NOMINATING A REVERSIONARY BENEFICIARY

Apt.
WEALTH PARTNERS

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When you start an account-based pension, an important decision you need to make is how the remaining balance of your pension will be distributed upon your death (assuming, of course, that there is some money left).

With regard to your superannuation benefits, you can generally make the following nominations:

1. **Nominated beneficiary** – under this option you may provide direction to a super fund trustee but that does not require them to pay the death benefit to the person you have nominated and/or your estate.
2. **Reversionary beneficiary** – the nominated person (generally a spouse) will automatically continue receiving the pension after your death.
3. **Binding death benefit nomination** – gives you certainty that your superannuation benefit will be paid to the beneficiary you nominate – there is no trustee discretion. Your beneficiary may then choose how they want to receive the benefit; either in the form of a pension, a lump sum or a combination of both. These nominations must be updated at least every three years.

Why choose a reversionary beneficiary

Under the nominated beneficiary option, the fund's trustee will always have ultimate discretion as to who will receive your super death benefits. A binding nomination option may not always be valid (eg if your circumstances change and you forget to revise your nomination or your nomination lapses). The reversionary beneficiary option, however, will provide greater certainty that your intended beneficiary (provided they are an eligible dependant at death) will receive an ongoing pension following your death.

Because of the restrictions on pension payments to child beneficiaries, such as the requirement that it must be commuted and paid out when the child turns 25, many superannuation funds only permit a reversionary option to a spouse.

Advantages of receiving a reversionary pension

- Generally, the pension is tax-free, or at least concessionally taxed, depending on the age of the deceased person and their beneficiaries at date of death – see table on page 2.
- Earnings and capital gains on pension assets are tax-free (in the fund).
- A reversionary pension may be beneficial if social security (under the income test) is involved – see example on page 2.
- A death benefit paid as a pension would retain funds in the super environment. By receiving a death benefit as a lump sum some beneficiaries may not be able to contribute that money back into a superannuation fund due to certain restrictions imposed by law.
- There is no urgency to deal with death benefits at a time of grief as the pension simply switches from the deceased to the reversionary beneficiary.

Pension beneficiaries in a taxed superannuation fund are assessed as follows:

Age of deceased/dependant	Tax component	Tax treatment
If either or both aged 60 or over	Tax-free	No tax payable
	Taxable - taxed element	No tax payable
If both under age 60	Tax-free	No tax payable
	Taxable- taxed element	Marginal tax rate, but 15% tax offset applies

Disadvantages of receiving a reversionary pension

- Funds are not readily available to pay off non-deductible debts; however the pension may be commuted to a lump sum if necessary.
- The value of a reversionary pension will count towards a spouse's transfer balance cap - the limit which restricts how much money a person can have in tax-free pensions - based on the value of the pension at date of death. However, there is a 12 month window from death before this amount is included against the beneficiary's cap.

Ask your Apt Wealth Partners financial planner for more information.