SUPER IQ

SuperConcepts

Australia's Leading Self Managed Fund Specialists

Pension Strategies

Introduction

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Agenda

- Centrelink changes to income streams
- Reversionary pensions – not just for Centrelink!
- Pension payment standards:
    - Can a lump sum be a pension payment?
    - Can I pay a pension "in-specie"?
    - Over-payment and under-payment of pensions.
- Taxation of Death Benefits Pensions.
- How can we help?

Centrelink changes

Centrelink deeming of pension income

- In December 2013 the Social Services and Other Legislation Amendment Bill 2013 was tabled in Parliament.
- The purpose of this Bill is to align the income test treatment of Account Based Pensions with the deemed income rules applying to other financial assets.
- Applies to individuals being assessed for Centrelink and/or Department of Veterans Affairs benefits.
- Received Assent 31 March 2014 and will come into effect 1 January 2015.
- ***Budget 2014-15 announced the reset of the deeming thresholds effective 20 September 2017.***

Centrelink changes

Centrelink deeming of pension income

- Currently Centrelink bases income from certain financial investments at an assumed rate of return, *not the actual rate of return*.
- This ‘deemed ‘ income is then used to determine client eligibility for the Age Pension under the Incomes Test.
- The deeming rates for financial investments are 2% up to a certain threshold, then 3.5% on financial assets held above that lower threshold.
- *Income from Account Based Pensions is not based on the deeming rate, however*.

Centrelink changes

Centrelink deeming of pension income

- Income from Account Based Pensions is determined by dividing a certain portion of the capital value of the income stream by the recipient's life expectancy at the start of the pension.
- This often results in a much lower income assessment for Account Based Pensions when compared with the deeming rates on financial investments.
- Therefore for some it is appropriate to optimise their Centrelink Age Pension entitlements by investing in an Account Based Pension due to its favourable Centrelink treatment.

Centrelink changes

Case Study

- Richard is 65 years old (DOB 13 July 1949).
- He started an Account Based Pension on his 65th Birthday.
- His super balance at the pension start was $500,000 and he draws the minimum (5% x $500,000 = $25,000).
- The Deductible Amount calculated for Centrelink purposes (i.e. the amount of pension income IGNORED under the Income Test) is as follows:
- $500,000/18.54 = $26,968.72
- ***Therefore no income from Richard's Account Based Pension is counted under the Centrelink Incomes Test.***

Centrelink changes

Centrelink deeming of pension income

- From 1 January 2015, the Centrelink deeming rules will apply to the following:
  - Account based income streams with a commencement date of 1 January 2015 or later.
  - Account based income streams with a commencement date before 1 January 2015 where the recipient was not receiving a Government income support payment prior to 1 January 2015.

Centrelink changes

Centrelink deeming of pension income

- There are grandfathering provisions in place to deal with existing account based income streams:
  - The account based income stream commenced before 1 January 2015; and
  - The individual receives a Government income support payment immediately before 1 January 2015; and
  - The Government income support received by the individual is continuously received since 1 January 2015.

Centrelink changes

Centrelink deeming of pension income

- Where the primary pension recipient passes away and the income stream reverts to a reversionary beneficiary, the grandfathering rules apply provided:
  - At the time of the reversion, the reversionary beneficiary is receiving a Government income support payment; and
  - Since reversion, the reversionary beneficiary has continuously been receiving Government income support payments.
- What does reversionary mean?

Centrelink changes

What does 'reversionary' mean?

- The rules governing the pension state, ***at the start***, the pension is to continue to a beneficiary.
- On the death of the primary pensioner, the secondary pensioner automatically receives the benefit as a ***continuing income stream***.
- A non-reversionary pension means the income stream ***ceases on death***.
- The surviving spouse may then decide to take the deceased's benefit as a lump sum, or a ***new income stream***.
- However the ***original income stream ceases***.

Centrelink changes

Case Study

- Peter and Angelique have their own SMSF and Peter is in pension mode.
- His pension is reversionary to Angelique.
- Peter is 65 and Angelique is 62.
- Peter is in receipt of a partial Centrelink Age Pension.
- Angelique receives no Government entitlements (she would receive a partial Age Pension at age 65).
- Peter passes away at age 67.
- ***As Angelique has not been continuously in receipt of Government income support the grandfathering provisions do not apply.***

Centrelink changes

Case Study

- Emma and Richard have their own SMSF and are both in pension mode.
- Their pensions are non-reversionary.
- They are both in receipt of a partial Centrelink Age Pension.
- Richard passes away and Emma decides to take his benefit as a death benefit pension.
- ***As Richard's pension was non-reversionary, the capital value will be subject to the Centrelink deeming rules.***

Centrelink changes

Case Study

- Sandy and Joseph have their own SMSF and are both in pension mode.
- Their pensions are reversionary to each other.
- They are both in receipt of a partial Centrelink Age Pension.
- Sandy passes away and her pension automatically reverts to Joseph.
- ***As Sandy's pension was reversionary, the capital value will be not be subject to the Centrelink deeming rules (i.e. the grandfathering provisions will apply).***

Centrelink changes

Case Study – current rules

- Stuart and Elisabeth are homeowners, both aged 65 and have the following Centrelink financial assets:
  - Cash $10,000
  - Term deposit $50,000
  - Shares $90,000
  - Super $500,000
  - **Total $650,000**
- All assets are owned 50/50 (including super).
- The also have a car ($10,000) and contents ($10,000).
- They start pensions with their super drawing 5% per annum ($12,500 each).

Centrelink changes

Case Study – current rules

What is counted under the Incomes Test?

- Stuart = $250,000/18.54 = $13,484 Deductible Amount.
- If he draws 5% = $12,500 therefore nothing counted under the Incomes Test.
- Elisabeth = $250,000/21.62 = $11,563 Deductible Amount.
- If she draws 5% = $12,500 therefore $12,500 - $11,563 = $937 counted under the Incomes Test.
- The remainder of the Centrelink financial assets are deemed for Incomes Test purposes.

Centrelink changes

Case Study – current rules

What is counted under the Incomes Test?

- $150,000 is deemed (2% on the first $79,600 then 3.5% on the rest).
- $79,600 x 2% = $1,592.
- $70,400 x 3.5% = $2,464.
- Total deemed = $4,056 per annum ($156 per fortnight).
- Maximum earnings for a couple before it impacts on the Age Pension = $284 per fortnight.
- ***No impact under the Incomes Test.***

Centrelink changes

Case Study – current rules

What is counted under the Assets Test?

- Stuart and Elisabeth have $670,000 in Centrelink Assets.
- The maximum amount allowed is $286,500.
- $670,000 - $286,500 = $383,500 counted under the Centrelink Assets Test.
- The reduction in Age Pension is $1.50 for every $1,000 over the threshold.
- $383,500/$1,000 x $1.50 = $575 reduction in Age Pension per fortnight.
- ***Therefore Age Pension is $1,271 - $575 = $696 per fortnight ($18,096 per annum).***

Centrelink changes

Case Study – new rules

What is counted under the Incomes Test?

- $650,000 is deemed (2% on the first $79,600 then 3.5% on the rest).
- $79,600 x 2% = $1,592.
- $570,400 x 3.5% = $19,964.
- Total deemed = $21,556 per annum ($829 per fortnight).
- Maximum earnings for a couple before it impacts on the Age Pension = $284 per fortnight.
- ***Reduction is $0.50c per $1 over $284, therefore $1,271 - $273 = $998 per fortnight under the Incomes Test ($25,948 per annum).***

Centrelink changes

Case Study – new rules

What is counted under the Assets Test?

- Stuart and Elisabeth have $670,000 in Centrelink Assets.
- The maximum amount allowed is $286,500.
- $670,000 - $286,500 = $383,500 counted under the Centrelink Assets Test.
- The reduction in Age Pension is $1.50 for every $1,000 over the threshold.
- $383,500/$1,000 x $1.50 = $575 reduction in Age Pension per fortnight.
- ***Therefore Age Pension is $1,271 - $575 = $696 per fortnight ($18,096 per annum).***

Centrelink changes

Case Study – comparison

	Current Rules	New Rules
Maximum Pension	$33,046	$33,046
Incomes Test	$33,046	$25,948
Assets Test	$18,096	$18,096
Actual Entitlement	$18,096	$18,096
Pension Reduction	**($14,950)**	**($14,950)**

- The impact is the Assets Test – not the Incomes Test.
- ***The rule change – in this case – will make no difference at current deeming rates.***

Centrelink changes

What if Centrelink Financial Assets are $350,000?

	Current Rules	New Rules
Maximum Pension	$33,046	$33,046
Incomes Test	$33,046	$31,200
Assets Test	$29,796	$29,796
Actual Entitlement	$29,796	$29,796
Pension Reduction	**($3,250)**	**($3,250)**

- The impact is the Assets Test – not the Incomes Test.
- ***The rule change – in this case – will make no difference at current deeming rates.***

Centrelink changes

What if Centrelink Assets are $950,000?

	Current Rules	New Rules
Maximum Pension	$33,046	$33,046
Incomes Test	$29,458	$12,350
Assets Test	$6,396	$6,396
Actual Entitlement	$6,396	$6,396
Pension Reduction	**($26,650)**	**($26,650)**

- The impact is the Assets Test – not the Incomes Test.
- ***The rule change – in this case – will make no difference at current deeming rates.***

Centrelink changes

Centrelink deeming of pension income

- Clients may commence an Account Based Pension prior to 1 January 2015.
- Retire and apply for (and receive) Age Pension prior to 1 January 2015.
- Make non-reversionary income streams reversionary (the would require a commutation of the existing income stream).
- BUT clients need to be mindful of this strategy – the Centrelink Deductible Amount may decrease, which may lead to the Incomes Test impacting Centrelink entitlements.
- Look to invest in assets that provide a yield greater than the Centrelink deeming rates.
- ***Remember – deeming thresholds change 20 September 2017!***

Centrelink changes

Example

- Alex, 65, starts a non-reversionary pension on 1 July 2014 with $400,000.
- The Centrelink Deductible Amount is $400,000/18.54 = $21,575.
- Therefore $21,575 of pension income is not counted under the Incomes Test.
- He decides to commute this pension to make it reversionary to his wife Dianne, who is 57.
- The Centrelink Deductible Amount will change to $400,000/28.70 = $13,937.
- *This may impact on Centrelink entitlements now.*

Commonwealth Seniors Health Card

What is it?

- A card available for Australians of Age Pension age would don’t get any Government income support.
- Bulk-billed Doctor appointments.
- Cheaper out-of-hospital medical expenses through Medicare Safety Net.
- Concessional rail travel on Great Southern rail services (Indian Pacific, The Ghan and The Overland).
- In some instances, extra health, household, transport, education, and recreation concessions that are offered by state or territory and local governments and private businesses.
- Accessibility based on an Incomes Test.

Commonwealth Seniors Health Card

Changes announced in Budget

- From 1 January 2015, income from superannuation pensions will be included in the CSHC Incomes Test.
- However, income streams commenced before 1 January 2015 will include grandfathering provisions.
- BUT, a reversionary pension will not continue to be grandfathered once the primary pensioner dies.
- It will then be deemed under the CSHC Income Test.
- Threshold is $80,000 for couples and $50,000 for singles.

Commonwealth Seniors Health Card

Example

- Jo and Paul have $1 million each in Account Based Pensions.
- They are both 66 and receive the CSHC.
- They draw the minimum ($100,000 per annum combined) from their pensions.
- The pensions commenced prior to 1 January 2015.
- The pensions are reversionary.
- If Paul passes away, his $1 million pension will be deemed under the CSHC Income Test.
- $34,280 will be deemed, so Jo would NOT lose the CSHC.

Reversionary Pensions

So why have a reversionary pension?

- On death, the SMSF Trustee has full discretion to whom the benefit is paid.
- Unless:
  - There is a Binding Death Benefit Nomination (BDBN).
  - The pension is reversionary.
- On the death of the primary pensioner, a reversionary pension does not cease.
- If a pension is non-reversionary, it does cease on death and the monies are then in accumulation mode.

Reversionary Pensions

Case Study

- Craig and Helen are Trustees and Members of their SMSF.
- They are Executors of each other's Estate.
- They have pensions in their SMSF that revert to each other on death.
- Craig passes away.
- Craig's pension would automatically go to Helen (it does not stop).
- Helen would not need to apply for Grant of Probate or Letters of Administration.
- She can continue to receive Craig's pension.

Reversionary Pensions

Case Study (cont.)

- If Craig's pension had been non-reversionary, it would cease on death.
- His benefit would revert back to accumulation mode.
- If Helen wanted to take Craig's benefit as a death benefit pension, she would need to:
  - Have Interim accounts drawn up from 1 July to date of death.
  - May have to apply for Grant of Probate.
  - Have pension documentation drawn up.

Reversionary Pensions

Binding Death Benefit or Reversionary Pension?

- A BDBN is a direction from the Member to the Trustee instructing how the Trustee should pay the Member’s benefit if they die.
- Superannuation benefits can only be paid to ‘dependants’.
- Can include the estate of the deceased.
- A BDBN is binding on the Trustee of the Fund.
- However a reversionary pension does not cease on death – it seamlessly continues to the reversionary pension recipient.
- Therefore the reversionary pension wins.
- ***But it often depends on the Fund’s Trust Deed and other documentation.***

Reversionary Pensions

Case Study

- Richard has a pension and accumulation benefit in his fund.
- The pension is reversionary to his spouse, Sandy.
- Richard has a BDBN that states his benefit is to go to Grant, his Son from his first marriage.
- On Richard's death the pension will continue to Sandy.
- The accumulation benefit will go to Grant.
- ***If the pension was non-reversionary, the whole benefit on Richard's death would go to Grant*.**
- This is where things can go wrong!

Pension Payment Standards

Can a lump sum be a pension payment?

- ATO put out paper in December 2008 outlining that election can be made under ITAR 995-1.03 to have commutation lump sum treated as a pension payment.
- More attractive to have withdrawal taxed as a lump sum rather than a pension:
  - **Low rate cap** – Taxpayers aged 55-59 pay no tax on first $185,000 of lump sum drawn from taxable component of superannuation.
  - **17% tax rate** – Taxpayers between 55-59 pay only 17% tax on a lump sum payment over and above their low cap rate. In many instances this will be less than the tax on the benefit if it had been a pension payment (even taking into account the 15% tax offset).

Pension Payment Standards

Can a lump sum be a pension payment?

- However there are some issues that need to be considered:
  - Lump sums are only available from unrestricted non-preserved money – and many clients who are in TTR mode do not have this preservation status in their benefit.
  - There are many benefits of having a pension in place (chiefly the ability to generate tax free investment income and realised capital gains within the fund).
- ***But it is possible to have a pension and treat payments as lump sums***.

Pension Payment Standards

Can a lump sum be a pension payment?

- SIS Act requires at least a minimum amount to be paid from a pension each financial year
- However, in the case of an Account-Based Pension, SIS Regulation 1.06(9A)(a) simply requires that "the total payments in any year…is at least the amount calculated under Clause 1 of Schedule 7".
- Unlike the old rules for Allocated Pensions, the 'payments' do not exclude commutations paid in cash.
- When it comes to taxing 'payments' from a pension it is the Income Tax Assessment Act (ITAA 1997) that applies.

Pension Payment Standards

Can a lump sum be a pension payment?

- For example, the term 'pension' is not used – rather, the ITAA 1997 defines the types of payments:
  - Superannuation lump sums (taxed using the low rate cap/maximum rate of 17% as outlined earlier for those between 55-59); and
  - Superannuation income stream benefits (taxed at normal marginal rates less the 15% tax offset for those between 55-59).
- ***So when is a payment a 'superannuation income stream benefit' or a 'superannuation lump sum'?***

Pension Payment Standards

Can a lump sum be a pension payment?

- The default position is any payment from a superannuation income stream (i.e. a pension) is a superannuation income stream benefit.
- This is established in the definition of ‘superannuation income stream benefit’ set out in Regulation 995-1.01 of the Income Tax Assessment Regulations 1997 (ITAR 1997).
- However, Regulation 995-1.03 ITAR 1997 states a payment from a superannuation income stream is ***not*** a superannuation income stream benefit if it comes from an income stream which allows flexible payment amounts such as an Account-Based Pension:
- “…*the person to whom the payment is made elects, before a particular payment is made, that the payment is not to be treated as a superannuation income stream benefit*” (Regulation 995-1.03(b)).

Pension Payment Standards

Can a lump sum be a pension payment?

- Any payment that is not a superannuation income stream benefit (whether from a pension or not) ***is a superannuation lump sum*** (Section 307-65, ITAA 1997).
- Bringing all this together:
- If a payment is made from an ongoing Account-Based Pension, it will be a 'superannuation income stream benefit' (i.e. taxed like a pension) unless the member specifically chooses beforehand to have it treated as a lump sum; and
- Even if the member does make this election (and hence the payment is taxed as a lump sum), there is nothing in SIS Regulation1.06(9A)(a) which would stop it being counted towards the minimum pension requirements set out in Schedule 7.

Pension Payment Standards

Can a lump sum be a pension payment?

- Under legislation applicable before 1 July 2007, the relevant tax and SIS legislation were more closely aligned.
- In particular, cash commutations were specifically excluded from payments counting towards the minimum pension requirements in the definition of allocated pensions (SIS Regulation 1.06(4)).
- For clients under the age of 60, it is possible to use this interpretation to provide a marked difference in the effective rate of tax paid.

Pension Payment Standards

Case Study

- Richard has a pension which consists entirely of a taxable component.
- He is 58 and his balance is $1,000,000.
- He has retired from the work force.
- He has not used any of his low rate (taxable lump sum) threshold.
- He wishes to draw the minimum possible from his Account Based Pension – 4% or $40,000.
- How much tax does he have to pay?

Pension Payment Standards

Case Study (cont.)

	Tax to pay
Taxed as an income stream	
$40,000 @ 49% (less 15% offset)	$13,600
$40,000 @ 39% (less 15% offset)	$9,600
$40,000 @ 34.5% (less 15% offset)	$7,800
$40,000 @ 21% (less 15% offset)	$2,400
Taxed as a lump sum (0 – 17%)	$0 - $6,800

- *There will be no tax to pay as Richard has not used his low rate threshold.*
- The ability to treat pension payments as lump sums for tax purposes is most attractive to high MTR taxpayers under 60 years old.

Pension Payment Standards

Case Study

- What if Richard has already used his low cap threshold?
- $40,000 x 17% = $6,800.
- Therefore if Richard has a MTR of 34.5% or greater, it may be more beneficial to not treat the payment as a pension under Reg 995-1.03 (ITAR 1997).
- The fund will still be treated a tax exempt entity.
- It may save significant amounts of tax for the fund as well (as it will be considered to be in pension mode).

Pension Payment Standards

Can a lump sum be a pension payment?

- However, the ATO has expressed the view that an individual can only make the 'lump sum election' if they are eligible to partially commute their pension.
- This means where someone has a TTR they would not be able to make the election.
- One needs to be mindful of the fact that the election must be made before the payment occurs.
- The election is only effective while the pension is still in place – if the pension is terminated (commuted, ceases or cashed out to pay a death benefit) the election cannot be made and the payment will not count towards the minimum pension standards.

Pension Payment Standards

Can a pension be paid "In-Specie"?

- "In-Specie" means an asset is paid to a pension recipient instead of cash.
- The answer is YES.
- We know that a partial commutation will count towards the minimum pension payment standards.
- The ATO have stated in Taxation Ruling TR 2013/5 that an "In-Specie" payment will count towards the minimum pension payment standards.
- This means a property in the fund could be transferred to a member in pension mode "In-Specie" and it will count against the pension payment standards.

Pension Payment Standards

Case Study

- Daron is 65 and working full time.
- He starts an Account Based Pension with his balance in the fund ($1.7 million) on 1 July 2014.
- The fund assets include an Art Deco apartment in Thornbury worth $685,000.
- The property has a cost base of $350,000 and was acquired 5 years ago.
- Daron can have the property paid to him “In-Specie”.
- He can also elect to have the payment not treated as an income stream under Reg 995-1.03 (ITAR 1997).

Pension Payment Standards

Case Study (cont.)

- What about Capital Gains Tax (CGT)?
- To pay the property to Daron “In Specie” a partial commutation of the existing pension must take place.
- Therefore the asset is in accumulation mode just prior to being paid out as an “In Specie” lump sum.
- Assets in accumulation mode are subject to CGT.
- But the CGT is pro-rata, as the fund is in pension mode for the majority of the year.
- The CGT is only 1/365th of what it would be if the fund was in accumulation mode for the whole year.

Pension Payment Standards

Case Study (cont.)

- Therefore \$685,000 - \$350,000 = \$335,000 capital gain.
- \$335,000 x 1/365 = \$918 pro rata capital gain.
- \$918 is then taxed at the fund CGT rate of 10%.
- The CGT is \$91.80.
- Stamp Duty must also be considered, as the "In Specie" payment may involve a change of beneficial owner.

Pension Payment Standards

Overpayment of pensions

- Taxation Ruling TR 2013/5 states that if a fund overpays or underpays a pension the income stream ceases at the beginning of that financial year.
- The fund will revert back to accumulation mode.
- The amounts received in that financial year will be considered lump sums, not pension payments.
- If the member wants to continue an income stream it will need to be restarted in the next financial year.
- This can be an issue where a fund overpays a Transition to Retirement pension.

Pension Payment Standards

Case Study

- Richard, 55, commenced a TTR on 1 July 2011 with $400,000.
- His pension consists of the following components:
  - Tax free (50%).
  - Taxable (50%).
- On 1 July 2013 his benefit is worth $450,000.
- The drawdown rate can be between 4% ($18,000) and 10% ($45,000).
- Richard pays the pension as one payment in the last month of each financial year.
- Richard has a Marginal Tax Rate (MTR) of 39%.

Pension Payment Standards

Case Study (cont.)

- In the 2013/14 financial year, the fund earns income of $24,000.
- Richard draws $46,000 as a pension payment in the 2013/14 financial year – more than his maximum.
- Therefore the ATO states the fund has ceased being in pension mode on 1 July 2013.
- The $46,000 received by Richard will be taxed at his MTR with no allowance for the tax-free component and no 15% rebate on the taxable component.
- The fund will be taxed on the $24,000 earnings as an accumulation fund.

Pension Payment Standards

Case Study (cont.)

- If Richard is in pension mode:

Pension income received	$45,000
Less tax-free component	($22,500)
Taxable component	$22,500
Tax on taxable component	($8,775)
Less 15% Rebate	$3,375
Net tax payable	($5,400)

- As the fund is in pension mode, it pays no tax on the $24,000 income earned.

Pension Payment Standards

Case Study (cont.)

- If Richard is NOT in pension mode:

Received from the SMSF	$46,000
Less tax-free component	Nil
Taxable component	$46,000
Tax on SMSF receipts	($17,940)
Less 15% Rebate	Nil
Net tax payable	($17,940)

- As the fund is in accumulation mode, it pays 15% tax on the $24,000 income earned.
- $24,000 x 15% = $3,600.

Pension Payment Standards

Case Study (cont.)

- If in pension mode the total tax is $5,400.
- If the fund does not meet the pension payment standards, the tax is as follows:
  - $17,940 for Richard.
  - $3,600 for the SMSF.
- The difference between the two scenarios is over $16,000 in tax.
- Richard may be in breach of the preservation rules if he has no Unrestricted Non-Preserved benefit in his member balance.
- He has accessed a lump sum but not satisfied a condition of release.

Pension Payment Standards

Underpayment of pensions

- The same logic applies if a fund underpays a pension.
- However there are circumstances when the Commissioner will exercise Powers of General Administration (GPA).
- Therefore the Commissioner now has discretion to overlook underpayments.
- This will allow an SMSF to continue to claim Exempt Current Pension Income (ECPI) where the Trustees have not met the minimum pension payment standards.
- *However a number of factors must be in place.*

Pension Payment Standards

Underpayment of pensions

- The under-payment was due to an honest mistake or matters outside the Trustee's control.
- The entitlement to ECPI would have continued but for the under-payment.
- The Trustee made a catch-up payment in the following FY as soon as practicable.
- Had the catch-up payment been made the minimum pension standards would be met.
- The Trustee treats the catch-up payment as if it were made in the previous FY.

Pension Payment Standards

Underpayment of pensions

- If all of the above conditions are satisfied, then pension continues.
- The proportioning rule does not need to be applied again to determine the tax-free/taxable components.
- The Trustee can continue to claim ECPI.
- Any payments received by the member will be treated as pension payments.
- BUT Commissioner will only allow GPA discretion if the under-payment is 'small' – it cannot exceed one-twelfth of the minimum pension payment in the relevant income year.
- As soon as practicable is considered to mean within 28 days of the under-payment – or if due to events outside the Trustee's control - 28 days of the Trustee being made aware of the under-payment.

Pension Payment Standards

Case Study

- Richard, 66, is in pension mode.
- He has $720,000 in his Account Based Pension.
- Richard's minimum pension for the 2013/14 financial year is $36,000.
- He normally withdraws the money on a monthly basis ($3,000 a month).
- Richard is away overseas in the month of June 2014 and only takes out $33,000 for the financial year.
- As such, he has not met the pension payment standards so the fund will not be considered in pension mode.

Pension Payment Standards

Case Study (cont.)

- Trustees become aware of the $3,000 under-payment today.
- If the Trustees make the $3,000 catch up payment in 2014/15, that payment will apply to the previous financial year and the fund will be considered in pension mode in 2013/14.
- Trustees able to self-assess this catch-up payment.
- But all the conditions must be in place and it is a once-off.
- If the Trustees want to use the discretion again in the future, they will need to apply directly to the Commissioner for discretion.

Death Benefits from Super

Tax on Death Benefits

- Tax on pensions depends on age.
- If the deceased was 60 pension is tax-free to recipient.
- If the recipient is 60 pension is tax-free.
- If both aged <60 pension it depends on the pension components:

Tax Free	Nil
Taxable	MTR less 15% rebate

- Pension becomes tax free once the death benefit pension recipient turns 60.

Death Benefits from Super

Case Study

- Donald is 68 and in pension mode when he dies.
- His wife, Melanie is the reversionary pensioner mentioned in Donald's Pension Agreement.
- Melanie is 34.
- As Donald was aged 60 or over, Melanie receives Donald's reversionary pension income tax free.

Death Benefits from Super

Case Study

- Jasper is 55 and in pension mode when he dies.
- His wife, Belinda is the beneficiary named in Jasper's Binding Death Benefit Nomination.
- Belinda is 74 and decides to take Jasper's benefit as a death benefit pension.
- As Belinda is aged 60 or over, she receives the pension income tax free.

Services to support SMSF Trustees

How can we help?

- Advice – technical, structuring and procedural advice.
- Consultations – analysis of individual circumstances.
- Documents – Minutes, Trustee Resolutions, member requests and Pension Agreements.

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