

# Pensions

## What is a pension?

A pension enables you to draw on your super and receive an income from your superannuation savings.

It's similar to your superannuation account – the account is in your name, funds can be invested according to your selected investment strategy and you receive regular statements regarding transactions from your account. Importantly, the investment income of pensions is tax-free, unlike the investment income of your superannuation account which is taxed at up to 15%.

## Features of a pension

- **Flexibility of income** – you can select the amount of your pension paid each year, subject to drawing at least the minimum amount each year prescribed by government legislation. This minimum is a percentage of your pension account balance at the start of each financial year based on your age at that time. For 2009-10, the Federal Government has amended the minimum drawdown requirements, with a 50% reduction in the minimum payment:

Age	Minimum pension payment before amendment	Minimum pension payment after amendment
Under 65	4%	2%
65-74	5%	2.5%
75-79	6%	3%
80-84	7%	3.5%
85-89	9%	4.5%
90-94	11%	5.5%
95 or more	14%	7%

### Example:

A person aged 65 who begins a pension on 1 July 2009 with \$200,000 would be required to draw a minimum of \$5,000 in the first year, after the temporary reduction in the minimum payment is applied.

There is no maximum pension payment, other than the value of your account balance, unless you are still employed and drawing pension payments through a Transition to Retirement strategy. In this case a maximum of 10% of your account balance applies each year.

- **Payments concessionaly taxed** – if you are aged 60 or more, pension payments are completely tax-free. If you are under age 60, the payments are taxed as income, however, there are concessions, such as a 15% rebate. Further concessions may be available if your pension account balance has a tax-free component.
- **Tax-free investment earnings** – tax of up to 15% applies on the investment earnings of your regular superannuation account. Investment earnings in a pension account are not taxed – they are tax-free.

- *Death benefits* – in the event of your death, the remaining pension account balance is payable. Like your superannuation account, the proceeds would be payable to your dependants or estate, and you may nominate preferred beneficiaries. Media Super will consider your nominated beneficiaries when distributing your benefits, in the event of your death. You can also nominate a reversionary beneficiary who will receive the balance of your death benefit as an income stream. Only spouses, certain children and interdependants are eligible to become reversionary beneficiaries. For more information refer to your *Member Booklet (Product Disclosure Statement)*.

## Features of a Media Super pension

- *Low fees* – Media Super is run only to benefit members. Fees on a Media Super pension are the same low fees applied to a regular Media Super superannuation account.
- *Investment options* – when you start a pension you can select from any of the 10 Media Super investment options.
- *Minimum investment* – you can start a Media Super pension with a minimum investment of \$10,000.
- *Frequency of payments* – you may choose to receive your pension payment either monthly, quarterly, half-yearly or annually. Subject to your account balance, you can also request additional lump sum payments. Other rules apply to a Transition to Retirement pension.
- *Transition to retirement* – Media Super is able to offer Transition to Retirement pensions. For more information, see the Transition to Retirement section.

For full details, please refer to your *Member Booklet (Product Disclosure Statement)*.

## When can I start a pension?

You can start a pension if you've retired and reached your preservation age. If you haven't retired, you can start a Transition to Retirement pension if you have reached your preservation age.

Date of Birth	Preservation age
Before 1/7/1960	55
1/7/1960 – 30/6/1961	56
1/7/1961 – 30/6/1962	57
1/7/1962 – 30/6/1963	58
1/7/1963 – 30/6/1964	59
After 30/6/1964	60

## Other Considerations

- *Social security* – the Federal Government Age Pension is means tested under both an assets test and an income test. Your balance in a pension account counts as an asset for this purpose, and the income you draw from your pension counts as income for this purpose.
- *Consolidating your super* – as pension accounts cannot accept rollovers in or contributions once they have been established, it's important to consider consolidating your super before starting a pension.

## Transition to Retirement

The Federal Government allows you to access your superannuation as a regular income payment without the need to fully retire. Anyone who has reached their preservation age can access a Transition to Retirement pension while continuing to work.

### Potential advantages of Transition to Retirement pensions

The ability to access your superannuation before retirement has opened up various strategies that may allow you to:

- Increase your superannuation savings without reducing your take-home pay, or
- Work less but maintain your current take-home pay, or
- Increase your net income, or
- Reduce income tax – no tax is payable on pension payments if you are aged 60 or above, or
- Achieve a combination of these benefits.

## Example of a Transition to Retirement strategy

A common Transition to Retirement Pension strategy that can be used to increase your superannuation contributions without reducing your take-home pay is illustrated below. This strategy involves:

- Maximising your pension income, and
- Topping up your super with salary sacrifice contributions.

Note: Members considering this strategy should be aware of contributions caps and penalties for exceeding these caps. Visit [www.mediasuper.com.au/caps](http://www.mediasuper.com.au/caps) for more information.

Due to the differences in tax treatment, two examples have been illustrated – one example for ages 60 and over, the other for under 60.

### Transition to Retirement Pension Example – aged 60 and over

Fred is 61, has an income of \$60,000 and has a superannuation balance of \$200,000 which he uses to start a pension.

#### Current situation – take-home pay

Salary	60,000
Less tax	-12,750
<b>Take-home pay</b>	<b>\$47,250</b>

#### Transition to Retirement Pension Strategy – take-home pay

Salary sacrifice (super)	18,750
Salary	41,250
Plus pension income	12,000
Less tax	-6,000
<b>Take-home pay</b>	<b>\$47,250</b>

Fred's original salary of \$60,000 is now \$41,250 after salary sacrificing \$18,750 into super.

A member aged 60 and over pays no tax on pension income.

The calculations above demonstrate that there is no impact to Fred's take-home pay.

#### Current situation – superannuation

9% employer contribution	5,400
<b>Total contribution*</b>	<b>\$5,400</b>

#### Transition to Retirement Pension strategy – superannuation

9% employer contribution	5,400
Plus salary sacrifice	18,750
Less pension income	-12,000
<b>Total contribution*</b>	<b>\$12,150</b>

The example assumes that Fred's employer continues to pay the 9% contribution on his pre-salary sacrifice income. If this is not the case, the benefit would be slightly less.

\* Employer and salary sacrifice contributions are subject to a 15% contributions tax (provided Fred's tax file number has been advised to his super fund)

The example illustrates that, without any impact to Fred's take-home pay, he has increased his superannuation contribution by \$6,750 (before tax).

## Transition to Retirement Pension Example – aged under 60

In the previous example Fred was aged 61. If Fred had been aged under 60, the Transition to Retirement pension example would have different results. The following example is still based on an income of \$60,000 and a superannuation balance of \$200,000 used to start a pension. The only variable that has changed is Fred's age. In this example, Fred is aged 55.

### Current situation – take-home pay

Salary	60,000
Less tax	-12,750
<b>Take-home pay</b>	<b>\$47,250</b>

### Transition to Retirement Pension Strategy – take-home pay

Salary sacrifice (super)	14,812
Salary	45,188
Pension income	12,000
Less tax	-9,938
<b>Take-home pay</b>	<b>\$47,250</b>

Fred's original salary of \$60,000 is now \$45,188 after salary sacrificing \$14,812 into super.

A pensioner aged under 60 pays tax on pension income but receives a tax offset.

The calculations above demonstrate that there is no impact to Fred's take-home pay.

### Current situation – superannuation

9% employer contribution	5,400
<b>Total contribution*</b>	<b>\$5,400</b>

### Transition to Retirement Pension strategy – superannuation

9% employer contribution	5,400
Plus salary sacrifice	14,812
Less pension income	-12,000
<b>Total contribution*</b>	<b>\$8,212</b>

The example assumes that Fred's employer continues to pay the 9% contribution on his pre-salary sacrifice income. If this is not the case, the total contribution would be slightly less.

\* Employer and salary sacrifice contributions are subject to a 15% contributions tax (provided Fred's tax file number has been advised to his super fund)

The example illustrates that without any impact to Fred's take-home pay, he has increased his superannuation contribution by \$2,812 (before tax).

Transition to Retirement pensions are often used in other financial planning strategies. If you are considering the use of a Transition to Retirement Pension, we recommend that you seek financial advice to ensure that it is suited to your own personal situation.

Assumptions: Fred's only taxable income is his salary and pension income and there is no tax-free component in his superannuation balance.

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## HOW TO CONTACT US

**Mail:** Media Super Limited  
Locked Bag 1229, Wollongong, NSW 2500

**Phone:** 1800 640 886

**Fax:** 1800 246 707

**Email:** [administration@mediasuper.com.au](mailto:administration@mediasuper.com.au)

**Website:** [www.mediasuper.com.au](http://www.mediasuper.com.au)

