

Retirement Income – Term Allocated Pension

A term allocated pension provides 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.

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 are tax-effective because:

- Pension income paid to you from age 60 is tax free.
- Taxable pension income paid to you between preservation age and age 60 or due to permanent disability is taxed at your marginal tax rate but 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, known as the transfer balance cap. The general transfer balance cap is \$1.9 million for the current financial year and may be subject to indexation. Your personal transfer balance cap may be between \$1.6 million and \$1.9 million if you commenced a retirement phase superannuation income stream prior to 1 July 2023. 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 used to determine the value of your term allocated pension that counts towards your transfer balance cap is based in part, on whether it was commenced before or from 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 your 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 \$118,750 in 2023/24, you will be subject to additional taxation. The taxation of pension payments, both below and above the \$118,750 thresholds are:

Type of scheme	Age	Amount below \$106,250* income cap	Amount above \$118,750* 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

** A \$118,750 income cap applies to the 2023/24 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. You will be asked to commute the excess amount and earnings on the excess amount.

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%.

Centrelink/Department of Veterans' Affairs (DVA)

Term allocated pensions are generally 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.

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.

Benefits

The benefits of a term allocated pension may include:

- Pension income you receive may be tax-free if you are aged 60 or over 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 are 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 increased or decreased 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.

Risks, consequences and other important things to consider

These may include:

- Your Term Allocated Pension may not last for the rest of your life. Your account 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 generally 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 applies to the total amount of transfers that can be made into 'retirement phase' of superannuation. The general transfer balance cap is \$1.9 million for 2023/24 and may be subject to indexation. Your personal transfer balance cap may be between \$1.6 and \$1.9 million if you commenced a retirement phase income stream prior to 1 July 2023. Additional tax will apply if amounts exceed this cap. If you commenced the term allocated pension on or after 1 July 2017 you may be required to remove the excess amount and its earnings.
- 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.

Version: 6.0

Issue date: 1 July 2023

Important information:

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