HOW DOES YOUR PENSION LIVE ON AFTER YOU DIE?

Account-based pensions offer a flexible and tax-effective method of drawing a regular income stream from superannuation. They are an essential part of your overall retirement strategy and are usually used from retirement until death.

But what happens to your tax-free account-based pension when you do die?

Superannuation does not automatically form part of your Will unless a Death Benefit Nomination is completed to that effect. In our November newsletter, we will cover the nomination of an individual beneficiary, where the nomination of a member's estate and a reversionary beneficiary nomination is not in place.

What are your beneficiary's options?

The short answer is it depends. To receive your account-based pension your nominated beneficiary may have two options:

1. Commencing a death benefit pension; or

2. Receiving a lump-sum payment.

Both options are subject to additional eligibility criteria. Let's briefly explore both options with our focus being option 1, commencing a death benefit pension.

Option 1: Commencing a death benefit pension

Features of a death benefit pension

A death benefit pension can basically be considered as allowing your account-based pension to live on after you die, for the benefit of your eligible beneficiary. Features of this pension are much the same as those for an account-based pension. Arguably, the most attractive feature is the tax-free nature in which the assets will reside. Recipients are required to receive a minimum cash pension payment each year which is based on their age and pension balance as at the previous 30 June.

Death benefit pensions can also be rolled into another fund at any time, however, they retain their identity as a death benefit. Therefore, a death benefit pension cannot be combined with other pensions or rolled back to the accumulation phase.

Is your nominated beneficiary eligible?

Generally, only your spouse is eligible. Adult children and your legal personal representative (your estate) would have to receive the benefit as a lump-sum withdrawal, i.e., the assets are removed from the superannuation environment and subject to tax on the taxable component. A dependent child (or children) may also receive a death benefit pension in limited circumstances; if they are under age 18; under age 25 and financially dependent on you; or have a prescribed disability.

Transfer Balance Cap

Another important matter to consider is your eligible beneficiary's Transfer Balance Cap (TBC). To reiterate, the TBC is a lifetime limit on the total amount of funds that can enter the tax-free pension phase, currently at $1.7 million. Where your beneficiary has already commenced an account-based pension and does not have a sufficient remaining TBC to receive the death benefit pension, they may roll back their existing account-based pension into the accumulation phase to create room for the death benefit pension.

Option 2: Receiving a lump-sum payment

The alternative is to receive the amount as a lump-sum payment. With this option, the funds exit the superannuation environment. The benefits may be cashed as either in-specie or cash depending on your fund's governing rules.

Conclusion

The death benefit pension option presents an opportunity for your eligible beneficiary to maximise the total amount of funds held within superannuation. While there are limitations on who can exercise this option and matters complicated by TBC, it is still worth considering as the assets will reside in a concessional tax environment.

If you would like to discuss further, please contact your Bell Potter adviser.

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Bell Potter's technical financial advice team can put together a strategy designed to help you achieve your retirement objectives.

Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23357).