

# PENSION ROLLOVER - FAQ

## 2025/26 Financial Year

Document provided by

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## **1. What happens when a pension is rolled over?**

The pension is commuted and the commutation amount is applied as a payment to another superannuation fund and the other superannuation fund then issues a new pension to the member.

If the pension is being fully rolled over (ie 100%), then the pension will terminate and the payment of the commutation amount to the other superannuation fund will terminate the superannuation interest which was supporting the pension. If the only superannuation interest of the member in the superannuation fund has been rolled over and the member will cease to be a member of the Superannuation fund.

If the pension is being partially rolled over (ie less 100%) the pension will not terminate. However, the pension account will be reduced by the commutation amount which has been rolled over. The membership of the member has not terminated.

## **2. What is the difference between a roll back, roll over and a cash out?**

All three pension transactions involve a pension being commuted and an application of the lump sum ("the commutation amount") which arises from the commutation. The difference between the three transactions relates to the application of the commutation amount.

When a pension is rolled back, the commutation amount is applied in the issue of an accumulation interest of the member or, if the member already has an accumulation interest in the fund, as a credit to the existing accumulation interest.

When a pension is rolled over, the commutation amount is applied as a payment to another superannuation fund as a contribution for the member. Typically, the payment is used to commence a new pension for the member.

When a pension is cashed out, the commutation amount is paid as a lump sum superannuation benefit to the member.

In the case of pension roll backs and roll overs, the commutation amount remains in the superannuation system and there are no taxation implications for the member. The commutation amount is not counted against the member's contribution caps and the SIS contribution acceptance rules do not apply.

However, in the case of a cash out, the commutation amount may be taxed in the hands of the member (whether it is and the amount of tax depends on various factors, including the age of the member at the time the payment was received). The amount is treated as having left the superannuation system. Consequently, if the member later decides that the amount should be returned to the superannuation system, this can only be achieved by way of re-contribution. In this situation, the member will have to satisfy the SIS contribution acceptance rules and the contribution will be tested against the member's contribution cap.

**3. Can account-based pensions be rolled over?**

Generally (subject to one exception which is explained below), there is no restriction on the rollover of account-based pensions, including account-based pensions which are beneficiary pensions (i.e. pensions which represent the payment of a death benefit). However, it is possible to issue an account-based pension which has restrictions placed on the ability of the pension to be cashed out.

If these restrictions apply, they apply because of the agreement of the trustee and the member or because they are imposed by the applicable governing rules of the Superannuation Fund.

**4. Can transition to retirement pensions be rolled over?**

Transition to retirement pensions can be rolled over to another superannuation fund.

If the rollover occurs before the pension has transitioned to retirement phase (this typically occurs when the member attains age 65) the pension issued by the other fund must be a transition to retirement pension.

If the rollover occurs after the pension has transitioned to retirement phase the pension issued by the other fund will be an account-based pensions (as the roll back restriction and the 10% limit on pension payments will have ceased to apply to the pension before the rollover occurred).

**5. Is the commutation amount arising from the rolling over taxable to the member?**

As the commutation amount is not paid to the member but is rolled over by being paid to another superannuation fund at the request of and for the benefit of the member, the commutation amount is not treated as assessable income of the member. The commutation amount is non-assessable non-exempt income of the member.

**6. Are there any tax consequences to the fund?**

Rolling over a pension may give rise to taxation consequences for the superannuation fund. The consequences depend on whether the rollover is a 100% rollover or only a partial rollover, and whether the pension was supported by segregated current pension assets or not.

Careful planning may reduce the amount of tax liability incurred by the superannuation fund by reason of the pension roll-over. For example, if the pension is entirely supported by current pension assets and the roll-over is a partial roll-over, then the disposal of those assets to finance the payment may not give rise to any tax liability (as the pension has not been terminated). Another example is where the roll-over occurs late in the financial year and the Superannuation Fund is using the proportionate method to determine its pension investment income. By rolling-over late in the financial year, the exempt proportion of investment income will generally be higher than a rolling-over in the financial year.

**7. What happens to the tax-free portion of the pension on rolling-over?**

If the tax-free portion of the pension was, say, 30% and the commutation amount of the pension was, say, \$100,000 then when \$100,000 is paid to the other superannuation fund, the lump-sum payment will be treated as consisting of \$30,000 tax-free component and \$70,000 taxable component (being the balance).

**8. What happens to the pension after the rolling-over?**

If the roll-over is 100% then the pension will be terminated.

If the roll-over is less than 100% then the pension will continue albeit with a reduced pension balance.

If there is a partial roll-over there is no automatic recalculation of the minimum payment amount of the pension. At the following 1 July, the minimum payment amount will be recalculated using the reduced pension balance as at 30 June and the member's then attained age.

Rolling-over will not alter the tax-free percentage of the reduced pension. Additionally, the commutation payment will not be counted for the purposes of determining whether the minimum payment amount has been satisfied (due to a recent change in the legislation).

**9. How is the commutation amount calculated?**

As both account-based and transition to retirement pensions are not lifetime pensions the commutation amount will be based upon the account balance of the pension as at the date the pension is commuted (possibly less the amount of any transaction fees – if any imposed by the fund – in respect of the roll-over).

If the roll-over is a full roll-over of the entire pension, then the commutation amount will be 100% of the account balance of the pension.

If the roll-over is for less than the entire pension (e.g. the roll-over is for 20% of the pension) then the commutation amount will be 20% of the account balance of the pension. In this situation, the pension will continue with a reduced account balance equal to 80% of the pre-cash-out account balance.

**10. To which funds can a pension be rolled-over?**

The fund must be a complying superannuation fund. Additionally, the fund must be prepared to accept the roll-over. The receiving fund may impose minimum limits for its own commercial benefit.

**11. How is the roll-over taxed?**

The commutation amount is not taxed to the member. The commutation amount when paid to the other superannuation fund is treated as a rollover superannuation benefit made in respect of the member.

The SIS Contribution Acceptance rules do not apply to the commutation amount as it is a rollover superannuation benefit. Further, the commutation amount is not as a contribution for the purpose of the concessional contributions cap or for the purposes of the non-concessional contribution cap. Finally, the commutation amount is not treated as taxable contribution in respect of the member.

The commutation amount when paid to the other fund will not give rise to an excess transfer balance as the transfer balance credit arising on the issue of the new pension will be matched by the transfer balance debit arising on the commutation of the pension.

## **12. What notification must be provided to the ATO about roll-overs?**

The ATO must be notified of the commutation of the pension. This notification is vital to ensure that the transfer balance account of the member is adjusted (i.e. a debit is made to the transfer balance account) to reflect the fact that superannuation value has been commuted.

The value of the commutation amount must be reported to the ATO as a transfer balance debit. If the amount is not reported then the transfer balance account of the member will overstate the member's transfer balance amount.

If the commutation is not reported to the ATO then any pension the member commences in the other fund may be identified as being an excess pension and this may also adversely affect the contribution cap space of the member.

Reporting of the full cashing out of the pension can be undertaken by the completion and submission of an online form or a paper form - "Super Transfer Balance Account Report" NAT 74923 (often called a TBAR"). It is strongly recommended that the TBAR is completed and submitted as soon as possible. This will ensure that the transfer account balance of the member is as up to date as possible.

SMSFs are required to report transfer balance account events (eg commutations, pension commencements) must report on a quarterly basis – within 28 days of the end of the relevant quarter. TBAR events which have been reported during the quarter (whether voluntarily or otherwise) are not required to be reported again in the quarterly report for that quarter.

The cashing out of a pension is not a notifiable event for the purposes of SIS Regulation 11.07A.