Stimulus Package - Reduction To The Minimum Super Pension Drawn Downs

The minimum annual payment amounts for pensions and annuities have been temporarily reduced by 50% for the 2019-20 and 2020-21 financial years in recognition of the impact of the coronavirus on self-funded retirees' investments.

The reduction in the minimum payment amounts applies to account-based, allocated and market-linked (term allocated) pensions. Minimum payments are determined by age of the beneficiary and the value of the account balance as at 1 July each year.

Minimum drawdowns reduced 50% for 2019-20 and 2020-21	
Age of beneficiary (years)	Percentage factor for 2019-20 and 2020-21 (after 50% reduction)
0-64	2
65-74	2.5
75-79	3
80-84	3.5
85-89	4.5
90-94	5.5
95+	7

No maximum annual payments apply, except for transition to retirement pensions which have a maximum annual payment limit of 10% of the account balance at the start of each financial year.

For the purposes of determining the minimum payment amount for an account-based pension or annuity for the financial years commencing 1 July 2019 and 1 July 2020, the minimum payment amount is half the amount worked under the formula previously legislated. The regulations basically require the minimum payment to be calculated according to the existing rules (ie pro-rating of minimum payments in the first year of a pension, 1 June rule and $10 rounding rule) and then halved. The relevant percentage factor is based on the age of the beneficiary on 1 July in the financial year in which the payment is made (or on the commencement day if the pension commenced in that year).

For market-linked income streams (also known as term allocated pensions), the minimum payment amount for the financial years commencing 1 July 2019 and 1 July 2020 is not less than 45% (and not greater than 110%) of the amount determined under the standard formula.

Pensioners who have not yet made any pension payments for 2019-20 (or drawn down less than 50%) must draw down at least 50% of the minimum pension payments for 2019-20 before 30 June 2020.

If a pensioner has already withdrawn in excess of their reduced drawdowns for 2019-20, Treasury says the pensioner cannot put the excess amount back into their superannuation account. However, the ATO notes that if an SMSF has paid more than the minimum drawdown amount for the financial year, the member can recontribute these amounts if they are eligible to make superannuation contributions, subject to other rules or limits such as contributions caps.

Note that the 50% reduction in the minimum annual pension payments for 2019-20 and 2020-21 is not compulsory. That is, a pensioner can continue to draw a pension at the full minimum drawdown rate or above for 2019-20 and 2020-21 (subject to the 10% limit for transition to retirement pensions). However, it will generally be inappropriate to take more than the minimum annual drawdowns in the form of a pension payment given the advent of the $1.6m pension transfer balance cap. Rather, it generally makes more sense to access any additional pension amount above the minimum drawdown in the form of a partial commutation of the pension instead of taking more than the minimum annual drawdowns. This is because a commutation will generate a debit for their pension transfer balance account, while an additional pension payment above the minimum will not result in a debit.

Example

Mike is a 66 year old retiree with a superannuation account-based pension. The value of Mike's account-based pension at 1 July 2019 was $200,000. Under current minimum drawdown requirements, Mike is required by legislation to drawdown 5% of his account balance over the course of the 2019-20 and 2020-21 income years. This means Mike has to drawdown $10,000 by 30 June 2020 to comply with the minimum drawdown requirements.

Following the temporary 50% reduction in minimum drawdown requirements, Mike will now only be required to drawdown 2.5% of his account balance, that is, $5,000, by 30 June 2020. If Mike has already withdrawn over $5,000 for 2019-20, he is not able to put the amount above $5,000 back into his superannuation account.

On 1 July 2020 the value of Mike's account-based pension is $180,000 (after drawdowns and investment losses). During 2020-21, Mike is required to drawdown 2.5% of his account balance, which is $4,500, instead of $9,000. As a result of this change to minimum drawdown requirements, Mike is able to preserve his capital while still drawing an income from his superannuation.