Oreana
FINANCIAL SERVICES

Additional Information Flyers
Retirement Incomes Strategy

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Account-based pensions

Account-based pensions provide tax-effective regular income to help meet your income needs using your superannuation savings.

Benefits

- Pension income is completely tax-free if you are aged 60 or over.
- Some of the income may be taxable if you are under age 60 but you will be entitled to a 15% tax offset if you are over preservation age or the pension is paid due to disability.
- Pension payments are flexible and can be varied at any time but you need to ensure you take the minimum each year.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.
- You can nominate a reversionary or beneficiaries to receive the benefits upon your death under various estate planning strategies.

How it works

The most tax-effective source of income for retirees is an account-based pension. An account-based pension is an income stream paid from a superannuation fund. To commence an account-based pension, you first need to meet a condition of release or have unrestricted non-preserved funds in your superannuation account.

Account-based pensions are tax-effective compared to other sources of income because:

- Pension income paid to you from age 60 is not taxable.
- Pension income paid to you between preservation age and age 60 or due to disability is taxable, but you will be entitled to a 15% tax offset to help reduce tax payable.
- Within the pension account, all earnings and capital gains from investments are tax exempt this can boost the effective returns compared to other similar investments.

Your pension-account balance will increase with investment earnings and decrease because of pension payments, negative returns, fees and charges. These factors ultimately determine how long your account-based pension will last.

Pension income

An account-based pension is very flexible, allowing you to vary the amount of income you take. One of the few requirements is that you must take at least a minimum amount of income each year. There is no maximum and lump sums can be withdrawn at any time.

The minimum amount is based on your age and calculated as a percentage of your account balance when you commence the pension. The minimum amount is then recalculated every 1 July based on your age and account balance at that time.

Your age on 1 July	Minimum
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 older	14%

As a result of COVID-19 related losses in financial markets that are having a negative impact on superannuation pension and annuity account balances, the Government has reduced the required minimum annual payments on Account-Based Pensions and Annuities, Allocated Pensions and Annuities and Market-Linked Pensions and Annuities by 50% in the 2019/20, 2020/21 and 2021/22 financial years.

Taxation of your pension

When you commence an account-based pension the balance is split into a taxable component and a tax-free component. This is based on the split that was in your superannuation account just before you commenced the pension.

All future pension payments, lump sums and death benefits are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments, lump sum withdrawals and your final death benefit would be taxable component.

Whilst you are under age 60, the taxable component of your pension income is included in your assessable income with a 15% tax offset to help reduce your tax if you are over preservation age. But once you turn age 60, all pension income is tax free.

Pension transfer cap

The total amount of super monies used to start pensions is capped at your personal transfer balance cap. For the period from 1 July 2021, your personal transfer balance cap is between $1.6 million and $1.7 million. You can view your personal transfer balance cap in ATO online. All superannuation income streams are assessed against the transfer balance cap regardless of when it first commenced. You can retain excess amounts in your accumulation accounts where tax at 15% continues to apply.

If you transfer more than your personal transfer balance cap, the ATO will direct your pension fund provider to commute (reduce) your pension by the amount of the excess and you will be liable for excess transfer balance tax.

Centrelink

Account-based pensions are assessed under deeming rules for the Centrelink income test. This means the income assessment is calculated using a deeming rate (set by the government) against your account balance.

However, if you commenced your account-based pension before 1 January 2015 and have been continuously receiving a means-tested payment from Centrelink or Veterans' Affairs (DVA) since 31 December 2014 your account-based pension may continue to be assessed under the deductible amount rules. These rules may be more favourable and only assess a portion of the income payments received. If you switch to a new pension provider or your Centrelink/DVA entitlements reduce to nil your account-based pension will revert to deeming rules.

Regardless of when your account-based pension commenced, lump sums withdrawn do not count as income for Centrelink/DVA purposes but under the deductible rules these withdrawals reduce how much of each income payment is not assessable going forward.

The account balance of an account-based pension counts as an assessable asset.

Consequences

- If you have made personal superannuation contributions in the current year for which you wish to claim a tax deduction, you must lodge a notice of deductibility form with your superannuation fund (and wait for confirmation that they have received the notice) prior to commencing an account-based pension.
- In the financial year that you either start or stop your account-based pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.
- If you do not take the required minimum income, tax will apply on earnings of the account for the whole year.
- Your account-based pension is not guaranteed and pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- Upon death, any remaining account balance will be paid to your nominated beneficiary or to your estate or payments can continue to a nominated reversionary.
- If you are a Centrelink/DVA customer, you are required to notify Centrelink/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account-balance.
- If you have an existing account-based pension which is assessed by Centrelink/DVA under the deductible amount rules, switching to a new account-based pension will trigger a shift to deeming rules. In some circumstances this may be less favourable under the income test and can affect your Centrelink/DVA entitlements as well as aged care fees.
- If you transfer more than your personal transfer balance cap, the ATO will direct your pension fund provider to commute (reduce) your pension by the amount of the excess and you will be liable for excess transfer balance tax.
- Fees may be charged for your superannuation contributions. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your superannuation fund.

Date: 1 July 2021

Transition to Retirement Pension

A 'Transition to retirement' pension enables you to use your accumulated superannuation savings to supplement your employment income before you are fully retired.

Benefits

- You can achieve your lifestyle goals by having the pension supplement your income if you decide to reduce your work hours.
- You can increase your retirement savings by combining a transition to retirement pension with a salary sacrifice arrangement, personal deductions and/or by taking advantage of carry forward concessional contribution opportunities.
- You retain flexibility by continuing to have a wide range of investment options and the ability to stop the pension at any time.

How it works

An income stream can only be started once you have met a condition of release, usually retirement or age 65. However, transition to retirement is a condition of release which allows you to start a non-commutable account-based pension with your superannuation funds before retirement provided you have reached your preservation age.

Typically, you will need to take at least 4% of your balance as income each year but can take no more than 10%. However, the Federal Government has temporarily reduced this minimum to 2% for the 2019/20, 2020/21 and 2021/22 financial years. The pension is non-commutable which means you cannot make lump sum withdrawals.

Earnings and gains from investments held in a Transition to Retirement (TTR) pension will be taxed at 15%.

In particular, a TTR pension can support your lifestyle goals if you want to reduce your working hours as the pension can be used to top-up your income or replace employment income.

If you are continuing to work full-time you can combine a transition to retirement pension with a salary sacrifice arrangement, personal deductible contributions and/or carry forward concessional contribution opportunities to potentially reduce your overall taxation. This can boost your wealth accumulation while still maintaining the same level of disposable income or you may reduce disposable income so that more of your salary can be directed to boost your retirement savings.

The salary sacrifice strategy allows salary and/or personal deductible contributions to be taxed at only 15% within the superannuation fund (provided you do not exceed concessional contribution caps and you are within the income threshold) and income drawn from the account-based pension is also concessionally taxed. This is particularly beneficial if you are over age 60 and can draw tax-free income from the pension.

A TTR pension can be a tax-effective source of income because:

- Pension income paid to you from age 60 is tax-free.
- Pension income paid to you between preservation age and age 60 is taxable, but with a 15% tax offset to help reduce tax payable.

Your pension account balance will increase with investment earnings and decrease because of pension

payments, negative returns, fees and charges. These factors ultimately determine how long your account based pension will last.

Pension income

Account-based pensions are very flexible, as you can vary the amount of income you take each year. But until you meet a full condition of release you will typically be limited to taking between 4%* and 10% of the balance at commencement (in the first year) or at 1 July in each subsequent year.

* The Federal Government has temporarily reduced this minimum to 2% for the 2019/20, 2020/21 and 2021/22 financial years.

Once you meet a full condition of release (such as turning age 65 or retiring), your account-based pension will become fully commutable allowing you to take withdrawals and any amount of pension income above your age-based minimum.

Taxation of your pension income

When you commence an account-based pension the balance is split into a taxable component and a tax-free component. This is based on the split that was in your superannuation account just before you commenced the pension.

All future pension payments, lump sums* and death benefits are split in the same proportions. For example, if your account balance at commencement consisted of $80,000 taxable and $20,000 tax-free, then 80% of all pension payments, lump sum withdrawals and your final death benefit would be taxable component.
* As indicated earlier, you cannot make lump sum withdrawals from a TTR pension.

Whilst you are under age 60, the taxable component of your pension income is included in your assessable income with a 15% tax offset to help reduce your tax if you are over preservation age. But once you turn age 60, all pension income is tax free.

Centrelink

If either you or your spouse receives a means-tested payment from Centrelink/Veterans' Affairs the account-based pension is assessed under deeming rules unless it was commenced before 1 January 2015. In some cases, pensions commenced before that date may be assessed under potentially more favourable deductible amount rules.

The account balance of an account-based pension counts as an assessable asset.

Consequences

- Accessing your super now reduces your available funds at retirement unless you top this up with a salary sacrifice arrangement and/or personal deductible contributions.
- Your account-based pension is not guaranteed and pension payments can only be made while there are funds in your account. There is a risk that your pension income may cease (or reduce) if you draw your income too fast or if investment returns are poor.
- If you have made personal superannuation contributions in the current year for which you wish to claim a tax deduction, you must lodge a notice of deductibility form with your superannuation fund (and wait for confirmation that they have received the notice) prior to rolling over to start an account-based pension.
- In the financial year that you either start or stop your account-based pension the minimum pension required for that financial year is pro-rated. If the pension is commenced in June you do not need to take any income in that financial year.

- If you are a Centrelink/DVA customer, you are required to notify Centrelink/DVA within 14 days about the commencement of the pension as it may affect your payment or any significant changes to the account-balance.
- Fees may be charged for the balance rolled over to start an account-based pension. You should check the details in the fee section of your Statement of Advice and the Product Disclosure Statement (PDS) for your fund.

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Annuities

An annuity is a product that provides you with a guaranteed income for either a set term; your life expectancy or the rest of your life – generally they are a secure option providing a set income irrespective of how investment markets perform. It is possible to nominate the amount of capital to be returned at the end of the fixed term or upon death. This is called the residual capital value (RCV) and cannot exceed the purchase price.

Benefits

- You are paid a guaranteed income regardless of how markets perform.
- Income from annuities purchased with super money are tax free from age 60.
- Annuities purchased with super money before age 60 will have the taxable portion of the income taxed at your marginal tax rate, however, you will receive a 15% offset.
- Only the income component (if any) of an annuity purchased with non-super money is taxable. You don't pay tax on investment earnings.
- Income payments can be set to increase annually at the time the annuity is purchased.

How it works?

You can invest in an annuity from a super fund or life insurance company with a lump sum from your super or other savings. If you're using super money you must have reached your 'preservation age' (from age 55 to 60 years depending on your date of birth) and met a 'condition of release' such as ceasing employment on or after age 60, or reaching age 65.

How much income will you receive?

The amount of income you receive depends upon two key factors:

1. the initial mount you invest;
2. the amount of interest the annuity is willing to provide – which is determined by an actuary.

The income you will receive is fixed when you purchase the annuity, however it can be indexed each year, either by a fixed percentage or in line with inflation. Income payments can usually be made monthly, quarterly, half-yearly or yearly.

How long do income payments last?

Typically, annuities will be either 'fixed term' or 'lifetime'. Under a 'fixed term' annuity, you select the term and payments are for the duration of the term and stop at the end of the term. With a 'lifetime' annuity, regular payments are paid for the rest of your life.

What happens to your annuity if you die before the term has finished?

For a fixed term annuity, your estate or beneficiaries generally have the option to either continue to receive payments until the end of the term or withdraw the annuity and have it paid as a lump sum however, the withdrawal value may be less than the original amount invested, even after taking into account any payments already received.

If you choose a 'reversionary' option you can nominate a person who will continue to receive all or part of the annuity payments should you die first. You can choose for the reversionary beneficiary to receive a reduced level of income payments from what you received.

For example if you bought an annuity and nominated your spouse as the reversionary beneficiary, they might continue to receive 60% of your income for the rest of their life, after you have passed on.

How are annuities taxed?

When an annuity is bought with money rolled over within the superannuation system by a person aged 60 or over the regular payments are tax free.

For non-superannuation annuities, the regular payments are split into two components:

a. Deductible amount

The deductible amount is the amount of each annuity payment that is deemed to represent the return of part of the original investment. This amount is tax free. Note: there will be no deductible amount if you have selected a 100% RCV annuity – i.e. where you have elected to receive the full capital value back at the end of the term.

The deductible amount is calculated based on the gender and age of the investor at the time of investment. It is fixed for the term of the lifetime annuity. If you select a 'reversionary annuity', the annual deductible amount is generally your purchase price, divided by the longer of your or your reversionary beneficiary's life expectancies.

b. Assessable amount

If annuity payments in the financial year are greater than the deductible amount, the excess amount is called the assessable amount and is assessable for tax purposes. The assessable amount is the amount (if any) of each annuity payment that notionally represents earnings. Depending on the investor's personal circumstances, this amount may be subject to Pay As You Go (PAYG) withholding tax.

How are annuities treated for Centrelink purposes (if purchased before 1 July 2019)?

The income of an annuity is assessed by the Centrelink and Department of Veteran's Affairs income test as follows:

1. Subject to deeming rates where the term is five years or less, or
2. Total income is reduced by a 'deductible amount' where the term is more than five years.

NOTE: If your life expectancy is equal to or less than five years, the income assessment will be total income reduced by a 'deductible amount'.

The investment amount of an annuity is assessed under the Centrelink and Department of Veteran's Affairs Assets Test. If you choose to receive all of the capital at the end of the selected term, the assessed asset value does not change. If you choose to have some of the capital returned as part of the regular payments, the asset value is recalculated every six to 12 months, depending on payment frequency, and reduced by the amount of capital returned up to that time.

How are annuities treated for Centrelink purposes (if purchased after 30 June 2019)?

Generally, 60% of the original capital investment will be assessable under the assets test up until life expectancy, and then 30% of the original capital investment thereafter.

Consequences

- If you would like to withdraw capital from your annuity, in some cases you can and you will receive a 'withdrawal value' from your investment but you may receive back less than you invested originally and less than you would have received had you held the annuity for its agreed term.
- With many lifetime annuities, a withdrawal value is only available for a set number of years of the annuity – say for the first 15 years of the annuity term. This is often referred to as a "guarantee period' or 'withdrawal period'. After that, you cannot withdraw your money and, if you pass away after the Guarantee period, there is no return of capital - your money goes to the annuity provider.
- You cannot choose how your money is invested.
- You may not be able to transfer it somewhere else if you change your mind.
- Over the long term, an annuity may pay less than a market-linked investment.
- Inflation will eat into the return from an annuity, which means that each year it will buy less, unless you choose an 'indexed' option.
- If purchased with superannuation money, the reversionary annuitant must be a 'dependant' person.
- For Centrelink purposes the gross income less the return of capital is assessable.
- Annuities purchased with superannuation money will be counted against your personal transfer balance cap. The taxation of payments to you may be impacted if you have superannuation income streams that exceed the transfer balance cap and are unable to lower your superannuation income streams below the cap threshold.
- With an annuity, you are locked in to a specific rate of return for the rest of the term (or life). If interest rates rise, you are not able to take advantage of the higher potential return without incurring penalties.
- Once the annuity is established, the amount and frequency of the income payments cannot be altered.

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