Managing your superannuation transfer balance account

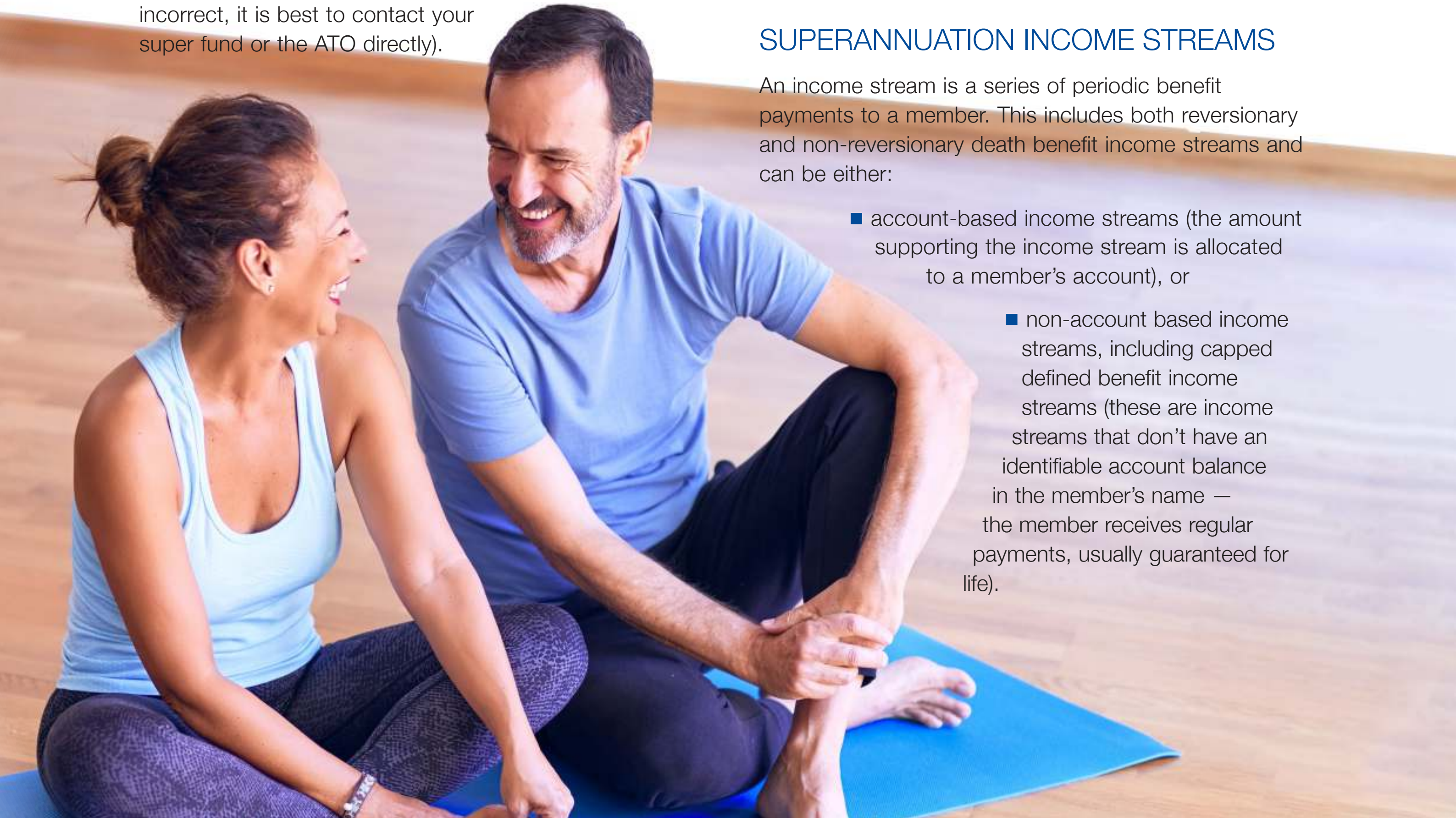
Most people think of retirement as a time to put your feet up and relax, but it can also be a time when pre-retirees and retirees alike actually need to flex the grey matter.

With all the rules and regulations swirling around the superannuation sector these days, it's not unusual for those nearing retirement to feel compelled to refresh themselves with the relevant superannuation concepts. The transfer balance account and the transfer balance cap are topics that can challenge many retirees.

Transfers into and out of retirement phase are referred to as credit or debit events. Your transfer balance account is calculated by keeping track of these events and is used to determine if you have exceeded your personal transfer balance cap (TBC, more on this below).

All of your retirement phase income streams are taken into consideration, including capped defined benefit income streams and market linked pensions.

The value of your superannuation interests is calculated by your superannuation fund and reported to the ATO (and if you believe the value reported is incorrect, it is best to contact your super fund or the ATO directly).



CREDITS TO YOUR ACCOUNT

Generally, a credit arises in your transfer balance account when you become the recipient of a superannuation income stream that is in retirement phase.

The following events will cause a credit to your transfer balance account:

- superannuation income streams that were in existence just before 1 July 2017 and you continue to receive them after that date – including both reversionary and non-reversionary death benefit income streams
- new superannuation income streams that commenced after 1 July 2017 – including both reversionary and non-reversionary death benefit income streams
- when a transition to retirement income stream starts to be in retirement phase
- repayments from limited recourse borrowing arrangements
- excess transfer balance earnings.

These credits increase your transfer balance account and reduce your available personal TBC space.

SUPERANNUATION INCOME STREAMS

An income stream is a series of periodic benefit payments to a member. This includes both reversionary and non-reversionary death benefit income streams and can be either:

- account-based income streams (the amount supporting the income stream is allocated to a member's account), or
- non-account based income streams, including capped defined benefit income streams (these are income streams that don't have an identifiable account balance in the member's name — the member receives regular payments, usually guaranteed for life).

Managing your transfer balance account cont.

ACCOUNT-BASED INCOME STREAM

If you were receiving an account-based superannuation income stream just before 1 July 2017, and you continued to receive it after that date, your fund will have reported the value of all the superannuation interests that support the income stream in retirement phase that you were receiving at that time.

If you started an income stream after 1 July 2017, your fund will report the commencement value of that superannuation income stream. This includes death benefit incomes streams and market linked pensions.

Transition-to-retirement income streams (TRIS) that are in retirement phase are also included in the transfer balance account. Your TRIS will start to count towards your transfer balance cap on the day it becomes a retirement phase income stream based on its value on that day.

CAPPED DEFINED BENEFIT INCOME STREAMS

Capped defined benefit income streams are treated differently because you usually can't commute these income streams, except in limited circumstances.

Capped defined benefit income streams are:

- lifetime pensions, regardless of when they commence
- lifetime annuities that existed just before 1 July 2017
- life expectancy pensions and annuities that existed just before 1 July 2017
- market-linked pensions and annuities that existed just before 1 July 2017.

The modified value of a capped defined benefit income stream is referred to as the "special value", and this value will be calculated by your superannuation provider.

A capped defined benefit income stream will not give rise to an excess transfer balance by itself. However, you may have an excess transfer balance when you have a combination of both an account-based income stream and a capped defined benefit income stream. If the combined value of the account-based income stream and the special value of the capped defined benefit income stream is in excess of the general TBC, then you will be required to commute the excess transfer balance from the account-based income stream.

TRANSFER BALANCE CAP

The transfer balance cap (TBC) is a limit on how much superannuation can be transferred from your accumulation superannuation account to a tax-free retirement phase account. At present, the general TBC is currently $1.6 million and all individuals have a personal TBC of $1.6 million.

However the general TBC is to be indexed from 1 July 2021, and will rise to $1.7 million. From then on there will be no single cap that applies to all individuals. Every individual will have their own personal TBC, somewhere between $1.6 million and $1.7 million, depending on their circumstances.

If you exceed your personal TBC, you may have to:

- commute (that is, convert a portion of your retirement phase income stream into a lump sum) the excess from one or more retirement phase income streams
- pay tax on the notional earnings related to that excess.

If the amount in your retirement phase account grows over time (through investment earnings) to more than your personal TBC, you won't exceed your cap. However if the amount in your retirement phase account goes down over time, you can't "top it up" if you have already used all of your personal cap space. ■