Market Linked Pensions

1. Background

Market linked pensions are a particular form of account based pension. They are constructed under regulation 1.06(8) of the Superannuation Industry (Supervision) Regulations. Market linked pensions are also sometimes known as term allocated pensions.

The required annual draw-down from these pensions is calculated by dividing the pension balance at the start of the financial year by a factor that varies with the remaining term of the pension. The actual draw-down must then normally be within 10% of that amount. The rules for these pensions are designed to progressively draw-down the pension account balance over its full term, so that the balance is exhausted when the end of the term is reached.

When a market linked pension is commenced, the trustee must select a term for the pension, based on the rules in the Superannuation Industry (Supervision) Regulations.

From 20 September 2007, a market linked pension cannot be commenced using a member's accumulation balance. It can only be commenced by commuting and re-starting an existing complying pension, such as another market linked pension or a defined benefit pension.

2. Rules for Market Linked Pensions

The comments below provide more details about the rules applying to market linked pensions. These comments focus primarily on the rules for selecting the term of a market linked pension and calculating the annual pension draw-downs. There are other important rules regarding market linked pensions (for example, regarding how they are taxed and their transfer balance cap implications) that are outside the scope of this article.

2.1. Term of a Market Linked Pension

When a market linked pension is commenced, the trustee must select a term for the pension, based on the following constraints (for a pension that is non-reversionary) calculated on the commencement date of the pension:

a) The term cannot be less than the member's life expectancy in whole years, rounded up.

b) The term cannot be more than the greater of:
   - The member's life expectancy in whole years, rounded up, as if the member was 5 years younger; and
   - 100 minus the member's attained age.

For a pension that is reversionary to the member's spouse, the member can choose to use either their own life expectancy or (if the spouse's life expectancy is greater) the life expectancy of the spouse when applying the constraints in a) and b) above.

The rules summarised above are those applying to market linked pensions started on or after 1 January 2006. Slightly different rules applied to market linked pensions started before that date.

For a market linked pension commencing on or after 1 January 2020, the life expectancy of the member and the spouse should be calculated using Australian Life Table 2015-2017, published by the Australian Government Actuary. An extract of this table of life expectancies (from age 50) is reproduced below.

Age	Life Expectancy		Age	Life Expectancy	
	Males	Females		Males	Females
50	32.84	36.14	80	9.02	10.49
51	31.93	35.21	81	8.44	9.81
52	31.03	34.27	82	7.89	9.16
53	30.13	33.34	83	7.36	8.54
54	29.24	32.42	84	6.86	7.94
55	28.35	31.49	85	6.39	7.37
56	27.47	30.57	86	5.95	6.83
57	26.6	29.66	87	5.54	6.32
58	25.73	28.75	88	5.16	5.84
59	24.87	27.84	89	4.81	5.4
60	24.02	26.93	90	4.5	4.99
61	23.17	26.03	91	4.22	4.61
62	22.33	25.14	92	3.96	4.28
63	21.5	24.24	93	3.72	3.97
64	20.67	23.36	94	3.5	3.69
65	19.86	22.47	95	3.29	3.43
66	19.04	21.6	96	3.11	3.18
67	18.24	20.73	97	2.93	2.94
68	17.45	19.87	98	2.77	2.73
69	16.67	19.02	99	2.62	2.53
70	15.9	18.18	100	2.49	2.36
71	15.14	17.35	101	2.36	2.19
72	14.39	16.53	102	2.24	2.05
73	13.66	15.73	103	2.14	1.91
74	12.95	14.93	104	2.04	1.8
75	12.25	14.15	105	1.94	1.69
76	11.57	13.39	106	1.86	1.59
77	10.9	12.64	107	1.78	1.51
78	10.25	11.9	108	1.71	1.43
79	9.63	11.18	109	1.64	1.37

Different life tables applied to market linked pensions starting in earlier periods. If the Australian Government Actuary publishes new life tables, then the life expectancies used for market linked pensions may also change for future periods.

2.2. Market Linked Pension Payment Factors

The table below sets out the payment factors applying to market linked pensions. At the start of each financial year (or on the commencement date of the pension), the remaining term of the pension (rounded up if the commencement date of the pension was on or after 1 January in the financial year and rounded down if the commencement date was on or before 31 December in the financial year) is used to determine the payment factor for that year.

The annual payment amount is then determined by dividing the payment factor into the account balance of the pension at the start of the financial year (or on the commencement date of the pension, in its first year). The amount calculated is also rounded to the nearest $10.

Remaining Term (years)	Payment Factor	Remaining Term (years)	Payment Factor	Remaining Term (years)	Payment Factor
70 or more	26.00	46	22.70	22	15.17
69	25.91	45	22.50	21	14.70
68	25.82	44	22.28	20	14.21
67	25.72	43	22.06	19	13.71
66	25.62	42	21.83	18	13.19
65	25.52	41	21.60	17	12.65
64	25.41	40	21.36	16	12.09
63	25.30	39	21.10	15	11.52
62	25.19	38	20.84	14	10.92
61	25.07	37	20.57	13	10.30
60	24.94	36	20.29	12	9.66
59	24.82	35	20.00	11	9.00
58	24.69	34	19.70	10	8.32
57	24.55	33	19.39	9	7.61
56	24.41	32	19.07	8	6.87
55	24.26	31	18.74	7	6.11
54	24.11	30	18.39	6	5.33
53	23.96	29	18.04	5	4.52
52	23.80	28	17.67	4	3.67
51	23.63	27	17.29	3	2.80
50	23.46	26	16.89	2	1.90
49	23.28	25	16.48	1	1.00
48	23.09	24	16.06		
47	22.90	23	15.62		

The actual draw-down in a year must normally be within +/- 10% of the calculated payment amount.

Also note that the minimum draw-downs for market linked pensions have been reduced for particular tax years. In 2008/09, 2009/10, 2010/11, 2019/20 and 2020/21, the minimum draw-downs for a market linked pension were reduced by 50%, while in 2011/12 and 2012/13 the minimum draw-downs were reduced by 25%. The maximum draw-downs in these years were not adjusted.

For market linked pensions that are started on or after 20 September 2007, the draw-down in a year also cannot be less than the age-based minimum payments required for an account based pension (see the article Minimum Drawdowns for Account Based Pensions for more information). This has the potential to create conflicting requirements if the age-based minimum payment for an account based pension is *greater* than the maximum payment amount as determined above. In this case, it may be necessary to commute your market linked pension and re-commence it with a shorter remaining term.

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