

Simplified Superannuation

Fact Sheet – Payment Rules Simplified

Key Points

- A person will still be able to access their superannuation once they have reached their preservation age.
- A person will no longer be forced to draw down their superannuation from a particular age.
- Pensions will continue to receive favourable tax treatment — the rules defining a pension will be simplified and will include a minimum amount that must be taken out each year.

When can benefits be paid?

A person can generally take their benefits out of superannuation once they reach preservation age and have retired. The preservation arrangements have not been changed and the age of preservation is increasing gradually from 55 to 60 between the years 2015 and 2025. In addition, once a person is aged 65 or more, they can take their superannuation even if they have not retired.

Is there an age when benefits must be taken?

A person is now no longer forced to take their superannuation once they reach a particular age. This change began on 10 May 2006. Previously a person who was aged 65 or over and not working or 75 and over was forced to draw down their superannuation. These changes will mean that a person will be able to keep their benefits in their superannuation fund indefinitely, taking as little or as much of their benefits as they choose. If they choose to take their benefits in pension form, then earnings on the assets supporting that pension will continue to be exempt from tax. Earnings on other assets will continue to be subject to tax as assessable income of the fund at 15 per cent.

What will the new pension look like?

The new minimum standards for pensions will require:

- payments of a minimum amount to be made at least annually, allowing pensioners to take out as much as they wish above the minimum (including cashing out the whole amount);
- an amount or percentage of the pension cannot be prescribed as being left-over when the pension ceases; and
- the pension can be transferred only on the death of the pensioner to one of their dependants or cashed as a lump sum to the pensioner's estate.

The payment rules will specify minimum limits only. No maximum will apply, with the exception of pensions which are commenced under the transition to retirement condition of

release. Transition to retirement pensions will have a maximum annual payment limit of 10 per cent of the account balance at the start of each year.

Will existing pension meet the new rules?

Pensions that meet existing rules and commenced before 1 July 2007 will meet the new minimum standards.

People who currently have an allocated pension will be allowed to transfer to the new pension from 1 July 2007 without the need to commute their existing pension.

A guaranteed lifetime pension provided on an arm's length basis that meets relevant existing requirements will also meet the new rules.

Can a person still use the Transition to Retirement rules?

The transition to retirement rules will be amended to include pensions that meet the new minimum standards.

From 1 July 2007, transition to retirement pensions will allow no more than 10 per cent of the account balance (at the start of each year) to be withdrawn in any one year. Pensions that started before 1 July 2007 and complied with rules for the transition to retirement measure will be deemed to satisfy the new requirements. Existing non-commutability rules will continue to apply to transition to retirement pensions.

Will a person be able to commute a complying pension?

Due to the potential detrimental impact on members and product providers of allowing commutation of guaranteed income pensions which make up the majority of complying pensions, the Government will not increase the ability for people to commute a complying pension.