

## REDUCED MINIMUM PENSION PERCENTAGE – PLANNING OPPORTUNITY

As part of the Federal Government's economic response to COVID-19, the minimum percentage withdrawals from superannuation pension accounts was reduced by 50% as from 24/3/2020 and this is to apply for the 2019-20 and 2020-21 financial years.

This will enable self-funded retirees to potentially reduce their pension withdrawals for a period in order to preserve asset values and avoid selling growth assets in a depressed market.

However, there may be cases where the member still requires a higher pension amount and in those cases, consideration should be given to taking the extra amount as a commutation/lump sum. This has the advantage of reducing the member's Transfer Balance Cap, thus providing space for potential further transfers into pension mode in the future. The advantage of pension mode accounts is that all income and capital gains derived in those accounts will be tax free.

### Example:

Mary is aged 68 and currently has a sole member SMSF with a retirement phase pension account balance of \$1,550,000. Her Transfer Balance Cap is \$1,600,000. Her minimum pension was previously 6% or \$93,000 but under the changes, that minimum is reduced to 3% or \$46,500. For various reasons, Mary does not wish to reduce her pension withdrawals and therefore will withdraw \$93,000 in the current financial year - \$46,500 was withdrawn in December and she plans to withdraw a further \$46,500 in June 2020. If Mary **treats the full \$93,000 as a pension**, her Transfer Balance Cap will not change and she will have no further ability to transfer additional amounts into pension mode. On the other hand, if Mary decides to take the June payment as a **commutation from her pension account and then as a lump sum** from the accumulation account, her Transfer Balance Cap will reduce by \$46,500 and that amount could be re-contributed in the future and then transferred to pension mode, thus increasing the actual superannuation amount in pension phase.

Note that commutations need to be properly documented and reported to the regulator in the appropriate way.

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Mr Locke has been an accountant and taxation expert for 35 years. His company, Practical Systems Super, provides an all-in-one SMSF solution with a full administrative service, SMSF management software, and independent, licensed advice, tailoring their package to meet the individual needs of trustees and SMSF professionals. To find out more about Practical Systems Super, visit [www.pssuper.com.au](http://www.pssuper.com.au) , or call 1800 951 855.