PENSION CASH OUTS - FAQ

2025-26 Financial Year

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1. **What happens when a pension is cashed out?**

The pension is commuted and the commutation amount is paid as a lump sum superannuation benefit to the member.

If the pension is being fully cashed out (ie 100%), then the pension will terminate and the payment of the commutation amount to the member will extinguish the superannuation interest which was supporting the pension. If the only superannuation interest of the member in the superannuation fund was the now cashed-out pension, the member will cease to be a member of the Superannuation fund.

If the pension is being partially cashed out (ie less 100%) then the pension will not terminate. However, the pension account will be reduced by the cash-out amount. 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 cashed out?

Generally (subject to one exception which is explained below), there is no restriction on the cash out 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 or pursuant to the applicable governing rules of the Superannuation Fund.

4. Can transition to retirement pensions be cashed out?

Unless and until the member receiving the transition to retirement pension attains age 65 or becomes retired for superannuation purposes (or otherwise satisfies an unrestricted release condition) it is not possible to cash out such a pension.

Once the member receiving the transition to retirement pension attains age 65 or becomes retired for superannuation purposes (or otherwise satisfies an unrestricted release condition) it is possible to cash out the pension.

5. Is the commutation amount arising from the cash out taxable to the member?

If the commutation occurs on or after the member has attained age 60, the lump sum paid as a result of the commutation will be tax-free.

If the commutation occurs before the member has attained 60, the lump sum will be split into two portions for taxation purposes. The tax-free portion is tax free. The taxable portion will be included in assessable income of the member but the tax rate will be capped at 20%.

6. Are there any tax consequences to the fund?

Cashing out a pension may give rise to taxation consequences for the superannuation fund. The consequences depend on whether the cash out is a 100% cash out or a partial cash out, 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 cash out. For example, if the pension is entirely supported by current pension assets and the cash out is a partial cash out, 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 cash out occurs late in the financial year and the Superannuation Fund is using the proportionate method to determine its pension investment income. By cashing out late in the financial year, the exempt proportion of investment income will generally be higher than a cashing out early in the financial year.

7. **What happens to the tax-free portion of the pension on cashing out?**

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 member, 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 cash out?**

If the cash out is 100% then the pension will be terminated.

If the cash out is less than 100% then the pension will continue albeit with a reduced pension balance.

There is no 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.

Cashing out 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 cash-out transaction).

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

If the cash out is for less than the entire pension (e.g. the cash out 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. **What notification must be provided to the ATO about cash outs?**

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.

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 and this may adversely affect the contribution 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.

From 1 July 2023, SMSFs will be 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 end of quarter report.

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