Extra reference material on DB pensions from John Wasiliev:

Reader Question: Your article in the AFR Smart Investor on Saturday October 15 states that yearly pension from a non taxed defined benefit superannuation will be multiplied by 16 to create an amount that needs to included in the $1.6m proposed limit in pension phase. Where did you get this information?

The Government released draft legislation on these matters for consultation on 27 September 2016. The documents are extensive but are accompanied by a very handy Explanatory Material(EM) document in the Related Documents.

At 127 pages the EM steps through each of the areas of change explaining the approach taken and how it is intended to work. While there are some references to DB pensions on pages 9, 10, 11, 37 the more detailed discussions around Defined benefit income streams commences from paragraph 1.157 on page 43 of the Explanatory material, with the valuation factors explained in paragraph 1.169. From the exposure draft of the Fair and Sustainable Superannuation Bill 2016 that is available on the Treasury website, it appears the valuation of Defined Benefit income streams will be legislated via an amendment to the Income Tax TAA 1997 (shown at Fair and Sustainable Superannuation Bill 2016 Schedule 1, Part 1, item 3, subsection 294-120(2)

Reader question: I have a DB pension made up of 2 components, one indexed and one non-indexed. Your article makes no distinction between indexed and non-indexed portions. I would have thought that they should be treated differently. Have you any comment?

The draft legislation acknowledges it is very difficult to incorporate the impact of indexation into the proposed valuation formula as this would require even more administrative burden for holders of defined benefit pensions. This is referred to in Paragraph 1.172 of the Explanatory Material which concedes this will be very difficult to administer. The paragraph states where a pension is indexed the Government has considered annualizing the first payment an individual receives. However, it has also conceded this may cause difficulties where the first payment of a superannuation income stream is abnormal, as is sometimes the case. The Government is therefore continuing to consider alternative definitions to achieve an outcome based on the first regular payment an individual receives and invites comments on how this issue may be addressed.
Nerida Cole from Dixon Advisory (who assisted me with these answers) says her firm's comment on this matter is to exclude indexation to avoid having to make continual adjustments to the recorded valuation factors which would further complicate what is already very complex. A link to the to the 27 September 2016 legislation appear below but there is also a link below that which takes you directly to the Explanatory Material(EM) document in the Related Documents.

https://consult.treasury.gov.au/retirement-income-policy-division/super-reform-

package-tranche-2/consult_view

Explanatory Material to Exposure Draft: Treasury Laws Amendment (Fair and Sustainable Superannuation) Bill 2016, 490.6 kB (PDF document)

https://consult.treasury.gov.au/retirement-income-policy-division/super-reform-package-tranche-2/supporting_documents/Treasury%20Laws%20Amendment%20Fair%20and%20sustainable%20superannuation%20Bill%202016%20Explanatory%20Memorandum.pdf

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