

# UNDERSTANDING INCOME ACCOUNTS

*The time of your life starts here.*

FACT SHEET 9

29 SEPTEMBER 2017

Are you nearing retirement and looking for an effective way to ensure your super continues to work hard for you? We offer an *Income account* and a *Transition to retirement account*.

This fact sheet explains the NGS *Income account*. You can read more about *Transition to retirement accounts* in the *Transition to retirement Guide and Fact sheet* available at [www.ngssuper.com.au/PDS](http://www.ngssuper.com.au/PDS).

## What is an *Income account*?

An *Income account* is a flexible and tax-effective means of converting a lump sum retirement benefit into a regular income stream. An *Income account* has these basic features:

- flexible payment options allowing you to choose your payment frequency and the amount you wish to receive
- the ability to make lump sum withdrawals at any time (provided you receive at least the minimum pension payment each year according to your age and account balance)
- the benefit of tax-free investment earnings
- the freedom to choose how your account is invested from a wide range of investment options
- the option of having your income either continue to be paid to a dependant as a reversionary pension following your death or paid as a lump sum to your dependants or your estate.

If you are age 60 or over, any payments made from your *Income account* are tax-free. If you have reached preservation age (see Preservation table on page 2) and are less than age 60, you will continue to receive concessional tax treatment when you receive income from your *Income account*.

## Advantages and disadvantages of an *Income account*

A number of retirement income products provide the same tax concessions as *Income accounts*. However, your NGS *Income account* provides you with flexibility by allowing you a choice of investment options and control over your account.

The government sets age-based minimum limits on annual payments. You can nominate the income amount you would like to receive each financial year and you can change this amount at any time, however these amounts must be at least the minimum age-based percentages of your account balance. The table on page 2 shows the minimum limits that apply based on your age at 1 July each year.

You can also withdraw all or part of your account as a lump sum at any time. However, in order to do so, you must have also received at least the (pro-rata<sup>1</sup>) minimum payment amount in the financial year in which the withdrawal occurs.

<sup>1</sup> If you commence an *Income account* part-way through a year, you can choose to receive the minimum annual amount or a pro-rata amount of the minimum based on the number of days left in the financial year.

The disadvantage of an *Income account* is uncertainty. Your investment returns are not guaranteed and depend on the performance of your chosen investment options. This means that you do not know how long your money will last.

If you are thinking about commencing an *Income stream*, consider obtaining professional advice to understand how this works for your personal situation.

We offer low-cost advice through NGS Financial Planning. Contact us to schedule an appointment.

## Who is eligible for an NGS *Income account*?

In order to be eligible for an NGS *Income account*, you must have immediate access to your super benefit, having met one of the following conditions of release:

- you have permanently retired from the workforce after reaching your preservation age
- you have ceased gainful employment on or after age 60, even if you have not permanently retired
- you have reached age 65
- you have become permanently disabled
- you have reached your preservation age and you wish to commence an NGS *Transition to retirement account* (see the *Transition to retirement Guide* at [www.ngssuper.com.au/PDS](http://www.ngssuper.com.au/PDS)).

## What is my preservation age?

Your preservation age is based on your date of birth and is as follows:

### Preservation table

Your date of birth	Preservation age
Before 1 July 1960	55
Between 1 July 1960 and 30 June 1961	56
Between 1 July 1961 and 30 June 1962	57
Between 1 July 1962 and 30 June 1963	58
Between 1 July 1963 and 30 June 1964	59
After 30 June 1964	60

## How does an *Income account* work?

When you become eligible, you may choose to transfer part or all of your super balance to an NGS *Income account* provided the value of all your retirement accounts do not exceed the Transfer Balance cap which is currently \$1.6m.

Your *Income account* can be made up of transfers from:

- some or all of your NGS Super *Accumulation account* (if you wish to make any further contributions to this account, you will need to do this before you transfer it to the *Income account*)
- rollovers from other super funds or pension accounts
- lump sum total and permanent disablement payments you receive from a super fund
- payments received as a result of commuting certain pensions or annuities into a lump sum.

You cannot make ongoing contributions or further transfers into your *Income account* once it has been established. All transfers and rollovers into your *Income account* must first be received by NGS Super before your *Income account* commences.

Once your *Income account* is established, you must receive a payment at least once during each financial year. This means that you must receive a minimum payment based on your present age and your account balance in order to comply with superannuation law.

If you are under age 60, any income payments you receive from your *Income account* will be taxed at your marginal tax rate, net of any low income tax offset, plus the Medicare Levy. The amount of tax that applies to your income payments may be reduced by any tax-free amounts for which you are eligible and the 15% tax rebate.

If you wish to include additional lump sums (if eligible) or rollovers from another super fund at a later time, this needs to be done by way of an NGS Super *Accumulation account*.

You can then choose to either:

- set up a second NGS *Income account*, or
- cease your current NGS *Income account* and commence a new account with the additional funds.

Note: If at 31 December 2014 you held an *Income account*-based pension and you were in receipt of the government aged pension, you will be assessed under the previous age pension income test rules for super pensions. The old rules allow for a deductible amount. Your annual income amount would be reduced by the deductible amount. The result is declared as income for the Age Pension income test.

However, if you cease your *Income account* and commence a new *Income account*, you will be assessed under the new deeming rules for the *Income test* for *Account*-based pensions.

This could potentially result in you receiving a lower or in some cases, no government age pension.

Payments for members aged 60 and over are tax-free. The minimum amount that must be paid from your *Account*-based pension account at least annually is shown in the following table. The minimum is calculated on your age at commencement of your pension (for the first year) and your age at 1 July each subsequent financial year.

## Minimum payments

Age	Minimum <sup>2</sup> % of account balance
Under 65	4
65–74	5
75–79	6
80–84	7
85–89	9
95–94	11
95 or more	14

<sup>2</sup> Where commencement is after 1 July, the minimum is proportional to the number of days remaining in that financial year.

# LIVE THE RETIREMENT YOU'VE IMAGINED

## Here's a worked *Income account* example

Mary has retired at age 57 with a gross (i.e. before-tax) lump sum benefit of \$420,000, which she has chosen to rollover in full to an NGS *Income account*. As she has not reached age 60, Mary must declare her NGS *Income* payments as part of her annual income tax return. During her working career Mary contributed \$54,600 through after-tax contributions, i.e. non-concessional (personal) contributions, which she can claim as an annual tax-free amount against future pension income payments. In addition, Mary may claim the 15% tax rebate.

Mary must take a minimum pension of \$16,800 (at least 4% p.a. of her account balance up to and including age 64) and can take a higher income amount if she wishes. As she is younger than 60, tax is payable on any taxable component that applies after all tax offsets have been taken into account.

If we assume Mary nominates to receive a gross income of \$45,000 (in the first year), her income tax position would be:

Gross pension	\$45,000
Less tax-free % amount	\$5,850 (\$54,600/\$420,000 x \$45,000)
New TAXABLE income	\$39,150
Tax payable <sup>3</sup>	\$783 <sup>4</sup>
Net income	\$44,217 <sup>5</sup>

It is estimated that Mary will receive a net pension of approximately \$44,217 until she reaches 60 years of age (assuming no change to the income amount she has nominated or to the marginal taxation rates).

## *Income accounts* and Centrelink

*Income accounts* count towards both the assets test and income test for social security purposes. This means that your *Income account* may affect your social security entitlements. The following information should only be taken as a guide – for more information, contact Centrelink.

For further details regarding your NGS *Income account* and the government age pension, refer to *Your super and the age pension* fact sheet available at [www.ngssuper.com.au/PDS](http://www.ngssuper.com.au/PDS).

As social security laws are complex, you may wish to consult Centrelink or obtain professional advice from an NGS Financial Planner before you apply for an *Income account*.

<sup>3</sup> Please note that tax may be payable on any other personal taxable income received from other sources.

<sup>4</sup> Mary is obliged to pay the Medicare levy only until she turns 60 – the tax payable on \$39,150 income [after deduction of the low income tax offset] is less than 15% tax rebate of \$5,872 [\$39,150 x 15%]

<sup>5</sup> From age 60, there will be no tax applicable (including the Medicare levy) so Mary's net income will be \$45,000.

## Key features of the NGS Super *Income account*

<b>Minimum initial investment</b>	<b>\$20,000</b>
Income amount	Chosen by you, provided you meet the minimum payment required (set by government legislation).
Payment options	Fortnightly, monthly, quarterly, six-monthly or annually by direct credit to your bank or credit union account.
Lump sum withdrawals	Available at any time.
Withdrawal fee	Nil per lump sum withdrawal.
Investment options	<p>You have the flexibility of choosing from a selection of:</p> <ul style="list-style-type: none"> <li>▪ nine diversified pre-mixed options</li> <li>▪ developing your own investment strategy by choosing any combination of the five sector-specific options available, or</li> <li>▪ NGS Self-Managed (direct investment gateway).</li> </ul> <p><b>Pre-mixed options:</b> Defensive, Balanced, Moderate Growth – default, Socially Responsible Diversified, Diversified, Indexed Growth, High Growth, Shares Plus and Retire Plus.</p> <p><b>Sector-specific options:</b> Cash and Term Deposits, Diversified Bonds, Property, Australian Shares, International Shares.</p> <p><b>Tailored option:</b> NGS Self-Managed – ability to choose from ASX-listed companies, exchange traded funds and term deposits.</p>
Investment switches	Available at any time. One free switch per financial year, then \$30 for each subsequent switch.
Death benefits	Payable to your dependant(s) as either a lump sum or a pension if the reversionary option is taken, or to your estate as a lump sum.
Account administration fee	\$1.25 per week (\$65 per year).
Joining/entry fee	Nil
Total Indirect costs	A percentage fee of all Indirect costs ranging from 0.15% p.a. to 1.65% p.a. For more details on the Indirect costs that apply to each of the investment options, please refer to the <i>NGS Fees, costs and tax fact sheet</i> available at <a href="http://www.ngssuper.com.au/PDS">www.ngssuper.com.au/PDS</a> .
Asset-based fee	0.10% p.a. of assets. A maximum limit of \$500 p.a. applies to your account.
NGS Self-Managed trading fees	The fees applying to this section include an Investment Gateway access fee, brokerage fees and Exchange Traded fund fees.

For details of each of the above fees, please refer to the *Fees, costs and tax fact sheet* available at [www.ngssuper.com.au/PDS](http://www.ngssuper.com.au/PDS).

## More information?

### Contact us

You can contact us at [www.ngssuper.com.au/contact-us](http://www.ngssuper.com.au/contact-us) or call us on **1300 133 177** between 8.00am and 8.00pm (AEST or AEDT), Monday to Friday.

Phone number for callers outside Australia **+61 3 8687 1818**

Fax: **(03) 9245 5827**

Postal address  
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If you are thinking about commencing an Income stream, consider obtaining professional advice to understand how this works for your personal situation.

We offer low-cost personal advice through NGS Financial Planning.

To make an appointment phone us on **1300 133 177** or complete the *financial planning enquiry* form on our website at [www.ngssuper.com.au/financial-planning](http://www.ngssuper.com.au/financial-planning).

### Important information

You should consider all the information contained in the Product Disclosure Statement dated 29 September 2017 and incorporated fact sheets before making a decision about investing in NGS Super.

The information provided in this fact sheet is general information only and does not take into account your objectives, financial situation or needs. Before making a financial decision, please assess the appropriateness of the information to your individual circumstances and consider seeking professional advice.

NGS Financial Planning Pty Ltd, ABN 89 134 620 518, is a corporate authorised representative #394909 of Guideway Financial Services Pty Ltd, ABN 46 156 498 538, AFSL# 420367 and offers financial planning services on behalf of NGS Super ABN 73 549 180 515.

[www.ngssuper.com.au](http://www.ngssuper.com.au)  
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