

WHAT IS

An Account-based Pension (ABP)?

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The key to all retirement income stream products is that they provide a convenient way for you to use your retirement savings to meet your ongoing living expenses. Under current rules, an account-based pension may also be referred to as a retirement phase pension (RPP). This is a superannuation investment which pays you a regular and tax effective income in retirement.

How do account-based pensions work?

Once you meet a condition of release, you can roll money from your superannuation fund into pension phase.

The pension then pays you a regular income, comprised of earnings and capital, until your account balance runs out. With an ABP, you can choose the amount of income paid to you each year, but you must draw at least the minimum prescribed amount based on your age and account balance.

The minimum percentages are shown in the following table:

Your age	Minimum annual payment
Under 65	4%
64–74	5%
75–79	6%
80–84	7%
85–89	9%
90–94	11%
95 or more	14%

You can withdraw a lump sum at any time. You often also choose the underlying investments for your ABP. This means you choose the level of risk that suits you when investing your retirement savings

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Case study

Jack is aged 60 and commenced an ABP[1] on 1 July with a balance of $500,000. He chooses to receive an annual payment of $20,000 which is the minimum annual payment (4%) based on his age. He informs the pension provider that instead of a large lump sum he would prefer a regular monthly payment, that is $1,667[2] per month.

Depending on market conditions and the underlying assets of his ABP, the balance of his pension will change over time. For example, if the underlying assets of the ABP grow by 5% and the minimum annual payment is 4%, the balance of his pension will increase by 1%. Similarly, where the annual payment is greater than the return of the ABP, the balance of the pension will decrease.

Over time, the minimum annual payment will increase significantly with age. After he turns 85, Jack is required to draw down a greater proportion of the ABP each year. Based on the Moneysmart account-based pension calculator, Jack's ABP will run out by approximately age 98[1]

What are the tax advantages of ABPs?

- Lump sum tax is deferred when you transfer superannuation money to an ABP or other retirement phase pension. Once you are over age 60, lump sum tax will be eliminated while you are alive.
- No tax on earnings in the fund where the total super balance is under $3,000,000.
- Little or no tax on the pension income. In fact, once you are 60 or more, you will pay no tax on this income.

Social security treatment

There are limits on the amount of assets you can have to be eligible for the age pension under the assets test. For this purpose, the account balance of your ABP is assessable.

Limits also apply to the amount of income you can earn to be eligible for the age pension under the income test.

If you are purchasing a new ABP it will be assessed by Centrelink under deeming rules for the income test, regardless of the actual earnings generated by the underlying assets of the pension.

Some older ABPs are assessed under deductible amount rules which can result in lower amounts of assessable income depending on the value of your pension payment.

The deductible rules only apply if you purchased the ABP before 1 January 2015 and have been in continuous receipt of an eligible income support payment since before 1 January 2015.

1. Moneysmart Account-based pension calculator, date of birth 01/07/1964, already retired, $500,000 balance, current super income of $20,000, pension admin fees $540 p.a., investment returns 6.50% p.a., investment fees 0.85% p.a. - Account-based pension calculator - Moneysmart.gov.au, viewed 26 February 2025.
2. $20,000/12 = $1666.67 per month rounded to nearest whole dollar.

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The things you should know before starting an ABP

- To commence an ABP, you must have reached your preservation age (the preservation age has gradually increased since 1 July 2015 and is now set at age 60) and retired.
- The amount you can invest in an ABP is limited by the transfer balance cap. Currently the general transfer balance cap is $2.1 million (for 2026/27).
- Your money may not last your lifetime. How long it lasts will depend on the performance of the underlying assets you've chosen to invest in and how much income you draw.
- Your ABP may not form part of your estate as the fund trustee may be able to choose who to pay any death benefits to unless you have nominated a beneficiary under a valid binding death benefit nomination or reversionary pensioner nomination.
- Beneficiaries who are not financially dependent on you may pay tax on the remaining account balance when you die.

Account-based pension pros:

- highly tax effective, as earnings and capital gains on assets supporting a retirement phase account-based pension have a nil rate of tax (unless the account-based pension is a transition to retirement account based pension, or your total super balance is over $3,000,000).
- may simplify estate planning,
- regular income payments,
- easy access to withdraw capital as needed, and
- full range of assets in which to invest.

Account-based pension cons:

- you must have met your preservation age and retired to commence a retirement phase pension,
- your income may not last your lifetime,
- must draw at least a minimum income each year,
- maximum amount you can invest is limited by transfer balance caps, and
- tax may be payable upon your death.

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