Retirement Income – Term Allocated Pension

A term allocated pension may provide tax-effective, regular income to help meet your income needs using your superannuation savings.

NOTE: The ability to commence a term allocated pension from existing superannuation savings ceased on 19 March 2007. A term allocated pension commenced today can only commence with the proceeds from the commutation of an existing complying income stream.

Benefits

- Pension income you receive may be tax-free if you are aged 60 or over (and paid from a taxed super fund) depending on the level of income.
- Some of the pension income may be taxable if you have reached your preservation age and are under age 60 or permanently disabled. You may be entitled to a 15% tax offset on the taxable portion of your pension payments in some circumstances.
- You will be required to receive a minimum amount from your pension each year, which is based on a payment factor determined by the remaining term of your pension. However this amount can be adjusted up or down by 10%.
- You have flexibility by continuing to have a wide range of investment options depending on the choice available with the pension provider.
- You can nominate eligible beneficiaries to receive the remaining benefits upon your death.
- You may continue to receive favourable Centrelink/Veterans' Affairs treatment under the income and assets tests.

How it works

A term allocated pension is an income stream paid from a superannuation fund. To have commenced a term allocated pension, you would have met a full condition of release to have unrestricted non-preserved funds in your superannuation account. Full conditions of release include circumstances such as meeting the retirement definition for super purposes, attaining age 65, and certain situations where you're classified as permanently disabled.

Term allocated pensions may be tax-effective because:

- Pension income paid to you from age 60 may be tax free (from a taxed fund) depending on the level of income.
- Taxable pension income paid to you between preservation age and age 60 or due to permanent disability is eligible for a 15% tax offset (from a taxed fund).
- Within the term allocated pension account, all earnings and capital gains from investments are tax exempt. This can boost the effective returns compared to other similar investments you may own personally.

The annual amount of pension payments is determined based on:

- Account balance
- Payment factor which is based on the remaining term
- Any adjustment of 10% (up or down that you elect).

Your account balance will increase and decrease over time due to factors such as positive or negative market movements, pension payments, fees and charges. These factors can influence how long your account based pension will last.

Pension transfer balance cap and taxation of pension payments

The total amount of superannuation money that you can transfer to tax-free superannuation income streams is subject to a lifetime cap. In 2020/21, the cap is $1.6 million (and may be indexed in future years). You will have your own transfer balance cap and it includes all superannuation income streams that are payable to you. Depending on your circumstances, superannuation income streams could include:

- Account based pensions
- Annuities
- Term-allocated pensions
- Defined benefit pensions, and
- Death benefit income streams from one of the above.

Commenced before 1 July 2017

The method your term allocated pension is valued to determine the amount that counts towards the transfer balance cap is based in part, on whether it was commenced before or after 1 July 2017.

Certain income streams which are non-commutable, including term allocated pensions commenced prior to 1 July 2017, have a value determined for the purpose of the transfer balance cap, based on a formula contained in the legislation. The calculation is:

Annual Income x remaining term

If the amount calculated under the formula exceeds your transfer balance cap, it will impact the taxation of the pension payments.

If the amount of income you receive from your term allocated pension from a taxed fund and other non-commutable income streams exceeds $100,000, you will be subject to additional taxation. The taxation of pension payments, both below and above the $100,000 thresholds are:

Type of scheme	Age	Amount below $100,000* income cap	Amount above $100,000* income cap
Taxed	< Preservation age	Taxed at marginal tax rate	Taxed at marginal tax rate
	> Preservation age - 59	Taxed at marginal tax rate less 15% offset	Taxed at marginal tax rate less 15% offset
	60 +	Tax-free	50% of amount above cap added to assessable income and taxed at marginal tax rate

** $100,000 income cap applies to the 2020/21 financial year and may be indexed in future years.*

Commenced on or after 1 July 2017

If a new term allocated pension is commenced on or after 1 July 2017, the amount used to commence the pension (or purchase price) counts towards your transfer balance cap. Exceeding the transfer balance cap may result in tax penalties.

The taxation of your term allocated pension payments will consist of a taxable and a tax-free component. Whilst you are under age 60 (but have reached your preservation age), pension payments from the taxable component are included in your assessable income with a 15% tax offset to help reduce your tax (from a taxed source). Once you turn age 60, all pension income is tax free (from a taxed fund).

Please refer to the 'Transfer Balance Cap' Understanding Series for further information.

Pension payments
You must receive a certain amount of income each year from your term allocated pension.

When you commence your pension it is calculated based on the nominated term at that time and your account balance. The pension amount is then recalculated every 1 July based on a payment factor determined by the remaining term and account balance at that time.

You have the flexibility to increase or decrease the calculated pension by 10%.

Also, for the 2019/20 and 2020/21 financial years, the minimum payment amount is reduced by 50%. This was part of the Government's response to COVID-19.

Centrelink/Department of Veterans' Affairs (DVA)

Term allocated pensions may be classified as complying income streams for Centrelink/DVA purposes. This means the pension may receive favourable treatment under the income and assets tests.

The income of a term allocated pension is assessed by the Centrelink/DVA's income test is total pension income is reduced by a 'deductible amount' that reflects a return of the purchase price where the term is more than five years.

If your term allocated pension satisfies the criteria, only 50% of the account balance is assessed under the Assets Test. Otherwise the full account balance is counted as an assessable asset.

Risks and Consequences

- Your Term Allocated Pension may not last for the rest of your life. Your balance will rise and fall based on investment returns and pension payments. There will be no capital left at the end of the term of the pension.
- The amount of the income payments will vary each year depending on the account balance and remaining term as at 1st July each year. The amount of the annual payment can be varied either up or down by 10%.
- There is no access to capital in the form of lump sum payments. Withdrawals beyond the pension payments are not permitted.

- Your pension strategy and financial situation should be reviewed annually or if your circumstances change.
- A lifetime cap of $1.6 million applies to the total amount of transfers that can be made into retirement phase. This may be subject to indexation, and applies to all superannuation income streams including term allocated pensions. Additional tax will apply if amounts exceeding this cap are transferred. Ordinarily, you will be required to remove the excess amount, as well as notional earnings on this amount. If you have a non-commutable product, such as a term allocated pension, additional tax may apply on the pension income where you can't remove a lump sum to eliminate your excess.
- These rules are complex and you should seek further advice from us to understand how this rule will impact upon you.
- You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

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