EUROZ HARTLEYS

Minimum Pensions

August 2023

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Pension phase, in the context of superannuation, refers to the period where an individual who has accumulated wealth within the concessionally taxed superannuation environment wants to draw an income stream. In order to draw an income stream you must have met a condition of release or have reached age 65. The key benefit of moving your superannuation balance into pension phase is that the income you receive from an account-based pension is tax-free, and that there is no tax paid on earnings or growth within the fund.

Whilst in the tax free pension phase there is a minimum legislated amount that must be withdrawn each financial year. Pension payment amounts are calculated based on your age, and your account balance, at 30 June in the previous financial year. See below for current minimum pension rates. If the legislated minimum amount is not withdrawn then the account will lose its tax free status.

Age	Standard minimum drawdown rates %
Under 65	4%
65 to 74	5%
75 to 79	6 %
80 to 84	7%
85 to 89	9%
90 to 94	11%
95 or more	14%

Please note that these minimum rates can be subject to change. For example, in response to COVID-19, in the 2020/21 financial year, the Government announced a number of measures to help minimise the impact of the resulting economic conditions on retirees and other Australians. One measure was the temporary halving of the pension minimum. The reduction originally applied to the 2020-21 financial years but was extended to include the 2022 and 2023 financial years. Pension payments have now reverted to normal.

What to do with surplus funds?

There are some options available for people forced to take pension amounts greater than they may need across 2023/24, thereby continuing to make use of tax-effective investing.

Invest outside of superannuation

Surplus funds can be invested outside of superannuation, typically in a personal name (including joint names for spouses). This can complement the investment arrangements operating within superannuation whilst also remaining effective from a taxation perspective. For example, couples can earn a combined $59,568 p.a. where they are eligible for the Seniors and Pensioners Tax Offset and Low Income Tax Offset.

Contribute back to superannuation

Individuals can make non-concessional (after-tax) contributions to super without meeting what is known as the 'work test' up to age 75. The limit for non-concessional contributions (NCCs) during the 2023/24 financial year is $110,000, or up to $330,000 where the 'bring forward provisions' are utilised (i.e. bringing forward two future years' worth of the cap).

Additional rules apply where the total super balance of an individual exceeds $1.68 million at 30 June 2023. This is summarised below.

Cap 2023/2024	TSB* as at 30 June 2023	NCC** Cap
Annual Cap	<$1.9m	$110,000
Bring Forward Allowance	<$1.68m	$330,000
	$1.68m to <$1.79m	$220,000
	$1.79m to <$1.9m	$110,000
	$1.9m +	Nil

*TSB: Total Superannuation Balance.
**NCC: Non-concessional Contribution

Although there are some restrictions when making non-concessional contributions, the current rules offer up some substantial opportunities. The main benefit of NCCs relates to investing wealth in the tax-effective super environment.

It is worth noting that contributions must be received no later than 28 days after the end of the month a person turns 75.

Can I receive a tax deduction for a contribution back to super?

Employment status becomes a factor. More specifically, voluntary contributions made to super which you claim a tax deduction for in your personal tax return are known as 'Concessional Contributions'. People aged between 67 and 74 are required to meet a work test in order to make voluntary concessional contributions.

The general limit for concessional contributions (i.e. the total of employer, salary sacrifice and tax-deductible contributions) is $27,500 per financial year. Individuals may have a higher concessional cap by carrying forward unused concessional cap amounts accrued from 1 July 2018 (for up to five financial years).

The total super balance threshold for this strategy is $500,000 at the end of the previous financial year.

Conclusion

Minimum pension withdrawals can generate surplus funds over time, especially as the percentage factors increase later in the retirement years. Should you wish to discuss your pension schedule or wider financial needs and goals in further detail, feel free to contact your adviser.

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EUROZ HARTLEYS

info@eurozhartleys.com
+61 8 9268 2888
www.eurozhartleys.com

Euroz Hartleys Limited
ACN 104 195 057
AFSL 230052