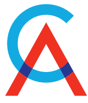


CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

SuperGuardian
Superannuation administration made simple!

SuperGuardian Information

how sustainable is your retirement income and tax strategy

The importance of reviewing and projecting where your income is sourced from and how long that source will last, can never be underestimated. With some forethought, your future financial position can be dramatically improved – and now with the raft of changes that have taken place in the superannuation environment every retiree should review their income strategy to ensure it is sustainable and effective.

To begin with you should consider:

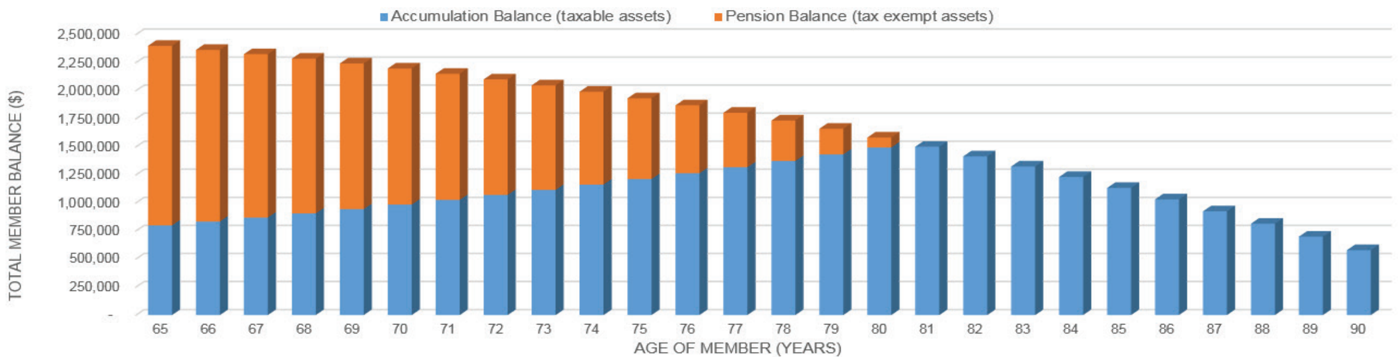
- How much do you need in withdrawals each year?
- How are your income needs likely to change in the future?
- What level of confidence do you have that your retirement lifestyle is sustainable throughout your expected lifespan?
- If you have multiple pensions, accumulation benefit or non-super assets – where should you source your living expenses from?
- How will the timing of your withdrawals impact on the amount of tax your fund will pay?
- Will you be eligible for a Centrelink age pension at any point in the future?
- Is your pension benefit enough to support this income for your life expectancy?
- How long will you be able to retain the tax exemption for your pension benefit?

Take Bob for an example. He is 65, has a $1.6M pension (80% tax free) and $800K in accumulation (20% tax free). He expects to generate returns of 5% per annum and needs a retirement income of $150K each year. He continues to draw a pension as he has in the past, without reassessing his withdrawal strategy.

Bob has nominated his daughter (Rose) as a beneficiary of all his super benefits. She is not a tax dependent of Bob's.

The truth is:

- By the age of 80 he will no longer have any tax exempt pension assets and won't be able to commence any pension in the future. He can only draw lump sums from his remaining accumulation benefit and will pay 15% tax on all the income of the fund.
- He will pay $80K tax unnecessarily up to the age of 80 and will continue to pay 15% tax on any income that the funds generates thereafter.
- If Bob were to die at 80, Rose will pay tax on $918K of the death benefit unnecessarily.



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The new $1.6 million Transfer Balance Cap

From 1 July 2017, the government introduced a cap which limits the amount a member can hold in a tax-free environment. The cap is currently $1.6M and is applied across all superannuation accounts held by an individual and is known as the Transfer Balance Cap. SMSF members who are withdrawing any amount over their prescribed minimum pension requirement should consider how this excess amount should be treated.

The Transfer Balance Cap should be viewed as a ledger account which has a debit and credit side.

Items that will affect the cap include additional capital amounts added to the pension via a consolidation, new pension commencements and lump sum commutations which aren't considered pension payments.

The most common debits and credits are listed in the following table:

Typical Debits	Typical Credits
Partial or full pension commutations (lump sums)	Pension balance at 1 July 2017
Structured settlement contributions	Pension commencements from 1 July 2017

Pension payments, and any change in the market value of the underlying assets, will not impact the amount of the Transfer Balance Cap utilised.

What if my pension balance is less than $1.6 million?

You may think the Transfer Balance Cap does not affect you however there are many ways you can be impacted in the future. Consider what happens if you become entitled to a reversionary pension or inheritance that you may be able to contribute to super. Creating extra room in your cap will allow you to hold more of the balance in a tax-free environment.

When is a pension payment not a pension payment? When it is a Lump Sum!

For compliance purposes, an amount withdrawn from a pension account can be treated as either a pension payment or a lump sum. It doesn't necessarily have to be an ad-hoc withdrawal in addition to regular income stream payments.

Amounts withdrawn over the minimum pension requirement can be treated as lump sum withdrawals which create a debit to the Transfer Balance Cap and can free up additional room in the cap for future use. This can enable additional contributions, rollovers and reversionary pensions received on the death of the pensioner to be included in a tax-free environment.

What action do I need to take to treat a personal withdrawal as a lump sum?

An election must be made by the member before the payment is made to confirm the payment is to be treated as a partial commutation (lump sum) and not as a pension payment. Once the requirement to report this to the ATO is introduced on 1 July 2018, members who have in excess of $1M in their combined pension accounts will need to report to the ATO by no later than 28 days after the end of the quarter when the payment was made. If they have less than $1M they will only be required to report annually.

Can I take multiple lump sums during a financial year?

Yes, a member is eligible to treat multiple payments as lump sum withdrawals but needs to take into account the ATO reporting requirements noted above.

What if I have an accumulation balance?

Importantly, the timing of your pensions and lump sum withdrawals has an impact on the actuarially determined tax exempt percentage of your fund, so care should be taken when determining your withdrawal strategy and the order in which withdrawals are taken from different member components.

Can a lump sum withdrawal still count towards the minimum pension?

From 1 July 2017, lump sum withdrawals will no longer count towards the member's minimum pension requirement. Caution needs to be exercised to ensure that the minimum required pension is drawn in addition to any lump sums. Failure to drawdown the minimum required pension will result in losing the tax exemption for the full financial year. Members cannot amend their lump sum withdrawal election retrospectively if they change their mind or find they have not taken enough pension throughout the year.

In summary

There are choices as to whether income to support your lifestyle needs should come from a pension, as a lump sum from a pension or accumulation balance, or from personal funds held outside of the super environment and it is important that you make the best choice possible.

It is now more important than ever before that trustees engage the expertise of their financial adviser or licensed accountant to provide this level of strategic advice. Getting it wrong may cost thousands of dollars in additional tax which can potentially be avoided through careful planning and forethought.

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