Market linked pensions

Market linked income streams (also referred to as Term Allocated Pensions, or TAPs) are a hybrid pension that became available in September 2004. They have a mix of characteristics from both allocated pensions and lifetime pensions. The name 'market linked' refers to the way in which the annual benefits are tied to the market value of the fund.

Market linked pensions have less flexibility than account based pensions when it comes to accessing the fund's capital investment.

Term and payment rules

The initial term of the pension is selected by the member at the commencement of a market linked pension. The term selected must be between the member's life expectancy and the number of years to age 100. If there is a reversionary interest in the pension the term of the pension must be greater than the life expectancy of both the member and the reversioner and less than the number of years to age 100 for the youngest person.

The annual pension payment depends on the remaining term, the corresponding payment factor as shown in the table below, and the market value of the fund at the beginning of the year.[1]

Term	Factor	Term	Factor	Term	Factor
50	23.46	33	19.39	16	12.09
49	23.28	32	19.07	15	11.52
48	23.09	31	18.74	14	10.92
47	22.90	30	18.39	13	10.30
46	22.70	29	18.04	12	9.66
45	22.50	28	17.67	11	9.00
44	22.28	27	17.29	10	8.32
43	22.06	26	16.89	9	7.61
42	21.83	25	16.48	8	6.87
41	21.60	24	16.06	7	6.11
40	21.36	23	15.62	6	5.33
39	21.10	22	15.17	5	4.52
38	20.84	21	14.70	4	3.67
37	20.57	20	14.21	3	2.80
36	20.29	19	13.71	2	1.90
35	20.00	18	13.19	1	1.00
34	19.70	17	12.65		

To calculate the pension payable, the opening balance is divided by the factor corresponding to the remaining pension term in the table above. Pension payments must be within 10% of this calculated figure.

Example

Bill has a market linked pension with an opening balance at 1 July 2012 of $500,000. His market linked pension commenced on 1 July 2008 with an original term of 42 years.

Bill has a remaining term of 38 years (42 less 4 years that have lapsed between 1 July 2008 and 1 July 2012), his pension factor is 20.84 (from the table above).

Bill's calculated pension amount is $23,992 (ie. $500,000 divided by 20.84), and his minimum and maximum allowable pensions as shown below (amounts are rounded to the nearest $10):

Minimum: $23,992 x 0.9 = $21,590
Maximum: $23,992 x 1.1 = $26,390

Commuting to market linked pension

From 20 September 2007, market linked pensions can only be purchased from the commutation of an existing complying pension or annuity. Commutation to market linked pensions after 20 September 2007 from a complying pension will cause the fund to lose its asset test exemption status.[2] However, by commuting to market linked pension, there are less stringent reporting and solvency requirements.

Once a member has commenced a market linked pension it is generally non-commutable except where it is commuted to another complying income stream. The pension stream will continue until the term comes to an end or on the death of the member (and reversioner), whichever is sooner. It cannot be commuted or withdrawn as a lump sum except on the death of the member (and reversioner).

Further information

For further information please visit **www.cumsar.com.au** or contact Corey Plover on (03) 9642 2242.

[1] *Superannuation Industry (Supervision) Regulations 1994*, Schedule 6
[2] *Superannuation Industry (Supervision) Regulations 1994*, Reg 1.07C

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