

## Government Income Support

**Assets test:** The account balance is assessed as an asset and is re-valued every 6 months.

**Income test:** Payments are counted as income for the financial year, with a deduction for part classed as a return of capital. This deductible amount is calculated by dividing the full purchase price, less commutations, by the 'relevant number' (life expectancy of the owner or the reversionary, if applicable). Notification of extra income payments or commutations is vital.

## Death Benefits

Payment of a pension can continue to a dependant reversionary beneficiary or they may elect to draw the balance as a lump sum. If the primary beneficiary was aged over 60 years at the time of death the benefit continues tax free to the dependant reversionary. If they were under age 60 at death the payment is taxable even to a dependant reversionary unless or until they are aged 60 years. If paid as a lump sum, tax may be payable on the taxable component at 15% plus the medicare levy.

Payment to a non-dependant beneficiary can only be as a lump sum and tax at the above rate is payable on the taxable component.

## Investing With Safety

Most companies providing allocated pensions do not guarantee the income nor the return of capital. The investor accepts all the investment risk so choice of investment options and

diversification is very important.

For further information refer to leaflets 'Safety, Risk & Scams', 'Risk Meter' and the moneymap website at <http://moneymap.nicri.org.au>.

## 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 member's superannuation benefit that cannot be accessed until a condition of release has been met.

**Reversionary** - Person to whom payments continue in the event of the death of the owner of the pension.

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

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National Information Centre on Retirement Investments Inc.

# Account Based Income Streams - (Flexible)

(formerly Allocated Pensions or Allocated Annuities)



[www.nicri.org.au](http://www.nicri.org.au)

<http://moneymap.nicri.org.au>



## What is a flexible account based income stream?

A flexible Account Based Income Stream (ABIS) is a means of drawing payments, comprising capital and earnings, payable directly from money held in a personal superannuation fund. Payments are made by the product provider repurchasing units at the current exit unit price and crediting the members nominated 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 ABIS 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. These restrictions cease once the superannuant permanently retires or reaches age 65.

Investments ranging from defensive cash options to aggressive growth options can be used. Most superannuation providers offer income streams.

## Features

- Flexible structured payments for a specified term or as long as the money lasts.
- Maximum payment is balance of account with any amount able to be drawn at any time subject to fund rules.
- Each financial year a minimum payment must be taken based on the balance of the fund and a percentage factor relating to the age of the superannuant. If commenced in June the first payment can be deferred to the next financial year.
- A non-commutable transition to retirement income stream can be set up with up to the balance of the fund including *preserved benefits*, while still working but after preservation age.
- Investment options ranging from low to high risk are usually available. Some funds offer fixed rates for fixed terms. On expiry, a new rate can be negotiated/accepted for a new term.
- A *reversionary* beneficiary can be nominated.

## But Remember...

- Pension payments will not continue indefinitely- they stop when the money runs out.
- Performance is subject to market influences and management and therefore negative returns may occur (*refer to leaflet 'Safety, Risk & Scams'*)
- The trustee may not be bound by the nomination of beneficiary or reversionary.

## 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 (*see NICRI leaflets 'Investment Fees' and 'Master Trusts & Wrap Accounts'*).
- Accessing wholesale funds directly may be possible depending on the provider.

## Taxation

- Earnings accrue free of tax.
- 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 a deductible 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 is dependent on the age of the superannuant at the time of death.
- 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.