



Super
Concepts

Synchronising the Super Reforms

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What you need to know



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Session overview



- Pension changes post reforms
- Pension strategies
- Downsizer contributions
- Death benefit payment & pensions

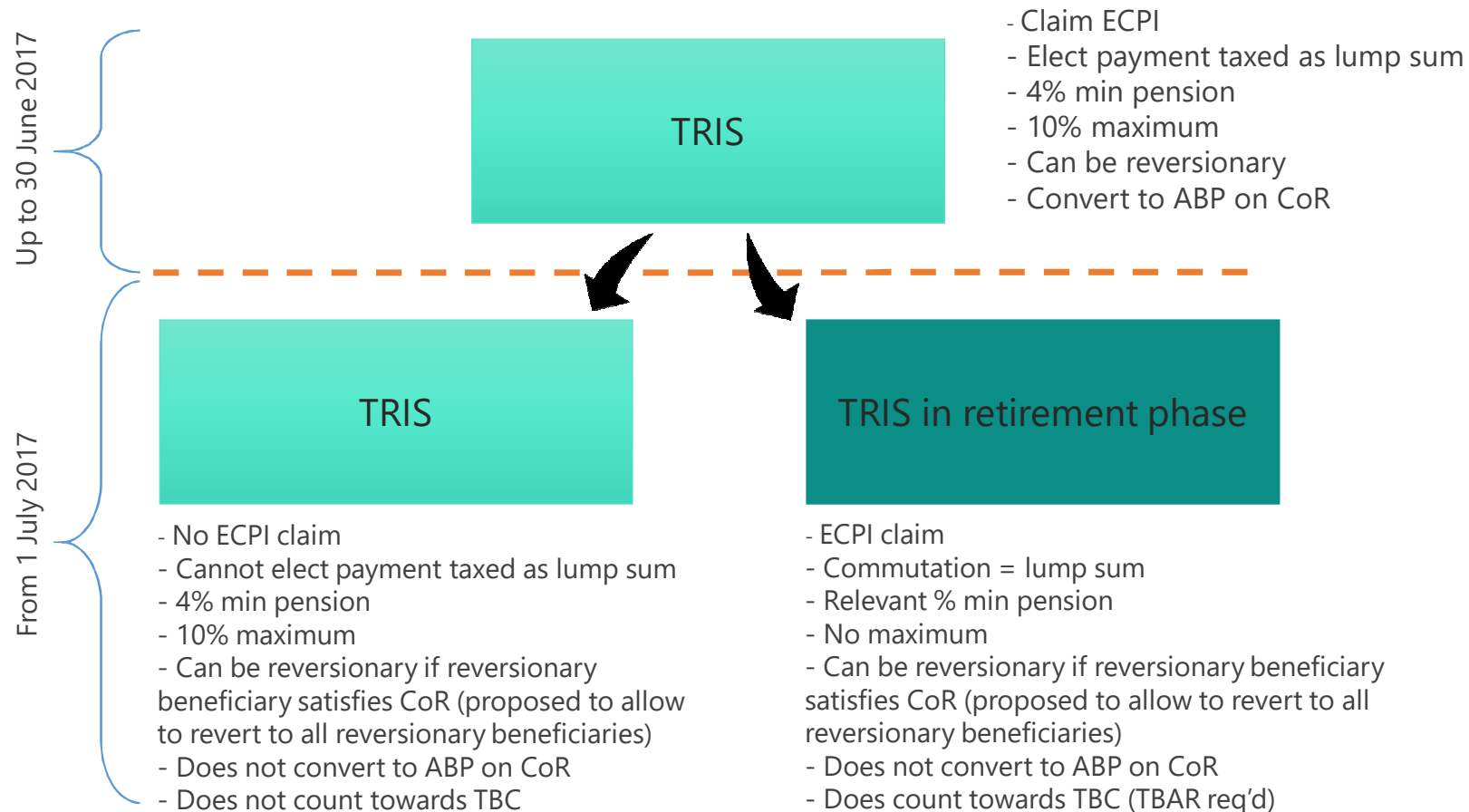
Pension changes post reforms

Account Based Pensions

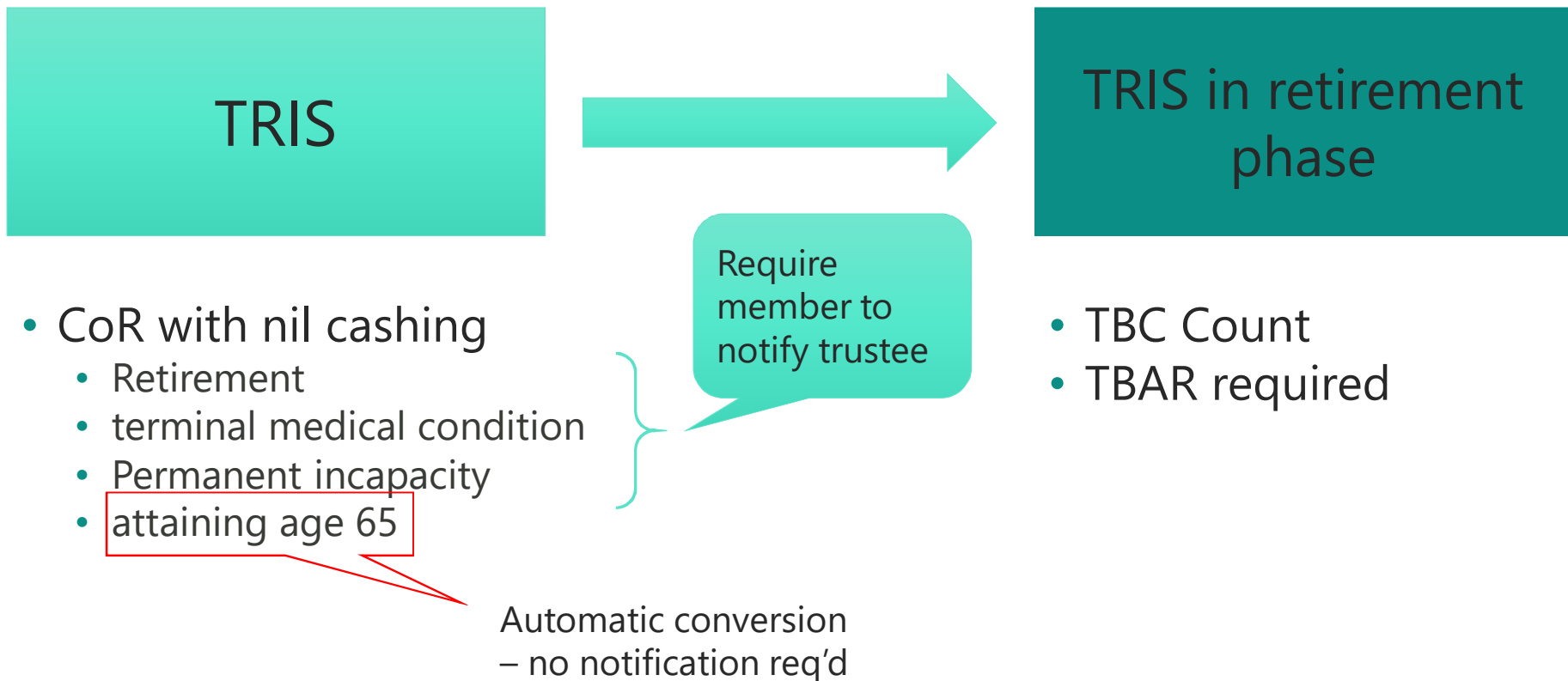
- Partial and full commutations still allowed
- Partial commutation will **not** count towards minimum pension
- Member required to draw minimum pension in cash
 - In addition to any partial commutation
- Amount in 'retirement phase' pension subject to \$1.6m TBC
- Minimum pension % → no change
 - Only applies to amount in pension
- Aged 60+ at time of payment → 100% tax free
 - <60 → taxable component @ MTR – 15% tax offset.

Age @ 1 July	Min %
<65	4%
65 to 74	5%
75 to 79	6%
80 to 84	7%
85 to 89	9%
90 to 94	11%
95+	14%

Transition to Retirement Income Stream (TRIS)



Transition to Retirement Income Stream (TRIS)



Capped defined benefit income streams (CDBIS)



- Lifetime complying pension
 - Life expectancy (fixed term) pension
 - Market linked (term allocated) pension
- } Commenced pre 1 July 2017
- Special rules for TBC
 - Subject to \$100k defined benefit income cap
 - 50% of excess fully assessable
 - Fund has PAYG Withholding requirements
 - Estate planning challenges.

Pension strategies (retirement phase)

Pension(s) + accumulation – max ECPI

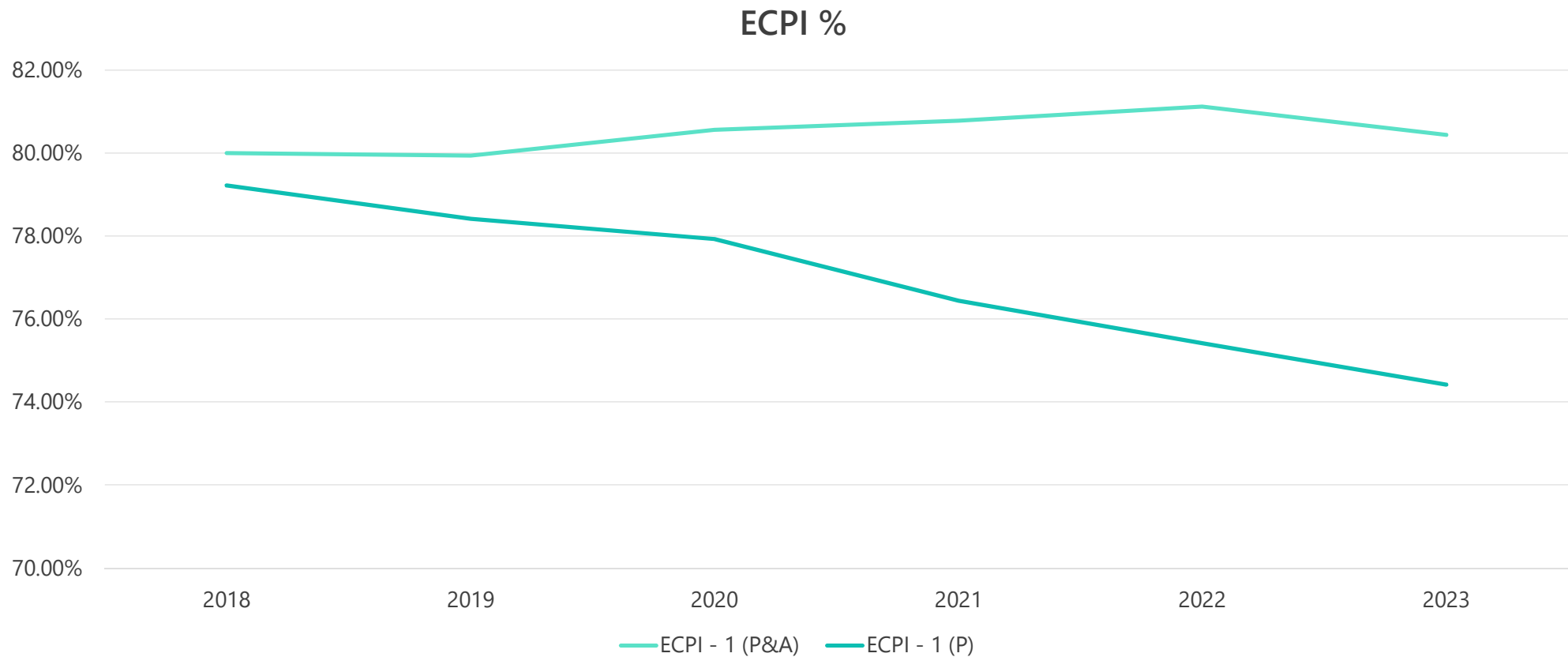


Ian, aged 62, is the only member of his SMSF. His AB pension balance at 1 July 2017 was \$1.6m and his accumulation balance was \$400k.

Ian drew \$80k from his fund during 2017/18. He intends to draw \$80k each year for his living needs.

How can these payments be treated to benefit Ian?

Maximising ECPI



P&A = min pension from pension account, excess from accumulation account. Assumes 6% net earning rate.

Maximising ECPI

- TBAR reporting requirements?
 - Pension payment – not reported
 - Lump sums from accum – not reported
- Documenting requirements
 - Prospective instructions from member
 - Satisfy minimum pension
 - Payments > minimum to be deducted from accum.

Pension with no accum – reduce TBC used

Cynthia is 60 and commences an Account Based Pension (ABP) with \$1.6 million. She intends to draw \$100,000 per annum over the next 5 years. Over the same period she expects to achieve a return of 6%.

She has no other money in superannuation (no accumulation account).

How should the pension payment be treated?

Pension with no accum – reduce TBC used



Year	Account Balance	Return @ 6%	Min Pension	Additional Drawing	Account Balance	Transfer Balance Account Alternatives	
Year 1	\$1,600,000	\$96,000	\$64,000	\$36,000	\$1,596,000	\$1,600,000	\$1,564,000
Year 2	\$1,596,000	\$95,760	\$63,840	\$36,160	\$1,591,760	\$1,600,000	\$1,527,840
Year 3	\$1,591,760	\$95,506	\$63,670	\$36,330	\$1,587,266	\$1,600,000	\$1,491,510
Year 4	\$1,587,266	\$95,236	\$63,490	\$36,510	\$1,582,502	\$1,600,000	\$1,455,000
Year 5	\$1,582,502	\$94,950	\$63,300	\$36,700	\$1,577,452	\$1,600,000	\$1,418,300
						All wds = pension pmts	Wds = min pension pmts + partial com

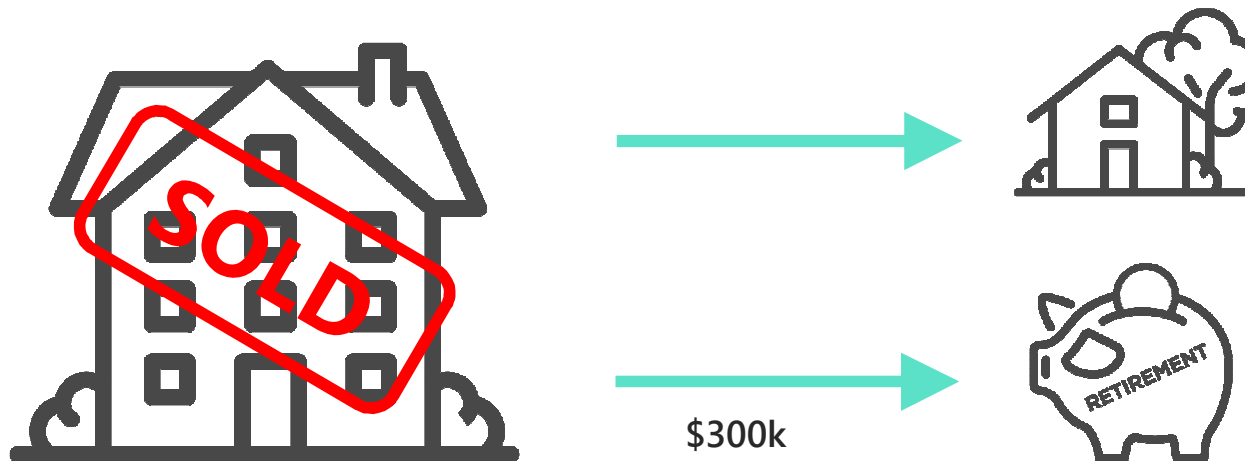
Nominating drawings over the pension minimums as lump sum drawdowns will enable potential future pension top ups.

Pension with no accum – reduce TBC used

- TBAR reporting requirements?
 - Pension payment – not reported
 - Partial commutations – reportable event → TBAR
- Documenting requirements
 - Prospective instructions from member
 - Satisfy minimum pension
 - Payments > minimum to be partial commutation.

Downsizer contributions

Downsizer contributions



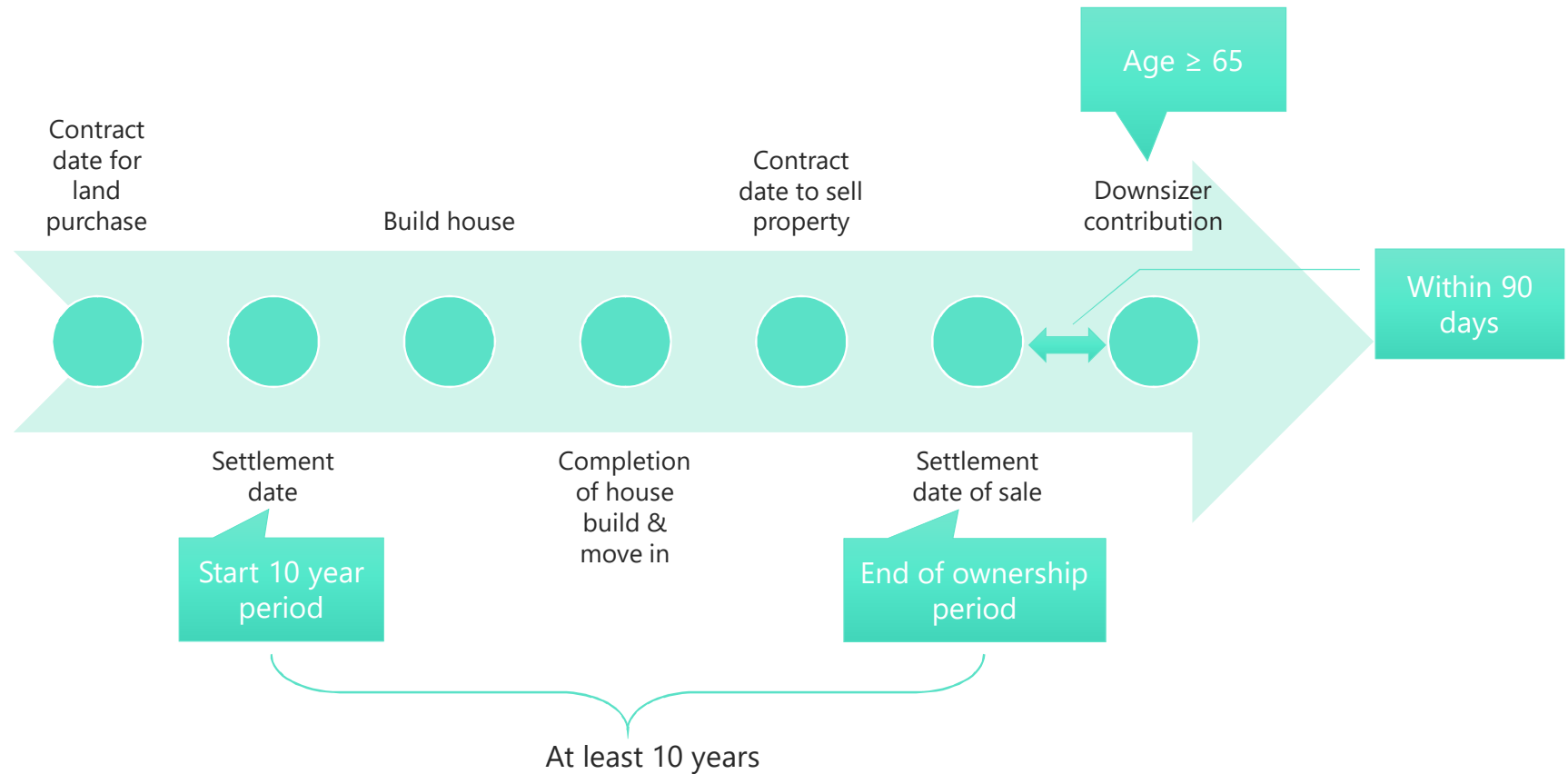
Work test and TSB rules do not apply as long as:

- Client is over age 65
- Client, or their spouse, has held the property for 10 years
- Downsizer contribution cap = lessor of \$300k & total proceeds received
- The dwelling is in Australia and is not a mobile home
- Sale contract entered into on or after 1 July 2018
- Contribution is made within 90 days of home changing ownership.

Consequences of downsizer contribution

- Cannot be claimed as tax deduction
- Included in 'tax-free' amount
- Counts towards TSB for following year
- If used to commenced retirement phase pension
 - TBC count
- Count for Centrelink Asset Test
- If found not to qualify for downsizer – ATO will notify fund
 - Could fund accept under other rules
 - Refund contribution
 - Penalties for false & misleading declaration.

Example – vacant land, build later



Example – one spouse ineligible



Lizzie (67)
Phil (62)

Purchase dwelling
in 1990 & main
residence as joint
tenants

\$500k



\$250k

Downsizer cont = \$Nil



\$250k

Downsizer cont = \$300k

Example – partial CGT main residence claim



Purchased in 2003
Rented out immediately for 5 years
Not Brenda's main residence

Brenda moves in – 2008
Elect to be main residence

In 2019, age 65, Brenda sells house
Partially claim CGT main residence



Brenda



Purchased in 2008
Rented out immediately
Not Brenda's main residence

Downsizer contribution
up to \$300k max

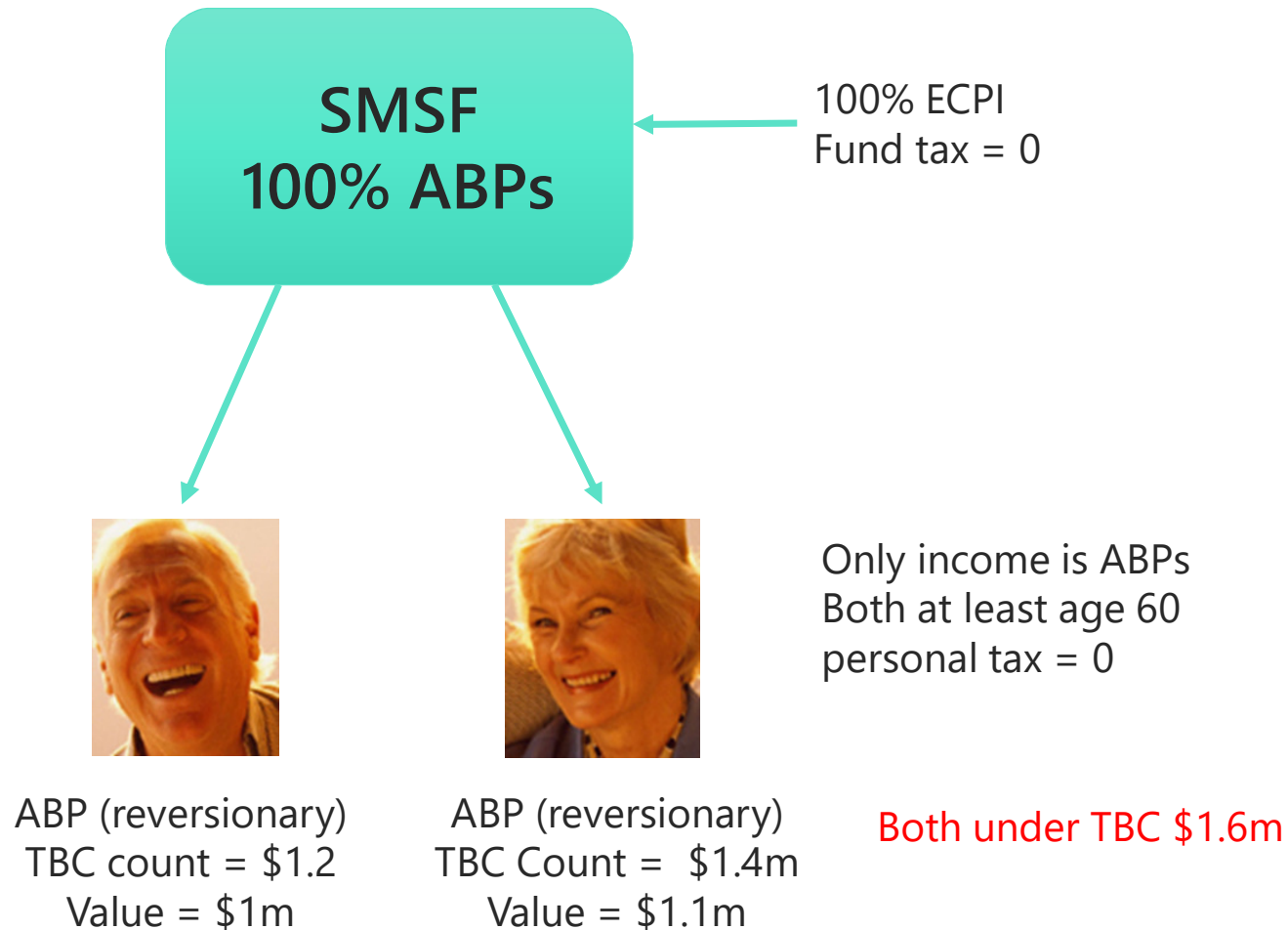


Death benefit payment & pensions

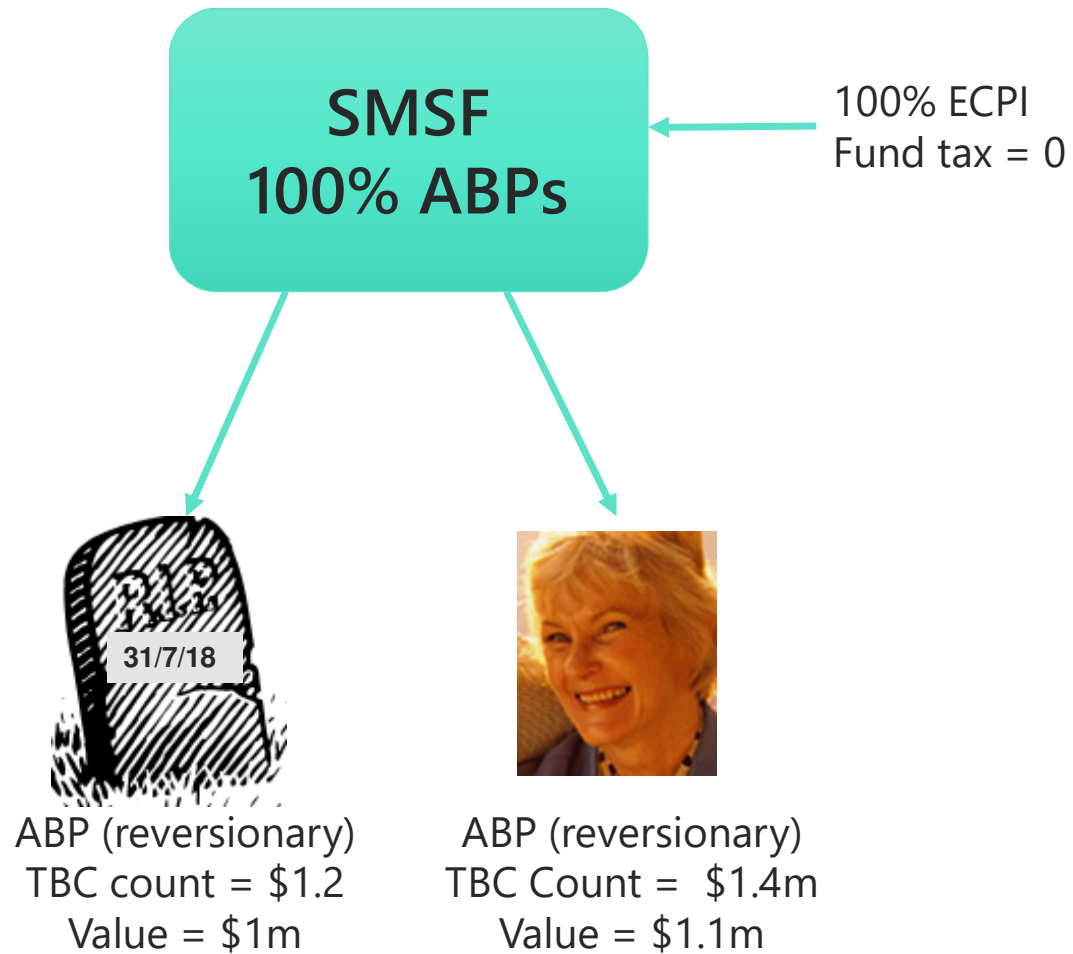
Obligation to pay a death benefit

- Death is a compulsory cashing event
- Death benefit paid “as soon as practicable after the member dies”
- Lump sum (to a SIS dependant) or pension (Qualifying dependant) or combination of both
- Paid = cashed out of the super system
 - Lump sum
 - Pension over time
- Cannot be retained in super system in accumulation.

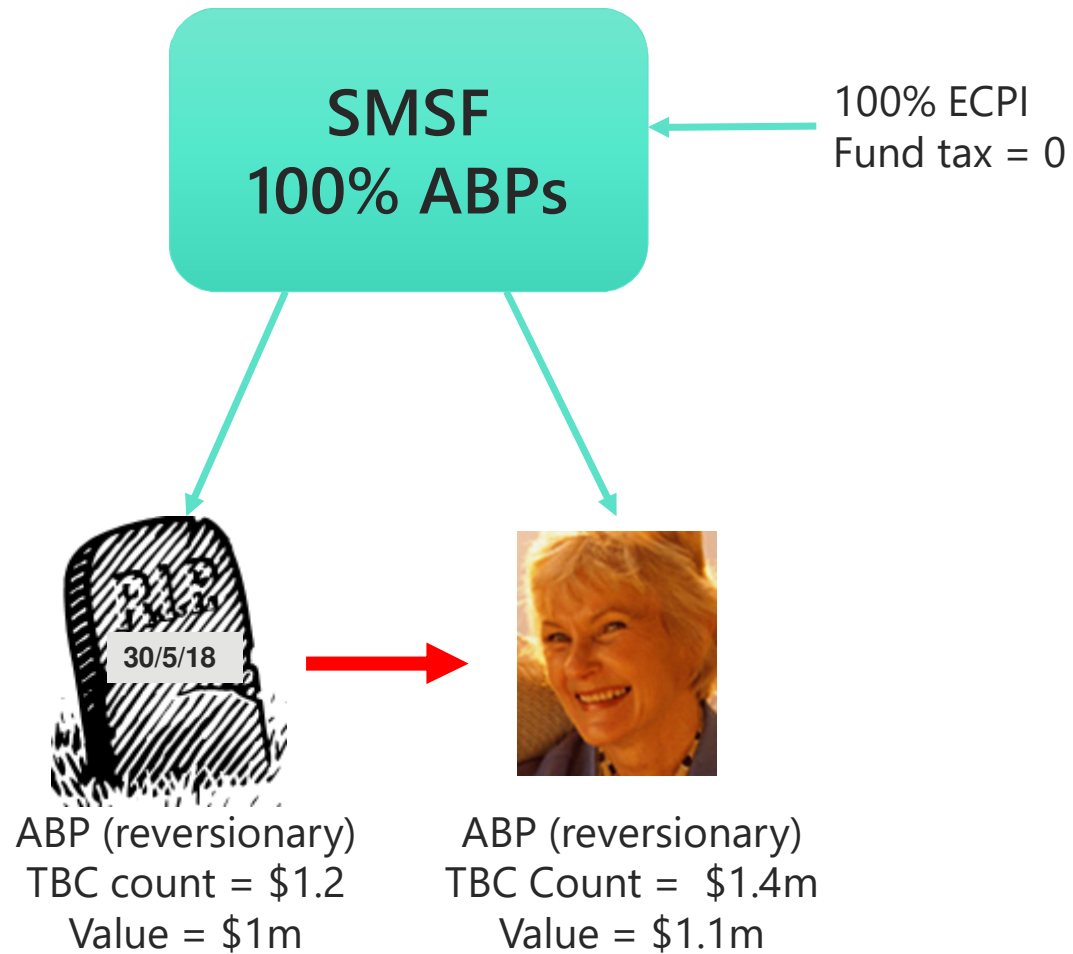
Case study – reversionary ABP



Case study – reversionary ABP



Case study – reversionary ABP



Case study – reversionary ABP

**SMSF
100% ABPs**

Will it remain
100% exempt?

Date	TBC Event	Credit	Debit	Balance
1/7/17	Existing pension	1,400,000		1,400,000
30/5/19	Reversionary pension	1,000,000		2,400,000

\$1m TBA credit
12 months after spouse's death
Excess = \$800k [(\$1.4m+\$1m)-\$1.6m]



ABP (reversionary)
TBC count = \$1.2
Value = \$1m



ABP (reversionary)
TBC Count = \$1.4m
Value = \$1.1m

Strategy options

Death benefit pension exceeds the recipient's TBC:

1. Commute the reversionary pension to a lump sum or part lump sum and withdraw from super
 2. Continue with the reversionary pension and commute and withdraw other pensions
 3. Continue with the reversionary pension and commute and transfer back other pensions to the accumulation phase
- Not possible to transfer back excess amount of reversionary pension to the accumulation phase – death benefit must either be paid as a lump sum or pension.

Case study – reversionary ABP



ABP (reversionary)
TBC Count = \$2.4m
Own ABP Value = \$1.1m
Reversionary ABP Value = \$1m

Tax fee to spouse
What is personal tax
position of spouse?
SMSF remains 100% tax
exempt

Spouse using tax free
threshold & rebates?
SMSF 62% tax exempt
Earnings capped at 15% tax

Lump sum death benefit
\$800,000
Reversionary pension
\$200,000
TBC = \$1.6m

Partially commute own pension
\$800,000 (lump sum or back to accum)
Reversionary pension
\$1m
TBC = \$1.6m

Non reversionary ABP or accumulation

- Death benefit to be paid "as soon as practicable"
- If DB pension to qualifying death benefit recipient
 - New pension
 - Calculate commencement value & tax components
 - Re-calculate minimum pension for year
 - Pension documents
- Credit to death benefit pension recipient's TBA when commenced
- Credit value will be value at time of commencement
- TBC prevents retention as DB pension ➡ lump sum payment.

Review of Estate Planning

- Super forced out on death due to TBC
 - Surviving spouse
 - Surviving children
- Is super still most tax effective structure to hold retirement capital?
- Identify death benefit pensions
- Confirm if reversionary or not
- Plan to deal with defined benefit pensions



Questions and Thankyou



Administration



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