

FACT SHEET

Account Based Income Streams

(formerly Allocated Pensions or Allocated Annuities)

What is an account based income stream?

An Account Based Income Stream (ABIS) is a means of creating a regular income, comprising capital and earnings, payable directly from money held in a personal superannuation fund. With unitised products the payments are made by the product provider repurchasing units at the current exit unit price and crediting the member's nominated non-superannuation account. With non-unitised products, a set sum of money is transferred to the member's non-superannuation account.

An ABIS can be set up using unrestricted non-preserved superannuation money. A minimum percentage of the balance, based on the age of the member, must be drawn each financial year. The maximum that can be drawn is the total balance of the account.

A Transition to Retirement Pension (TRP) can be set up using 'preserved' superannuation money provided the superannuant has reached their preservation age. The minimum payment is the same as an ordinary ABIS but a maximum drawdown limit of 10% of the balance applies and no commutations are allowed except to return part or all of the balance to the accumulation phase of superannuation. These restrictions cease once the superannuant meets a condition of release such as reaching age 65, and the TRP moves to the retirement phase. The member needs to ensure the fund is aware that the

condition of release is met where it is intended for the TRP to become a retirement phase income stream or when transferring it to an ABIS.

Most superannuation providers offer ABIS and/or they can be paid by a Self Managed Superannuation Fund (SMSF). Conversion of all or part of a member's account from the accumulation phase is relatively simple although asset allocation may need to be reconsidered.

Features

- Flexible structured payments are provided.
- If commenced in June the first payment can be deferred to the next financial year.
- Maximum payment is the balance of the account with any amount able to be drawn at any time subject to fund rules. For a TRP the maximum payment for the year is 10% of the balance as at the start of the financial year.
- ABIS are portable. They can be transferred to another retirement income stream and maintain taxation concessions, or be rolled back to the accumulation phase of superannuation.
- Investments ranging from lower risk (defensive) to higher risk (aggressive/growth) options are generally available. Some offer fixed rates for fixed terms that can be renewed upon expiry.
- A beneficiary or reversionary recipient can be nominated subject to fund rules.

Glossary

Commutations - *The conversion of a pension or annuity, in full or in part, to a lump sum.*

Income tax offset - *A reduction in the amount of tax payable.*

Preservation age - *The age when preserved benefits can be accessed after satisfying a condition of release.*

Preserved benefit - *The portion of a superannuant's benefit that cannot be accessed until a condition of release has been met.*

Reversionary recipient - *Person to whom payments continue in the event of the death of the superannuant.*

Superannuant - *Original owner and member of the superannuation benefit. Also known as primary beneficiary.*

TRP - *Also referred to as a Transition to Retirement Income Stream (TRIS).*

Unrestricted non-preserved money - *The portion of a member's superannuation benefit for which a condition of release has been met.*

But Remember...

- The use of ABIS and other tax free retirement income streams is subject to the member's available Transfer Balance Cap. Currently an individual's transfer balance cap is \$1.6M.
- ABIS and TRP's in the 'retirement phase' count towards the individual's Transfer Balance Cap. TRP's not in the retirement phase do not count towards the individual's Transfer Balance Cap.
- The use of the term 'retirement phase' with relation to TRP's refers to when the TRP meets the definition of a retirement income stream, i.e. after the member satisfies a condition of release.
- Pension payments will not continue indefinitely – they stop when the money runs out.
- Performance is subject to market influences and management, so negative returns may occur. For further information refer to our publication Safety, Risk & Scams and our Risk Meter.
- Unless a binding nomination is made the Trustee may use discretion as to whom the benefit is paid.

Fees

- Entry fees may vary between nil and 5%.
- Management fees are deducted before earnings are declared and can range between 0.75% - 2.5% of the value of the account.
- Master trusts can give access to wholesale funds with lower management fees but additional administration charges may apply. Refer to the Financial Literacy Service publications 'Investment Fees' and 'Master Trusts & Wrap Accounts'.
- Accessing wholesale funds directly may be possible depending on the provider.

Taxation

- Earnings accrued in an ABIS or TRP in the retirement phase are exempt of tax. Earnings accrued in a TRP that is not in the retirement phase are taxed up to 15% in the hands of the fund.
- Payments to superannuants aged 60 or more are exempt income and so are free from income tax.
- Payments to superannuants under 60 are taxable less an amount, representing the proportion of their tax exempt component. An income tax offset of 15% applies to the remainder of the income.

- Taxation of payments to a reversionary recipient is dependent on the age of the superannuant and the reversionary recipient at the time of death – (see Death Benefits).
- Payments to non-dependants or to the estate are made as a lump sum and tax at the rate of 15% plus Medicare levy is payable on the taxable component – (see Death Benefits).

Government Income Support (GIS)

The account balance is an assessable asset. Revaluation occurs annually as at 1 July with information supplied to the account holder by the product provider.

Purchase of an ABIS by a GIS recipient prior to 1 January 2015 allowed for a Deductible Amount (DA) representing a return of capital. The annual payment less the DA is assessed as income. The DA was calculated by dividing the purchase price less any commutations by the 'relevant number' (the longer life expectancy of the owner or reversionary recipient if applicable).

An ABIS purchased or transferred from 1 January 2015 or owned by a person who qualifies for GIS on or after that date is subject to deeming under the income test.

Death Benefits

Payment of a pension can continue to a reversionary beneficiary if the reversionary beneficiary has met a condition of release (below) or they may elect to draw the balance as a lump sum. Conditions of release are:

- Age 65
- Retirement before age 65
- Permanent incapacity
- Terminal illness

If the superannuant was aged over 60 years at the time of death the benefit payment continues to be tax free to the reversionary beneficiary. If the superannuant was under age 60 at death the payment is taxable to the reversionary beneficiary unless or until the reversionary beneficiary is aged 60 years.

If paid as a lump sum to a dependent the payment is tax free. Non dependents can only receive the benefit as a lump sum and the taxable component is taxed 15% plus the Medicare levy.

From 1 July 2017 death benefit income streams can be rolled over to other providers and keep it's death benefit status.