SMSFs looking forward: Where to from here

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2021
Technical Summit

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Calculations for Homer & Marge example

Marge's own pension added $1.25m to her transfer balance account (TBA). Assuming this is the highest balance of her TBC up until 1 July 2021, her indexation entitlement at 1 July 2021 will be $22,000 giving her a new TBC of $1,622,000.

The various account balances up until 30 June 2021 are as follows:

	Early June 2021	**Withdraw / recontribute $100,000**	**30 June 2021**
Homer ABP	$1,700,000		$1,700,000
Homer Accumulation	$500,000	($100,000)	$400,000
Marge ABP	$1,300,000		$1,300,000
Marge Accumulation	$0	$100,000	$100,000
Total	$3,500,000		$3,500,000

If the pension was reversionary, no further NCCs would be made for Marge. Instead the remaining steps will be to:

1. **Manage her TBA**

Marge will need to anticipate the $1.65m that will be added to her TBA in February 2022 from Homer's pension ($1.65m is its value at death rather than 30 June 2021) and take steps to ensure her TBA after that event is no more than $1.622m. This will include:

- Rolling back her own pension in full (say $1.3m), and
- Starting another pension from Homer's accumulation account with "as much as possible" given the need to have a final total of no more than $1.622m.

Her TBA entries will therefore be:

	Early June 2021	**Cumulative Total**
At commencement of Marge's own pension	$1,250,000	$1,250,000
Roll back her own pension	($1,300,000)	($50,000)
Commence new pension from Homer's accumulation account	$22,000	($28,000)
Reversionary pension (Feb 2022)	$1,650,000	$1,622,000

2. **Cash out whatever remains of Homer's balance that cannot be retained in pension phase for Marge**

The above transactions will result in:

- All of Homer's ABP remaining in a reversionary pension for Marge, and
- $22,000 of his accumulation account being converted to a pension.

Marge will therefore need to cash out the remainder of Homer's accumulation account ($378,000). The balances at the end of this process will be:

	Reversionary ABP	Homer Accum	Marge ABP	Marge Accum	Total
1 July 2021	$1,700,000	$400,000	$1,300,000	$100,000	$3,500,000
Roll back			($1,300,000)	$1,300,000	
New ABP		($22,000)	$22,000		
Cash out		($378,000)			
Total	$1,700,000	$0	$22,000	$1,400,000	$3,122,000

If the pension was non reversionary, the same two steps are required but Marge can make some additional non-concessional contributions in 2021/22.

She can withdraw $330,000 from Homer's accumulation account (as a death benefit) and re-contribute this amount in her own name as a non-concessional contribution.

Then she will focus on the same two areas as above:

1. **Manage her TBA**

Nothing will be automatically added to her TBA because of Homer's pension – an addition to her TBA will only be made if she commences a new pension from some of Homer's accumulation or pension accounts.

However, she will obviously choose to do this as she would like to retain as much as possible in superannuation and in pension phase.

As above, therefore, she will roll back her own pension to accumulation phase and then start a new pension as follows:

	Early June 2021	Cumulative Total
At commencement of Marge's own pension	$1,250,000	$1,250,000
Roll back her own pension	($1,300,000)	($50,000)
Commence new pension from Homer's super	$1,672,000	$1,622,000

2. **Cash out whatever remains of Homer's balance that cannot be retained in pension phase for Marge**

Ignoring any subsequent growth in the various accounts, the total balance of Homer's super after some of it has been cashed out to make contributions for Marge and used to commence a pension for Marge will be $98,000 as follows:

	Pension Account	Accum. Account
At 1 July 2021	$1,700,000	$400,000
Lump sum to provide recontribution to Marge's account		($330,000)
Commence new pension for Marge	($1,672,000)	
Remaining	$28,000	$70,000

This $98,000 will need to be cashed out of super leaving $3,402,000 in the fund as follows:

	Homer ABP	Homer Accum	Marge ABP	Marge Accum	Total
1 July 2021	$1,700,000	$400,000	$1,300,000	$100,000	$3,500,000
Roll back			($1,300,000)	$1,300,000	
New NCC		($330,000)		$330,000	
New pension	($1,672,000)		$1,672,000)		
Cash out death benefits	($28,000)	($70,000)			
Total	$0	$0	$1,672,000	$1,730,000	$3,402,000

Overall, therefore, Marge retains more in super ($3.402m v $3.122m) but slightly less in pension phase ($1.672m v $1.722m).

Calculations for Tim & Joan example

Tim & Joan both commenced account-based (retirement phase) pensions several years ago using their full $1.6m transfer balance cap. They are therefore not entitled to any indexation at 1 July 2021 and their personal TBC remains at $1.6m.

Neither of them have ever taken commutations from their pension accounts or had any other amounts debited or credited to their transfer balance account.

Tim died on 1 February 2021 leaving a reversionary pension to Joan. Balances at the relevant dates are as follows:

	30 June 2020	**1 Feb 2021**	**30 June 2021**	**31 Jan 2022**
Tim ABP *	$1,650,000	$1,700,000	$1,750,000	$1,800,000
Joan ABP	$1,650,000	$1,700,000	$1,750,000	$1,800,000

* As Tim's ABP automatically reverted to Joan at 1 February 2021 this account should actually be shown as a pension for Joan from that date. In the interests of simplicity (to show the value of this specific account at the relevant dates) it is shown as if it was still in Tim's name above.

Joan will therefore manage her transfer balance account by rolling back some or all of her own pension to ensure that her transfer balance account sits at $1.6m (her personal TBC) on 1 February 2022, immediately after Tim's reversionary pension has been added to it.

The relevant entries are as follows:

	TBA Account Entry	**Cumulative Total**
At commencement of Joan's own pension	$1,600,000	$1,600,000
Roll back her own pension	($1,700,000)	($100,000)
Reversionary pension (1 Feb 2022)	$1,700,000	$1,600,000

Joan's balances immediately after this transaction will therefore be as follows:

	Reversionary pension	**Joan's original pension**	**Accumulation Account**
31 Jan 2022	$1,800,000	$1,800,000	$0
Roll back	n/a	($1,700,000)	$1,700,000
1 Feb 2022	$1,800,000	$100,000	$1,700,000

Can this fund claim ECPI using the segregated method in 2021/22?

Test 1: Did any member of the fund have a total superannuation balance of more than $1.6m at 30 June 2021?

Yes, Joan had a total superannuation balance of $3.5m at 30 June 2021. The reversionary pension is included in her total superannuation balance even though it had not yet been reflected in her transfer balance account.

Test 2: Did that member have a retirement phase pension in place at 30 June 2021?

Yes, in fact Joan had two retirement phase pensions in place – her original ABP and the reversionary pension she inherited from Tim on 1 February 2021.

Hence this fund cannot use the segregated method to claim ECPI in 2021/22 and will receive an actuarial certificate that applies to all taxable investment income received during the year.

What if the circumstances changed?

What if:

- Joan's balance was smaller – her pension started at $1.3m and was worth $1.35m at 30 June 2020, and
- Tim's pension was not reversionary?

Relevant balances are as follows:

	30 June 2020	1 Feb 2021	30 June 2021	31 Jan 2022
Tim ABP *	$1,650,000	$1,700,000	$1,750,000	$1,800,000
Joan ABP	$1,350,000	$1,400,000	$1,450,000	$1,500,000

* This time, the pension did not automatically revert to Joan but it remains a separate account that will need to be dealt with by the trustee. It must be converted to a new pension or paid out as a lump sum as soon as practicable. Normally "as soon as practicable" would be considered around 6 months (so early 2021/22) but for illustrative purposes we have used the same dates as earlier. Note that it may well be reasonable for a period of longer than 6 months to apply if there are (for example) delays caused by establishing relevant beneficiaries, reviewing binding death benefit nominations etc.

In this case, Joan would be entitled to a small amount of indexation and her transfer balance cap would increase to $1,619,000.

To manage her transfer balance cap, Joan would roll back "as much as required" of her own pension to allow her to convert all of Tim's balance ($1.8m at 31 Jan 2022) to a new (death benefit) account-based pension for her.

The relevant entries are as follows:

	TBA Account Entry	Cumulative Total
At commencement of Joan's own pension	$1,300,000	$1,300,000
Roll back her own pension	($1,481,000)	($181,000)
New death benefit pension (1 Feb 2022)	$1,800,000	$1,619,000

Joan's balances immediately after this transaction will therefore be as follows:

	New death benefit pension	Joan's original pension	Accumulation Account
31 Jan 2022	n/a	$1,500,000	$0
Roll back	n/a	($1,481,000)	$1,481,000
1 Feb 2022	$1,800,000	$19,000	$1,481,000

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