ACCESSING YOUR SUPER WITH AN ACCOUNT BASED PENSION.

Most of us will spend a significant portion of our working careers, if not all, accumulating wealth in superannuation and dreaming about retirement. But what actually happens to your super when you retire and how can you continue making your super work for you?

One option available at retirement is an account based pension.

How does it work?

An account based pension can provide you with a regular and tax effective income stream in retirement. By utilising the funds you have accumulated, an account based pension can be purchased to draw a regular income from your super.

Similarly to the accumulation phase and the offerings available by your super fund provider, you can invest your account based pension in a range of investments; shares, cash, fixed interest, property. However, the current rules only permit the transfer of up to $1,600,000 into an account based pension, this is referred to as the Transfer Balance Cap. Any funds over $1.6mil may remain in the accumulation phase where they continue to be taxed at 15% on investment earnings and 15% (10% discount for assets held for longer than 12 months) on any capital gains. Alternatively, you may withdraw the funds from super as a lump sum.

To access an account based pension you must to meet a condition of release; for example, reach preservation age and have retired from the workforce or attain age 65.

What is your preservation age?

Date of birth	Preservation age
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

How much can you draw?

While there is no maximum limit to how much you can withdraw, of course you cannot draw more than your account balance, you must at least draw the prescribed minimum amount based on your age.

The Government has temporarily reduced the annual minimum drawdown rates by 50%, in 2019-20 and 2020-21, due to the current financial impact of COVID-19.

Age	Minimum	Reduced minimum
55-64	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-49	9%	4.5%
90-94	11%	5.5%
95+	14%	7%

The minimum pension amount is calculated on the account balance at the commencement of an account based pension (if commenced during the financial year) and on the account balance at the start of each financial year thereafter.

Depending on the account based pension provider, you may be able to nominate the frequency of your pension payments; monthly, quarterly etc. or alternatively have the flexibility to draw ad hoc payments that suit you. You will continue to receive your scheduled pension payments until your balance reaches zero.

Benefits of an account based pension

A large benefit of an account based pension is the tax savings. The earnings from the investments in your account based pension are 100% tax free with no capital gains tax liability. Less tax means more money to potentially reinvest. This can be more tax effective than taking your super as a lump sum upon retirement and investing in your own name where you may be liable for tax at marginal tax rates plus Medicare.

Any pension payments and lump sum withdrawals from your account based pension are tax-free for individuals over age 60.

Additionally, you can make ad hoc withdrawals at any time as you need.

Factors to consider

The value of your account based pension can fluctuate depending on market performance. As a result there is always a longevity risk that your account based pension will not last during your lifetime. That's why is it important to speak to a financial adviser and start planning as early as possible for your retirement.

Where does your pension go when you die?

Superannuation legislation allow your benefits to be paid to a select few beneficiaries on death usually classified as dependents and children of any age, or your estate. There are a couple of ways to nominate a beneficiary:

- **Reversionary beneficiary:** On death, the account based pension will revert to the nominated beneficiary and this person will continue to receive the pension payment until the account balance runs out. Only a spouse or a dependent child can be nominated under a reversionary arrangement.
- **Death benefit nomination:** This nomination provides greater flexibility of who you can nominate as a beneficiary and the beneficiaries payment options. Where you nominate a spouse or a dependent they will have the option of continuing the pension payment or withdrawing either a part or the entire balance as a lump sum. Where nominations are made to non-dependents they can only receive the benefits as a lump sum. There may be a tax liability payable by the non-dependent associated with this option.

Where you nominate your Personal Legal Representative i.e. your estate, benefits will be paid and distributed by your estate which will also deal with the tax consequences. For more information regarding death benefits tax, please refer to our previous newsletter *Avoid the superannuation death tax*.

An account based pension can be a tax effective way of receiving a regular income stream in retirement. It is important that you meet the condition of release and adhere to the rules surrounding minimum drawdowns and maximum account balances at commencement.

Should you wish to discuss an account based pension further please contact your Bell Potter adviser.

Ayten Ozder
Technical Financial Adviser
Bell Potter Securities

Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).