

Fact sheet: Complying market linked pensions

As per SISR section 1.06 (8)

August 2021

Treatment of a complying market linked pension under the superannuation reforms on 1 July 2017

At 1 July 2017 all retirement phase income streams will be counted towards a member's transfer balance account. This will be assessed against the general transfer balance cap of \$1.6 million. Where a member's transfer balance account exceeds \$1.6 million, commutable income streams, such as account-based pensions (ABPs), must be commuted to reduce a member's transfer balance account to \$1.6 million. Where there are no remaining commutable income streams but the transfer balance account remains in excess of \$1.6 million due to a complying market linked pension, this will not create an excess transfer balance, in recognition that the pension is non-commutable.

How to determine the special value credit for transfer balance cap purposes at 1 July 2017

Step 1	<p>Determine the annual entitlement at 1 July 2017.</p> $\text{Annual entitlement} = \frac{\text{First payment in 2017-18}}{\text{Number of days in the period the payment refers}} \times 365$ <p>Please note that the annual entitlement should be calculated based on the original terms of the pension.</p>
Step 2	<p>Special value = annual entitlement x remaining term (rounded up)</p>

How to determine the value for total superannuation balance purposes as at 30 June

The value of a complying market linked pension for the purposes of determining a member's total superannuation balance at 30 June each financial year is equal to the value of the assets supporting the pension as at 30 June.

Example

Liz is the sole member of an SMSF. She is receiving a complying market linked pension which commenced on 15 May 2005 for a period of 30 years and the terms of the pension dictate that payments will be made fortnightly. The first payment in 2017-18 that Liz is entitled to receive is a payment of \$4,077 on 1 July 2017.

As at 1 July 2017, the value of the assets supporting the complying market linked pension is \$1.4 million and Liz also had \$100,000 in an ABP. The remaining term of the pension as at 1 July 2017 is 17.8 years.

Special value of the complying market linked pension:

Annual entitlement = $4,077 / 14 * 365 = \$106,293$

Special value = $\$106,293 * 18 = \$1,913,278$

Liz's transfer balance account:

	Credit	Total
Opening balance on 01/07/2017		\$0
Complying market linked pension	+\$1,913,278	\$1,913,278
Closing balance on 01/07/2017		\$1,913,278

Therefore the amount counted towards Liz's transfer balance cap is \$1,913,278. Liz has exceeded her transfer balance cap and therefore elects to commute the \$100,000 ABP back to accumulation. The \$1,913,278 is still above the transfer balance cap but since the excess is due to a non-complying income stream no excess transfer balance arises.

Liz's total superannuation balance as at 30 June 2017 is \$1.5 million, which includes the \$1.4 million backing the complying market linked pension and \$100,000 in accumulation.

Liz's total superannuation balance does not exceed \$1.6 million and therefore her SMSF is eligible to use the segregated method in 2017-18 on fund assets if she wishes. Liz is also eligible to make non-concessional contributions in 2017-18 up to \$100,000 (utilising the bring-forward rule would tip her balance above \$1.6 million).

Liz's annual payment of \$106,000 exceeds the defined benefit income cap of \$100,000. Therefore 50% of the excess (\$3,000) will be added to Liz's personal income and taxed at marginal rates.

Commuting a complying market linked pension post 1 July 2017

Complying market linked pensions can be commuted to commence a complying retail annuity or a new complying market linked pension.

The commutation of a complying market linked pension will create a debit against the member's transfer balance account equal to the special value calculated as at the date of commutation.

The commencement of a new complying market linked pension or complying retail annuity will create a credit to the member's transfer balance account. It is our understanding that a complying market linked pension or complying retail annuity commenced from 1 July 2017 will not meet the definition of a capped defined benefit income stream and the credit value will be as follows:

Type of pension commenced post 1 July 2017	Credit against the transfer balance cap
Complying market linked pension	Market value of assets supporting the pension
Complying retail annuity	Purchase price

Example continued

Liz decides to commute her complying market linked pension as at 1 July 2018 and commence a new complying market linked pension with a shorter term. At the commutation date, the value of the assets in the fund has increased. The value of the complying market linked pension is \$1.5 million and the accumulation account is \$110,000.

Liz is entitled to receive a fortnightly payment of \$4,558 from her existing complying market linked pension in 2018-19. The remaining term of the existing pension as at 1 July 2018 is 16.8 years.

Liz' transfer balance account:

	Credit	Debit	Total
Opening balance on 01/07/2017			\$1,913,278
Complying market linked pension (old)		- 2,020,171	-\$106,893
Complying market linked pension (new)	+1,500,000		\$1,393,107
Account-based pension	+110,000		\$1,503,107
Closing balance on 01/07/2018			\$1,503,107

The value of Liz's transfer balance account after the commutation of her market linked pension to a new market linked pension is \$1,393,107. This is based on a debit of the special value of the commuted pension at 1 July 2018 and a credit of the market value of the new market linked pension on 1 July 2018. This balance is less than the \$1.6 million transfer balance cap which allows the \$110,000 in accumulation phase to be used to commence a new ABP.

Liz's total superannuation balance calculated as at 30 June 2018 is \$1,610,000. The value of the assets supporting the market linked pension and the value of the ABP assets exceed the transfer balance cap and so Liz will not be able to make any non-concessional contributions nor can her SMSF use the segregated method in the 2018/19 financial year.

Liz no longer has a capped defined benefit income stream in 2018-19 and therefore the defined benefit income cap (\$100,000) does not apply to her.

If clients have a complying market linked pension at 1 July 2017 and the value of the assets supporting the pension exceed \$1.6 million, then the pension cannot be commuted without raising an excess transfer balance, an outcome that cannot be resolved. It will be particularly important for clients to ensure pensions are reviewed before 1 July 2017 as they might not be able to be re-structured post 1 July 2017, unless the value of the assets supporting the pension subsequently fall below \$1.6 million.

If you have any questions about this paper please contact us on the detail below.



Phone: 1800 203 123
act@accurium.com.au
www.accurium.com.au



ACCURIUM

The information in this document is provided by Accurium Pty Limited ABN 13 009 492 219 (Accurium). It is factual information only and is not intended to be financial product advice or legal advice and should not be relied upon as such. The information is general in nature and may omit detail that could be significant to your particular circumstances. While all care has been taken to ensure the information is correct at the time of publishing, superannuation and tax legislation can change from time to time and Accurium is not liable for any loss arising from reliance on this information, including reliance on information that is no longer current. Tax is only one consideration when making a financial decision. We recommend that you seek appropriate professional advice before making any financial decisions.