

Reversionary Pensions

A member's estate planning objectives should be taken into account when commencing any new pension.

If a member has a pension account with a reversionary beneficiary nomination, the pension can continue to be paid to the reversionary beneficiary when the member passes away. This can have important consequences so should be thoroughly considered when commencing a pension.

The trust deed also needs to allow a reversionary nomination to be made.

Who can be a reversionary beneficiary?

A person should only be nominated as a reversionary beneficiary if they are expected to be a SIS dependant at the date of death of the member, and therefore able to receive the death benefits by way of a pension.

Under the Superannuation Industry (Supervision) Act 1993, a dependant must be one of the following:

- 1) Be a spouse of the member
- 2) Be a child of the member:
 - Who is less than 18 years of age; OR
 - 18 or more years of age and less than 25 years of age AND financially dependant on the member; OR have a disability (as defined in the Disability Services Act 1986)
- 3) Be in an interdependency relationship with the member:
 - They have a close personal relationship
 - They live together
 - One of each of them provides the other with financial support AND
 - One of each of them provides the other domestic support and personal care

Important Differences between Commencing a new Death Benefit Pension and a Reversionary Pension

When a member passes away it's important to consider whether a reversionary nomination is in place to continue the pension or whether a new death benefit pension will commence. There are some important differences to consider, as follows:

1) Minimum Payment Required

A minimum pension payment is not required for an account based pension in the year of death. A payment will be required once a new pension is commenced, based on the recipient's age and the member balance.

A reversionary pension will require the minimum pension to be paid in the year of death. This is based on the deceased member's balance and age. From 1 July of the following year it will be determined by the pension account balance and reversionary beneficiary's age.

Example of the difference between a new death benefit pension and a reversionary pension

- Bob has a pension account balance of \$400,000 as at 30th June 2020.
- He is aged 67 and therefore has a minimum drawdown rate of 2.5% for the 2021 financial year.
- Bob passes away on 1 October 2020 with a balance of \$375,000.
- Bob's spouse is named Laura and she is aged 64.

New death benefit pension

In the 2021 financial year, there is no requirement for Bob's pension account to pay the minimum amount of \$10,000 (being the year of death). However, when Laura elects to receive the death benefit by way of a new pension, a minimum amount will be calculated by reference to the pension account balance at that time and her age.

Reversionary pension

If Bob has made a reversionary nomination to Laura, then upon his passing in the 2021 financial year, his pension account would revert to Laura. The minimum pension required to be withdrawn from the fund by 30 June 2021 would be \$10,000. From 1 July 2021 the pension minimum would then be calculated by reference to the account balance and Laura's age.

2) Transfer Balance Cap

The transfer balance cap was introduced from 1 July 2017 and is effectively a limit of the amount of super that a member can have in retirement phase with concessional tax treatment. The limit started at \$1.6m and is subject to indexation. It will be indexed to \$1.7m from 1 July 2021.

A new account based pension will count towards the recipient's transfer balance cap when the pension commences. The credit amount is the market value of the pension at the time of commencement.

A reversionary pension will count towards the recipient's transfer balance cap 12 months after the date of death of the member. The credit amount is the market value of the pension at the deceased member's date of death.

The timing difference here can have important implications as a reversionary nomination can give the recipient 12 months to deal with any transfer balance cap issues and commute any existing pension balances they may already have to comply with the cap.

3) Other Considerations

Commencing a new death benefit pension will require pension commutation documentation, new pension documentation and potentially statement of advice fees to arrange.

By having a pension automatically revert, there is no need for formal documentation however a minute or resolution to note the decision should be done and the reversionary beneficiary has immediate access to pension payments.

In light of the above considerations estate planning advice should be sought to ensure that any reversionary beneficiary nomination fits in with the member's desired objectives. For any nomination to be effective, the trust deed and pension commencement documents need to allow for it.

While this fact sheet is sponsored by a third-party, the information in this fact sheet is provided by SuperGuardian Pty Ltd AFSL No 485643 (SuperGuardian) and is current as at 31 May 2021. We do not warrant that the information in this fact sheet is accurate, complete or suitable for your needs and for this reason you should not rely on it.

This fact sheet may contain general advice, which has been prepared without taking your personal objectives, financial situation or needs into account. Before acting on this general advice, you should consider the appropriateness of it having regard to your personal objectives, financial situation or needs. You should obtain and read the Product Disclosure Statement (PDS) before making any decision to acquire any financial product referred to in this fact sheet. Please refer to SuperGuardian's FSG (available at <https://www.superguardian.com.au/pdfs/Financial-Services-Guide.pdf>) for contact information and information about remuneration and associations with product issuers.

Any copyright or intellectual property in the materials contained in this fact sheet vests with SuperGuardian and you cannot reproduce or distribute it without first obtaining SuperGuardian's prior written consent.
