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<Date>

Dear «salutation»

Changes to pensions

Account name: «account_name»
Account number: «account_number»

On **1 July 2017**, the government's super reform changes came into effect.

As the holder of a pension, we're getting in touch to explain these changes, and, depending on the type of pension account you hold, what they mean for you.

The transfer balance cap

The changes introduce a transfer balance cap. This is a limit on the amount of super that can be converted to a tax free pension, of \$1.6 million.

From **1 July 2017**, we're required to report to the Australian Taxation Office (ATO) the commencement value of an account-based pension for transfer balance cap purposes. For existing pensions, we're required to report the value of the pension at 30 June 2017. If you have a defined benefit pension (eg certain pensions paid to former government employees), these pensions are included in the cap as well.

Penalties may apply if:

- the total of your benefits in the tax free pension phase at **30 June 2017** is greater than the \$1.6 million cap, or
- if you transfer into the tax free pension phase an amount that is greater than the cap.

Transition to retirement pensions

The reforms also introduced a tax on the income and earnings within a transition to retirement pension (TTR). Prior to **1 July 2017**, any investment earnings received and capital gains made in a TTR pension were tax free. From **1 July 2017**, TTR pensions will no longer be tax exempt for earnings and gains within the fund.

Tax will be applied on all income and capital gains at a maximum rate of 15%. For assets held for greater than 12 months, two thirds of the capital gains will be taxed at 15%.

No change is being made to the tax treatment of pension payments.

We'll apply the above tax rates to all income and capital gains received within a TTR account from **1 July 2017**.

Also from **1 July 2017**, a TTR pension will convert to a standard account-based pension, when you instruct us that you've met a condition of release such as retirement. It will also occur automatically when you reach age 65.

When a TTR pension is converted to a standard account-based pension, all earnings within the pension will become tax free. However, the conversion will mean we'll report the value of the pension at conversion to the ATO for transfer balance cap reporting purposes. This may have tax consequences for you, depending on your individual transfer balance cap.

Term allocated pensions

The reform package will also impact those holding term allocated pensions (TAPs). How your TAP is treated for transfer balance cap purposes and income tax will depend on when it was commenced.

TAPs commenced prior to **1 July 2017** are considered a capped defined benefit income stream and if you receive more than \$100,000 in income annually from these types of pensions you may incur additional tax. Regardless of your age or the level of income you receive from the TAP, we are required to report your income to the ATO and provide you with a Pay As You Go payment summary at the end of the financial year.

The TAP will also count towards your transfer balance cap. The amount counted is based on your annual income and the remaining term, rather than your actual account balance.

TAPs commenced after **1 July 2017** are not considered capped defined benefit income streams and are treated in the same manner as an account-based pension.

If you choose to commute your TAP and rollover to commence a new TAP, this will impact the treatment of these benefits for both transfer balance cap and income tax purposes.

Need help?

If you have any questions, please contact your adviser or call us on **1800 501 562**.

Yours sincerely



Andrew Wood
Division Director
Head of Investment Services

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