:

	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 $1,565,000[#]
			45%* over $1,565,000[#]
Preservation age to age 59		0% up to $215,000# 15%* above $215,000#	15%* up to $215,000[#]
			30%* from $215,000[#] to $1,565,000[#]
			45%* over $1,565,000[#]
Age 60 or older		Tax-free	15%* up to $1,565,000[#]
			45%* over $1,565,000[#]

** Plus Medicare Levy*

 # Thresholds are applicable for the 2020/21 financial year. The low rate cap ($215,000) is reduced by previous lump sum payments. The higher untaxed plan cap ($1,565,000) is a per plan cap.

Earnings added to a retirement phase pension account (excluding transition to retirement pensions) are tax-free. No tax is payable within the superannuation fund and this can help to boost the effective earnings rate.