



PENSION DRAWDOWN RELIEF FOR RETIREES



Overview

On 18 February 2009, the Treasurer and the Minister for Superannuation and Corporate Law jointly announced that the Government will suspend the minimum payment requirement for account-based pensions for the second half of 2008-09.

This will be achieved through a 50 per cent reduction in the minimum payment amounts that would otherwise apply for 2008-09.

The reduction in the minimum payment amounts for 2008-09 will apply to account-based, allocated and market-linked (term allocated) annuities and pensions.

Your questions answered

What action is the Government taking and why?

The significant downturn in global financial markets has had a negative effect on retirees' superannuation capital in account-based pension products.

As a result, the current value of pension account balances is in many cases much lower than when the minimum annual payment amount was calculated on 1 July 2008.

Many retirees with account-based pensions are concerned that meeting the required minimum drawdown amount for 2008-09 will mean having to sell assets, and realise losses, in a depressed market.

In response to these concerns, the Government has announced that it will suspend the minimum drawdown requirement for account-based pensions for the equivalent of the second half of 2008-09. This will occur through a 50 per cent reduction in the minimum payment amounts for 2008-09.

Which pension products will be affected?

The temporary suspension of the minimum payment requirement will apply to:

- account-based annuities and pensions;
- allocated annuities and pensions; and
- market-linked (term allocated) annuities and pensions.

Does the measure apply to transition to retirement (TTR) pensions?

The 50 per cent reduction in the minimum payment amounts for 2008-09 will apply to TTR pensions if they are being paid through one of the pension products covered by the measure – that is, through an account-based pension, an allocated pension, or a market-linked (term allocated) pension.

When will the measure have effect from?

The 50 per cent reduction in the minimum payment amounts will apply for the 2008-09 financial year.

Is the drawdown relief confined to pensions which commenced before 1 July 2008?

No. The relief from the minimum drawdown requirement will apply to the affected pension products irrespective of when they commenced.

If I have already taken 50 per cent of my current minimum for this year will I be allowed to retribute the excess?

The rules do not allow contributions to be made directly into a superannuation pension account. However, a person can make contributions to a superannuation accumulation account where they are eligible to do so. Contributions can be made by anyone below the age of 65, or by people aged between 65 and 74 who meet a work test.

Will the 50 per cent reduction in the minimum payment amounts apply for the 2009-10 year as well?

The Government's announcement relates only to the 2008-09 year.

What are the current minimum payment requirements for account-based pensions?

It is a requirement that a minimum payment be made from a superannuation account-based pension at least annually. Minimum payments are determined by age and the value of the account balance at 1 July each year.

The minimum annual payment rule is designed so that retirees draw down on their superannuation savings over their retirement. This rule recognises that superannuation is a retirement savings vehicle with substantial tax concessions.

The current minimum payment percentages for account-based pensions are set out below.

| Age | Per cent of account balance |
|------------|------------------------------------|
| Under 65 | 4 |
| 65 – 74 | 5 |
| 75 – 79 | 6 |
| 80 – 84 | 7 |
| 85 – 89 | 9 |
| 90 – 94 | 11 |
| 95 or more | 14 |

What should I do next?

You may wish to contact your superannuation fund to check whether this measure is of potential benefit to you.