

Deciding whether or not to commute your pension



Pension Commutation Options	
Option A	<i>Roll-back to accumulation phase</i> Roll-back the Pension into your accumulation account in the Fund.
Option B (i)	<i>Partial commutation of pension to lump sum</i> Partially commute your Pension and have the commutation amount paid as a superannuation lump sum.
Option B (ii)	<i>Partial commutation of pension to lump sum, to be satisfied by the transfer of assets</i> The superannuation lump sum be satisfied by the transfer of assets from your SMSF.
Option C (i)	<i>Full commutation of pension</i> Commute the Pension in full and have the commutation amount be paid as a superannuation lump sum.
Option C (ii)	<i>Full commutation of pension to be satisfied by the transfer of assets</i> The superannuation lump sum be satisfied by the transfer of assets from your SMSF.

Minimum payment

Importantly, the required minimum pension amount for the financial year must be paid before the roll-back/commutation of the Pension occurs.

Generally, a pension cannot be commuted, in whole or in part, except in the following circumstances:

- **Full commutation** — at least the minimum amount has been paid in respect of the Pension prior to it being commuted in respect of the FY in which it is commuted, where the minimum amount is calculated according to the relevant formula under superannuation law as follows:

$$\text{Minimum annual amount} \times \frac{\text{Days in payment period}}{\text{Days in financial year}}$$

where:

'days in FY' means the number of days in the FY (365 or, in the case of a leap year, 366) in which the commutation takes place; and

'days in payment period' means the number of days in the period that begins on:

Factual information The information that we have provided to you is factual in nature and is designed to provide you with unbiased information to assist you in reaching a decision. This information is objectively ascertainable and, therefore, does not constitute financial product advice. Importantly, the factual information that has been supplied does not take into account your personal circumstances, objectives or goals. If you require personal advice in relation to your specific financial circumstances you should consult an appropriately qualified financial adviser with an Australian financial services licence.

- if the Pension commenced in the FY in which the commutation is to take place — the Commencement Day; or
- otherwise — 1 July in that FY; and

ends on the day on which the commutation is to take place; and

'minimum annual amount' means the minimum amount payable under the Pension, in the FY, calculated in accordance with Schedule 7 of the SISR or such other circumstances as are permitted under the SMSF's governing rules, subject to complying with SISR.

- Partial commutation — the account balance of the Pension immediately after the commutation is equal to or greater than the minimum payment amount calculated in accordance with Schedule 7 of the SISR, as reduced by the amount of payments to the member already made in the FY in which the commutation occurs (note there is no pro-rating of the minimum pension payment in respect of a partial commutation); or
- Other commutations — the commutation results from the death of the member or a reversionary pensioner or the sole purpose of the commutation is:
 - to pay a superannuation contributions surcharge;
 - to give effect to an entitlement of a non-member spouse under a payment split; or
 - to meet the rights of a client to return a financial product under Division 5 of Part 7.9 of the *Corporations Act 2001* (Cth);

Any lump sum payment received from the commutation of your Pension will be comprised of the underlying proportion of taxable component and tax free component that were set at the commencement date of the Pension. For example, if your Pension is 75% tax free component and 25% taxable component, a lump sum payment of \$100,000 will comprise \$75,000 tax free component and \$25,000 taxable component.

The taxable component of a lump sum payment derived from a commuted pension payment will generally be taxed as follows:

MEMBER'S AGE	TAXABLE AMOUNT	MAXIMUM RATE OF TAX*
Under preservation age	Whole amount	20%
At or above preservation age and under age 60	Up to the low rate cap amount (\$195,000 for FY2017)	Nil
	Above the low rate cap amount	15%
Age 60 or more	Nil	Nil – payment is tax free

*Plus applicable levies.

This assumes that the superannuation benefit is comprised of a taxed element in the SMSF.

Product disclosure statement ('PDS')

We suggest you review your funds relevant Product Disclosure Statement this and consider whether commuting the Pension in whole or in part is appropriate for your personal circumstances.

Factual information The information that we have provided to you is factual in nature and is designed to provide you with unbiased information to assist you in reaching a decision. This information is objectively ascertainable and, therefore, does not constitute financial product advice. Importantly, the factual information that has been supplied does not take into account your personal circumstances, objectives or goals. If you require personal advice in relation to your specific financial circumstances you should consult an appropriately qualified financial adviser with an Australian financial services licence.