

Account-based Pensions

Superannuation can be used to start an account-based pension once a person retires (or meets another condition of release).

This allows income to be received as a series of regular payments (usually monthly, quarterly, half yearly, or yearly).

A minimum amount of income needs to be paid each year, and additional lump sum withdrawals can generally be made at any time. The pension can also be stopped (fully commuted) and be rolled back to the accumulation phase of superannuation, or rolled over to start another income stream, or be taken as a lump sum. Restrictions apply to taking lump sum withdrawals where the pension is being paid under transition to retirement rules.

Account based pensions stop once the account balance is exhausted, the pension is commuted, or upon the death of the person unless there is an automatic continuation of the pension to a nominated reversionary beneficiary.

The maximum amount that may be used to commence a 'retirement phase pension' is limited to an individual's transfer balance cap. The general transfer balance cap is currently \$2.0m. However, where a person commenced a retirement income stream prior to 1 July 2025, their personal transfer balance cap may be less than \$2.0m. Pensions paid under transition to retirement rules are not a retirement phase pension and are therefore not affected by the transfer balance cap.

Income Payments

The person can select how much income to receive each financial year. This allows flexibility to meet individual needs. The only rules for how much pension must be taken are:

- An income payment must be made at least once each financial year
- A minimum level of income must be paid each year based on a percentage of the account balance at commencement of the account-based pension and again at the start of each financial year. If the income stream commences part-way through a financial year, or is commuted before the end of a financial year, the minimum payment is pro-rated for that year

The minimum payment factors are shown in the following table (with the resultant dollar amount being rounded to the nearest \$10):

Age	Income Factor
Under 65	4%
65 - 74	5%
75 - 79	6%
80 - 84	7%
85 - 89	9%
90 - 94	11%
95 and over	14%

Pensions being paid under transition to retirement rules are subject to a maximum income limit of 10% of the account balance.

Taxation of an Account Based Pension

Every withdrawal (income or lump sum or death benefit) from a pension is split into taxable and tax-free components in the same ratio that applied when the pension commenced. The tax on each component depends on the person's age as shown in the table below:

Taxation Of Income Payments

	Component	Taxation Treatment
Any age	Tax-free	No tax
60 or older	Taxable - taxed element	No tax
	Taxable - untaxed element	Marginal tax rate*, less 10% offset
Under age 60	Taxable - taxed element	Marginal tax rate*, less 15% tax offset
	Taxable - untaxed element	Marginal tax rate*

* Plus, Medicare Levy

Taxation of Lump Sums - Over age 60

If you are age 60 or over the tax on lump sum withdrawals is shown in the table below for the 2025-26 financial year.

Component	Threshold	Tax rate
Tax-free	All	0%
Taxable (element taxed)	All	0%
Taxable (element untaxed)	Up to \$1,865,000	15%*
	Over \$1,865,000	45%*

*Plus Medicare Levy

If you withdraw a taxable component and tax is paid on this amount, it is added to your assessable income and may impact on your entitlement to other tax offsets or benefits. This may mean you pay more tax than you expect on other income in that year.

Earnings added to a retirement phase pension account (excluding transition to retirement pensions) are tax-free. No tax is payable within the superannuation fund, and this can help to boost the effective earnings rate.