PODCAST – Account-based pensions

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Chris: Hello, and welcome to the **Plum Super Podcast Series**

My name **is Chris Odgers** and I'm here today with my colleague, **Marcus Thompson**, two of your Superannuation Consultants at Plum Super. Our role is to provide information, guidance and advice to our super members throughout their working life and into retirement.

Chris: Hi Marcus
Marcus: Hi Chris, great to be here.

Chris: And we're here today to talk about the benefits of account-based pensions.
So, Marcus, first of all what is an account-based pension?

Marcus: An account-based pension is one of a variety of income stream options available to Australian retirees, and offers regular, flexible and tax-effective income from your superannuation. People may have heard them referred to by a former name, 'allocated pension'.

There are other types of pensions such as:

- Transition to retirement pensions
- Annuities
- Government's age pension

Today we will be discussing Account-based pensions.

Chris: And why *would* a person set up an Account-based pension?

Marcus: Chris, the main benefit of choosing an account-based pension relates to the tax savings. An account-based pension can be more tax-effective than taking your super as a lump sum. The earnings from investments in your account are tax-free. These tax-free earnings remain in your account and increase the account balance.

Chris: At what age can you set up an Account-based pension?

Marcus: Account based pensions must be purchased using superannuation monies, and therefore people must first reach their 'preservation age' to be able to access their super.

Chris: "Preservation age", can you explain this a bit further?

Marcus: Yes, sure Chris. Your preservation age is the age at which you can access your super, which can vary depending on your date of birth, and will be between 55 and 60.
As an example, if you were born before 1 July 1960, your preservation age will be 55.

I will add a secondary requirement to this definition, which is that you must also have declared yourself to be retired, unless you have turned 65. That's what we refer to as having met a 'condition of release' in order to access your super.

Chris: And just back to that example Marcus, if you were born *after* 1960, what would your preservation age be?

Marcus: Chris, if you were born during the period between 1 July 1960 and 30 June 1964 then your preservation age will be between 55 and 60. The exact age can be obtained by reference to the ATO website. For everyone born after 1 July 1964 however, their preservation age is 60.

Chris: Thanks Marcus, so how exactly does an account-based pension work?

Marcus: An account-based pension is a regular income stream bought with money from your super when you retire.

Typically, at retirement you get to choose:

- How much of your super you want to transfer from the 'accumulation phase' to the 'pension phase' - subject to the transfer balance cap, and
- The size and frequency of your payments

It's important to note that an account-based pension is not a guaranteed income for life, and in simple terms essentially pays the regular pension amounts from the account until the balance is depleted.

Chris: Marcus, after I set up my account-based pension, how often can I have my payments made to my nominated account?

Marcus: You can arrange for monthly, quarterly, half-yearly or annual payments. These will continue until the account balance runs out, or you take what's left as a lump sum.

Chris: OK - and are there any restrictions as to how much I can take out each year?

Marcus: Good question Chris. Yes, a minimum amount is required to be paid out each year. There is no maximum amount, other than the balance of your account.

The minimum amount you need to withdraw in pension payments depends on your age. By way of a couple of examples:

- For those that are under the age of 65 when they commence an account-based pension, the minimum withdrawal is 4% per year of their account balance on 1 July.
- If aged between 65-74, the minimum withdrawal is 5% per year.
- If aged between 75-79, the minimum withdrawal is 6% per year.

For reference to your individual minimum withdrawal amount, we recommend visiting the ATO website.

Chris: Marcus, finally on this point I understand there were some changes made to the minimum withdrawal limits due to the impact of Covid 19?

Marcus: Yes, that's correct. To assist retirees, the Government temporarily reduced the minimum annual payments required for account-based pensions by 50% for the 2020, 2021 and 2022 financial years. This provided holders of an account-based pension the opportunity to reduce the amounts being paid from their accounts to help preserve their capital during that period.

Again, we recommend people seek further information on this point from the ATO website, or from their super fund if they already have an account-based pension in place. It's important to make sure your pension income will suit your needs.

Chris: OK, thanks for that. So, importantly, how long can I expect my account-based pension to last for?

Marcus: The term of your account-based pension depends on a few factors:

- The amount of super you transfer to your pension account, that is, your opening balance
- How much you take in payments each year
- The investment earnings on your account, and
- How much you pay in fees

Chris: And just back to one of your earlier points, subject to your "transfer balance cap".
What does this mean?

Marcus: The general transfer balance cap commenced at an amount of $1.6 million dollars, was increased effective 1 July 2021 to $1.7 million dollars and again effective 1 July 2023 as a further CPI adjustment to $1.9 million dollars. All 'retirement phase' income streams received will count towards your transfer balance cap. The age pension (or other types of government assistance payments) and pensions received from foreign super funds do not count towards your transfer balance cap.

Chris: And just for clarity, the transfer balance cap - which you mentioned is now $1.7 million - is that for an individual or a couple?

Marcus: Chris, the limit is $1.9 million per individual. So, under present arrangements, a couple could conceivably commence account-based pensions totalling $3.8 million – assuming they had sufficient super fund balances!

Chris: And Marcus, on your point about investment earnings, are there any guidelines or tips about how the underlying investment portfolio, or asset allocation should be set up for an account-based pension? I currently have my super set up in the default portfolio, but at times have moved my funds around to include some of the other portfolio options on the menu offered by my super plan.

Marcus: Yes, good point. You have the same flexibility in an account-based pension as with a normal accumulation super account. It's certainly best to get some advice on this point, so your entire financial position can be considered. But to guard against volatility, account-based pensions do tend to be set up with cash and very conservative assets to be accessed in the early years, with the long-term assets that won't need to be drawn on for several years to be more focussed on traditional growth assets such as shares and property.

Chris: And Marcus, are there any Age Pension implications with setting up an account-based pension?

Marcus: Your eligibility for the Age Pension depends on your age, assets and income. Account-based pensions form part of the income and assets test to assess your eligibility, and so may impact the amount of Age Pension you are eligible for. We suggest you seek advice from Centrelink or your financial adviser.

Chris: OK, good to know. And what will happen to my account-based pension if I die? Will any of my funds be lost?

Marcus: No, the funds will not be lost. The balance of your account if you die will go to your beneficiary or beneficiaries. Beneficiaries of a super fund are the members, and their dependants (if the member dies) or your estate.

- **If you nominated a 'reversionary beneficiary'** — they continue to get your pension payments until the account runs out. If they're a child, they'll get pension payments until age 25, then the balance as a lump sum.
- **If you nominated a spouse or dependant as beneficiary** — they can take your death benefit payment as a pension or lump sum. A non-dependant beneficiary can only take your benefit payment as a lump sum.

Chris: And Marcus, just picking up on some of the points we've covered so far, what are some of the pros and cons of using an account-based pension?

Marcus: It is important to consider the pros and cons to decide if an account-based pension is right for you.

Pros

- **Flexible pension payments** — you can choose a payment arrangement to suit you (within the minimum or maximum allowed).
- **Add to Age Pension** — if you're eligible, you may be able to use your account-based pension payments to top up your income.

Chris: And I understand there is also some favourable tax treatment with the use of account-based pensions?

Marcus:

- **Tax-effective** — you don't pay tax on pension payments from age 60. If you're age 55 to 59, the taxable part of your pension is taxed at your marginal tax rate less a 15% tax offset.
- **Investment earnings are tax-free** — you can choose how your fund invests your money, and returns are added to your account.
- **Estate planning** — there may be money left for your beneficiaries when you die.

Chris: And what about being able to take out a lump sum, say if I want to buy a new car?

Marcus: Yes, that is another pro…

- **Lump sum** — you can withdraw all or some of your money at any time.

Chris: OK, sounds like lots of pros. And I assume there are some cons as well of an account-based pension?

Marcus:

Cons

- **Impact on Age Pension** – your account-based pension forms part of the income and assets tests, so it may affect your eligibility. However, this is likely to be the case if you invest the money in another financial investment.
- **Investment earnings may go down in value** — depending on market performance.
- **Longevity risk** – there's no guarantee your super balance will last as long as you do**.**

Chris: **"**Longevity risk" – Marcus, can you explain that term for me please?

Marcus: Longevity – is one of the biggest risks facing members in the retirement phase. It refers to the risk of outliving your savings. Longevity issues arise as people enter retirement, generally with a fixed amount of money to fund their retirement years, but with no idea of how long they will live and, therefore, no idea how long their money needs to last.

Chris: Thanks Marcus, as we are getting towards the end of this podcast, if someone is looking at starting an account-based pension what are some of the reasons why they should consider it?

Marcus: Chris, most people have spent their life accumulating their super and now they are nearing those retirement years they have been dreaming about, they can continue to let their super work for them by turning it into a regular source of income. An account-based pension can be more tax-effective than taking your super as a lump sum.

The earnings from investments in your account are tax-free. These tax-free earnings remain in your account and can increase the account balance, depending on market performance.

You also need to have the right strategy in place so that your investment has the potential to grow and you are not just drawing from your retirement savings. So, speaking with an expert or financial planner is recommended.

Chris: OK, thanks for that, certainly sounds like a lot of compelling points to consider.
So where can people go for further information about account-based pensions or any other aspect of their Plum superannuation account?

Marcus:

1. The Plum website at www.plum.com.au

Lots of information here. We remind people it's a great idea to set themselves up with online access to their account if they haven't already done so. You can also check out our range of podcast topics here, via our **Financial Wellness Hub**, which can be accessed from the 'News & views' tab on the website.

On the **Financial Wellness Hub**, you will also find educational and interactive content that goes beyond superannuation, addressing your holistic needs, by providing access to industry experts and thought leaders.

2. Plum contact centre on **1300 55 7586**
   Between 8.00am and 7.00pm AEST, Monday to Friday

3. Conversation/personal financial advice

If you would like additional information on a more personal basis, a couple of options:

- 1:1 conversation with one of our Plum representatives (such as Chris or myself) – General Advice basis. This can be booked for a convenient time, also via the **Financial Wellness Hub**.

- Or for personal financial advice, you can set up an initial meeting with one of our licensed financial planners. This can be initiated through the Plum contact centre - **1300 55 7586**

Chris: Marcus, thanks for assisting us with this podcast; we do hope this information has been helpful.

And a reminder that the content today is general information.
Thanks, and bye for now.

Marcus: And bye from me too.