Pensions are awesome!

And they can be awesomer

Three themes

1 Why are SMSF pensions special?

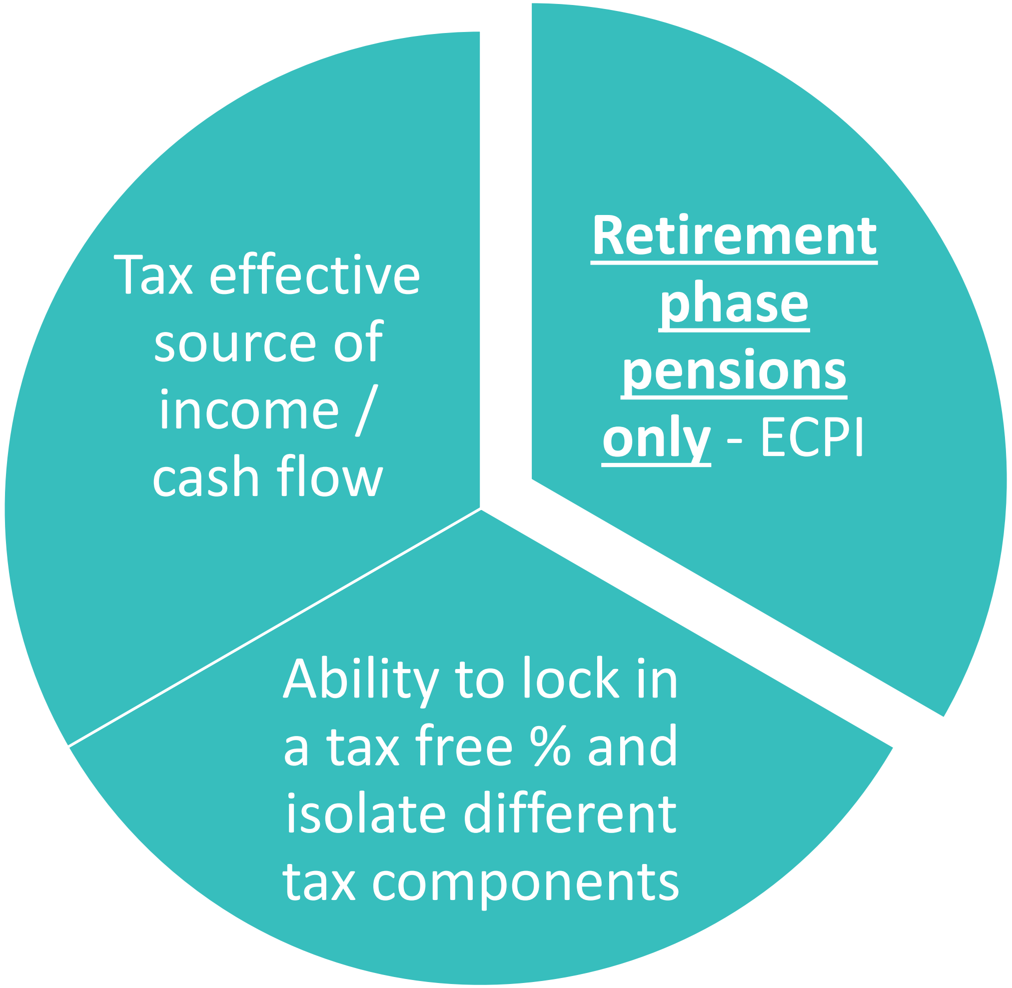
2 Before retirement / 65

3 After retirement / 65

Awesomeness

Particularly in SMSFs

Pensions in all funds are great



Unique benefits of SMSF pensions

In a public offer fund	In an SMSF
Multiple pensions + accumulation? Each one a separate investment portfolio, cash account etc.	Multiple pensions + accumulation? Generally a single shared investment portfolio, cash account etc.

So?

Cash available for pension payments = only cash + earnings for that portfolio	Entire fund's cash available for all pension payments – new contributions, earnings from accum.
Individual payments from each pension account	Grouped cash – easy to implement strategies that rely on drawing from different pensions at different times

Unique benefits of SMSF pensions

In a public offer fund	In an SMSF
Specific payment instructions for each account – manual intervention probably required to optimise strategic opportunities.	Sophisticated "standing orders" (eg minimum pension first, in this order, subsequent payments are partial commutations etc)
Generally, pensions must be paid to <u>individual pensioner's</u> bank account	As long as <u>at direction of member</u>, payments can be sent anywhere
Commencement requires appropriate forms, moving investments etc.	Commencement happens in an instant (moment member requests, trustee agrees) – paperwork follows

Before retirement / 65

Is the humble TRIS a forgotten hero?

IMO – yes

Early start on recontribution strategy

Low enough to make a $110k contribution in 2023/24 but may > threshold in future

Member just turned 60 (August 2023)

Working full time, no intention of changing jobs or retiring

Super balance $1.8m at 30 June 2023 (100% taxable component)

Currently maximising concessional contributions (salary sacrifice)

Steps (assume no change in caps)

Start a TRIS in June 2024

After all concessional contributions received → Balance now around $1.9m

Draw max ($190k) & immediately recontribute $110k

Getting balance a little lower at 30 June 2024 → Needs to be < $1.9m for NCCs in 2024/25

1 July – withdraw a further $30k so can re-contribute $110k

Start new pension with combined $220k

Potentially repeat

Withdraw late in the year and..	Contribute early in the new year
Get balance below general transfer balance cap (to allow contributions next year)	New pensions will include new non concessional and concessional contributions – so not 100% tax free. Does this matter?

Could we just withdraw concessional contributions (accumulation account) as part of the previous year's withdrawal?

Don't forget: TBC isn't an issue yet (not a retirement phase pension).

✗ They're preserved, only accessible as part of a TRIS

Recontributions

Critical benefit of SMSFs

- Timing totally in trustee's control
  - An apparently "complex" set of transactions is simplified
- Isolate new contributions in new pensions with ease
- Multiple pensions are just not problematic
  - Tidy up once you're finished if necessary
- Can even "re-use" the same cash if dealing with a couple
  - Contributions, pension payments

What if .. changed jobs at 62?

- Meets the definition of “retirement” (in the moment)
- Existing super can become unpreserved
- Existing pensions can become “retirement phase”
  - But only when trustee is informed
  - Gives control over timing – why could this be helpful?

TBC becomes relevant.

Size matters – do we want to reduce the pension first?

Should we take the full year’s payments first?

Won’t count towards transfer balance cap

Might want to change how future payments are treated.

Perhaps commutations?

But not *permanently* retired

No longer preserved	But what is preserved?
Existing pensions - including earnings <u>after</u> job change: • ECPI • Commutations allowed • No maximum payment Any accumulation account at the time of job change – value at that time.	New contributions (so withdrawal + recontribution will take money out of retirement phase, reducing ECPI). New earnings on accumulation account.

Often useful to convert to a (retirement phase) pension so that new earnings aren't preserved

After retirement / 65

Pensions are even better

Recontributions again

What if you missed out between 60-65?

Example

- Age 65, 100% taxable component
- $1.9m balance at 30 June 2023
- Appears too high for recontributions
- But again : withdrawal in one year, contribution the next

Assume 5% income, 3% growth, 3% inflation

Recontributions

All inflation adjusted

ECPI Tips

1 Left it too late to start pensions? Don't panic

- Sold property before converting to pension phase?
  - Choose to calculate an actuarial % for the whole year
  - Will apply to all income – including before the pension started

2 Realised losses at the wrong time? Don't panic

- Realised loss while 100% in pension phase?
  - Create accumulation account (small roll back? new contribution?)
  - Choose to calculate an actuarial % for the whole year

ECPI Tips

3 Died with a non reversionary pension? Don’t panic

- ECPI continues until death benefit “dealt with” (even if non reversionary)

4 Inherited a very large reversionary TRIS? Don’t panic

- It’s a <u>retirement phase</u> pension for the beneficiary, but:
  - 12 month rule for transfer balance cap applies – plenty of time to re-organize
  - <u>ECPI commences immediately anyway</u> (unique moment to sell assets?)

Even the more conventional case

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Kim & Craig both have:
$2m retirement phase ABPs
$0.5m accum

To avoid exceeding TBC, Kim will have to roll back her own pension within 12 months. Will also need to pay $500k out of super (6 months).

Actuarial % : 80%

44%

30 June 2023

30 June 2024

30 June 2025

Actuarial % : 67%

Craig dies, pension reverts to Kim

Best time to realise capital gains to pay out accumulation balance?

Should pensions be reversionary?

Traditional benefits:

Certainty of outcome (like a BDBN)	True – but remember in an SMSF the surviving spouse is likely to be in control post death in any case.
A slight ECPI driver	ECPI on <u>both</u> pensions continues for 12 months – no driver to act earlier ("as soon as practicable"). If pension had been non-reversionary, difficult to argue that doing nothing for 12 months is OK. Dealing with death benefit would have meant rolling back Kim's pension earlier.

Or maybe not?

Greater flexibility	Not <u>required</u> to pay the pension to the spouse: • Could go to the estate • Spouse's pension could come from deceased's accumulation account (might be preferred)
Pension payments can stop immediately	No requirement to pay minimum (even though ECPI is continuing)
Not immediately added to inheriting spouse's TSB	Reversionary pension not checked for transfer balance cap for 12 months but immediately part of spouse's TSB – impacts ability to make NCCs, $3m cap etc.

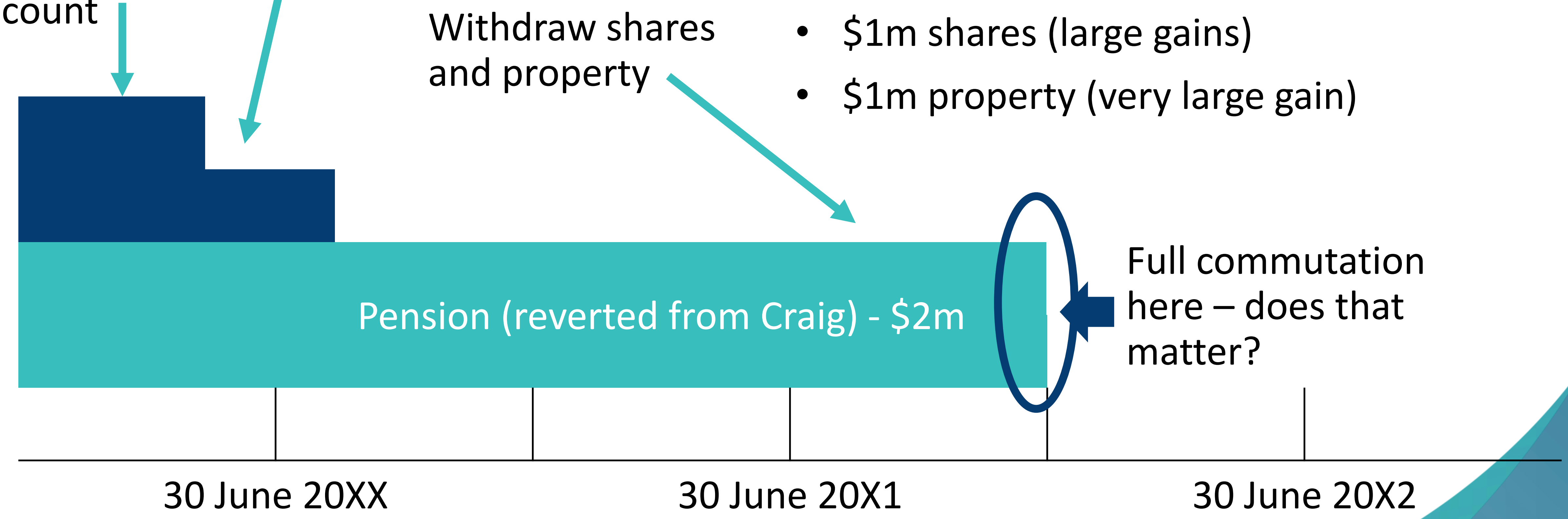
Fund wind ups

- All good things come to an end
- Can pensions play a valuable role in minimizing tax on wind ups?

When Kim wants to wind down

Fund has ($4m) - $2m pension, $2m accum:

- $1m cash
- $1m managed funds (modest gains)
- $1m shares (large gains)
- $1m property (very large gain)



SMSF pensions uniquely valuable

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1. Why are SMSF pensions special?

2. Before retirement / 65

3. After retirement / 65

Questions

How we help

We teach you by sharing our knowledge through a range of CPD accredited education and training options.

These are delivered by industry leading experts who live and breathe every aspect of superannuation and SMSFs.

Learn more.

We support you with innovative, smart and practical compliance documentation solutions to help in the everyday running of your business.

You can use our expertise to add to your SMSF bench strength without the FTE cost.

Learn more.

We can do your administration and compliance work for you quickly & efficiently.

Our experienced team offer personalised support, proactive strategies and practical solutions.

Learn more.

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