

# Understanding term allocated pensions



## Client Fact Sheet

October 2011

A term allocated pension is a tax-effective, fixed-term retirement income stream, which is paid from superannuation monies.

Once commenced, funds invested into a term allocated pension are no longer accessible as a lump sum (limited exceptions).

Term allocated pensions offer a choice of investment options and that will dictate the level of income provided each year. The income payment is based on the account balance and a "payment factor" at commencement and at 1 July each year. The annual income is fixed at this amount for the full financial year.

## Features

- **Payment frequency** – the pension can usually be paid monthly, quarterly, half-yearly or on an annual basis.
- **Investment options** – depending on the product you choose you can select from a number of underlying investment options, and can generally switch between options if the need arises.
- **Provision for spouse** – you can elect to have reversionary pension payments continue to your spouse. Reversionary pension payments continue to pay a surviving reversionary pensioner upon the death of the owner of the term allocated pension.

## Pension payments

Payments must be made at least annually. The amount a person must receive in a year is calculated in accordance with a schedule of payment factors (PFs) which are determined by the remaining term of the pension.

The income payment each year will be determined by dividing the account balance as at 1 July by the PF for the remaining term.

At the owners discretion, the annual income paid can vary between plus or minus 10 per cent of the income determined by the applicable Pension Factor. The minimum payment for TAPs has been temporarily reduced by 25%. Therefore the minimum pension payment for 2011/12 is 67.5% of the amount calculated using the relevant pension factor. The maximum amount for 2011/12 will remain at 110% of the calculated amount.

In the first year, the income payment will be pro-rated according to the date of commencement of the term allocated pension. If commenced on or after 1 June, no payment is required in that financial year. In the last year of the set term, the entire remaining balance will be paid as an income payment.

## Taxation treatment

### Individuals aged 55-59

Although the pension payments themselves are taxable in the hands of the recipient, term allocated pension recipients aged 55 - 59 may be eligible for a tax-free amount as well as a 15% tax rebate based on the taxable portion of the annual pension.

### Tax-free amount

The tax-free amount is calculated by using the following formula:

$$\text{Tax-free percentage} = \frac{\text{tax-free component at commencement of the pension}}{\text{total balance at commencement of pension}}$$

$$\text{Tax-free amount} = \text{tax-free percentage} \times \text{pension payment}$$

### 15% tax rebate

If you are under age 60, a rebate of 15% is applied to the taxable income drawn from your term allocated pension. The taxable income is the pension amount drawn less the tax-free amount as outlined above. To qualify, the income recipient must be at least 55 years of age.

The calculation to determine the amount of the rebate is listed below:

$$\text{Rebate} = (\text{annual income payments less tax-free amount}) \times 15\%$$

## Individuals aged 60 or older

For persons at least 60 years of age, the pension payments will be tax-free.

## Tax within the super fund

Fund earnings and realised capital gains within a term allocated pension fund are tax-free.

## Centrelink treatment

If a term allocated pension was purchased prior to 20 September 2007, it is 50% exempt for the Centrelink assets test. From 20 September 2007, all income streams purchased after this date are 100% counted for the assets test.

## Need more information?

If there's anything else you need to know, please call our dedicated Customer Service team on 1800 652 489 between 8am and 6pm (Eastern Standard Time) Monday to Friday. We'll be happy to help.

### Important note

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