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SMSF - transition to retirement income streams

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SMSF – transition to retirement income streams

This document provides information about issues you, as a trustee of a self-managed super fund (SMSF), need to consider when:

- commencing a transition to retirement income stream (TRIS) including information on
  - preparing to offer a TRIS
  - the features of a TRIS
  - setting up a TRIS.

- running a TRIS, including information on
  - record keeping
  - paying the minimum annual pension payment amount
  - priority of cashing benefits
  - the tax implications for the fund when paying a TRIS
  - satisfying a condition of release while paying a TRIS
  - restrictions on withdrawals from a TRIS
  - understanding the maximum annual pension payment limit of a TRIS.

- ceasing a TRIS, including information on
  - failing to meet the standards in the SIS Regulations
  - full commutation of a TRIS

- what happens when the pensioner in receipt of a TRIS dies.

This information applies to taxed, complying super funds that commence a TRIS in the form of a pension (but not an annuity).

In this document, references to SMSFs include former SMSFs unless otherwise indicated.

See also:

- Taxation Ruling 2013/5 (/law/view/document?docid=TXR/TR20135/NAT/ATO/00001) *Income tax: when a superannuation income stream commences and ceases*, which deals with when a super income stream is payable
- SMSFs: starting and stopping a pension (/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/Funds--starting-and-stopping-a-pension/)

Transition to retirement

The transition to retirement measure allows people who have reached their preservation age to have access to their superannuation benefits without having to retire or leave their job. This measure allows people to access their super savings in the form of a specific kind of pension or income stream called a TRIS. Essentially, a TRIS is an account-based pension from which lump sum payments can only be made in limited circumstances.

Before you start paying a TRIS to a member, the member must have reached their preservation age (that is, the minimum age that a member can access their preserved super benefits without satisfying another condition of release). For those born before 1 July 1960, the preservation age is 55. The preservation age of those born on or after 1 July 1960 is higher.

Find out about:

- Preservation age (/super/self-managed-super-funds/paying-benefits/preservation-of-super/)
- Conditions of release (/Super/Self-managed-super-funds/Paying-benefits/Conditions-of-release/)

If a member has already met a condition of release with no cashing restrictions, they can access their superannuation benefits and don't need a TRIS. In these circumstances, as trustee, you can start paying the member a normal account-based pension or you can pay the member's benefits as a lump sum without having to go through the process and cost of setting up a TRIS.

Commencing a TRIS

- https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=2 (https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=2)
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When commencing a TRIS, you need to know about:

- preparing to offer a TRIS
- the features of a TRIS
- setting up a TRIS.

Preparing to offer a TRIS

It's not compulsory for your SMSF to offer members a TRIS, although your SMSF may pay a TRIS if the fund's trust deed allows this.

The commencement of a TRIS won't count as a credit to the member's transfer balance account.

Before starting to pay any pension, we recommend you seek the advice of a professional such as an accountant, financial planner or actuary.

Features of a TRIS

A TRIS must satisfy the following standards in the SIS Regulations:

- It must be an account-based pension. This means
  - there must be a payment from the pension at least once each year
  - an account balance must be attributable to the recipient of the pension
  - each year, a specified minimum amount must be paid to the recipient (see Paying the minimum annual pension payment amount)
  - the capital value of the pension and the income from it cannot be used as a security for a borrowing
  - the pension can only be transferred to another person on the death of the recipient.

- The total payments made in a year must not exceed 10% of the account balance on the commencement of a TRIS for the year it starts or on 1 July for each subsequent year. See Maximum annual pension payment limit.

- It must meet the restrictions on the commutation of the pension. See Restrictions on withdrawals.

Note: If you don't meet the standards in the SIS Regulations in an income year, both of the following apply:

- you, as trustee, haven't been paying an income stream at any time during the year.
- the super income stream (ie the TRIS) ceases for income tax purposes.

Setting up a TRIS

When a member asks to commence a TRIS you should first establish the amount of benefits they have in the SMSF. To do this, refer to the valuation guidelines for SMSFs to help you establish the value of all the fund's assets and liabilities and each member's share of the net value of the fund.

See also:

- Valuation guidelines for self-managed superannuation funds (/Super/Self-managed-super-funds/In-detail/SMSF-resources/Valuation-guidelines-for-self-managed-super-funds/)

You should also determine the amount of each preservation class of benefits the member has in the SMSF. A member may have a mix of unrestricted non-preserved benefits, restricted non-preserved benefits and preserved benefits.

See also:

- Preserved and non-preserved benefits (/super/self-managed-super-funds/paying-benefits/preservation-of-super/)

If the member chooses to commence a TRIS using an amount less than their total super benefits in the SMSF, you can (but don't have to), allocate the preservation classes of the member's benefits to the TRIS.

When commencing to pay a TRIS, you are required to treat the amount supporting the income stream as a separate interest in line with income tax laws. This means on the commencement day of the TRIS you must determine the amount of the tax-free and taxable components of the separate interest.

Note: Members can't choose which tax components they wish to start the TRIS with. The tax components of the separate interest will be in the same proportions as the tax components of the member's non-pension interest from which the amount was sourced to commence the TRIS just prior to commencing the TRIS.

Running a TRIS

- https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=3 (https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=3)
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When running a TRIS, you need to know about:

- Record keeping
- Paying the minimum annual pension payment amount
- Priority of cashing benefits
- Tax implications for the fund
- Satisfying a condition of release while paying a TRIS
- Restrictions on withdrawals from a TRIS
- Maximum annual pension payment limit

Record keeping

If you're paying a TRIS, you should maintain appropriate records that:

- reflect the value of the TRIS at varying times, including at commencement and at 1 July each year
- show any benefit payments made (including whether they are made as pension payments or lump sum payments)
- reflect how the payments are made (including by adjusting the preservation classes of the member's benefits)
- show the share of the fund's earnings allocated to the TRIS.

Note: The earnings allocated to the TRIS must be added to the member's preserved benefits.

It's very common for contributions to be made for a member while they are being paid a TRIS. A contribution received after a pension has started can't be added to the capital supporting the pension. So, you, as trustee, will be required to account for the contributions, and any rollovers, received for the member in a way that keeps them separate from the account balance of the TRIS.

If a member wants to combine accumulation monies (including a contribution) with their existing TRIS, they must first choose to fully commute the original TRIS and then apply for a new pension using the increased balance.

See also:

- Restrictions on withdrawals about the when you can commute a TRIS

Paying the minimum annual pension payment amount

You must pay the member the minimum annual pension amount each financial year. The minimum annual pension amount is calculated on the balance of the member's pension account at commencement or at 1 July for every subsequent year and the member's age.

If the pension commences on a day other than 1 July, you work out the minimum amount for the first year proportionately to the number of days remaining in the financial year, including the start day.

If the commencement day of the pension is on or after 1 June in the financial year, no payment is required in that financial year.

See also:

- Paying benefits (/Super/Self-managed-super-funds/Paying-benefits/?page=15#Minimum_annual_pension_payments)

An amount rolled over to another super fund or retained in the fund, is not counted when working out if the minimum annual pension amount has been paid in a particular year. However, you do count a payment split under family law.

If the trustee doesn't pay the minimum annual pension payment amount, the super income stream (that is, the TRIS) ceases for income tax purposes.

See also:

- Failing to meet the standards

Priority of cashing benefits

As each TRIS payment is made, you must adjust the fund's record of the member's preservation classes allocated to the TRIS. If the member has a combination of any of preserved, restricted non-preserved or unrestricted non-preserved benefits allocated to the TRIS, the payments from the TRIS must be deducted from the preservation classes in the following order:

- firstly, from any unrestricted non-preserved benefits
- secondly, from any restricted non-preserved benefits
- thirdly, from any preserved benefits.

However, you don't generally need to adjust the fund's record of the member's preservation classes if the member has satisfied a condition of release with a 'nil' cashing restriction. So one without a restriction on the amount of benefit that can be paid or how it can be paid (such as attaining age 65). When a condition of release of that kind is satisfied, all of the member's benefits generally become unrestricted non-preserved benefits.

This means until the member has satisfied a condition of release with a 'nil' cashing restriction, any unrestricted non-preserved benefits of theirs allocated to the TRIS (which would otherwise be fully accessible as a lump sum super benefit) are diminished by the annual pension payments from the TRIS.

As a trustee, before you pay a lump sum benefit from a TRIS to a member, you need to check whether there are enough unrestricted non-preserved benefits to pay the lump sum to ensure there is no breach of the pension standards.

See also:

- Preserved and non-preserved benefits (/super/self-managed-super-funds/paying-benefits/preservation-of-super/)

Tax implications when paying a TRIS

When you, as a trustee of a complying super fund, are liable to pay a super income stream to a member of the fund in a particular income year, some or all of the fund's income and capital gains may be treated as exempt current pension income and exempt from tax.

Note: From 1 July 2017, earnings from assets supporting a TRIS will be taxed at 15%. This will apply to all TRIS regardless of the date the TRIS commenced.

See also:

- Self-managed super funds and tax exemptions on pension assets (/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/Self-managed-super-funds-and-tax-exemptions-on-pension-assets/)

If you're paying super benefits from a TRIS to a member who is aged 60 or over, there is generally no need to withhold tax as the pension payments will generally be received tax-free. The member won't generally have to declare their TRIS income in their tax return.

If you are paying super income stream benefits to a member who is under the age of 60, the taxable and tax-free components determined at the commencement of the TRIS will determine:

- how much of each benefit is assessable income
- how much tax you need to withhold.

The member is generally entitled to a tax offset of 15% of the taxable component of benefits received in the year. The member will need to declare the taxable component of such benefits received in the year in their tax return.

Note: As trustee you will need to confirm whether a member under age 60 wishes to claim the tax-free threshold to ensure the correct amount of tax is withheld.

See also:

- Tax on super benefits (/Super/Self-managed-super-funds/Paying-benefits/?page=17#Tax_on_super_benefits)

Satisfying a condition of release while paying a TRIS

When a member who has reached their preservation age and commenced a TRIS subsequently retires or satisfies another condition of release with a 'nil' cashing restriction, the pension does not cease. The pension continues and all benefits generally become unrestricted non-preserved benefits.

Satisfying a condition of release with a 'nil' cashing restriction means that the pension is no longer subject to the following restrictions generally characteristic of a TRIS:

- The maximum annual pension payment limit no longer applies
- Some of the commutation restrictions that affect a TRIS will cease to apply.

See also:

- Restrictions on withdrawals from a TRIS
- Conditions of release (/Super/Self-managed-super-funds/Paying-benefits/Conditions-of-release/)

Restrictions on withdrawals from a TRIS

A TRIS is like any other account-based pension, with two major exceptions:

- A member can only withdraw a maximum annual pension payment amount of 10% of the account balance calculated on the day the pension commenced for the year the pension commenced, or on 1 July for each subsequent year
- There are restrictions on the circumstances in which the TRIS can be commuted to cash a lump sum that are additional to the circumstances in which any other account-based pension can be commuted.

When the pension account only contains preserved benefits and/or restricted non-preserved benefits, the ability to commute the TRIS to cash a lump sum is limited to the following circumstances:

- to pay a super contributions surcharge liability
- to give effect to a payment split under family law
- to give effect to a release authority for excess contributions or Division 293 Tax (/individuals/super/in-detail/withdrawing-and-paying-tax/division-293-tax---information-for-individuals/).

In addition to these restrictions, if the pension account contains unrestricted non-preserved benefits the member is able to choose to partially commute the TRIS to cash their unrestricted non-preserved benefits as a lump sum from their TRIS at any time.

From 1 July 2017, individuals will no longer be able to elect to treat superannuation income stream benefits as a lump sum for tax purposes. However all partial commutations will be taken to be lump sums under the law.

See also:

- Partial commutation from a TRIS

Before you fully commute a TRIS, you must ensure that a proportion of the minimum annual pension payment amount is paid from the TRIS in that year. That proportion is equal to the number of days in the financial year during which the pension is payable divided by the number of days in the year. However, you do not need to pay that portion of the minimum annual pension payment amount if either the:

- TRIS has ended on the death of the recipient
- sole purpose of the commutation is to pay a super contributions surcharge liability or to give effect to a payment split under family law.

See also:

- Full commutation of a TRIS

These restrictions apply when, but don't prevent, a member from choosing to commute a TRIS to return their super benefits to accumulation or to purchase another non-commutable income stream or TRIS.

Find out about:

- Preservation status of member's benefits (/super/self-managed-super-funds/paying-benefits/preservation-of-super/)

Partial commutation from a TRIS

Restrictions on withdrawals from a TRIS don't prevent you from paying a member all or part of their unrestricted non-preserved benefits. When a member has unrestricted non-preserved benefits as part of their TRIS, they may partially commute the TRIS and receive a

lump sum payment up to the amount of their unrestricted non-preserved benefits.

From 1 July 2017, the lump sum election that currently allows a partial commutation to be treated as a lump sum will be removed. However the law will then treat partial commutations as lump sums, so the effect will not be changed

As trustee, you need to be aware that when a member partially commutes their TRIS to receive a lump sum payment consisting of unrestricted non-preserved benefits:

- you must ensure that either
  - the account balance of the TRIS immediately after the partial commutation is greater than, or equal to the remaining amount of the minimum annual pension payment amount to be paid for that financial year
  - a proportion of the minimum annual pension payment amount is paid from the TRIS in the year before the partial commutation. The proportion is equal to the number of days in the financial year before the partial commutation when the pension is payable divided by the number of days in the year

- the payment counts towards their minimum annual pension payment amount, unless it is rolled over within the super system
- the payment does NOT count towards the maximum annual pension payment limit. See the maximum annual pension payment limit from a TRIS
- the taxable and tax-free components of the partial commutation payment must have the same proportions as those determined for the separate interest that supports the TRIS when it commenced.
- the payment can be made by way of an asset transfer, known as an in-specie payment.

See also:

- Setting up a TRIS
- SMSFs: starting and stopping a pension (/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/Funds--starting-and-stopping-a-pension/)

Maximum annual pension payment limit from a TRIS

Until the day in a financial year when a member has satisfied a condition of release with a 'nil' cashing restriction, you must not pay more than 10% of the pension's account balance calculated on the day the pension commenced for the year the pension started, or on 1 July for each subsequent year.

When working out whether you have stayed below the maximum annual pension payment limit, you ignore any payments you made as a result of any commutation of the TRIS.

See also:

- Restrictions on withdrawals from a TRIS

In calculating the maximum annual pension payment limit for a TRIS:

- don't reduce the maximum annual pension payment limit for a financial year if the TRIS commenced in that year on a day after 1 July
- the 10% rate does not vary with the member's age
- don't round the maximum annual pension payment amount to the nearest $10.

Paying more than the maximum annual pension payment limit

If a member has only restricted non-preserved benefits or preserved benefits as part of their TRIS, exceeding the maximum annual pension payment limit will be a breach of the super laws as the fund has not adhered to the cashing restrictions that apply to a TRIS.

As trustee, you need to be aware that if you exceed the maximum annual pension payment limit for a year in such circumstances:

- we may make your fund non-complying and penalise you as trustee
- the TRIS ceases for income tax purposes at the start of that income year. This means the fund won't be entitled to treat any income or capital gains as exempt current pension income for the year
- the member's account balance is no longer seen as supporting a TRIS and t any payments made during the year (not just the amount in excess of the limit) will be super lump sums for income tax purposes and lump sums for SIS Regulations purposes
- the lump sum payments are included in the member’s assessable income and are taxed at marginal rates, without any tax offsets. The payments are treated as early access to the member's super benefits and a breach of the SIS payment standards.

Ceasing a TRIS

- https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=4 (https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSF---transition-to-retirement-income-streams/?page=4)
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The most common circumstances for a TRIS ceasing include:

- failing to meet the standards in the SIS Regulations.

- full commutation of a TRIS
- the pensioner in receipt of a TRIS dies and the TRIS doesn't automatically revert to a beneficiary of the member.

Failing to meet the standards

Once a TRIS commences you, as trustee, must ensure that all the relevant standards in the SIS Regulations are met at all times. If the super standards are not met in an income year both of the following apply:

- The trustee has not been paying an income stream at any time during the year.
- The super income stream (that is, the TRIS) ceases for income tax purposes.

If your fund has failed to meet the pension standards because the trustee has not paid the minimum annual pension payment amount, there are limited circumstances where the Commissioner may allow the fund to continue to claim exempt current pension income (ECPI).

Note: From 1 July 2017, earnings from assets supporting a transition to retirement income stream (TRIS) will not be eligible for ECPI in any circumstances and will be taxed at 15%. This will apply to all TRIS regardless of the date the TRIS commenced.

See also:

- SMSFs: Minimum pension payment requirements – frequently asked questions (/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/SMSFs--Minimum-pension-payment-requirements---frequently-asked-questions/)

Note: Your SMSF can't continue to claim ECPI for a TRIS that has ceased because the maximum annual pension payment limit of 10% has been exceeded.

Full commutation of a TRIS

A TRIS ceases when a member's request to fully commute their entitlement to a TRIS for an entitlement to a lump sum takes effect.

Subject to the preservation status of the benefits, the SMSF's trust deed and the rules of the TRIS, a member can fully commute the TRIS and:

- leave the funds that were supporting the TRIS in the SMSF or roll them over to another complying superannuation fund. A member who hasn't met a condition of release with 'Nil' cashing restrictions and who only has restricted non-preserved benefits or preserved benefits can only fully commute their TRIS and either
    - retain the amount of the commutation lump sum to accumulate within the super system

  - commence another non-commutable income stream or TRIS from the SMSF or from another complying super fund.

- receive a lump sum super benefit if either the
  - member has met a condition of release with 'Nil' cashing restrictions
  - amount of the lump sum does not exceed their unrestricted non-preserved benefits.

When the commutation lump sum is returned to accumulation in the SMSF, the tax-free and taxable components will need to be recalculated whenever a new benefit is paid from the fund.

Pensioner in receipt of a TRIS dies

A TRIS ceases as soon as a member in receipt of the pension dies, unless a dependant beneficiary is automatically entitled under the SMSF's trust deed or the rules of the pension, to receive the pension upon the member's death. For example the member's spouse may be paid the member’s benefits in the form of a pension. This is called an auto-reversionary pension. When a TRIS is an auto-reversionary pension, on the death of the member in receipt of the pension, the:

- pension will no longer be non-commutable or subject to the maximum annual pension payment limit as a condition of release with 'Nil' cashing restrictions (that is, death) has been satisfied
- tax-free and taxable components of the auto-reversionary pension will continue to be in the same proportions as determined when the TRIS commenced
- trustee must ensure that the minimum annual pension payments continue to be made. In the year the member dies, the minimum annual pension payment amount is based on the member's age. In subsequent years, it is based on the age of the dependant beneficiary who became automatically entitled to receive the pension upon the member's death.

When a TRIS is not an auto-reversionary pension, the TRIS ceases as soon as the member in receipt of the pension dies. When that happens the trustee does not need to make the minimum annual pension payment unless required to do so by the SMSF trust deed.

Find about:

- Super death benefits (/Super/Self-managed-super-funds/Paying-benefits/?page=18#Super_death_benefits)
- SMSFs: starting and stopping a pension (/Super/Self-managed-super-funds/In-detail/SMSF-resources/SMSF-technical/Funds--starting-and-stopping-a-pension/)

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If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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