Challenger Tech

FEBRUARY 2025

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Super income streams: Death benefit technicalities and practicalities

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In 2025 not every family looks like Mum, Dad and their two kids. Partnering and re-partnering through life is common. However, common might not mean simple. When Mum wants her super/pension to go to her kids and Dad's to his, planning becomes critical.

In this article we discuss the various mechanisms available for clients to direct super income stream death benefits, remove some of the complexity around this element of retirement and estate planning and examine ways to provide clients with greater certainty regarding the direction of such benefits.

Super income stream death benefits

Following the death of a super annuity or pension recipient the income stream provider is required to cash the super interests of the deceased as soon as practicable as the death of a member is a compulsory cashing event. This means that any remaining benefit must be paid in the form of a lump sum and/or retirement phase income stream.

Since 1 July 2017 it has been possible for dependent beneficiaries receiving a death benefit income stream (subject to the conditions of the super income stream) to rollover that death benefit to another retirement phase income stream.

Since 1 July 2017, it has not been possible to rollback a super death benefit income stream to:

- The accumulation phase of super;
- Commence a transition to retirement income stream where the recipient has not otherwise met a condition of release; or
- An income stream (such as a deferred lifetime annuity) in the deferral phase where the recipient has not otherwise met a condition of release.

Further, death benefit income streams cannot be rolled back to super, used to commence an income stream not in the retirement phase or be combined with other superannuation benefits that are not death benefit income streams.

Payment options

How, and to whom, a super death benefit is paid depends on several factors, including:

- the type of beneficiary nomination in place at the time of death
- whether an income stream (if applicable) is reversionary; and
- provisions of the trust deed of the fund or any contractual obligations (if applicable).

When starting a retirement income stream, the option to make a reversionary nomination is generally available. A client may also have the option of making a binding or non-binding beneficiary nomination. These nomination types are discussed in further detail throughout this article.

Reversionary

Depending on the type of income stream and features available, members may also have the option of a reversionary nomination. This allows the member to nominate a limited category of SIS dependants (refer to table 1) whom automatically continue an income stream in the event of a member's death. Whilst providing a high degree of certainty, the criteria to make, remove or change this nomination type can differ between product providers.

Binding nominations

Where a valid binding nomination is in place at time of death, super law restricts the trustee from exercising discretion or investigating other potential beneficiaries.

Binding nomination requirements may vary depending on the fund's trust deed and governing rules, but typically must be given to the trustee on a notice signed by the member with the signature witnessed by two people aged 18 or over (other than the nominated beneficiaries). Specific to lapsing binding nominations, the nomination lapses within three years and generally reverts to 'non-binding' where not renewed (though super funds may have different arrangements upon lapse and this should be confirmed with the specific fund). Non-lapsing binding nominations remain in place unless updated or cancelled by the member.

Some clients will lose legal capacity while alive and in such circumstances, it is important to consider how best to ensure nominations remain valid and up-to-date. Having an enduring power of attorney (EPOA) in place may assist in these circumstances. As differing industry practices exist around accepting a nomination under an EPOA (some funds will not accept such a nomination) advisers providing advice to retirees in this area should confirm if a client's fund will accept such a nomination.

Non-lapsing binding nominations can help with ageing members who are living longer and potentially losing capacity to sign documents. This nomination type can be used when payment to a nominated beneficiary, beneficiaries and/or the estate are a client's primary concern.

Importantly, binding nominations (lapsing and non-lapsing) generally do not bind the trustee as to the form of super death benefit made. At the time of death, the super death benefit may be paid as a lump sum, income stream or combination.

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Non-binding nominations

Members may also opt to make a non-binding nomination. Although this nomination type is not binding on the trustee, the trustee may take into consideration the member's wishes when planning as to whom the benefit is paid. A trustee is generally obliged to undertake a claims-staking process, whereby they identify and contact valid beneficiaries to advise how they intend to distribute the death benefit giving them a period in which to object. This process can in some cases lead to a delay in releasing funds.

No nomination

Where no valid nomination is in place, or in instances where no nomination has been made, trustee discretion in relation to death benefit payments will generally apply. Trustees are generally required to undergo a claims-staking process (like it would in the case of a non-binding nomination) to determine how the super death benefit is to be paid.

Some trustees may choose to release funds in line with a default arrangement, as noted in the fund's trust deed and governing rules, including the product disclosure statement. For example, where there is no nomination in place, the trustee may automatically pay to the estate.

A nominated beneficiary needs to be a super dependant to be valid

A superannuation death benefit can be paid to an eligible superannuation dependant as described below, the estate or a combination of these.

The Superannuation Industry (Supervision) Act 1993 ('SIS Act') lists three main categories of persons who may be classified as a dependant of a deceased member ('SIS dependant'):

- a spouse (whether of same or opposite sex) of the deceased, which includes a de facto partner or a legally registered marriage or civil union
- a child (of any age) of the deceased or the deceased's spouse
- any person with whom the deceased member had an interdependency relationship. Which the SIS Act, defines as two people whom:
  a. have a close personal relationship, and
  b. live together, and
  c. one or each of them provides the other with financial support, and
  d. one or each of them provides the other with domestic support and personal care.

     In addition, two persons (whether or not related by family) also have an interdependency relationship if they have a close personal relationship but do not satisfy b., c. and d. above because either or both of them suffer from a physical, intellectual or psychiatric disability.

As the definition of dependant in the SIS Act is an 'inclusive' definition, other kinds of dependency, such as financial dependency, can also be considered.

Only in cases where 'the trustee has not, after making reasonable enquires, found either a legal personal representative or a dependant', super death benefits can be paid to another individual, such as a non-dependant.

Lump sum or income stream?

While the beneficiary nomination type, as well as who should be nominated, are important considerations, another key decision for clients is the form of the death benefit payable.

For instance, where it is important the death benefit be paid as an income stream, it is crucial that a valid beneficiary is nominated. Alternatively, where a lump sum is to be paid to the estate of the deceased, it is important that the client have a valid will with appropriate directions to ensure funds are distributed as intended.

On death of a member, the trustee may liaise with the eligible dependant to determine if they are a death benefits dependant, thus eligible to be paid as a lump sum, income stream or combination thereof. A summary of death benefit payment options based on beneficiary type is summarised in Table 1.

Table 1: Death benefit payment options

SIS dependant	Death benefits dependant (Tax)	Lump sum	Income stream
Spouse (including same-sex and de facto)	Yes	Yes	Yes
Child under 18 (including an ex-nuptial, adopted or step-child of the person and a child of the person's spouse)	Yes	Yes	Yes
Child over age 18 and financially independent	No	Yes	No
Child over age 18 and under 25, financially dependent	Yes	Yes	Yes
Disabled child (no age restriction)	Yes	Yes	Yes
Person with whom an interdependent relationship existed	Yes	Yes	Yes
Financially dependent person at the time of death	Yes	Yes	Yes

When it comes to selecting a beneficiary, clients should be made aware of the different tax treatment that applies to super death benefits depending on whether they are a death benefits dependant or not at the time of death, as described in Table 2.

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Table 2: Tax of super death benefit payments[1]

Death benefit beneficiary	Lump sum	Income stream
Death benefits dependant (Tax)	Payment tax free	Tax free if deceased or beneficiary aged 60 or over. Any untaxed amount is taxed at marginal tax rates (MTR) with a rebate of 10% (subject to the TBC). Otherwise, no tax is payable on the tax-free component. Taxed element is taxed at MTR less a 15% tax offset. Any untaxed element is taxed at MTR.
Other cases	No tax is payable on the tax-free component. Up to 15% on the taxable element and 30% on the untaxed element	Yes

Note, where children under age 25 start receiving a death benefit income stream after 1 July 2007, they must stop the income stream and take the remaining benefit as a lump sum on or before the date they turn 25 with the lump sum tax free.

1 Medicare levy is added to these rates except where tax is nil or payable via the estate.

The super transfer balance cap following the death of a super income stream recipient

The assessment of any death benefit paid from a super income stream against the transfer balance cap will depend on the form of the death benefit.

Lump sum

Where a super death benefit from an income stream is paid out of the superannuation system as a lump sum payment there is no transfer balance credit to the recipient's transfer balance account.

Reversionary income streams

Where a super death benefit from an income stream is paid as a reversionary retirement phase income stream the value of the income stream at the date of death of the original recipient is counted as a credit to the reversionary recipient's transfer balance account 12 months after the date of death.

In such cases earnings that accrue after the date of death will not count towards the reversionary recipient's transfer balance account.

This 12-month delay in crediting the transfer balance account of the reversionary recipient could provide useful planning time to allow the recipient to adjust their super benefits to accommodate the future credit from the death benefit.

Non-reversionary income streams

Where a super death benefit from an income stream is paid as a non-reversionary income stream, a new death benefit income stream in retirement phase will commence. The value of the income stream at commencement is counted as a credit to the recipient's transfer balance account at that time.

It is important to highlight that there is no 12-month delay for reporting a non-reversionary death benefit income stream. It will be reported at the point where the beneficiary becomes entitled to the death benefit income stream. In such cases all required planning will need to be implemented before the death benefit income stream commences.

The table below highlights the key transfer balance cap differences for reversionary and non-reversionary income streams commenced on or after 1 July 2017:

	Reversionary death benefit income stream in retirement phase	**Non-reversionary death benefit income stream in retirement phase**
Reporting date	12 months after death	Date recipient commences the death benefit income stream
Transfer balance credit amount	Value of income stream at date of death	Value of the death benefit income stream at commencement

Death benefit income streams paid to children

Where a super death benefit from an income stream is paid to an eligible child as a death benefit income stream in the retirement phase that child may have a modified transfer balance cap and different rules may apply.

Case study: Greta and Gary

Greta and Gary are a 67-year-old couple. They found each other later in life following the end of their prior relationships. They have now been (mostly) happily married for seven years.

Greta and Gary bought their 'forever home' last year and have spent much of the past 12-months making it theirs.

They have finally pulled the plug on work and are looking forward to a long retirement together.

Greta and Gary each have $500,000 in super. They have combined non-financial assets of $50,000 and cash of $100,000.

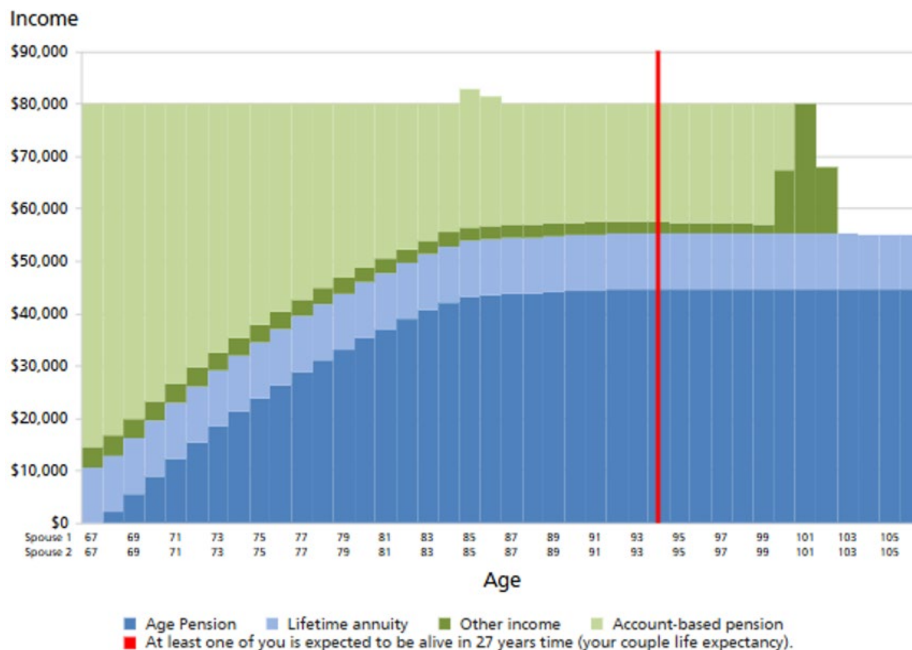
Greta and Gary want to enjoy retirement and they estimate that this will cost them $80,000 p.a. together. They want this level of income to last a long time in retirement. They are uncomfortable with the idea of living on just the Age Pension and are receptive to a higher level of lifetime income and think that the Age Pension plus $5,000 p.a. would be an acceptable fall-back position.

They want to look after the other after one dies. They estimate income equal to the ASFA 'comfortable' retirement standard for a single (currently $51,814 p.a. at September quarter 2024) would be suitable after the death of one of them. Importantly, they want to leave any of their own remaining super to their own children (now adults) by their prior relationships.

Greta and Gary's adviser, Graham, has modelled Greta and Gary's retirement income of $80,000 p.a. increasing each year with inflation.

This income comes from a combination of income streams including income from the Age Pension, account-based pensions (for flexibility and appropriate exposure to growth assets) and a 20% allocation to guaranteed lifetime annuities (for the benefit of $5,000 p.a. each of guaranteed, CPI-linked lifetime income).

This drawdown retirement income strategy is shown in the graph below:



This strategy delivers Greta and Gary:

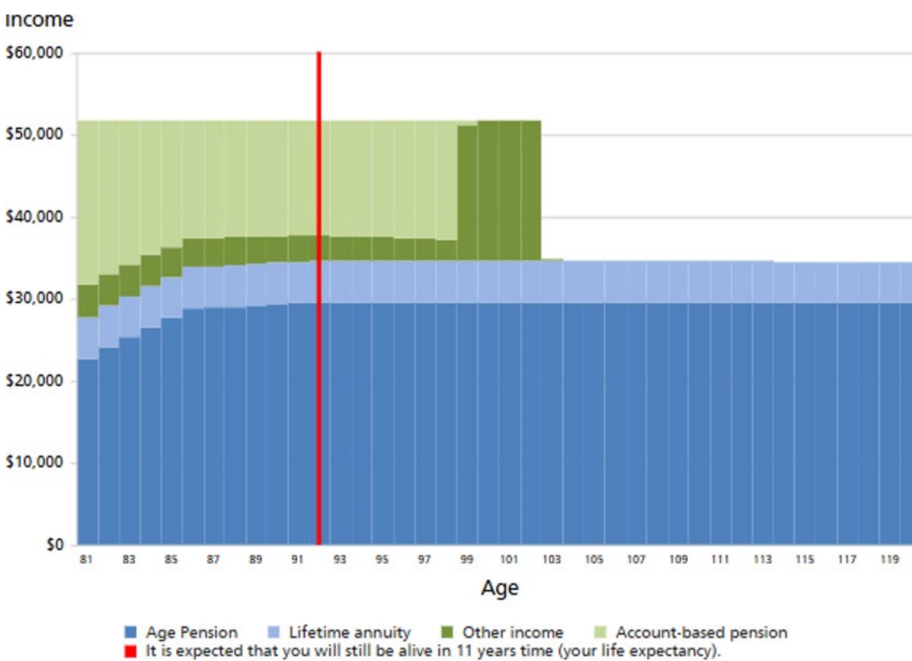
- Guaranteed lifetime income starting at $10,205 p.a. (fully indexed annually by inflation), over and above any Age Pension entitlement Greta and Gary may be eligible for, to meet their essential spending requirements;
- A 100% chance of meeting their income needs;
- An 85% chance of meeting their total level of retirement spending of $80,000 p.a. indexed by inflation.
- Total retirement income paid over couple life expectancy increased by $4,092 (relative to a retirement portfolio that didn't include a 20% allocation to guaranteed, CPI-linked lifetime annuities); and
- Total portfolio/estate value at couple life expectancy increased by $94,710 (relative to a retirement portfolio that didn't include a 20% allocation to guaranteed, CPI-linked lifetime annuities).

Case study continued: Greta after Gary's death

Greta and Gary loved their retirement together, but it was cut-short by Gary's passing at just age 81. As planned at the commencement of his income streams, Gary's remaining account-based pension balance and the death benefit from his lifetime annuity was paid as a lump sum to his children.

After Gary's death, Greta's income comes from a combination of Age Pension, her remaining account-based-pension and her guaranteed lifetime annuity (still paying more than $5,000 p.a. (adjusted for inflation) and linked to future cost of living changes).

This drawdown retirement income strategy is shown in the graph below:



This combination of income streams means that Greta will be able to meet her income goal of $51,814 p.a. (adjusted for inflation) to life expectancy and beyond.

Summary

Ensuring that income stream death benefits are directed in accordance with their intentions is a critical consideration for many clients.

An understanding of the complexities surrounding this area can deliver certainty to clients ensuring testamentary intentions are realised.

Assumptions: All projections sourced from the Challenger Retirement Illustrator (11/02/2025) using Social Security rates and thresholds effective 1 January 2025. Greta and Gary are a 67-year-old male/female homeowner couple. $500,000 each available for investment via account-based pension and partial (20%) allocation to a Challenger Lifetime Annuity (Liquid Lifetime) with immediate payments linked to CPI. Asset allocation 50% growth/50% defensive. Assumes returns of 4% p.a. for defensive assets and 8% p.a. for growth assets before fees. $100,000 cash/TDs earning 4% p.a. interest. Personal assets of $50,000. $80,000 p.a. desired income including $50,000 p.a. essential income. After the death of the Gary, Greta will spend total income of at least $51,815 p.a. (equal to the September 2024 ASFA 'comfortable' retirement standard for a single). Amounts shown are in today's dollars. CPI of 2.5% p.a. See Challenger Retirement Illustrator for all assumptions. Challenger RIC reference: RIC250130000820. Rates subject to change.

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