Complying pensions

Complying pensions allow increased access to the age pension. Complying pensions that commenced prior to September 2004 were granted 100% asset test exemption whilst funds that commenced after that date but before 20 September 2007 were granted 50% asset exemption. The asset test (together with the income test) determines the level of age pension that an individual is entitled to. Exemption from the asset test provides the member with access to a higher aged pension amount.

Complying pensions are no longer available; only existing complying pensions continue to receive exemptions under the original rules.

Complying pensions have three distinguishing characteristics:

- The pension is intended to last until the member (and reversionary if applicable) dies.
- The pensions cannot be commuted to an account based pension or lump sum withdrawal; complying pensions can only be transferred directly to the purchase of another allowable complying pension.[1]
- The pension should have no residual capital value on death or at the end of the term.

Types of complying pensions

Lifetime pensions are income streams that must be paid at least annually throughout the life of the member, and the life of the reversionary if nominated. Lifetime pensions require an actuary to perform a regular valuation stating that the fund is solvent and able to pay future pension liabilities.

Term certain/fixed term pensions have a term nominated by the member at the commencement of the pension. The term selected must be between the member's life expectancy and the number of years to age 100. If there is a reversionary interest in the pension the term of the pension must be greater than the life expectancy of both the member and the reversioner and less than the number of years to age 100 for the youngest person.

Market linked pensions are not generally considered a complying pension because they do not require an actuarial valuation for Centrelink purposes, although they still satisfy the three characteristics of a complying pension as outlined above. For more information please see our fact sheet titled '**Market valuation of assets**'.

Annual pension payments

For lifetime and fixed term pensions the annual payment is indexed only as specified in the pension agreements or governing rules of the fund. The pension cannot fall below the payments made in the immediately preceding year.

For Centrelink funds, annual pension increases are limited to 5%, or CPI plus 1%, whichever is greater. A pension indexed to CPI will always satisfy these requirements.

Since 20 September 2007, the minimum payment standards of account based pensions have also been applied to fixed term complying pensions.

Actuarial valuation

There are three components to actuarial valuations for complying pensions (excluding market linked pensions).

1. Projection of pension liabilities – consideration of whether the asset value is likely to be adequate to meet the value of future pension liabilities.[2]
2. Solvency simulation – an opinion of whether there is an adequate probability that the fund will be able to pay the income stream as required under the rules of the pension.[3]
3. Tax exemption proportion – estimation of the proportion of income that is exempt from tax, allowing for non-current pension assets such as accumulation accounts, surplus and reserve amounts.[4]

Further information

For further information please visit **www.cumsar.com.au** or contact Corey Plover on (03) 9642 2242.

[1] *Superannuation Industry (Supervision) Regulations 1994*, Reg 1.07B & Reg 1.07C
[2] *Superannuation Industry (Supervision) Regulations 1994*, Division 9.5, 9.03 and 9.31
[3] *Social Security Act 1991*, Definition 9A(1)(b), APRA Modification Declaration No 23 and Institute of Actuaries of Australia Guidance Note 465
[4] *Income Tax Assessment Act 1997*, Section 295-385 & 295-390

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