

Columnists

Pension can keep on giving

PUBLISHED: 25 Jun 2010 10:07:51

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With June 30 imminent, do-it-yourself superannuation funds should check their i's have been dotted and the t's crossed.

If a DIY fund is paying an account-based pension, high on any last-minute checklist is ensuring the minimum pension has been paid.

A benefit of an account-based pension is the tax exemption on income and capital profits generated by investments dedicated to the payment of the pension. But one important condition applies. The earnings tax exemption is only available where the minimum required pension has been paid.

The minimum pension is a percentage of the fund account balance last July 1 based on age. The government allowed this figure to be halved this year due to the global financial crisis. So for someone who is aged 55 to 64, the normal 4 per cent minimum has been 2 per cent this financial year while anyone between 65 and 74 must withdraw a minimum 2.5 per cent from their super based on their July 1 account balance.

From this coming July 1, the minimum for all ages reverts back to normal. For instance, this is 5 per cent if you are aged between 65 and 74. The minimum payment requirement applies to all pensions where a proportion of the annual market value of investments – either a percentage or an amount determined by a government formula – must be withdrawn.

Pensions where a government formula determines the minimum that must be taken are allocated pensions and term allocated pensions – also described as market-linked pensions.

Meg Heffron, from super administrator Heffron, says one question regularly asked about account-based pension minimums is what happens if a member receiving a pension dies.

In this case the required minimum is influenced by whether an arrangement existed for the pension to continue to be paid to an eligible beneficiary, most likely a spouse or someone who was financially dependent on the late member. The pension under such arrangements becomes what is described as a reversionary pension.

In these cases, the minimum amount required is based on the deceased member's age on July 1 or the commencement date of the pension if it started during the past year.

Heffron says it is important that the beneficiary was nominated at the outset of the pension.

As far as the income payment is concerned, there is no need to recalculate the minimum based on the reversionary pensioner's age in the year of death and any pension payments made before the late member's death should be allocated to them. Payments made after death should be paid to the reversionary pensioner.

If no reversionary pensioner was nominated, then the pension will stop on the member's death – and no minimum payment is required in relation to that pension during the financial year.

The fund will still be entitled to a tax exemption on the investment income that related to the pension up to the date of the pensioner's death.

Minimum payments and the fund's tax exemption start again if a new beneficiary – say a surviving spouse – starts to receive a pension from the remaining balance.

The Australian Financial Review