

PENSION ROLL BACK – FAQs

2025-26 Financial Year

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1. What happens when a pension is rolled back?

The pension is commuted, and the commutation amount is applied in the issue of an accumulation interest in the Superannuation Fund for the member.

If the member already has an accumulation interest in the Superannuation Fund, the commutation lump sum will be added to that existing accumulation interest.

If the pension is being fully rolled back (i.e. 100%), then the pension will terminate and the commutation amount will be applied as or to the member's accumulation interest in the Superannuation Fund.

If the pension is being partially rolled back (i.e. less 100%) then the pension will not terminate. However, the pension account will be reduced by the commutation amount which will be applied as or to the member's accumulation interest in the Superannuation Fund.

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 (called a rollover superannuation benefit) 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 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 back?

Generally (subject to one exception which is explained below), there is no regulatory restriction on the roll back of account-based pensions. However, it is possible to issue an account-based pension which has restrictions placed on the ability of the pension to be rolled back. In this case the restrictions are imposed by the trustee or by the governing rules rather than the SIS requirements.

The exception relates to beneficiary pensions – which are pensions arising from the superannuation interest of a deceased member. These pensions cannot be rolled back. However, they may be cashed out or rolled over to another superannuation fund from which a replacement pension must be immediately issued.

4. Can transition to retirement pensions be rolled back?

Generally, there is no restriction on the roll back of transition to retirement pensions.

The difference between cashing out and rolling back a pension should be noted. The former occurs when the pension is commuted and the commutation lump sum is paid as a superannuation lump sum to the member. The latter occurs when the commutation lump sum is retained in the fund.

5. Is the commutation amount arising from the roll back taxable to the member?

The commutation amount – because it is not paid to the member but applied as or to an accumulation interest for the member – is not taxed.

The commutation amount is treated as non-assessable and non-exempt income of the member. Consequently, the commutation is not included in the tax return of the member.

6. Are there any tax consequences to the fund?

Commutation and rolling back are not taxable events for the Superannuation Fund. However, it does mean that the previous exemption from tax on fund earnings relating to assets supporting retirement phase pensions will cease to apply in whole or in part depending on whether it is a 100% roll-back or a partial roll-back.

7. What happens to the tax free portion of the pension on rolling back?

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 credited to the accumulation account of the member, the credited amount will be treated as consisting of \$30,000 tax-free component and \$70,000 taxable component (being the balance).

All earnings on the \$100,000 after it has been credited to the accumulation account of the member will be treated as forming part of the taxable component of the accumulation interest.

8. What happens to the preserved amount of the pension on rolling back?

If the pension to be commuted was an account-based pension then the commutation amount will constitute unrestricted non-preserved amounts in the fund. When the pension is rolled back, the commutation amount retains its status as an unrestricted non-preserved amount.

As transition to retirement pensions are generally commenced with preserved amounts, commuting the pension and rolling it back to accumulation phase does not change the preserved status of the commutation amount. Consequently, the commutation amount will constitute a preserved amount in the fund.

However, if while the transition to retirement pension was being paid, an unrestricted release condition occurred in respect of the member (e.g. attaining age 65 or attaining preservation age and being retired) then the commutation amount will consist of an unrestricted non-preserved amounts (as the transition to retirement pension has, due to the occurrence of the unrestricted release condition, changed into an account based pension).

9. Is the commutation amount a contribution for the purposes of the SIS Contribution Acceptance Rules?

The commutation amount arising from rolling back the pension is not treated as a contribution for the purposes of the SIS contribution acceptance rules. Consequently, a member who is 80 years of age could commute the pension and have the commutation amount applied to an accumulation interest in the Superannuation Fund.

The commutation amount is treated for the purposes of the SIS contribution acceptance rules as already being within the superannuation system.

10. Is the commutation amount a contribution for the purposes of the Contribution Caps?

The commutation amount arising from the pension is not treated as a contribution for the purposes of the excess contribution provisions of Divisions 291 and 292 of the *Income Tax Assessment Act 1997*.

This is due to the fact that the pension account from which the commutation amount is taken is, in a sense, already within the superannuation system and not new monies coming into the superannuation system.

In short, there is no double counting for contribution cap purposes money already in the superannuation system.

11. 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 Superannuation Fund – in respect of the rollback transaction).

If the rollback is a rollback of the entire pension, then the commutation amount will be 100% of the account balance of the pension.

If the rollback is for less than the entire pension (eg the rollback 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-rollback account balance.

12. What notification must be provided to the ATO about rollbacks?

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 moved from retirement phase back to growth phase.

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, and this may adversely affect the transfer balance cap space of the member.

Additionally, if the commutation is not reported to the ATO then any pension the member commences in the future may be identified as being an excess pension.

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.