

# Superannuation & Retirement

## COMMENCING A SMSF PENSION

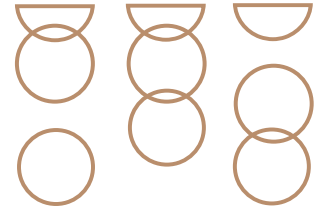
If you are managing your own self-managed superannuation fund (SMSF), you have the opportunity to initiate an account-based pension once you meet the criteria for a condition of release.



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Disclaimer: The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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It is crucial to ensure that this pension is established in compliance with legislative requirements to prevent potential tax penalties. The following summarises the necessary steps:

## Member requests pension and trustee acknowledges

The member submits a written request to the trustee, confirming the fulfilment of a condition of release and their intention to access benefits through an account-based pension. This request should specify the amount to be transferred to the pension phase, considering the Transfer Balance Cap limitations.

The trustee acknowledges the request by documenting a trustee minute, which should include evidence of the member's condition of release, details about the pension (commencement date, capital sum, required pension amount, payment frequency), estate planning preferences (e.g., reversionary beneficiary, death benefit nominations), and the member's bank account number.

## Review Trust Deed

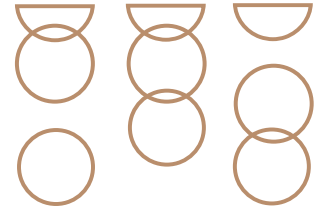
The trustee reviews the SMSF's trust deed to verify if there are any constraints. This includes checking whether the member's benefits can be released, if the fund is eligible to offer an account-based pension, and if it can accommodate the member's estate planning requirements.

## Provide confirmation to member

The trustee issues a written confirmation to the member, confirming the fund's ability to provide the requested pension and meet estate planning needs.

## Determine the member's entitlement

Trustees assess the value of the member's superannuation account, considering the underlying tax components. This may require obtaining a current valuation of assets.



## Decide on Asset Segregation

If the SMSF has members in both accumulation and pension phases, trustees must decide whether to segregate pension assets. If assets are unsegregated, the trustee needs an annual actuarial certificate to calculate exempt current pension income and obtain tax exemptions. If a member's total superannuation balance exceeds the transfer balance cap, trustees must adopt the unsegregated or proportional method.

## Review Investment Strategy

Trustees evaluate the fund's investment strategy to determine if adjustments are needed to support pension payments or accommodate changes in the member's risk profile. Any changes are documented in a trustee minute.

## Set up pension and review death benefit nominations

Fund accounts are adjusted to reflect the commencement of the pension, and mechanisms are established for regular pension payments. The validity and appropriateness of death benefit nominations are reviewed. This may involve creating new nominations, including reversionary nominations, if applicable, while ensuring they comply with the fund's rules.

## Taxation Obligations

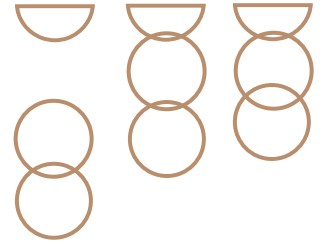
If the member is under 60, the fund must register as a PAYG (Pay As You Go) payer and withhold taxes as required. The member should provide a TFN (Tax File Number) declaration form. Reporting obligations regarding the transfer balance cap apply.

## Prepare tax documents

If the member is under 60, the fund must register as a PAYG payer and deduct taxes accordingly, with the member providing a TFN declaration form.

## Calculate and disburse pension payments to member

The trustee ensures that pension payments are made at the requested frequency into the member's designated bank account and that at least the required minimum amount is paid annually. Failing to meet the minimum annual pension payment may result in the loss of tax concessions for earnings in retirement phase income streams.



## Ongoing review and maintenance

In addition to regular trustee duties, initiating a pension in the SMSF adds to the fund's annual obligations. This may include obtaining actuarial certificates, reviewing minimum pension payment requirements, and providing payment summaries and Centrelink schedules to pension members (if applicable, especially for pensions commenced before January 1, 2015).

### References

You may wish to refer to the following websites for further information about commencing an SMSF pension:

- [www.moneysmart.gov.au](http://www.moneysmart.gov.au)
- [www.ato.gov.au](http://www.ato.gov.au)