

Reduction in minimum pension drawdown requirements

In response to the Covid-19 situation, the superannuation law has been amended to halve the normal drawdown rate for any:

- ✓ account-based pensions (including transition to retirement income streams),
- ✓ market linked pensions (also known as “term allocated” pensions), and
- ✓ allocated pensions for both 2019/20 and 2020/21.

The most common type of pension paid from an SMSF is an account-based pension.

With a few very rare exceptions, the relief will apply to all funds paying the above pensions such as SMSFs, industry funds and retail funds, regardless of when the pension commenced.

How can I recalculate the minimum on my account-based pension?

It’s important to correctly calculate the “new” minimum to avoid underpayments – it is not simply half the “normal” pension.

Minimum pensions are calculated based on a percentage of the account balance on 1 July (or commencement if the pension commenced after 1 July). The percentage factor that applies is based on the age of the recipient on that day, referencing the following table:

Age	Minimum %
<65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95+	14%

The superannuation law change halved the minimum percentage factors, so the table to use for 2019/2020 and 2020/2021 minimum pension calculations is now:

Age	Minimum %
<65	2%
65-74	2.5%
75-79	3%
80-84	3.5%
85-89	4.5%
90-94	5.5%
95+	7%

Importantly, it’s not the method of calculating the minimum that has changed, it’s the percentage factors.



EXAMPLE: ACCOUNT-BASED PENSIONS

John is 67. The balance of his account-based pension at 1 July 2019 was \$840,220.

His “new” minimum pension for 2019/20 is calculated as outlined in the table below.

“Normal” minimum (prior to law change)	New minimum 	Not this 
5% x \$840,220 = \$42,010 (to the nearest \$10)	2.5% x \$840,220 = \$21,010 (to the nearest \$10)	50% x “normal” minimum = \$21,005

By merely dividing the “normal” minimum by 2, the fund risks underpaying the pension which can lead to other consequences for the fund.

I have already received at least the minimum calculated under these new percentages in the current year. Can I simply stop receiving pension payments for now?

Yes. You do not need to receive any further payments between now and 30 June 2020. New minimums for 2020/2021 will be calculated using the halved percentage factors and your account balance on 1 July 2020.

Before this change, I had already drawn my full minimum. Can I return the amount I've drawn over the new minimum back to the fund?

Any monies you return to the fund are contributions, and subject to the usual eligibility to contribute rules and contribution caps. You can contact your SMSF administrator or adviser to determine if you are eligible to make a superannuation contribution and the consequences of making it.

I have already met the “new” minimum, but I will be making further withdrawals this financial year. I will also be drawing more than the new minimum next financial year. Is there anything different I need to do?

There can be benefits to treating future amounts over your minimum as a “lump sum” from your:

- ✓ accumulation account (if you have one),
- ✓ and then your pension account (once your accumulation balance is nil)

instead of as a pension payment.

This can have the benefit of:

- ✓ retaining as much in your account-based pension as possible (if taken from the accumulation account), and
- ✓ creating a “debit” in your Transfer Balance Account (if taken from your pension account), creating more “cap space” for future pension accounts.

Additional documentation is needed to instruct the trustee to process your payments in this way.

I don't need any more “cap space” as I won't be commencing any further retirement income streams

You may find in the future you wished for more space in your Transfer Balance Account, for instance if you:

- ✓ sell your home and are eligible to make a “downsizer contribution” (see [Heffron's Downsizer Fact Sheet](#)), or
- ✓ become the beneficiary of a reversionary or death benefit pension.

These are all matters you should speak to your adviser about if you think they may apply to you.

I have a market-linked pension – how is that new minimum calculated?

Market-linked pensions are relatively uncommon. Contact your SMSF administrator or adviser to determine the new minimum that would apply on your market-linked pension.

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