Thinking about commencing an account-based pension?

To commence an account-based pension you must have reached preservation age and satisfied a condition of release (eg, if under 60 ceased both full-time and part-time gainful employment for the foreseeable future or attained 60 and ceased an arrangement of gainful employment or attained age 65), you are eligible to commence a Pension under the *Superannuation Industry (Supervision) Regulations 1994* (Cth) ('SISR').

Commencing a Pension involves converting all or a proportion of your accumulation account in the SMSF into a pension account, to be used to fund the trustee's liability to pay the Pension to you.

Preservation

The Government requires preservation of certain benefits until you retire from the workforce on or after the specified age (known as your Preservation Age), or in such earlier circumstances as are acceptable to the Commissioner.

Your preservation Age is as follows:

Date of Birth	Preservation Age
Before 1 July 1960	55
1 July 1960 to 30 June 1961	56
1 July 1961 to 30 June 1962	57
1 July 1962 to 30 June 1963	58
1 July 1963 to 30 June 1964	59
After 30 June 1964	60

Any preserved benefit which cannot be paid to you may be retained in the Fund or rolled over to another fund until you reach Preservation Age or you retire from the workforce on or after your Preservation Age. The amount of your benefit which must be preserved is set out in your most recent Member Statement. The benefit which you are able to access immediately (in lump sum or pension form), known as your unrestricted benefit, will also be shown on your most recent Member Statement.

Condition of Release

Condition Satisfied	Benefit Paid
Retirement at normal retirement age (normally age 65)	Balance of your Accumulation Account
Total and permanent disablement	
Death	
Retirement from employment, other than as a result of retirement at normal retirement age, death or total and permanent disablement	
Temporary disablement	Amount payable under any policy of insurance taken out by the trustee
Reaching Preservation Age (refer to table above)	Balance of your Accumulation Account, but there may be restrictions on the form in which this benefit can be paid

Tax advice

A key benefit of establishing a Pension is that the income on the assets supporting the pension are tax free.

In contrast, earnings on benefits in the accumulation phase are taxed at 15% with a 1/3rd discount on capital gains where the asset has been held by the SMSF trustee for greater than 12 months (ie, a 10% tax rate on capital gains).

Based on income derived in previous years, commencing a Pension should reduce the tax on earnings in your SMSF.

However, from 1 July 2017 a $1.6 million limit on the amount of assets that can be transferred to an account-based pension or retirement phase applies. This is called the transfer balance cap and is outlined in the Annexure.

Pension payments

If you commence a Pension, you will be required to withdraw a minimum pension payment from your SMSF each financial year. The amount of this pension payment in the first year is based on the accumulation account balance that is converted into a Pension. For each subsequent year, the minimum pension payment required to be withdrawn from the SMSF is calculated based on your pension account balance as at 1 July.

If you are over age 60, pension payments received from your Pension are generally not included in your personal income tax return, and accordingly, are tax free.

Size of Payments

The size of your payments is not fixed but you must draw at least the prescribed minimum amount each financial year. In the first year this is equal to the amount of money used to start the pension multiplied by the applicable Percentage Factor (refer to table below), which is determined by your age when your pension is commenced.

Age of Member	% of Account Balance	
	Minimum Amount	Maximum Amount
	2014 & later years	Retired of at least 65
Under 65	4	100
65-74	5	100
75-79	6	100
80-84	7	100
85-89	9	100
90-94	11	100
95+	14	100

Product disclosure statement ('PDS')

We have attached a PDS which outlines the features of the Pension. We suggest you review this document and consider whether commencing a Pension is appropriate for your personal circumstances.