Superannuation

Transfer Balance Cap

Aon Hewitt Financial Education Series

The Transfer Balance Cap (cap) applies from 1 July 2017 and limits the amount of money you can put into tax free retirement income streams, such as account based pensions.

What is the amount of the cap?

Everyone currently has a cap of $1.6 million. This means if you are a member of a couple you can transfer up to $3.2 million into tax free retirement income streams between you as long as you each transfer no more than $1.6 million. You can't transfer or share your unused cap with your partner.

You can have more than one pension, as long as the total amount transferred doesn't exceed your cap.

The cap will be indexed each year, and will be increased in increments of $100,000. This means that it will go up over time, but that it is unlikely to be increased each year.

What is a tax free retirement income stream?

A tax free retirement income stream will usually be an account based pension. However, it can also include Term Allocated Pensions, Defined Benefit Pensions and other income streams. Some types of income streams, such as defined benefit pensions, are valued using the income payments. We suggest you talk to your financial adviser if you are receiving these types of income streams.

A Transition to Retirement Pension is not a tax free retirement income stream.

To be a tax free retirement income stream, the earnings within the income stream must be tax free. The pension could still pay tax free income to you, but the earnings within the pension may be taxable such as with a transition to retirement income stream.

Please refer to the fact sheets on 'Transition to Retirement Pension' and 'Account Based Pensions" for more information.

What happens if I have more than $1.6 million in super?

If you have more than $1.6 million in super you are able to keep the extra money within super, where it will be taxed at 15% or withdraw the money, where it will be taxed at your marginal tax rate. You just can't transfer more than $1.6 million into tax free retirement income streams.

What happens if my pension grows over time?

The cap mainly applies when you start a pension. The earnings and pension payments aren't taken into account. So if your pension happens to grow over time, you won't be penalised.

However at the same time, as your pension starts to decrease as you withdraw an income, you won't get extra space in your cap.

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What if I don’t use my entire cap?

The cap is a lifetime cap, and you can start as many income streams as you like as long as you stay below the cap. Any unused amount is carried forward and can be used in the future. You will also get the benefit of the increases in the cap over time.

You will be assessed by what proportion or percentage of the cap you have used, and this will determine how much more you can use in the future. Using a simple example, if you invest $400,000 into a tax free pension, you will have used 25% of the cap. This means that you have 75% left to use or $1.2 million.

If the cap is then increased to $1.7 million, you will still have 75% left to use, meaning that you now have $1.275 million to use.

What will impact my cap?

The cap is managed using a series of debits and credits, but in simple terms if you start a tax free retirement income stream it will be assessed against your cap and reduce the amount remaining, and if you make withdrawals from a tax free retirement income stream, it will also be assessed against your cap but will increase the amount remaining. As noted above, pension payments and increases and decreases in the balance of your pension will not impact your cap.

This is best explained with a simple example.

Gary starts an account based pension on 1 August 2017 for $500,000. This is assessed against his cap of $1.6 million. Gary has $1.1 million of his cap remaining.

On 1 July 2018, Gary receives an inheritance of $350,000 and uses this to start a second account based pension of $350,000. Gary has now used $850,000 of his cap and has $750,000 remaining.

On 1 December 2018, Gary withdraws as a lump sum (not a pension payment) $100,000 of his pension to renovate his home. This is added back to his cap meaning Gary has $850,000 remaining.