PRESERVATION - THE END OF AN ERA

When 1 July 2015 rolls around, the world as we have known it, at least from the perspective of preservation in superannuation, will have changed.

From 1 July 2015, when advisers are discussing superannuation with their clients, they will need to be more focused on the date of birth of the clients, as the rules regarding preservation of superannuation benefits will have changed.

Some history

The last significant change to the rules concerning preservation of benefits in superannuation occurred effective 1 July 1999.

The 1 July 1999 changes basically directed that:

- what were then referred to as deductible contributions, such as self employed contributions and voluntary employer contributions (i.e. salary sacrifice contributions); and
- what are now considered to be non-concessional contributions,

would be treated as preserved benefits.

Prior to 1 July 1999, most of the preserved benefits were derived from mandated contributions (i.e. Superannuation Guarantee contributions) only.

Present time

That amending legislation also introduced a timeframe for an increase in the preservation age which, in 1999, seemed so far into the future as to not be of any concern.

> *… no one will reach their preservation age in the year 1 July 2015 to 30 June 2016.*

However, we are now almost at that point in the future. The preservation age timeframe, based on the date of birth of a superannuation member, is set out in the schedule below.

Date of Birth	Preservation Age	Until/From
Before 1 July 1960	**55**	**Until 30 June 2015**
1 July 1960 to 30 June 1961	**56**	**From 1 July 2016**
1 July 1961 to 30 June 1962	**57**	**From 1 July 2018**
1 July 1962 to 30 June 1963	**58**	**From 1 July 2020**
1 July 1963 to 30 June 1964	**59**	**From 1 July 2022**
After 30 June 1964	**60**	**From 1 July 2024**

What is the impact?

On 1 July 2015, the preservation age, for new 'entrants' will effectively become 56 years of age.

Interestingly, no one will reach their preservation age in the year 1 July 2015 to 30 June 2016 (i.e. 1 July 1960 + 56 years = 1 July 2016).

That same situation will then apply every 2nd year until 1 July 2024. That is subject to there being no legislative changes in the meantime.

Current as at 26 May 2015.
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Why the extra focus?

Until 30 June 2015, advisers have basically needed to ensure a client has reached 55 years of age, after which they may access their superannuation by:

- meeting a full condition of release as a result of having permanently retired from employment; or
- commence a transition to retirement income stream.

From 1 July 2015, that will change, as not all 55 year olds will have reached their preservation age.

In other words, those turning 55 after 1 July 2015 will need to wait until 1 July 2016 before reaching their preservation age, and so on, for the years set out in the table above.

For advisers, therefore, consideration of the ages of clients takes on greater meaning post 1 July 2015.

How can it go wrong?

Consider, for a moment, the situation where an adviser recommends to an individual that they commence a transition to retirement income stream once they turn 55 of age on 1 August 2015.

The advice would have been sound if the individual had turned 55 on or before 30 June 2015 but, by forgetting the impact of the change, the adviser may have inadvertently caused the fund to breach both superannuation and taxation legislation, resulting in potentially significant penalties for early access to superannuation.

What else will change?

The age increase relates only to the timing of preservation and access to superannuation after reaching preservation age.

The age of 55 has also been applied to other actions relevant to superannuation - for instance the capital gains tax small business concessions whereby an individual:

- may be eligible for the CGT Small Business 15 year Exemption if they have retired after reaching age 55, and they may utilise the CGT Cap Amount to contribute the proceeds to superannuation; or
- may be entitled to claim the Small Business Retirement Exemption and, if aged less than 55, must roll the amount of capital gain disregarded into superannuation (and may do so if aged 55 or more).

The age of 55 has not changed for those entitlements - the only change is to the age at which preservation of superannuation benefits can be lifted, through the meeting of specific conditions of release.

Does that apply to someone who is already 55?

No. If an individual is already aged 55 at 1 July 2015, but has neither:

- met a full condition of release; nor
- commenced a transition to retirement income stream,

their preservation age will remain at age 55, regardless of when they eventually access their superannuation.

Conclusion

Advisers and trustees now have another aspect to consider when advising clients in the age range of 55 to 60, in respect to their ability to access their superannuation.

Care needs to be taken to ensure they are not incorrect in their advice.

More information

Should you have any questions or require more information, please contact the team at Topdocs on 1300 659 242.

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