TOP FIVE QUESTIONS FOR RETIREES

Australian Government
Australian Taxation Office

Superannuation changes announced by the Australian Government start on 1 July 2017 – with retirees amongst some of those who may be affected.

To debunk some of the misconceptions surrounding the reforms, we have outlined five of the most frequently asked questions, to help retirees prepare for and better understand the changes ahead.

1. What counts towards my transfer balance cap?

The cap limits the total amount that you can transfer into retirement phase to start a pension or annuity over the course of your lifetime, no matter how many accounts you hold or how many times you transfer money into retirement phase.

The cap also includes the value of pensions or annuities you may start to receive for some other reason, for example:

- Your spouse has died and you are, or start to receive a pension from their super;
- Your former spouse has been ordered to pay you a portion of their pension income stream as part of a family court settlement.

The cap does not apply to any subsequent growth or losses. This means:

- If you start a pension with $1.6 million in the 2017–18 financial year and the value of that pension grows to $1.64 million, you can roll that money into a new fund without breaching your cap;
- If you start a pension with $1.6 million in the 2017–18 financial year and the value of that pension goes down over time as you use it to live on, you can't top up your pension accounts. You will still be able to access other super amounts by taking these as a lump sum.

Special rules apply to child death benefit beneficiaries.

2. What happens if I am over my transfer balance cap on 1 July 2017?

If the total value of your retirement phase income streams is between $1.6 million and $1.7 million, you have six months to remove the excess capital without penalty. This concession only applies to income streams you were receiving just before 1 July 2017.

If the total value of your retirement phase income streams is more than $1.7 million (or you do not rectify a small breach within six months), you'll be required to remove excess amounts including excess transfer balance earnings. Where you exceed your cap, we will issue you with an excess transfer balance determination, outlining the amount in excess of your cap and the excess transfer balance earnings that must be removed from retirement phase. You'll also be liable to pay excess transfer balance tax on excess transfer balance earnings. The excess transfer balance tax rate is set at 15% for breaches in the 2017–18 financial year. From the 2018–19 financial year, the tax rate is also 15% for a first breach, and increases to 30% for second and subsequent breaches.

Note that we will not know whether you have exceeded your transfer balance cap until all your super funds have reported to us.

3. If I commenced a transition to retirement income stream (TRIS) before 1 July 2017, will the super changes apply to me?

Yes, earnings from assets supporting a TRIS will be taxed at 15% from 1 July 2017, regardless of the date the TRIS commenced.

4. How are my pensions and annuities valued for transfer balance cap purposes?

You need to contact your fund about the value of your pensions and annuities.

The value of your pension or annuity will generally be the value of your pension account for an account-based pension.

Special rules apply to calculate the value of:

- Lifetime pensions;
- Lifetime annuities that existed on 30 June 2017;
- Life expectancy and market linked pensions and annuities where the income stream existed on 30 June 2017.

5. What is the total superannuation balance?

The concept of total superannuation balance has been introduced from the end of 30 June 2017 as a way to value your total super interests at any given point of time (generally 30 June of each financial year) consistently for a number of super changes. Your total superannuation balance is relevant for determining your:

- Eligibility for unused concessional contributions cap carry-forward;
- Non-concessional contributions cap and eligibility for the bring forward of your non-concessional contributions cap;
- Eligibility for the government co-contribution;
- Eligibility for the tax offset for spouse contributions;
- Eligibility to use the segregated assets method to determine exempt current pension income (ECPI) if you are an SMSF or a small APRA fund.