Mercer WealthSolutions®

December 2009

Retirement and account-based pensions

When you finally retire and can access the superannuation savings you have accumulated during your employment you can generally receive that money in one of two ways – a lump sum or a pension.

Taking a lump sum means that the superannuation fund pays the amount to you; that is, it comes out of the superannuation system; and then you can spend or invest the proceeds as you decide. Depending on your age and the components of your superannuation savings, you may have to pay tax if you take your super savings as a lump sum payment.

Taking your super savings as a pension means that your savings stay in the superannuation system and you receive regular income (usually monthly, though you may be able to choose quarterly or yearly payments). Government legislation requires that you take a minimum amount of income each year. Depending on your age and the components of your super savings, you may have to pay tax on the income you receive from the pension.

Depending on the rules of your superannuation fund, you may be able to take your super savings as a lump sum, a pension or a combination of both – part pension and part lump sum.

If your superannuation fund does not have a pension option, you can transfer your super savings to a super fund that does offer pensions.

Check with your super fund as to the options that are available to you.

What does 'retire' mean?

You are considered to be retired if you have ceased working on or after reaching your preservation age and you have no intention of returning to the workforce for more than 10 hours each week.

Your preservation age depends on when you were born, so refer to the table opposite to see your preservation age:

Date of birth	Preservation age
Before 01.07.60	55
01.07.60 – 30.06.61	56
01.07.61 – 30.06.62	57
01.07.62 – 30.06.63	58
01.07.63 – 30.06.64	59
After 30.06.64	60

For example, John is currently 57 years old and ceases working with his employer and takes a job at his local garden nursery working only one day a week for six hours. John is considered to be retired and so may be able to take his superannuation as a lump sum, pension or combination (depending on the rules of his super fund). Keep in mind there may be taxation implications if he accesses his super as a lump sum or a pension.

You are also considered to be retired if you cease working on or after age 60 – regardless of your future work intentions.

For example, Mary is currently 62 years old, ceases working with her employer in the city and takes a job at her local newsagency working 28 hours per week. Mary is considered to be retired and so may be able to take her superannuation as a lump sum, pension or combination (depending on the rules of her super fund). Keep in mind there may be taxation implications if she accesses her superannuation as a lump sum or a pension. Further, any superannuation guarantee contributions her new employer makes are preserved.

What is an account-based pension?

An account-based pension is one type of pension that a superannuation fund may offer. It allows you to draw down regular pension payments from your super account or to take lump sum payments as and when you require.

With an account-based pension your savings are retained in the superannuation system, but you choose how your account is invested from the investment options available in the fund and you are paid a regular amount from this account.

You cannot add any further money to the account, so your account balance at any given time is based on:

The original account balance

LESS

The income paid, lump sum withdrawals, fees and charges

PLUS

Investment earnings (which may be positive or negative)

You must receive a minimum amount of income each financial year and this amount is dependent on your age when you commence the pension, and on your age on 1 July for each subsequent financial year after commencement. This amount is calculated as a percentage of your account balance. A maximum doesn't apply. The table below shows the standard minimum percentage and the reduced minimum percentage that applies for the 2009/10 financial year.

Age	Standard percentage of account balance to be paid as a minimum (%)	Reduced percentage of account balance to be paid as a minimum (%) for 2009/10
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+	14	7

You will receive income from your account-based pension until there is no money left in the account – therefore, the more income you receive or the more lump sum withdrawals you make, the quicker your money will run out. If you die and there is still money in your pension, the account balance is paid to your dependants. The rules for payment of death benefits are involved, but generally your spouse can choose to continue to receive income from the account-based pension, but a lump sum can be paid to your dependants or to your estate.

How is your account-based pension taxed?

No tax is payable on the amount which is used to commence an account-based pension (except where that amount includes an untaxed element, in which case tax of 15% is deducted).

A person who is 60 years of age or older who receives income from an account-based pension does not pay tax on that income. In fact, they do not even declare that income in their tax return. They also do not pay tax on any lump sum withdrawal they receive.

A person who is over their preservation age (but under age 60) has to pay tax on the income they receive, but a portion of their income may be tax-free and they would be eligible to a 15% tax offset that would help reduce the tax. They may also be subject to tax if they received a lump sum withdrawal.

In all cases though, tax is not payable on the investment earnings of the account-based pension.

How is your account-based pension treated for social security purposes?

For assets test purposes, the account balance is an assessable asset. The account balance is reviewed every six months – or annually if a yearly income payment has been selected.

Centrelink determines how much of your account is excluded for the purpose of the income test. The aim is to ensure that any of the original capital (the amount you used to establish your pension) is not income tested.

The amount excluded from the income test is established at the time of commencement and is only reviewed if an amount is withdrawn as a lump sum (lump sums in addition to the regular income received).

MWS_Factsheet_Retirement_account_pensions_01122009

To speak directly with a Mercer financial adviser call 1800 633 403.
We have offices located all around Australia. To find a Mercer office, please visit our website at mercerwealthsolutions.com.au

Adelaide Brisbane Campbelltown Geelong Glen Waverley Melbourne Newcastle Parramatta Perth Sale Sydney