Account Based Pension Plans

What is an Account Based Pension Plan?

An Account Based Pension or ABP as it is often referred to within the Financial Planning profession provides an ongoing, tax-effective income stream from your superannuation assets.

How does it work?

- Can be commenced once you reach preservation age (55-60 dependent on the year you were born) and assuming you are retired. Alternatively,
- Can be commenced from age 65, even while you continue working.
- Generally uses superannuation savings accumulated over your lifetime, but can also be established using available cash, subject to superannuation contribution rules.
- Pays an ongoing income stream, subject to a minimum percentage of your account balance, as at June 30, each year.
- Income can be paid fortnightly, monthly, quarterly, half-yearly or annually, depending on your needs.
- After age 60, income drawdowns are received 100% tax free.
- Nil tax environment, meaning that income generated by the underlying investments supporting your ABP are not subject to tax.
- Income will continue to be paid as long as you have available funds within your pension plan, and as such, income is not guaranteed for the duration of your lifetime.

A worked Example

Jack, age 65, has $500,000 invested in superannuation which he has accumulated over time.

Based on his age, Jack is eligible to commence an Account Based Pension Plan and transitions 100% of his superannuation savings over to an Account Based Pension plan.

Based on Jack's age, his minimum annual drawdown is 4% pa, or $20,000 per year.

- This income is received by Jack, 100% tax free and is not required to be included in his annual tax return.

Jack's underlying investments within his ABP plan return 6% pa or $30,000 pa.

- As a nil tax environment, Jack does not pay any tax on earnings inside his ABP and thus, 100% of these funds are reinvested on his behalf within the ABP.

In Comparison:

Should Jack have retained his $500,000 invested in superannuation and his underlying assets returned 6% pa, or $30,000 pa, superannuation tax of 15% would be payable on these earnings.

- By transitioning his superannuation asset to an account based pension, Jack has saved himself $4,500 in superannuation taxes.

Strategy Opportunities

An Account Based Pension strategy can be used in conjunction with multiple other strategies in order to:

- Help minimise personal income taxes, where the investor continues to work post age 65.
- Recycle taxable superannuation savings into tax-free superannuation savings.
- Replace income in semi-retirement or retirement.

To discuss your eligibility to commence an Account Based Pension Plan or the various strategy opportunities which may be available to you, please do not hesitate to contact our office via phone at 03 5443 7220.

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