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His, hers and ours

Retirement planning for modern families

Andrew Lowe
Challenger Tech

His, hers and ours

1. Modern families
2. Super
3. Income streams
4. Social Security
5. Improving client outcomes

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Learning outcomes

1. Explore the available mechanisms for directing super/income stream death benefits
2. Determine the tax treatment of lump sum and income stream death benefits
3. Discover the Social Security consequences of changing circumstances
4. Evaluate the advice opportunities for changing family circumstances

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Modern families

Families come in all shapes and sizes

- Traditional families
- Single parent families
- Families without children
- Multi-generational (extended) families
- Blended families
- Grandparent (skipped generation) families
- Families in transition
- And lots of others

Super

Advice considerations

- Directing death benefits
- Taxation of death benefits
- Divorce/separation

Quiz question

Directing death benefits

- Q: I have a 60-year-old client. Upon his death he would like to leave each of his his two granddaughters $50,000 each from his super. Can he?
- A: He can direct his super fund to pay anyone he wants
- B: He can direct his super fund to pay SIS dependants and/or his estate
- C: He can direct his super fund to pay Tax dependants and/or his estate
- D: Grandchildren cannot be paid super death benefits

Super

Directing death benefits

When a person dies, what happens to their super?

When a person dies, in most cases their super fund pays their remaining super to their nominated beneficiary.

Super paid after a person's death is called a 'super death benefit'.

If the rules of your super fund allow it, you can nominate the beneficiary for your super, by making a **non-binding** or **binding** nomination.

If the super fund rules allow a **binding** death benefit nomination, you can nominate one or more dependants and/or your legal personal representative to receive your super.

If a deceased person did not make a nomination, or has made a non-binding nomination, the trustee of the fund may:

- use their discretion to decide which dependant or dependants to pay the death benefit to
- make a payment to the deceased's legal personal representative (executor of their estate) for distribution according to the instructions in the deceased's will.

Contact your super fund to find out more about death benefit nominations.

If a death benefit is paid to a dependant of the deceased, it can be paid as either a lump sum or income stream.

If a death benefit is paid to someone who is not a dependant, it must be paid as a lump sum.

Source: https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/superannuation-death-benefits

Super

Directing death benefits

Dependant under superannuation law

For the purposes of deciding who receives a death benefit, you're a dependant of the deceased if at the time of their death you were:

- their spouse or de facto spouse
- a child of the deceased (any age)
- a person in an interdependency relationship with the deceased.

An interdependency relationship exists between two people if all of the following conditions are met:

- they have a close personal relationship
- they live together
- one or both provides the other with financial support
- one or both provides the other with domestic support and personal care.

Source: https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/superannuation-death-benefits

Super

Directing death benefits

- Q: I have a 60-year-old client. Upon his death he would like to leave each of his his two granddaughters $50,000 each from his super.
  - If this is possible, how would such a benefit be taxed (if at all)?

Super

Taxation of death benefits

Dependant under tax law

For tax purposes, you are a dependant of the deceased if at the time of their death you were:

- their spouse or de facto spouse (of any sex)
- a former spouse or de facto spouse (of any sex)
- a child of the deceased under 18 years old
- in an interdependency relationship with the deceased
- any other person dependant on the deceased.

The conditions for the existence of an interdependency relationship under tax law are generally the same as those applying under superannuation law.

However, 2 people may also have an interdependency relationship for tax purposes if they have a close personal relationship, and the reason they don't satisfy one or more of the requirements listed above is that one or both suffer from a physical, intellectual or psychiatric disability.

Source: https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/withdrawing-and-using-your-super/superannuation-death-benefits

Super

Taxation of death benefits

Tax on superannuation lump sum payments made on death[11]

Taxable component	Taxed element	Untaxed element
Paid to dependant	0%	0%
Paid to non-dependant	15%	30%
Tax-free component	**0%**	

Source: https://www.challenger.com.au/tools/ff/cgf/#/super

Super

Taxation of death benefits

- Q: What advice strategies may assist clients reduce the tax payable (if any) on super death benefits?

Super

Divorce/separation

- Super interests and super payments can generally be split by agreement or court order on relationship breakdown
- Super is treated as property
- Splitting super benefits
  - Preservation
  - Components
  - Lump sum or income payments
  - Transfer balance cap

Income streams

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November 2017

Ensuring super income stream death benefits end up where they're meant to

By Andrew Lowe, Head of Technical Services

Retirement planning can be complex. Estate planning can also be complex. Legislative change over time has continued to affect these important areas. It is no surprise, therefore, that the interaction between retirement and estate planning can be particularly complex. That said, ensuring that income stream death benefits are directed in accordance with their intentions is a critical consideration for many clients.

In this article we discuss the various mechanisms available for clients to direct super income stream death benefits, remove some of the complexity around this element of retirement and estate planning and examine ways to provide clients with greater certainty regarding the direction of such benefits.

In the event of a member passing away, a super death benefit must be cashed as soon as practicable, as the death of a member is a compulsory cashing event.

Super death benefits

In the event of a member passing away, a super death benefit must be cashed as soon as practicable, as the death of a member is a compulsory cashing event. This means that any remaining super must be paid in the form of a lump sum and/or retirement phase income stream, subject to any Transfer Balance Cap (TBC) considerations.

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Income streams

Options on death

- Following death an income stream is required to be cashed as soon as practicable
- Dependent beneficiaries can (subject to the conditions of the super income stream) receive super death benefits as:
  - a super lump sum
  - one or more death benefit income streams in retirement phase, or
  - a combination of lump sum and income stream(s) in retirement phase.
- Dependent beneficiaries eligible to receive a death benefit income stream include:
  - a spouse
  - a child under 18 years of age
  - a financially dependent child under 25 years of age
  - a disabled child, irrespective of their age, and
  - a person who was in an interdependency relationship with the deceased.

Income streams

Death benefits

- Binding nominations
- Non-binding nominations
- Reversionary
- No nomination

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Income streams

Death benefit payment options

SIS dependant	Death benefits dependant	Lump sum	Income stream
Spouse (including same-sex and de facto)	Yes	Yes	Yes
Child under 18 (including an ex-nuptial, adopted or step-child of the person and a child of the person's spouse)	Yes	Yes	Yes
Child over age 18 and financially independent	No	Yes	No
Child over age 18 and under 25, financially dependent	Yes	Yes	Yes
Disabled child, 'Disability Services Act 1986 (Cth) s8(1) (Austl)', (no age restriction)	Yes	Yes	Yes
Person with whom an interdependent relationship existed	Yes	Yes	Yes
Financially dependent person at the time of death	Yes	Yes	Yes

Income streams

Death benefit payment options: Taxation

Death benefit beneficiary	Lump sum	Income stream
Death benefits dependant	Payment tax free	Tax free if deceased or beneficiary aged 60 or over. Any untaxed amount is taxed at marginal tax rates (MTR) with a rebate of 10% (subject to the TBC). Otherwise, no tax is payable on the tax-free component. Taxed element is taxed at MTR less a 15% tax offset. Any untaxed element is taxed at MTR.
Other cases	No tax is payable on the tax-free component. Up to 15% on the taxable element and 30% on the untaxed element.	Not applicable

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Income streams

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August 2017

Super income streams and death: more and less flexibility since 1 July 2017

By Andrew Lowe, Head of Technical Services

Changes to the treatment of superannuation death benefits took effect on 1 July this year as part of the Government's 'fair and sustainable' super reforms. These changes may significantly impact the alternatives available to a person who is eligible to receive a super benefit following the death of a super annuity or pension recipient.

The new rules for super death benefits offer more flexibility in some respects, and less flexibility in others.

Super annuity and pension death benefits

Following the death of a super annuity or pension recipient, the income stream provider is required to cash the super interests of the deceased as soon as practicable.

Dependent beneficiaries can (subject to the conditions of the super income stream) receive super death benefits as:

- a super lump sum
- one or more death benefit income streams in retirement phase, or
- a combination of lump sum and income stream(s) in retirement phase.

Dependent beneficiaries eligible to receive a death benefit income stream include:

- a spouse
- a child under 18 years of age
- a financially dependent child under 25 years of age
- a disabled child, irrespective of their age, and
- a person who was in an interdependency relationship with the deceased.

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www.adviseronlineportal.com.au/-/media/shared/challenger/document/challenger-tech/super-income-streams-and-death-benefits.pdf

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Income streams

Advice considerations

- Once a death benefit, always a death benefit
- Rolling over a death benefit to another income stream
- No rollover to accumulation
- Transfer balance cap considerations

	Reversionary death benefit income stream in retirement phase	Non-reversionary death benefit income stream in retirement phase
Reporting date	12 months after death	Date recipient commences the death benefit income stream
Transfer balance credit amount	Value of income stream at date of death	Value of the death benefit income stream at commencement

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Income streams

Directing death benefits

- Q: I have a 75-year-old client. He would like to leave his account-based pension assets remaining upon his death to his two granddaughters in equal parts.
  - Can he?
  - If this is possible, how will such benefits be taxed?
  - If this is possible, how can he achieve this outcome?

Social Security

Considerations for modern families

- Death of a spouse
- Separation in retirement

Quiz question

Death of a spouse

- Q: One member of a client couple has just died. What will happen to the Age Pension of the surviving partner?
- A: Pension continues at half the rate previously payable to the couple
- B: Pension will be based on single rates and thresholds but shouldn’t change much
- C: Pension will be based on single rates and thresholds but could change significantly (including to zero)
- D: Pension continues at the rate previously payable to the couple

Social Security

Death of a spouse

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March 2021

Age Pension advice considerations: The death of a spouse

By Andrew Lowe, Head of Technical Services

The death of a spouse will, for many clients, be a significantly emotional event. The appropriate focus at such a time will be dealing with the consequences of this loss. There are, however, a number of financial considerations that will require appropriate prioritisation. For Age Pension recipients there are additional advice considerations following the death of a spouse and these are the focus of this paper. Note that different rules may apply where only one member of a couple is, or was, eligible for the Age Pension, or where either is eligible for a benefit other than the Age Pension.

> Different rules may apply where only one member of a couple is, or was, eligible for the Age Pension, or where either is eligible for a benefit other than the Age Pension.

Moving from couple to single rate of Age Pension

Following the death of their spouse, the survivor's rate of Age Pension is reduced to the single rate. Where both members of the couple were in receipt of the Age Pension, this change of rate generally applies from the later of:

- the day of the partner's death; or
- the day after the date paid to, of the combined couple rate.

Where a client was, and remains, eligible for the maximum rate of Age Pension and supplements, their payment (to 19 March 2021) would fall from $37,013.60 p.a. (couple combined) to $24,551.80 p.a. (single). These maximum payments may be reduced because of the client's income and assets.

Bereavement payment

Age Pension recipients may be eligible for a lump sum bereavement payment if their spouse dies. The amount payable is generally equal to the total Age Pension that would have been payable as a couple, less the surviving client's new single rate for a period up to 14 weeks after the spouse's death.

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https://www.adviseronlineportal.com.au/-/media/shared/challenger/document/challenger-tech/the-death-of-a-spouse.pdf

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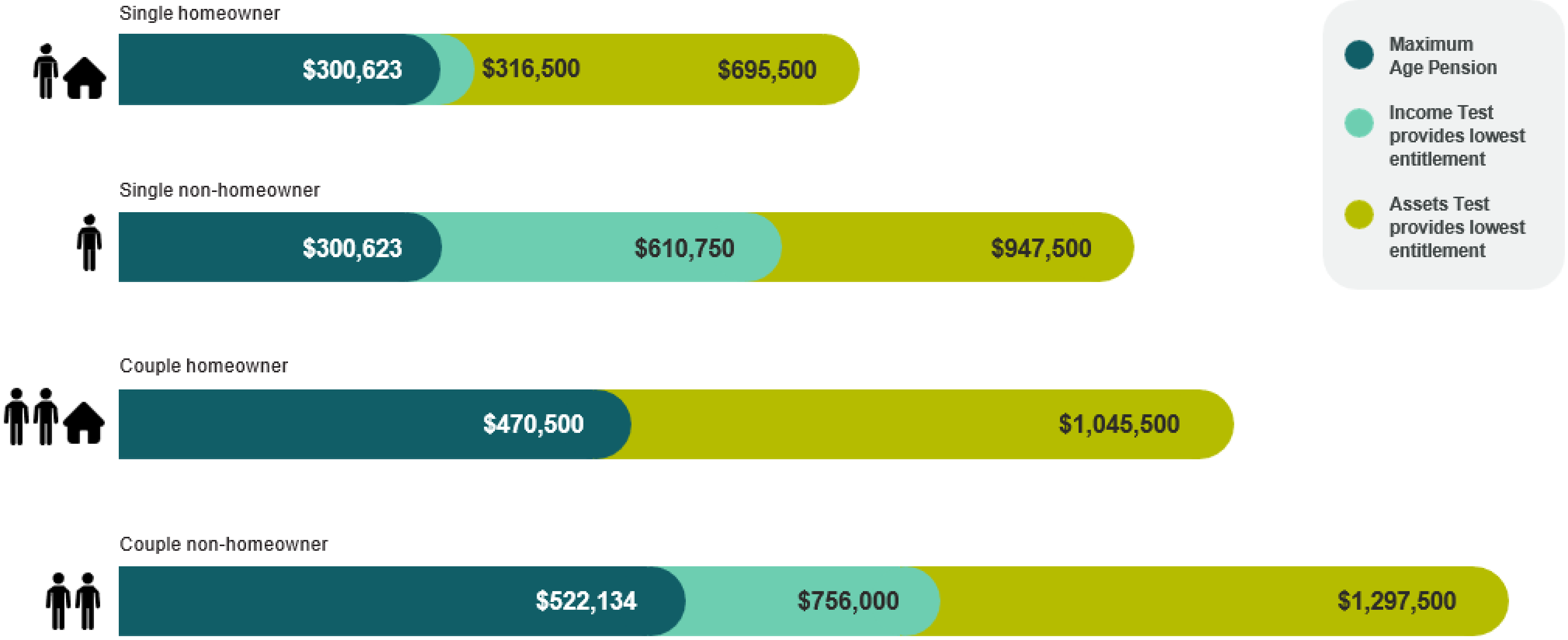
Social Security

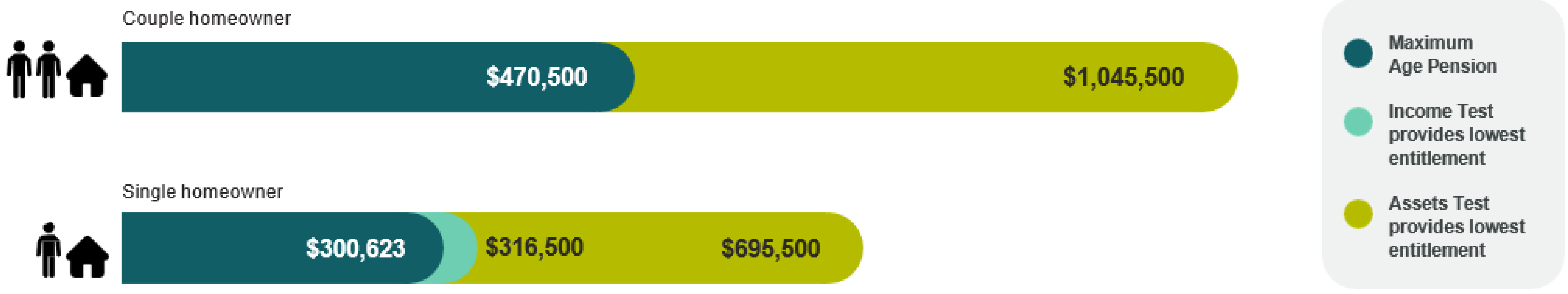
Means tests for couples and singles



Rates and thresholds as at 20 September 2024. Assumes all assets are financial assets and no other income. Non-homeowner asset cut-out may be higher if eligible for rent assistance.

Social Security

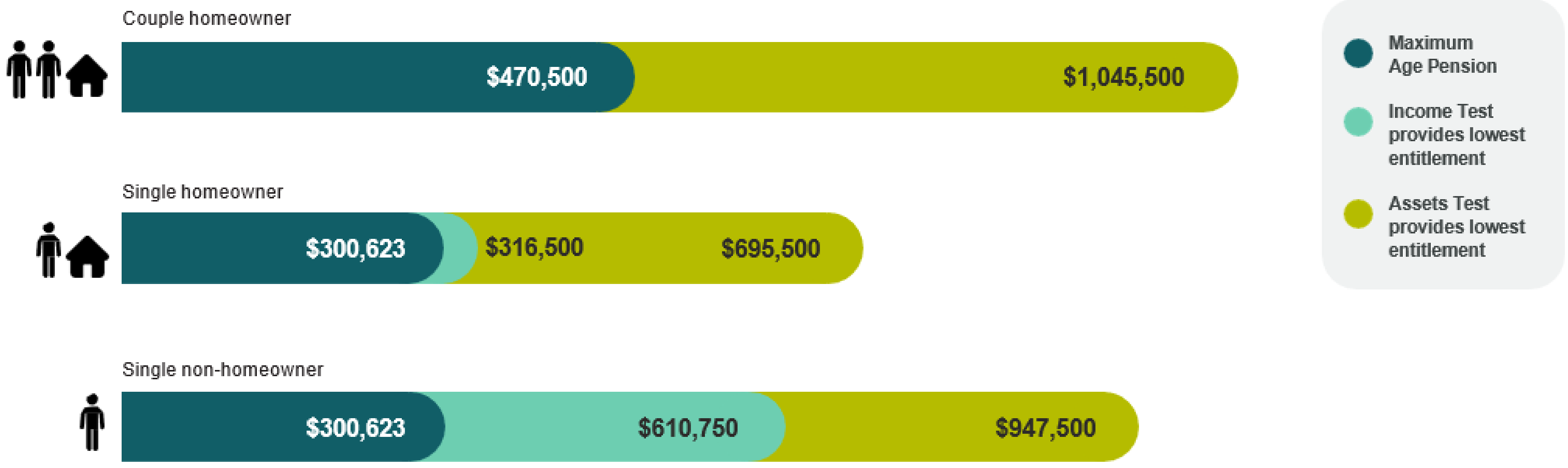
Means tests: Couple to single (death of a spouse)



Rates and thresholds as at 20 September 2024. Assumes all assets are financial assets and no other income. Non-homeowner asset cut-out may be higher if eligible for rent assistance.

Social Security

Means tests: Couple to singles (separation of couple)



Rates and thresholds as at 20 September 2024. Assumes all assets are financial assets and no other income. Non-homeowner asset cut-out may be higher if eligible for rent assistance.

Social Security

Revised retirement spending as a single

	Couple (combined)	Single
Maximum Age Pension	$44,855 p.a.	$29,754 p.a.
ASFA Modest Lifestyle	$47,475 p.a.	$32,930 p.a.
ASFA Comfortable Lifestyle	$73,031 p.a.	$51,814 p.a.

Age Pension at 1 January 2025.
ASFA Retirement Standard (September 2024). https://www.superannuation.asn.au/resources/retirement-standard/

Improving client outcomes

Practicalities for modern families: Gary and Greta

Couple, both aged 67,
married 7 years,
homeowners

Need at least **Max. Age Pension + $5,000 pa for essentials**

Want to spend
$80,000 pa together

Want to **enjoy retirement, look after the other** after one dies, leave any remaining super **to their respective kids** (from past relationships)

$100,000
cash/term deposits

$50,000
non-financial assets

50/50
growth/defensive investors

$500,000 each
in super

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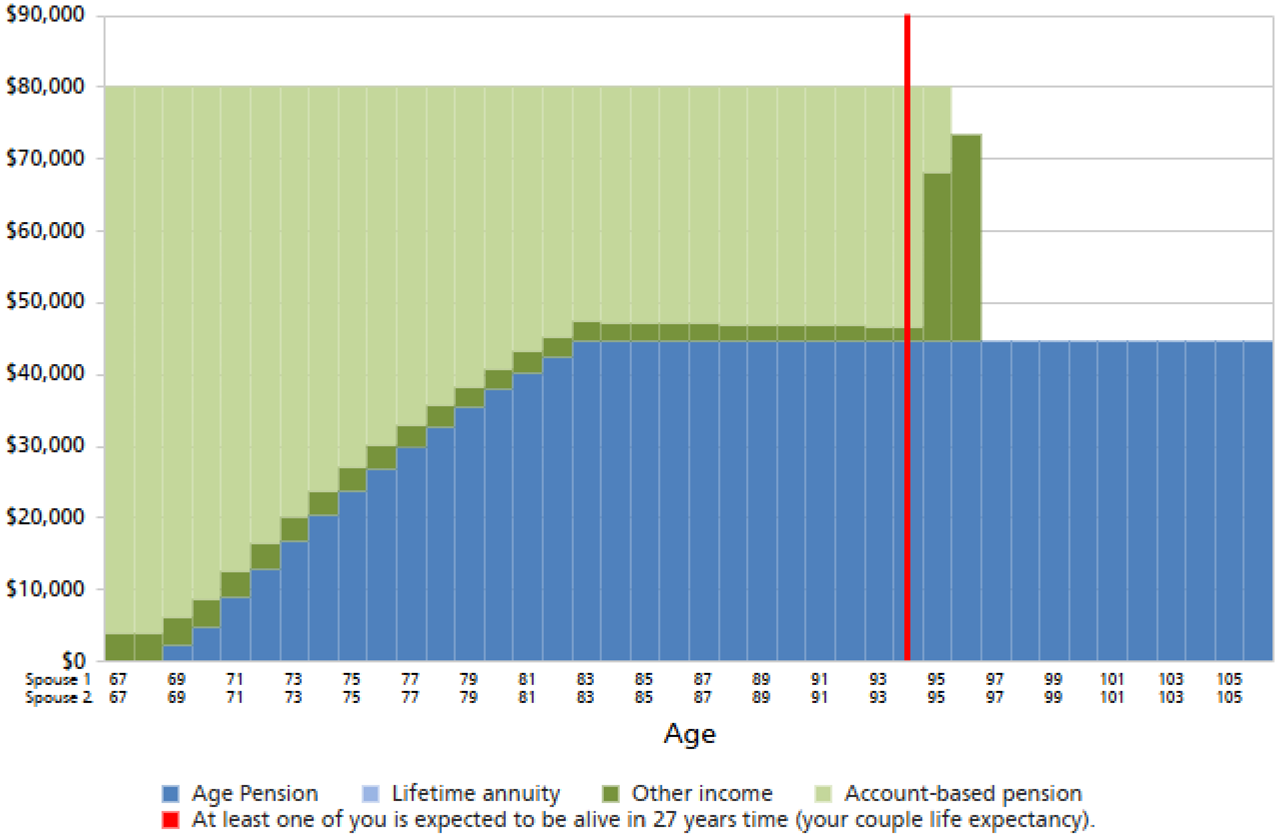
Improving client outcomes

Account-based pensions

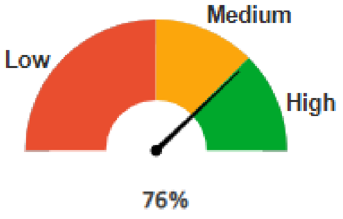
Income



All values are shown in today's dollars

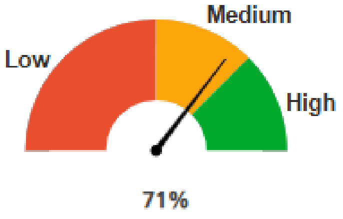
Chance of $50,000 'needs' income being met

Account-based pension only



Chance of $80,000 'needs' and 'wants' income being met

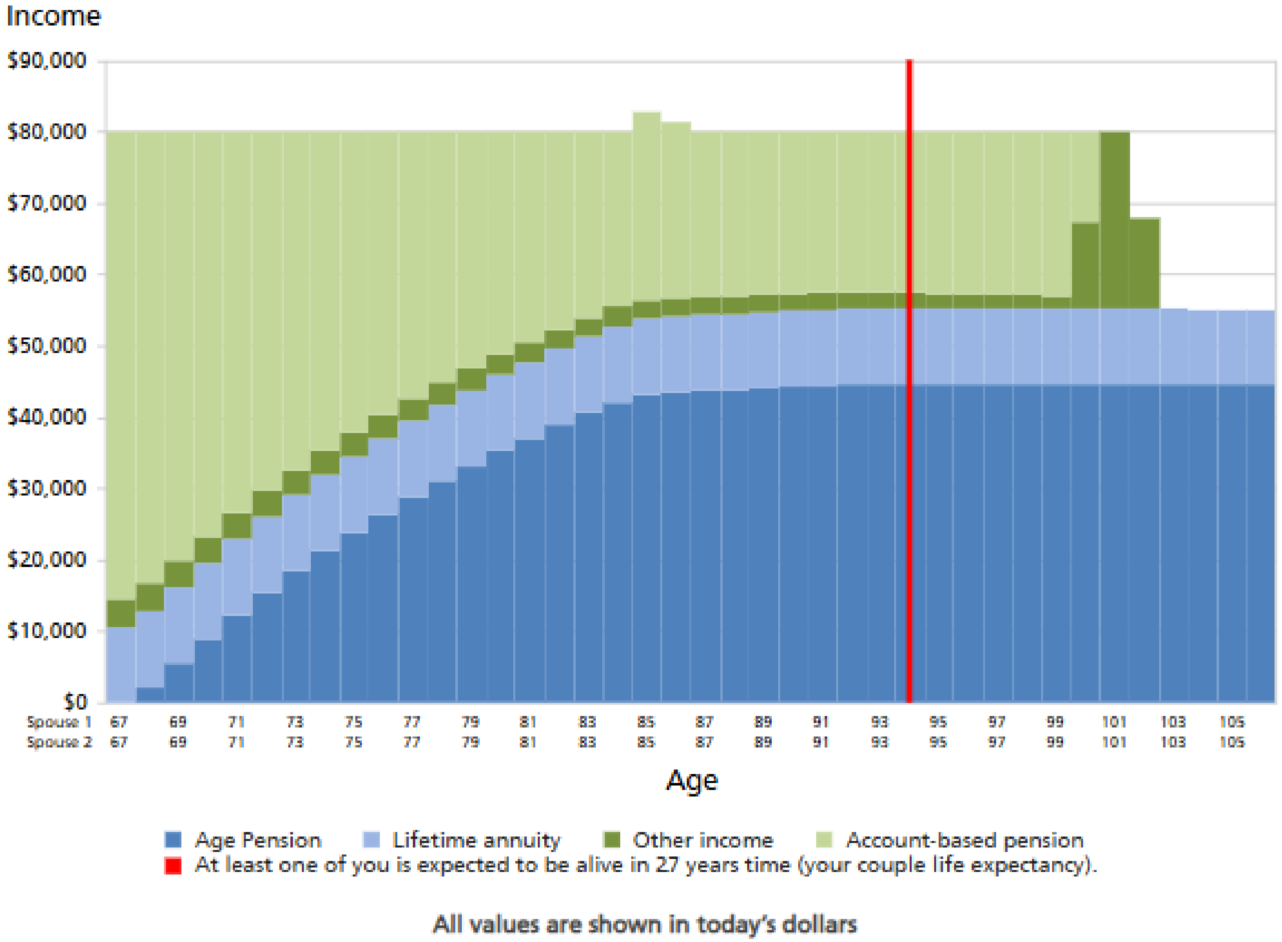
Account-based pension only

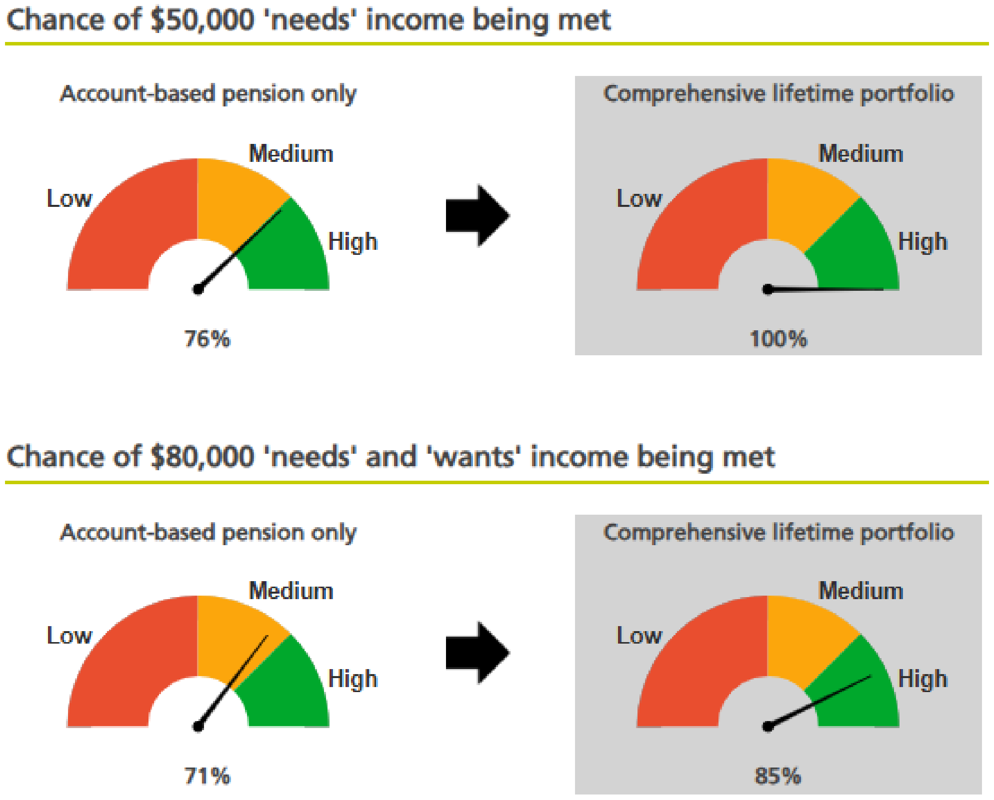


Source: Challenger Retirement Illustrator (30/01/2025) using Social Security rates and thresholds effective 20 September 2024. 67-year-old male/female client couple. $500,000 each in super. Deterministic analysis assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. $100,000 cash/TDs earning 4.0% p.a. interest. Non-financial assets of $50,000. $80,000 p.a. desired income including $50,000 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC250130000749.

Improving client outcomes

Account-based pension and (20%) CPI-linked lifetime annuities





Source: Challenger Retirement Illustrator (30/01/2025) using Social Security rates and thresholds effective 20 September 2024. 67-year-old male/female client couple. $500,000 each in super. Deterministic analysis assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. $100,000 cash/TDs earning 4.0% p.a. interest. Non-financial assets of $50,000. $80,000 p.a. desired income including $50,000 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC250130000749.

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Improving retirement confidence

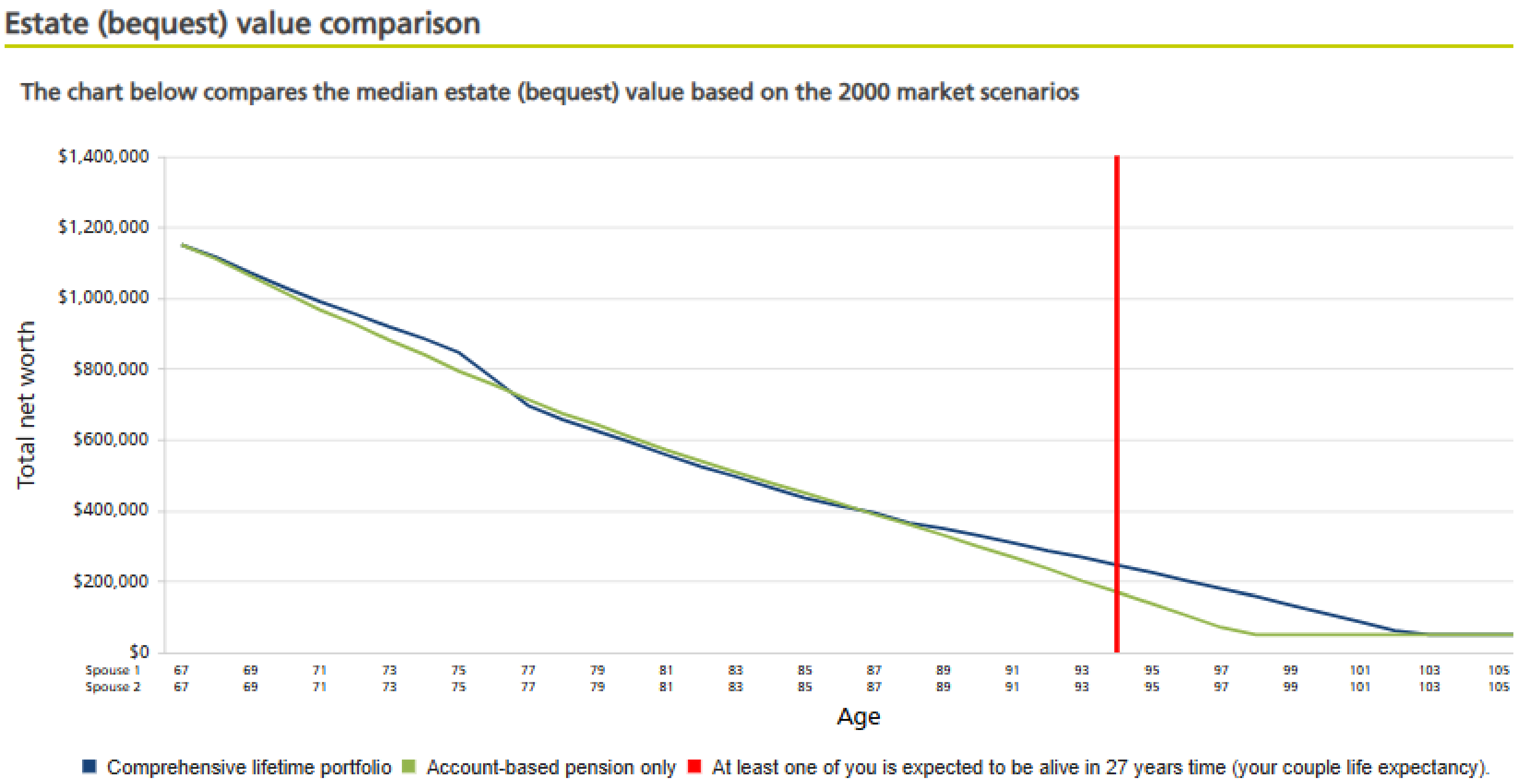
20% allocation to a CPI-linked lifetime annuity

	Income for life	Essential income needs met	Desired income target improved	Higher asset value	Total Income
20% allocation to CPI-linked lifetime income	Lifetime income for as long you live, starting **in the first year at $10,654 pa.**	A 100% chance of meeting income 'needs' (an **increase of 24%** over the non-lifetime income portfolio).	A 85% chance of meeting desired 'needs and wants' (an **increase of 14%** over the non-lifetime portfolio).	Estate value **increased by $94,710** (in today's dollars) at couple life expectancy.	Total retirement income over 27 years is **$4,092** higher.

Source: Challenger Retirement Illustrator (30/01/2025) using Social Security rates and thresholds effective 20 September 2024. 67-year-old male/female client couple. $500,000 each in super. Deterministic analysis assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. $100,000 cash/TDs earning 4.0% p.a. interest. Non-financial assets of $50,000. $80,000 p.a. desired income including $50,000 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC250130000749.

Improving client outcomes

Gary dies at age 81 – his ABP balance paid to his kids



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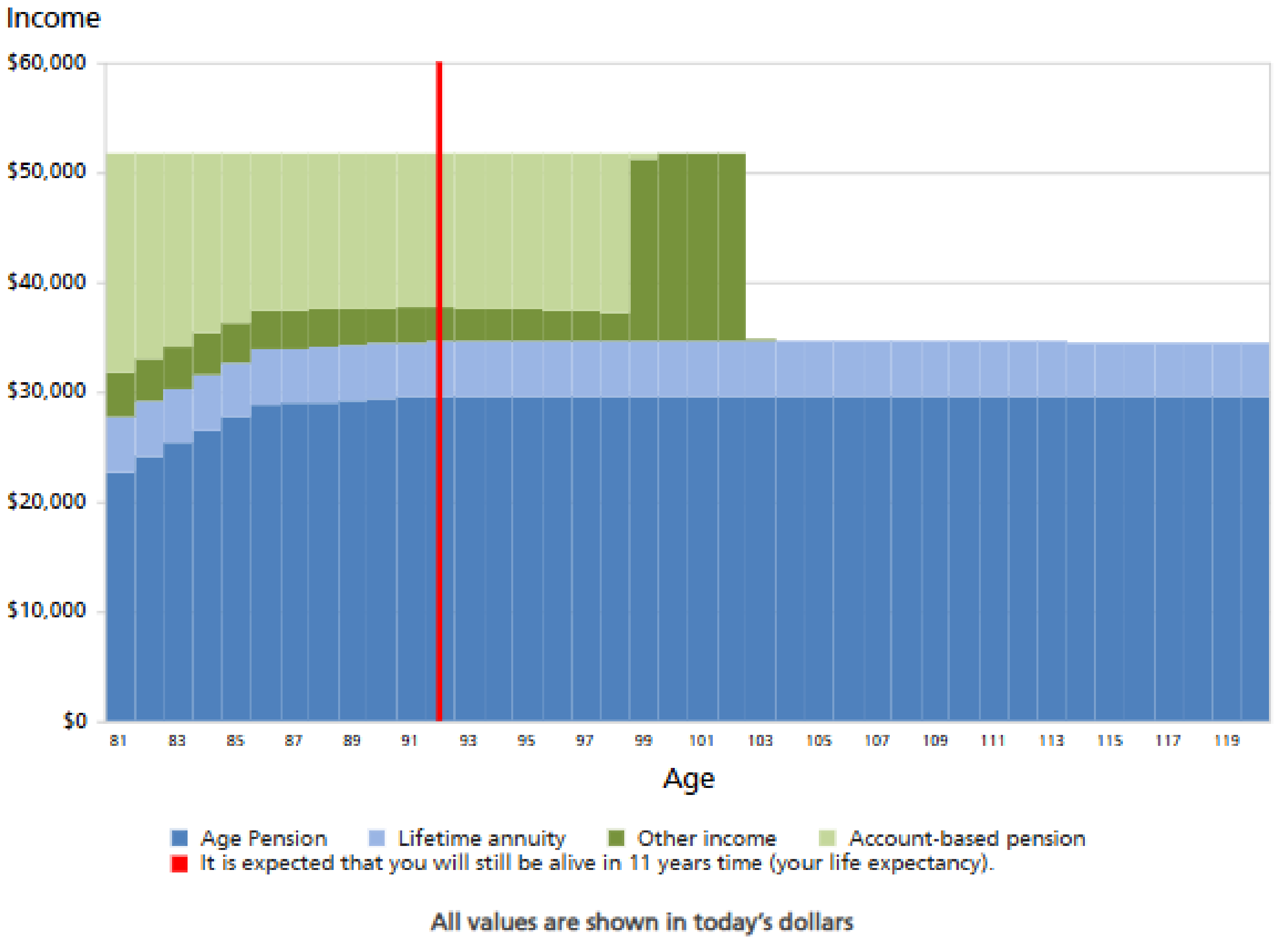
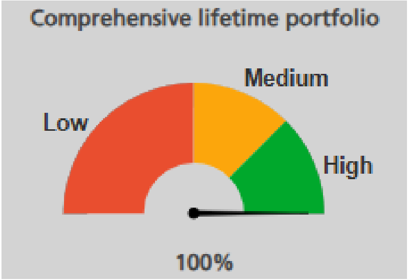
Improving client outcomes

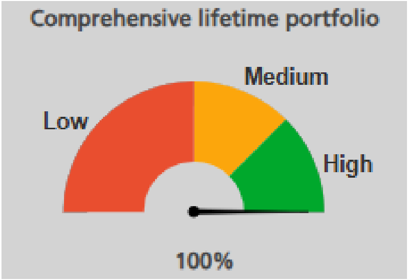
Greta's income as a single from age 81



Chance of $35,000 'needs' income being met



Chance of $51,814 'needs' and 'wants' income being met



Source: Challenger Retirement Illustrator (30/01/2025) using Social Security rates and thresholds effective 20 September 2024. 81-year-old single female client. $$278,200 in super. Deterministic analysis assumes returns of 4.0% p.a. for defensive assets and 8.0% p.a. for growth assets before fees. $100,000 cash/TDs earning 4.0% p.a. interest. Non-financial assets of $50,000. $80,000 p.a. desired income including $50,000 p.a. essential income. Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Reference number: RIC250130000820.

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His, hers and ours

1 Modern families

2 Super

3 Income streams

4 Social Security

5 Improving client outcomes

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