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What is a Retirement Phase Pension?

Previously known as account based pensions, a retirement phase pension is an investment which pays you a regular and tax effective income in retirement.

How do retirement phase pensions (RPPs) work?

You invest money from a superannuation fund into an RPP. The RPP then pays you a regular income comprised of earnings and capital until your account runs out.

The amount a person can invest in a RPP is limited by transfer balance caps. Currently. the general transfer balance cap is $1.6 million.

The annual income you choose must be at least equal to the Government's prescribed minimum, based on your account balance.

Here's an example to show you how RPPs work.

Let's say Jack, aged 60, is married to Jenna. Jenna has her own retirement investments and Jack has $500,000 invested in an RPP. This RPP generates tax free earnings at, say, 8% p.a. which equals $40,000 in Year 1. If Jack draws an income of, say, $33,000 (indexed at 3% p.a.), he will pay no tax on that. His account balance at the start of the next year will therefore be $507,000. And so on and so on, as you can see in Table 1.

In ten years time, Jack's account balance will be $541,310, with earnings of $43,305. Jack's income will be $43,058, and this will be tax free.

Over those 10 years, tax free earnings in the fund would total $419,865, and the total tax free income Jack would draw would be $378,308. And Jack would still have an account balance of $541,310.

Because Jack has been taking less than the fund earns each year the account balance has actually grown over the first 10 years. If he continues to take the indexed pension, his balance will eventually decline but he will still have $286,137 in the account by age 85 and will receive a tax free pension payment from it of $69,095 in that year.*

What are the tax advantages of RPPs?

- Lump sum tax is deferred when you transfer superannuation money to an RPP. Once you are 60+, lump sum tax will be eliminated.
- No tax on earnings in the fund.
- Little or no tax on RPP income. In fact, once you are 60 or more, you will pay no tax on RPP income.

Case study: $150,000 p.a. tax free

Let's say Evan and Claire, both aged 65, retire with the following:

Super (Evan)	$1,300,000
Super (Claire)	$180,000
Cash	$520,000
	$2,000,000

The couple require a retirement income of $150,000 p.a. We might recommend investing along the lines of Table 2 (see next page).

This type of portfolio would enable Evan and Claire to generate their required $150,000 p.a. income tax free.

Importantly, the couple would need to choose an underlying asset allocation which met their investment return requirement while satisfying their tolerance to risk.

Do RPPs have a Centrelink advantage?

Provided you have been in continuous receipt of an eligible income support payment since before 1 January 2015, yes, the income from an RPP purchased prior to 1 January 2015 is only partially assessed by Centrelink, so if you are subject to the income test your RPP could be of assistance.

Table 1: $500,000 invested in an RPP*

Age	Account balance	Tax free fund earnings	Jack's income	Tax
60	500,000	$40,000	$33,000	Nil
61	$507,000	$40,560	$33,990	Nil
70	$541,310	$43,305	$43,058	Nil
Totals (to age 70)		**$419,865**	**$378,308**	**Nil**

*Assumptions: Earning rate 8% p.a. The income is drawn at end of year and is indexed at 3% p.a. No other assessable income. Jenna's investments, together with Jack's RPP, generate sufficient income for them. Income indexed at 3% p.a.

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For example, let's say George is 65 and has $300,000 in an RPP (purchased pre 1 Jan 2015) from which he chooses to take an income of $17,000. Of that, $16,574 isn't counted for the Age Pension income test, only $426 is.

However, RPPs purchased from 1 January 2015 are subject to 'deeming' of income which could result in some retirees qualifying for a smaller Age Pension than if they had purchased the RPP before that date.

Retirement phase Pension Pros:

- Highly tax effective
- Can make estate planning easier
- Could help you increase Age Pension benefit
- Easy to withdraw some or all of your capital
- Full range of assets in which to invest

Retirement phase Pension Cons:

- Minimum limit on annual income
- Fully assessed by Centrelink's assets test
- Maximum amount you can invest limited by transfer balance caps

Table 2: Evan and Claire's tax free retirement income

Investment	Owner	Amount	Income
Retirement phase Pensions	Evan	$1,300,000	$110,929
Retirement phase Pensions	Claire	$180,000	$10,000
Shares (fully franked)	Joint	$500,000	$28,571
Cash	Joint	$20,000	$500
Totals		**$2,000,000**	**$150,00070**
			Income Tax: Nil

Income from shares 4.0% p.a., plus refund of franking credits. Cash earns 2.5% p.a. No other assessable income.

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