SMSF – transition to retirement income streams

Issues an SMSF trustee needs to consider when commencing, running or stopping a transition to retirement income stream.

Last updated 27 June 2024

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

Note : references to SMSFs include former SMSFs unless otherwise indicated.

Transition to retirement

Access to their superannuation benefits without having to retire or leave their job.

Commencing 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.

Running a TRIS

The earnings allocated to the TRIS must be added to the

Ceasing a TRIS

Ensure that all the relevant standards in the SIS Regulations are met at all times.

QC 42388

Transition to retirement

Access to their superannuation benefits without having to retire or leave their job.

Last updated 27 June 2024

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 where 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.

If a member has already met a condition of release with a nil cashing restriction, they can access their superannuation benefits in other ways 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.

For more information see:

- Preservation of super

- Conditions of release

QC 42388

Commencing 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.

Last updated 27 June 2024

Preparing to offer a TRIS

The start 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 be an account based pension and satisfy the following standards in the SIS Regulations:

- 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 can't be used as a security for a borrowing.
- The pension can only be transferred to another person on the death of the recipient.

Until the recipient meets a condition of release with a nil cashing restriction:

- The total payments made in a year must not exceed 10% of the account balance on the start of a TRIS for the year it starts or on 1 July for each subsequent year (see **Maximum annual pension payment limit**).
- The restrictions on the commutation of the pension must be met. (see **Restrictions on withdrawals**).

If you don't meet these standards when paying a TRIS in an income year, both of the following apply:

- As trustee, you are deemed not to have paid an income stream at any time during the year.
- The super income stream (the TRIS) ceases for income tax purposes.

Setting up a TRIS

When a member asks to start 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.

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.

If the member chooses to start 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 starting 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 start 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 nonpension interest from which the amount was sourced to start the TRIS just prior to starting the TRIS.

For more information see:

- Valuation guidelines for self-managed superannuation funds
- Preservation of super

QC 42388

Running a TRIS

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

Last updated 27 June 2024

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 start, when it enters retirement phase 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 (which includes adjusting the preservation classes of the member's benefits where applicable)
- record the date the TRIS entered into the retirement phase
- show the share of the fund's earnings allocated to the TRIS.

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.

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 the start or at 1 July for every subsequent year and the member's age.

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

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 (the TRIS) ceases for income tax purposes.

For more information see:

- **Failing to meet the standards**
- **Paying benefits**

Entering retirement phase

A TRIS will move into the retirement phase when the member meets one of the following **conditions of release**:

- Age 65
- retirement
- permanent incapacity, or

- has a terminal medical condition.

A TRIS will move automatically into the retirement phase as soon as the member reaches age 65, or if the superannuation income stream starts to be paid to a reversionary beneficiary after the member's death. For the other conditions of release previously listed, the member needs to notify their super provider for the TRIS to move into the retirement phase. In these cases the superannuation income stream will move into the retirement phase at the time the provider is notified.

Satisfying a condition of release with a nil cashing restriction means that the pension is no longer subject to the restrictions that are generally characteristic of a TRIS, however the pension doesn't cease. The pension continues and all benefits generally become unrestricted non-preserved benefits.

Subject to the rules of the pension:

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

It also means that the TRIS meets the definition of a retirement phase income stream. Entering the retirement phase has the following consequences for a TRIS:

- The value of the pension at that date is counted towards the member's transfer balance cap, that is, it is a transfer balance credit.
- Some or all of the fund's income and capital gains may be treated as exempt current pension income and exempt from tax from the date the TRIS moves into the retirement phase.

For more information see:

- Conditions of release
- GN 2019/1 - *Changes to transition-to-retirement income streams*

Priority of cashing benefits

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. That is, a condition of release 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. However, most TRISs when they are started are subject to cashing restrictions.(refer to restrictions further down on this page).

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.

From:

1. any unrestricted non-preserved benefits
2. any restricted non-preserved benefits
3. any 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 the member has satisfied a condition of release with a nil cashing restriction, and if not, whether there are enough unrestricted non-preserved benefits to pay the lump sum to ensure there is no breach of the pension standards.

For more information see:

- Preserved and non-preserved benefits

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 (ECPI) and exempt from tax.

From 1 July 2017, whether or not you are eligible to treat some of the fund's income from the assets supporting the payment of a TRIS as ECPI income will depend on if the TRIS is in the retirement phase.

Earnings from assets supporting a TRIS that is not in the retirement phase will be taxed at 15%.

For more information see:

- Exempt current pension income
- GN 2019/1 - *Changes to transition-to-retirement income streams*

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 start 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.

For more information see:

- Tax on super benefits

Restrictions on withdrawals from a TRIS

A TRIS is like any other account-based pension, with 2 major exceptions. Until a member has met a condition of release with a nil cashing restriction:

- They can only withdraw a maximum annual pension payment amount of 10% of the account balance calculated on the day the pension started for the year the pension started, 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
- give effect to a payment split under family law
- give effect to a release authority for excess contributions or Division 293 Tax.

However, 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.

For more information see:

- Preservation of super

These restrictions don't prevent a member from choosing to commute a TRIS and retaining the amount in their accumulation account, or starting a new income stream. 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. You don't need to pay that portion of the minimum annual pension payment amount if either the:

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

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. It is important to note that when a member meets a condition of release with a nil cashing restriction, all of their super benefits are treated as unrestricted non-preserved benefits.

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.

As trustee, 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, or
  - 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 does not count towards the maximum annual pension payment limit. (refer maximum annual pension payment limit further down this page)
- 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 started
- the payment can be made by way of an asset transfer, known as an in-specie payment.

From 1 July 2017, a partial commutation payment no longer counts towards the member's minimum annual pension payment amount.

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 started 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.

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 started 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.
- the member's account balance is no longer seen as supporting a TRIS and 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).

QC 42388

Ceasing a TRIS

Ensure that all the relevant standards in the SIS Regulations are met at all times.

Last updated 27 June 2024

Failing to meet the standards

If the super standards are not met in an income year:

- The super income stream (the TRIS) will be taken to have ceased at the start of the income year for income tax purposes.
- The trustee will not have been paying an income stream at any time during the year and any payments made during the year will be super lump sums for income tax purposes. Unless the TRIS has entered retirement phase, the super lump sums will breach the SIS payment standards and they will be included in the member's assessable income and taxed at marginal rates, without any tax offsets.
- If income from assets supporting the income stream was eligible to be treated as exempt current pension income (ECPI) because the TRIS had entered retirement phase, the fund will not be entitled to treat the income or capital gains as ECPI for the income year.

For the member to receive a super income stream for income tax purposes in future years, the income stream must cease (for example by commutation) and a new superannuation income stream must be started.

You, as trustee, will be required to recalculate the tax-free and taxable components of the new super income stream.

You will also need to revalue assets at market value and recalculate the minimum pension payment required at the start of that income year.

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 accept that the pension did not cease. This may allow the fund to continue to claim ECPI where the TRIS is in the retirement phase, as well as a number of other general consequences.

However, 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.

For more information see:

SMSFs: Minimum pension payment requirements – frequently asked questions

Full commutation of a TRIS

A TRIS ceases when a member's request to fully commute their 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
- receive a lump sum super benefit if either the
  - member has met a condition of release with a nil cashing restriction, or
  - amount of the lump sum does not exceed their unrestricted non-preserved benefits.

A member who hasn't met a condition of release with nil cashing restriction 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

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

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 known as a reversionary pension (sometimes referred to as a reversionary income stream). For a TRIS that is a reversionary pension:

- The tax-free and taxable components of the pension will continue to be in the same proportions as determined when the TRIS started.
- The balance will count towards the beneficiary's transfer balance cap.
- The pension will no longer be non-commutable or subject to the maximum annual pension payment limit.

As trustee, you 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 a reversionary pension, the TRIS ceases as soon as the member in receipt of the pension dies. When that happens the trustee doesn't need to make the minimum annual pension payment unless required to do so by the SMSF trust deed or the rules of the pension.

For more information see:

- Taxation Ruling 2013/5 *Income tax: when a superannuation income stream commences and ceases*, discusses death of a member at paragraphs 29 and 121 to 129.

- Death of a member
- SMSFs: starting and stopping a pension
- GN 2019/1 - *Changes to transition-to-retirement income streams*

QC 42388

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

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.