Entrust

Minimum Pensions

August 2023

Over the past four completed financials years up to 30 June 2023, the Government reduced the minimum annual payment required for account based and market linked pensions. For the current 2023/24 financial year, the 50% reduction in minimum pension drawdowns no longer applies. This throws up some considerations for retirees and those transitioning into retirement, as the extra funds may require further attention.

A superannuation pension can provide a flexible and tax-effective way of receiving regular income. The measures implemented to halve the minimum pension requirements across the COVID-19 period were designed to increase flexibility and assist retirees navigating sometimes volatile investment markets. This helped pension members who did not wish to sell down investment assets while the value of those assets was potentially reduced.

Minimum Super Pension Payment Factors

One of the main advantages of not being forced to withdraw the normal minimum pension amount was that additional capital could be retained within the tax-effective superannuation environment. Superannuation is subject to concessional rates of tax that apply to investment earnings (i.e. income and capital gains).

The minimum pension payments are important because if the annual withdrawal is less than the minimum, the super pension could lose its tax-free status. The table below outlines the minimum pension requirements for 2023/24.

Age at 1 July each year (or commencement)^	Minimum (%) 2023/24 onwards
Under 65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95 or more	14%

^Where a pension account commences after 1 July, the minimum payment amount for the first year is calculated proportionately to the number of days remaining in the financial year. A minimum annual payment does not need to be made where an account based income stream is commenced between 1 June to 30 June.

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.

1. 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.

2. 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)	Total Super Balance (TSB) as at 30 June 2023	NCC Cap Amount
Annual Cap	< $1.9 million	$110,000
Bring Forward Allowance	< $1.68 million	$330,000
	$1.68m to < $1.79 million	$220,000
	$1.79m to < $1.9 million	$110,000
	$1.9 million +	Nil

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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