What is the transfer balance cap?

The total amount of super an individual can transfer to a retirement phase pension is $1.6 million. This limit is known as the ‘transfer balance cap’. All retirement phase pension accounts an individual holds are taken into account when calculating this amount.

The main difference between retirement phase pensions and superannuation in accumulation phase is that the earnings generated by assets held in a retirement phase pension are exempt from tax, which compares favourably with the 15% tax rate applied to most investment earnings generated by assets held in accumulation phase.

Who does this suit?	It works like this:
This information will be useful for those approaching retirement and considering starting an income stream from super, or those who have already retired and are looking to review their retirement income streams.	To keep track of an individual’s transfer balance cap, all eligible individuals will have a transfer balance account which they can reference as required. Over time, an individual can make multiple transfers into the retirement phase of super so long as they have available cap space. Importantly, any retirement phase income streams which commenced before 1 July 2017 will also count towards an individual’s transfer balance cap. It’s important to note that the transfer balance cap only applies to amounts actually transferred into retirement phase. If the balance of an individual’s retirement phase pension grows over time to exceed $1.6 million, this is fine and the individual will not have exceeded their cap simply because of this. Likewise, if the capital value of a retirement phase pension goes down over time, an individual will not be able to top up their pension account unless they have an unused amount within their transfer balance cap. Special rules apply if you are a member of certain defined benefit plans, as you usually cannot transfer or remove excess amounts from these types of income streams in the event you exceed your cap.

Key considerations

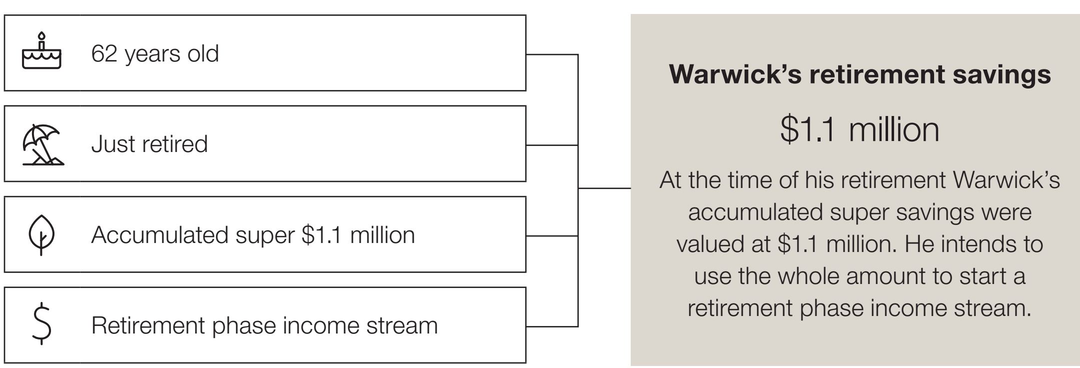
When…	Consider
Commencing a new retirement phase income stream from super.	The amount of accumulated super moved to retirement phase will count towards your *transfer balance cap* on the day it is transferred.
In receipt of an existing retirement phase income stream as at 30 June 2017.	Generally, the value of your retirement phase pension as at 30 June 2017 will count towards your *transfer balance cap*.
Receiving certain defined benefit income streams.	A formula will be used to determine the 'special value' for transfer balance cap purposes. If an income stream exceeds the defined benefit income cap amount of $100,000 per year (for 2020/21), tax may be payable on the extra payments received. Any other accumulated amounts in super are unable to be transferred to a retirement phase income stream where the special value of the defined benefit income stream already exceeds $1.6 million.

Take note

It's important to note there is no limit to the number of retirement phase pension accounts an individual can hold, or the total amount an individual can have in the accumulation phase of super.

What are the important factors?

Example 1 – Warwick



If Warwick starts an account based pension valued at $1.1m, he will have $500,000 remaining under his transfer balance cap should he be in a position in the future to transfer other monies he holds in super to a retirement phase income stream.

Example 2 – Andrea

67 years old	**Andrea's retirement savings** $2 million Looking to start a retirement phase pension to help meet her income needs in retirement.
Planning to retire	
Accumulated super $2 million	
Retirement phase income stream	

Andrea can transfer up to $1.6 million into an account-based pension without exceeding her transfer balance cap. She can keep the remaining $400,000 in a super accumulation account or make a lump sum withdrawal from super at any time if she chooses.

Example 3 – Joe

74 years old	**Joe's retirement savings** $1.8 million Looking to maximise the amount he can hold in retirement phase under the new rules.
Retired	
Accumulated super $1 million with a public offer super fund	
Defined benefit pension with a special value of $800,000	

As Joe is unable to commute his defined benefit pension, he can only start a retirement phase pension from his accumulated super of up to $800,000. When combined with his defined benefit pension with a special value of $800,000, the total amount he has in retirement phase will equal $1.6 million.

As with Andrea above, should Joe start an additional retirement phase account-based pension using $800,000 of his accumulated super monies, he can keep the remaining $200,000 in a super accumulation account or make a lump sum withdrawal from super at any time if he chooses.

Need help

For more information around retirement income planning, please speak to me.

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