EXPOSURE DRAFT - EXPLANATORY STATEMENT

Income Tax Assessment Act 1997
Retirement Savings Accounts Act 1997
Superannuation Industry (Supervision) Act 1993

Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations 2017

Section 909-1 of the *Income Tax Assessment Act 1997* (ITAA 1997), section 200 of the *Retirement Savings Accounts Act 1997*, and section 353 of the *Superannuation Industry (Supervision) Act 1993* (SISA) (Authorising Acts) provide that the Governor-General may make regulations prescribing matters required or permitted by the Acts to be prescribed, or necessary or convenient to be prescribed for carrying out or giving effect to the Acts.

The *Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations 2017* (the Regulations) amend a number of superannuation regulations to enable new innovative retirement income stream products to be offered from 1 July 2017.

The purpose of Schedule 1 to the Regulations is to introduce a new set of design rules for lifetime superannuation income stream products that will enable retirees to better manage consumption and longevity risk in retirement. The new rules are intended to cover a range of innovative income stream products including deferred products, investment-linked pensions and annuities and group self-annuitised products. The overarching goal of the rules is to provide flexibility in the design of income stream products to meet consumer preferences while ensuring income is provided throughout retirement. Superannuation funds and life insurance companies will receive a tax exemption on income from assets supporting these new income stream products provided they are currently payable, or in the case of deferred products, held for an individual that has reached retirement.

Details of the Regulations are set out in the Attachment.

The Regulations are a legislative instrument for the purposes of the *Legislation Act 2003*.

The Authorising Acts do not specify any condition that must be met before the power to make the Regulations may be exercised.

Schedule 1 to the Regulations will commence on 1 July 2017

DRAFT

Details of the Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations 2017

Section 1 – Name of the Regulations

This section provides that the title of the Regulations is the *Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations* (the Regulations).

Section 2 – Commencement

This section provides that each provision of the Regulations specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table, and that any other statement in column 2 has effect according to its terms.

Schedule 1 to the Regulations commences on 1 July 2017.

Section 3 – Authority

This section provides that the Regulations are made under the *Income Tax Assessment Act 1997, Retirement Savings Accounts Act 1997*, and *Superannuation Industry (Supervision) Act 1993*.

Section 4 – Schedule

This section provides that each instrument that is specified in a Schedule to this instrument is amended or repealed as set out in the applicable items in the Schedule concerned, and any other time in a Schedule to this instrument has effect according to its terms.

Schedule 1

The Regulations insert a new set of income stream standards into the *Superannuation Industry (Supervision) Regulations 1994* (SISR 1994). Income streams that meet these standards will be taken to be pensions or annuities for the purposes of the *Superannuation Industry (Supervision) Act 1993* (SISA 1993) and will also fall within the definition of a superannuation income stream for the purposes of the *Income Tax Assessment Act 1997* (ITAA 1997).

Superannuation funds and life insurance companies that provide these new income streams will be able to receive an income tax exemption (earnings tax exemption) on income from assets they hold to support these income streams where an interest in an income stream is held for an individual that is in the retirement phase. Similarly, payments from these income streams will be treated as superannuation benefits under the ITAA 1997 in the hands of the recipients and consequently will attract concessions in the ITAA 1997 applying to superannuation benefit payments.

The new standards are intended to cover a range of lifetime products that do not meet the existing annuity and pension standards in subregulations 1.06(9A) and 1.05(11A) of the SISR 1994. Under the new standards the income streams would be required to be payable for a beneficiary's remaining lifetime, and income stream payments could be guaranteed in whole or part by the income stream provider, or determined in whole or part through returns on a collective pool of assets or the mortality experience of the beneficiaries of the asset pool. These new income streams may also have a deferral

period for annual payments and would be permitted to be commuted subject to a declining capital access schedule and preservation rules.

A new condition of release will also be included in the SISR 1994 and the *Retirement Savings Accounts Regulations 1997* (RSAR 1997) to enable an interest in a deferred income stream to be purchased from preserved and restricted non-preserved superannuation benefits prior to retirement.

Item 18 of the Regulations inserts a new set of income stream standards into the SISR 1994 for certain innovative superannuation income streams (new regulation 1.06A). A benefit provided by a life insurance company or a registered organisation will be taken to be an annuity under subregulation 1.05(1) of the SISR for the purposes of section 10 of the SISA if it arises under a contract that meets the standards of subregulation 1.06A(2) (item 12 of Schedule 1). Similarly, a benefit will be taken to be a pension under subregulation 1.06(1) of the SISR for the purposes of section 10 of the SISA 1993 if it is provided under the rules of a superannuation fund that meet the standards of subregulation 1.06A(2) of the SISR 1994 (item 15 of Schedule 1).

A contract for the provision of an annuity benefit, or the rules for the provision of a pension benefit (the governing conditions) will need to meet four key elements of the standards in subregulation 1.06A(2). These elements are:

- A requirement that benefit payments not commence until a primary beneficiary has retired, has a terminal medical condition, is permanently incapacitated or has attained the age of 65.
- A requirement that benefit payments, of at least annual frequency, be made throughout a beneficiary’s lifetime following the cessation of any payment deferral period.
- A rule ensuring that, after benefit payments start, there is no unreasonable deferral of payments from the income stream.
- Restrictions on amounts that can be commuted to a lump sum or for rollover purposes based on a declining capital access schedule commencing from the retirement phase.

Benefit payments can only commence after a relevant condition of release is satisfied

The first element of the standards will ensure that income streams provided under the new standards can only start making payments once the primary beneficiary has retired, has a terminal medical condition, is permanently incapacitated or has attained the age of 65. This element will also ensure that providers of these income streams do not receive an earnings tax exemption until the primary beneficiary has satisfied a relevant condition of release, which does not have any cashing restrictions specified in Schedule 1 to the SISR 1994.

An income stream purchased through instalments will also need to be fully paid prior to income stream payments commencing to be taken to be a pension or annuity under the SISA 1993. Under existing paragraphs 1.05(1)(a)(ii) and 1.06(1)(a)(ii) of the SISR 1994 the governing conditions of an income stream cannot permit the capital supporting the income stream to be added to by way of contribution or rollover after the income stream has commenced.

Recognition of deferred income streams and an annual payment requirement

The second element of the standards will require payment of the income stream benefit to be made at least annually unless the income stream is a deferred superannuation income stream and payment of the benefits have not yet started. After benefit payments start for any income stream provided under the new standards they must continue throughout the life of a beneficiary.

Further amendments to the regulations will enable a deferred superannuation income stream to be provided as a superannuation income stream. These amendments are necessary as the current definition of a superannuation income stream in the ITAR 1997, only covers common law income streams, which, in turn, are currently payable.

Item 11 of Schedule 1 inserts a definition of a deferred superannuation income stream into the SISR 1994 that will also have the same meaning for the purposes of subsection 995-1(1) of the ITAA 1997. A deferred superannuation income stream is a benefit supported by a superannuation interest if the contract or rules for the provision of the benefit provides for payments of the benefit to start more than 12 months after the superannuation interest supporting the benefit is acquired, and to then be made at least annually afterwards. Items 7 and 8 of Schedule 1 amend the definition of a superannuation annuity in the ITAA 1997, so that interests in superannuation annuities that are deferred superannuation income streams are superannuation interests within the meaning of the ITAA 1997. Item 9 of Schedule 1 adds new paragraph (c) to the definition of a superannuation income stream in the subregulation 995-1.01(1) Income Tax Assessment Regulations 1997 (ITAR 1997) to include a deferred superannuation income stream that is taken to be an annuity or pension for the purposes of the SISA 1993 because the governing conditions for that pension or annuity meet the standards in subregulation 1.06A(2) of the SISR 1994. Item 1 will then ensure an interest in a deferred superannuation income stream, covered by paragraph (c) of the definition of superannuation income stream in the ITAR 1997, is always treated as a separate superannuation interest.

Following amendments made to the ITAA 1997 by Schedule 8 to the Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016 an earnings tax exemption will apply to complying superannuation funds, RSA providers and life insurance providers if a superannuation income stream is in the retirement phase. A superannuation income stream will be in the retirement phase at a time if a superannuation benefit is payable from it at that time. A superannuation income stream will also be in the retirement phase at a time if it is a deferred superannuation income stream and a superannuation income stream benefit will be payable to a person after that time, and that person has retired, has a terminal medical condition, is permanently incapacitated or has attained the age of 65.

No unreasonable deferral of income stream payments

The third element of the standards introduces a rule so the amount of benefit payments is determined using a method that ensures there is no unreasonable deferral of benefit payments after the start of payments from the income stream. This rule is designed to ensure that a genuine retirement income stream is provided to a beneficiary, with benefit payments being set in a manner that does not circumvent the commutation rules or provide estate planning benefits.

Specifically, new paragraph 1.06A(3)(c) of the Regulations applies the following factors to determine whether there is any unreasonable deferral of benefit payments:

- To the extent payments depend on the returns on an investment of the assets supporting the benefit – when the payments are made and when returns are derived
- To the extent that payments depend on the ages or life expectancies of other individuals- the age or life expectancy of those individuals.
- To the extent that payments do not depend on returns, age or life expectancies – the relative sizes of annual total payments from year to year.
- Any other relevant factors.

These factors will provide some flexibility to enable benefit payments to be varied between years having regard to an indexation method, or investment returns and/or the mortality experience of beneficiaries, of a collective pool or of the fund. They would also enable benefit payments to be set within a targeted but not guaranteed range, with scope for reserving to be applied to meet future payment targets. The overarching requirement for the method to ensure that payments are not unreasonably deferred will require a method for determining the amount of benefit payments to have an objective basis, and for relevant factors applying to the method to be set out in the governing conditions for the income stream.

By way of example, a reversionary annuity purchased for $250,000 at age 60 with payments starting at age 80 would likely be considered unreasonable if the payments for the first twenty years were $1000 per annum, but then were very large, such as $50,000 per annum for any following payment year. A further example of an unreasonable deferral might be a pooled product where the payments, although not necessarily wholly deferred for any period, are very heavily weighted to higher payments in later years and do not represent any alignment with investment returns or mortality experiences.

While it is unlikely providers would be incentivised to offer such products, if they did they would be considered unreasonable as they do not provide a genuine retirement income stream and would likely be an attempt to circumvent the capital access schedule rules and normal taxation arrangements.

Restrictions on accessing capital supporting the income stream

The fourth element of the standards will apply restrictions on the amount of capital from the income stream that can be accessed through a lump sum commutation or a commutation of an amount that is then rolled over within the superannuation system. These restrictions will apply from the day that the primary beneficiary of the income stream enters the retirement phase.

Item 11 of Schedule 1 inserts a definition of retirement phase start day, for a benefit supported by a superannuation interest (within the meaning of the ITAA 1997). For a deferred income stream this will be the later of the day that the primary beneficiary has satisfied a relevant condition of release that has a nil cashing restriction, and the day the superannuation interest is acquired. Otherwise, this will be the day that payments of the benefit supported by a superannuation interest start to be payable. This day aligns with the point in time that a credit for a superannuation income stream is applied to the transfer balance account in subdivision 294-B of the ITAA 1997.

Item 18 of Schedule 1 inserts a formula that will restrict the maximum commutation amount that can be accessed after 14 days from the retirement phase start day, on a

declining straight line basis over the primary beneficiary's life expectancy. The maximum commutation amount will be worked out by dividing the 'access amount' by the primary beneficiary's life expectancy on the retirement phase start day and then multiplying this by the remaining life expectancy less one year at time of commutation. Life expectancy will be rounded down to a whole number of years. The maximum commutation amount will also be reduced by the sum of all amounts previously commuted from the income stream prior to the time of the commutation.

Item 11 of Schedule 1 will insert a definition to determine the value of the 'access amount' on the retirement phase start day for the income stream or at a point in time after the retirement phase start day. The access amount will be the maximum amount payable on commutation of an interest on the retirement phase start day as determined by an annuity contract or pension rules. Any instalment amounts paid for an interest in a deferred superannuation income stream after the retirement phase start day will then be added to the access amount at the point in time that an instalment is paid.

Item 11 of Schedule 1 will also insert a definition of life expectancy period, and a definition of prescribed life tables, for the purposes of the formula inserted in item 18 of Schedule 1.

An income stream provider can set, or provide a method for calculating, the access amount on the retirement phase start day in the rules or contract for the income stream. This will be the maximum amount that may be paid on commutation of the superannuation income stream interest on the retirement phase day or within 14 days starting on the retirement phase start day.

The full access amount will be able to be paid as a commutation amount if the income stream is commuted on the death of a beneficiary within the first half of the life expectancy period of the primary beneficiary.

Example 1.1: Maximum commutation amount - income stream purchased by a single payment

Hector purchases a group self-annuitised income stream for $20,000 on his 65th birthday on 21 August 2017. The annuity is immediately payable.

The contract will only enable the income stream to be commuted, within the 14 days of the purchase day, or on Hector's death up until his 80th birthday. The full amount of the purchase consideration is payable if the annuity is commuted within 14 days of the retirement phase start day.

Hector passes away on 30th of December 2028 age 76 years.

The following inputs are required for the purposes of working out the maximum commutation amount of the death benefit:

Access amount on retirement phase start day - $20,000

Access amount at the time of commutation - $20,000

Prescribed Life Tables - 2010-2012 Australian Life Tables - Male

Life expectancy period for the income stream - 19 years

First half of the life expectancy period - 9 years

Remaining life expectancy is 19 - (76 - 65) - 1= 7 years

Applying the formula in new subregulation 1.06B(2) of the SISR 1994 the maximum amount that could be payable on commutation of the income stream on Hector's death would be:

$$= \left[\frac{\text{Access amount for the income stream at the time of the commutation}}{\text{Life expectancy period for the income stream}} * \text{Remaining life expectancy} \right] - \text{Previously commuted amount}$$

= ($20,000 ÷ 19 * 7) – 0

= $7,368.42

If Hector had passed away before 21 August 2026, being within 9 years of the retirement phase start day, the maximum commutation amount for the income stream would be $20,000 being the access amount at that point in time.

Example 1.2: Maximum commutation amount – income stream purchased by instalments

Suzie acquires an interest in a deferred annuity by making the first of 20 annual instalment payments on 22 August 2017. Suzie retires on her 60th birthday on 21 August 2022. The deferred annuity is only payable from age 80.

The contract permits an amount equal to the amount of consideration paid for the income stream to be accessed on Suzie's death on or before the retirement phase start day. The annuity can also be commuted after the retirement phase day, on Suzie's death, up until her 80th birthday.

Suzie passes away on the 20 December 2041 age 79.

The following inputs are required for the purposes of working out the maximum commutation amount on Suzie's death on 20 December 2041.

Access amount on retirement phase start day - $5,000

Access amount at the time of commutation - $20,000

Prescribed Life Tables* - 2010-2012 Australian Life Tables – Female

Life expectancy period for the income stream - 26 years

First half of the life expectancy period - 13 years

Remaining life expectancy is 26 – (79 - 60) – 1 = 6 years

*for illustrative purposes only-as these tables will not be prescribed until 2022

Applying the formula in new subregulation 1.06B(2) of the SISR 1994 the maximum amount payable on commutation of the deferred annuity on Suzie's death would be:

$$= \left[\frac{\text{Access amount for the income stream at the time of the commutation}}{\text{Life expectancy period for the income stream}} * \text{Remaining life expectancy} \right] - \text{Previously commuted amount}$$

= ($20,000 ÷ 26 * 6) - 0

= $4,615.38

Other income stream standards

Prior to the retirement phase start day, commutation amounts will not be restricted. However the circumstances that a commutation can be made will remain subject to the preservation rules in the SISR 1994. To ensure that annuity contracts cannot be used for early release purposes, the governing conditions for the new income streams will also be required to include relevant SISR 1994 preservation rules.

In addition, new regulation 1.06A of the SISR 1994 will also require the governing conditions to ensure that a benefit is only transferable to another person, being an eligible dependant on death of a beneficiary, and that the capital value of the benefit cannot be used as security for a borrowing.

Hybrid income streams

The standards in new regulation 1.06A of the SISR 1994 only apply to annuities or pensions that are not superannuation income streams that meet the existing standards in subregulations 1.06(9A) or 1.05(11A) of the SISR 1994. However, interests in the new income streams could still be offered as an investment option for, or as a separate interest as an add-on to, an interest in an income stream meeting the existing standards in subregulations 1.06(9A) or 1.05(11A).

For example, an individual with an account based pension could request that their fund trustee purchase a deferred annuity as part of the investment strategy of the fund. In these circumstances the deferred annuity policy would be held by the fund, and income stream payments from the annuity would be paid to the trustee and credited to the member's account. If these payment amounts were then on paid to the member, they would need to be included in the minimum payment drawdown amount from the allocated pension account for the year. As the deferred annuity would be held as an investment of the fund, it would not count towards a member's transfer balance account balance.

Alternatively, the individual could commute part of their allocated pension and roll-over an amount to purchase a separate interest in a deferred annuity, in their own right. In these circumstances the member would receive annuity payments directly from the annuity provider and these payments would not count towards the minimum drawdown amounts for their allocated pension.

Provision of new income streams by small funds

Small superannuation funds will be unable to provide pensions to their members that meet the new standards in regulation 1.06A of the SISR 1994 unless the pension is wholly determined by reference to policies of life assurance purchased by the trustee

of the superannuation fund. This is a result of the current operation of Division 9.2B of the SISR that prohibits superannuation funds with fewer than 50 members providing a defined benefit pension within the meaning of regulation 9.04E of the SISR.

<u>Valuation of new income streams for ITAA 1997 purposes</u>

Items 2 to 5 insert new regulations to value an interest in a deferred superannuation income stream and an interest in a collective defined contribution scheme income stream for ITAA 1997 purposes.

New subregulation 307-205.02C(1) of the ITAR 1997 sets out a method for determining the value of an individual's superannuation interest that supports a deferred superannuation income stream, referred to in new subregulation 307-205.02C(3), at a particular point in time, for the purposes of paragraph 307-205(1)(a) of the ITAA 1997. This is the value credited to the individual's transfer balance account in subdivision 294-B of the ITAA 1997, when the interest holder enters the retirement phase, and also the value for the purposes of applying the proportioning rule in section 307-125 of the ITAA 1997.

New subregulation 307-205.02C(3) applies to a deferred superannuation income stream, covered by paragraph (c) of the definition of superannuation income stream in the ITAR1997 that is not a collective defined contribution scheme income stream.

New subregulation 307-205.02C(1) provides that the value of an interest at a particular time will be the greater of:

- the sum of each amount of consideration paid for the income stream, and a notional earnings amount on each amount of consideration, as worked out under new subregulation 307-205.02C(2); or

- the amount of superannuation benefits payable from the interest if the holder voluntarily caused the interest to cease at that time.

The notional earnings amount will be calculated on an annual basis, using the 'the above threshold rate' in subsection 1082(2) of the *Social Security Act 1991*, with an apportionment calculation being made to apply notional earnings amounts for part years.

This method will recognise the current value of amounts of consideration paid for a deferred superannuation income stream interest, if the interest is purchased with a single amount, or through instalment amounts, prior to the retirement phase start day. Consideration could be paid through superannuation rollover amounts, or in the case of an interest in a deferred superannuation income stream provided by a superannuation fund through amounts of contributions to the fund. Section 294-25 of the ITAA 1997 will be amended to require the amount of any instalment paid for an interest in a deferred superannuation income stream, after the retirement phase start day, to be separately reported as a credit amount for the transfer balance account.

Example 1.3: Working out the value of a superannuation interest that supports a deferred superannuation income stream, purchased by instalments, on the retirement phase day

Rosie purchases a deferred annuity by making three annual instalment payments of $10,000 commencing from 1 July 2017 from her accumulation superannuation

account. Rosie turns 60 on 30 June 2017. The annuity will provide for income stream payments to be made to Rosie from age 67. The deferred annuity cannot be commuted, other than within 14 days of the superannuation interest being acquired.

Rosie retires from the workforce on 31 December 2021 after working continually for her employer for 10 years.

For illustrative purposes it is assumed that the *applicable above threshold rate* under subsection 1082(2) of the *Social Security Act 1991* for each *adjustment day*, is 3.75 per cent on 1 July 2018, and 1 July 2019, and 4 per cent on 1 July 2020, 1 July 2021, and also on 31 December 2021.

The value of the superannuation benefits on 31 December 2021 is the sum of each amount of consideration paid and associated earnings on that valuing day.

Step 1

Work out the amount of consideration paid and associated earnings for the first instalment on the valuing day by using the formula in new subregulation 307-205.02C(2) of the ITAR 1997.

This is done by determining *the compounded amount of consideration* just before the earliest adjustment day and then determining the compounded amount of consideration, just before each later adjustment day, by applying the following formula in new subregulation 307-205.02C(2) of the ITAR 1997 on each adjustment day, until the adjustment day is the valuing day:

$$= \text{Compounded amount of consideration just before the adjustment day} * \left[1 + \text{Applicable above threshold rate for the adjustment day} \right]$$

The *compounded amount of consideration* for the first instalment just before the 1 July 2018 adjustment day (being the earliest adjustment day) is:

$10,000

Then just before the 1 July 2019 adjustment day it is:

$10,000 * 1.0375

Then just before 1 July 2020 adjustment day it is:

$10,000 * 1.0375^2

Then just before 1 July 2021 adjustment day it is:

$10,000 * 1.0375^2 *1.04

Then just before 31 December 2021 adjustment day it is – with compounding being applied on the 1 July 2021 adjustment day:

$10,000 * 1.0375^2 * 1.04^2

The amount of consideration paid for the first instalment on the valuing day, 31 December 2021, is then:

= $10,000 * 1.0375^2 * 1.04^2 * (1 + (.04 × (182/365))

= $11,874.62

Step 2

Work out the amount of consideration paid for the second instalment and associated earnings on the valuing day using the formula in new subregulation 307-205.02C(2) of the ITAR 1997 where the earliest adjustment day is 1 July 2019, that is:

$= \$10{,}000 * 1.0375 * 1.04^{2} * (1 + (.04 \times (182/365))$

$= \$11{,}445.41$

Step 3

Work out the amount of consideration paid for the 3rd instalment and associated earnings on the valuing day using the formula in new subregulation 307-205.02C(2) where the earliest adjustment day is 1 July 2020, that is:

$= \$10{,}000 * 1.04^{2} * (1 + (.04 \times (182/365))$

$= 11{,}031.73$

Step 4

Add up the amount of consideration and associated earnings for each instalment on the valuing day to determine the value of the superannuation interest, that is:

$= \$11{,}874.62 + \$11{,}445.41 + \$11{,}031.73$

$= \$34{,}351.76$

Step 5

Determine whether the amount in Step 4 is greater than the amount payable to Rosie if she was to voluntarily cease the income stream on the valuing day. As the income stream cannot be commuted on the valuing day, this later amount is nil. The value of the superannuation interest in the deferred superannuation income stream is therefore $34,351.76 on the valuing day.

A credit for the amount of $34,351.76 would then arise in Rosie's transfer balance account, under Item 2 of the table in Section 295-25 of the ITAA 1997, on 31 December 2021.

<u>Collective defined contribution scheme income stream value of an interest</u>

New subregulation 307-205.02D(1) of the ITAR 1997 sets out a method for determining the value of an individual's superannuation interest that supports a collective defined contribution scheme income stream for the purposes of paragraph 307-205(1)(a) of the ITAA 1997. This value will be the value of the collective pool of fund assets at that time attributed to the individual, as worked out under the rules of the superannuation fund, as certified by an actuary.

A collective defined contribution scheme income stream is a lifetime pension provided by a superannuation fund that is determined by returns on a collective pool of assets and the age or life expectancy of fund members with superannuation interests in a pension of the same kind. An individual may have a superannuation interest in a collective defined contribution income stream prior to retirement.

There are no special rules to value other income stream products that may be provided under the new standards. In these cases the existing valuation rules in regulations made for the purposes of paragraph 307-205(1)(a) of the ITAA 1997 would apply.

For example, a group self-annuity that was an immediate annuity would be valued using the historic purchase price of the annuity under regulation 307-205.02A of the ITAR 1997.

Valuation for Total Superannuation Balance purposes

The concept of a total superannuation balance was inserted into Schedule 11 of the *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016*. An individual's total superannuation balance, at a particular point in time, will include the accumulation phase value, at that time of each such interest. This amount will be worked out immediately before the start of the financial year for the purposes of the non-concessional contribution cap and the unused concessional carry forward cap in the ITAA 1997.

The default rule for determining the accumulation phase value of an individual's superannuation interest at a particular time is the total amount of superannuation interests that would become payable, if the individual voluntarily ceased the interest at that time. Otherwise the accumulation phase value is the value of the superannuation interest as set out in regulations made for the purposes of paragraph 307-205(2)(a) of the ITAA 1997.

Item 5 insets new subregulation 307-205.02C(4) of the ITAR 1997 for the purposes of paragraph 307-205(2)(a) of the ITAA 1997 to determine the accumulation phase value of an interest in a deferred superannuation income stream, referred to in subregulation 307-205.02C(3) of the ITAR 1997, at a point in time. The subregulation applies the same valuation method, for the point in time, as new subregulation 307-205.02C(1) of the ITAR 1997. Similarly, new subregulation 307-205.02D(2) of the ITAR 1997 applies the same valuation method, for a point in time, as new subregulation 307-205(02)D(1) of the ITAR 1997, to determine the accumulation phase value of an interest in collective defined contribution scheme income stream.

Example 1.4: Working out the accumulation phase value of a deferred superannuation income stream interest

Further to Example 1.3, Rosie's income stream provider is required to report the accumulation phase value of her deferred superannuation income stream interest on 30 June of each year prior to Rosie's retirement phase start day.

This will be the same value determined at a point in time using the steps in Example 1.3.

The accumulation phase value of Rosie's deferred annuity on 30 June 2018 will be:

$10,000 x (1 + (0.0375 x 364/365)) = $10,373.97

Preservation rules – new condition of release

Schedule 1 of the SISR 1994 contains conditions of release and cashing restrictions for preserved and restricted non-preserved superannuation benefits from superannuation and approved deposit funds. Schedule 2 of the RSAR 1997 contains those conditions for retirement savings accounts.

Items 10, 22 and 23 of Schedule 1 contain a new condition of release that permits an interest in a deferred superannuation income stream that meets the standards of new subregulation 1.06A(2) of the SISR 1994 to be acquired by a fund member or RSA

holder, with preserved and restricted non-preserved superannuation benefits. This will enable deferred superannuation income streams to be purchased while a member is still in the accumulation phase, on potentially more attractive terms than those available when a member reaches retirement age.

Transitional arrangements

Division 14.14 will apply the amendments to the SISR 1994 made by the Regulations to a benefit arising under a contract entered into on or after 1 July 2017, and a benefit provided under rules made on or after 1 July 2017.