Super Concepts

Fact Sheet

Death benefits & the $1.6 million transfer balance cap

1 July 2017 super changes

From 1 July 2017 onwards, a ‘transfer balance cap’ applies to the value of pensions that can be transferred to retirement phase as well as those already in place at 1 July 2017. The general transfer balance cap is set at $1.6 million for the 2017/2018 financial year and limits the tax exemption on investments that support pensions in the fund. The cap is indexed to changes in CPI and increased in increments of $100,000.

Superannuation death benefits are paid to beneficiaries as income streams count against their personal transfer balance cap. Death benefits paid as lump sums are not measured against the $1.6 million transfer balance cap and must be withdrawn from superannuation.

Transfer balance cap & death benefits

Benefits payable on the death of a member are required to be paid either as reversionary pensions, death benefit pensions or lump sums depending on the circumstances. The beneficiary must ensure that the value of pensions already measured against their transfer balance cap plus the value of any death benefit pensions do not exceed their transfer balance cap.

If the beneficiary is paid a reversionary pension, they have up to 12 months to commute (convert to a lump sum) all or part of the pension, to ensure the aggregate value of all pensions come within the cap. Any excess death benefits are required to be paid out of the fund as a lump sum.

A beneficiary may have the option to commence a death benefit pension under the fund’s trust deed. The amount of a death benefit pension at commencement is counted against the transfer balance cap and, an adjustment will be required if an excess arises to bring the total value of pensions to come within the cap.

Any death benefit lump sums, including those which may arise from the commutation of a reversionary or death benefit pension, must be withdrawn from superannuation.

Death benefit rollovers

From 1 July 2017 it is possible to roll over death benefit entitlements to other funds without restriction. The current rules which will cease on 30 June 2017 place restrictions on the transfer of death benefits.

Once the amount has been rolled over, it will continue to be recognised as a death benefit superannuation interest and, must be used immediately to commence an income stream from the recipient fund or cashed out as a lump sum. This allows a beneficiary to rollover a death benefit pension to a fund of their choice, including an SMSF, and retain the concessional tax treatment associated with a superannuation income stream death benefits.

Death benefit strategies

There are a number of strategies that can be used to keep the total value of pensions within the member's transfer balance cap where they are entitled to a death benefit. These include:

- Commute the death benefit pension to a lump sum or part lump sum and withdraw it from superannuation,
- Continue with the death benefit pension and commute any existing pensions to a lump sum payable out of the fund,
- Continue with the death benefit pension and transfer the balance of any existing pensions to accumulation phase.

Use of each of these strategies depends on the individual's circumstances and we recommend you seek advice before implementing any of them.

More information

For additional resources and insights visit http://www.superconcepts.com.au/news-insights/SMSF-tech-hub

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