ACCOUNT BASED PENSIONS

> Advice regarding access to your super should consider the advantages of drawing funds via a pension.

Accessing your super as an account based pension may not seem, at first glance, to be the best way of taking money out of your super fund. However, pensions offer attractive benefits such as tax exemptions on super fund earnings, and preserves your wealth in a tax preferred investment environment.

ACCOUNT BASED PENSIONS

An account-based pension is designed to provide you with a regular, tax effective income, as well as the opportunity to achieve capital growth and earnings on your portfolio within a tax-free environment.

MINIMUM AND MAXIMUM PENSION

You are required to draw at least a minimum pension each year. The minimum pension is based on your account balance and age at the beginning of the financial year.

The minimum pension is calculated by multiplying your pension account balance at 1 July each financial year (or on the date the pension commenced in the first year) by the relevant percentage factor which is determined by age as outlined below:

	Minimum rate 2014/15	Maximum rate 2014/15
Under 65**	4%	100%
65 to 74	5%	100%
75 to 79	6%	100%
80 to 84	7%	100%
85 to 89	9%	100%
90 to 94	11%	100%
Over 95	14%	100%

** Note, you must satisfy a condition of release to commence an Account Based Pension before 65 years old.

You have the flexibility of choosing and varying the level of income paid to you within these limits, as well as how frequently the income is paid.

The pension will normally be paid for as long as the capital lasts and this will depend on the long term returns achieved. You have the option of nominating a dependant, such as your spouse, to receive the pension after your death.

TAXATION OF PENSION PAYMENTS

Generally pension benefits received on or after age 60 are exempt from tax.

Prior to age 60, some tax may be payable on the pension taken. Benefit payments are split into taxable and tax free components. The taxable component will generally be taxed at the recipient's marginal rate less a 15% pension tax offset. The tax-free component is not subject to any tax.

TAXABLE COMPONENT

The taxable component typically comprises the portion of your benefit made up of employer/deductible contributions and investment earnings.

TAX FREE COMPONENT

The tax-free component usually comprises the portion of your benefit made up of non-concessional contributions (formerly undeducted contributions).

LUMP SUM VS. PENSION

Accessing your super as a pension often produces a better overall result compared to taking a lump sum because of the tax savings on fund investment returns over time. If you are below 60 years old however, there still maybe an advanatge of drawing a combination of lump sum and pension to further minimism tax payable outside of the fund

FURTHER INFORMATION

To find out how smsf+options can assit you, or for further information regarding Account Based Pensions, please contact Guy Wuoti at smsf+options.

GUY WUOTI

p 0432 634 047

e guywuoti@smsfoptions.com

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