Reduced pension withdrawal rates continuing for another year

By Perpetual Private Insights
13 May 2020

This article has been updated in April 2022. Investment markets across the world continue to face increased volatility as a result of the COVID-19 crisis, plus other geo-political factors. Off the back of this, some Australians may have experienced a decrease in their retirement savings.

As part of the COVID-19 stimulus measures originally announced in March 2020, the Australian government has announced a reduction in the minimum pension withdrawal requirements for account-based pensions ('ABPs') for the remainder of the 2019-20 financial year.

These reduced withdrawal requirements continued in 2020-21, 2021-22 and now will again do so for the 2022-23 financial year.

In this article, we discuss what this means for retirees and outlines four key considerations for those thinking about reducing their pension drawdowns to help protect their super balance.

What are account-based pensions?

ABPs can be a tax effective investment structure for some Australians. There is no tax payable within pensions or when you withdraw money from them where you are aged 60 or above. This can make them a particularly attractive structure compared to holding retirement savings in your own name, where standard marginal tax rates may apply. As they are designed to be a retirement savings vehicle, ABPs have mandated set minimum pension withdrawal levels based on the ABPs account value and the account holder's age as at 1 July each year. The old and the continued reduced minimum pension withdrawal rates can be seen below:

Age as at 1 July	Old rates	Reduced rates
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+	14%	7%

How are ABPs invested?

ABPs can be invested in a broad range of assets including Australian and international shares, property, fixed interest, cash and alternatives. The investment returns from these assets are received in the form of income and capital.

Income is comprised of dividends, distributions, rent and interest while capital returns can be observed in the fluctuating value of the portfolio.

If you utilise a platform or Self Managed Super Fund (SMSF) to manage your super, you have greater control over the decision as to how to fund your ABP pension payments. However, industry and retail pension funds make the draw down decision on an individual's behalf each time they pay out a pension payment. In saying that, regardless of the style of ABP used, all of them are required to make the relevant minimum pension withdrawal each year.

Why would I consider reducing my pension payments?

By reducing the amount of your pension payments, this may reduce the need to sell your assets enabling you to retain more in your ABP accounts to participate in a recovery, which assists in sustaining your pension assets (and your retirement income) for a longer period.

Four key considerations when considering to reduce your pension payments

1. Do you have any liquid assets outside of the superannuation environment you can draw on to help offset any reduced pension income?
2. Do you already receive excess income from your pension, and therefore can meet ongoing expenses from a reduced pension payment?
3. Do you have the ability to control which investments you sell down in your pension portfolio? For example, are you able to sell down cash/fixed interest funds in the short term instead of shares?
4. During this time of self-isolation, are you likely to reduce your expenditure and therefore able to sustain your lifestyle with a reduced pension?

If you are not in a position to reduce your pension payments, you still have options. A skilled financial adviser can work with you to determine how to manage your finances during this continued time of crisis with a portfolio tailored to your needs that will contain an appropriate amount of flexibility and control. They can quickly implement new drawdown strategies with appropriate consideration provided to meet long term retirement needs. For example, this may mean prioritising selling down 'overweight' conservative investments to fund pension payments instead of selling shares at 'low' valuations.

In most industry and retail funds, there isn't the flexibility to take advantage of the current market conditions, or any control held for these decisions to be tailored to an individual's own personal circumstances and financial goals.

Managing your finances can be complex and confusing at the best of times. We are in the midst of extreme investment market volatility, record low cash rates and a smorgasbord of short-term regulatory change. Now more than ever is the time to seek quality financial advice to ensure you successfully manage your investments throughout the market volatility and take advantage of changes to legislation to aim towards a secure financial future.