

Superannuation Preservation Rules: A Summary**Introduction**

This Research Note summarises when a person can cash-in their superannuation benefit (or a part thereof) from a superannuation fund.

Preservation refers to the requirement under the *Superannuation Industry (Supervision) Act 1993* that superannuation benefits be kept either in the superannuation system until permanent retirement, or after the member reaches preservation age.

Cashing means the withdrawal of the benefits out of the superannuation system, as opposed to transferring or rolling over benefits within the system.

The preservation rules are minimum standards. It is possible for a superannuation fund's trust deed to impose more stringent preservation rules than the minimum.

Components of a Benefit

Superannuation benefits may comprise one or more categories of benefits, each of which is treated differently under the preservation rules, thereby affecting its ability to be 'cashed-out.' The categories are as follows:

- Preserved benefits (PBs): generally employer contributions (and contributions for which a tax deduction has been claimed).
- Restricted non-preserved benefits (RNPBs): generally member contributions (plus interest) made prior to 1 July 1999.

- Unrestricted non-preserved benefits (UNPBs): PBs or RNPBs that are not preserved because a condition of release has previously been met and no cashing restriction apply.

PBs and RNPBs may only be cashed-out if the member satisfies a condition of release (a complete list of these conditions is at Table 2). Apart from retirement, other conditions of release include severe financial hardship, incapacity (permanent or temporary), attaining age 65, death or compassionate grounds. Some conditions of release have additional 'cashing restrictions' on the form of the benefit (e.g. lump sum versus pension) and/or on the amount of the benefit payable (see Table 2).

Preservation Rules

New preservation rules took effect from 1 July 1999. Under the new regulations, all superannuation contributions (including member contributions) and superannuation fund investment earnings, from that date forward, will be preserved till the member's preservation age. Pre-1 July 1999 non-preserved components of a member's superannuation entitlement (i.e. RNPBs and UNPBs) generally retain their non-preserved status.

The Government announced in the 1997 Budget that the preservation age would be increased from 55 to 60 years. By 2025, the preservation age will be 60 years for anyone born after June 1964, with the age 60 years preservation age being reduced by one year for each year that the person's birthday is before

1 July 1964. This means that persons born before 1 July 1960 will continue to have a preservation age of 55. Table 1 summarises the phase-in schedule.

Table 1: Preservation Age

Date of Birth	Preservation age (years)
Before 1 July 1960	55
1/7/60 to 30/6/61	56
1/7/61 to 30/6/62	57
1/7/62 to 30/6/63	58
1/7/63 to 30/6/64	59
After 30 June 1964	60

Proposed changes

A Senate Committee¹ examined the conditions of release on compassionate and severe financial hardship grounds and recommended, *inter alia*, that Centrelink conduct the assessment of such applications.

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Table 2: Conditions of Release of Money from Superannuation Funds²

Conditions of Release	Cashing Restrictions
Retirement	Nil
Death	Nil
Permanent incapacity	Nil
Permanent departure from Australia before 1 July 1998 where there is permanent residence outside Australia and a written request for release of benefits made before 1 July 1998	Nil
Termination of gainful employment with a standard employer-sponsor of the regulated superannuation fund on or after 1 July 1997 (where the member's preserved benefits in the fund at the time of the termination are less than \$200)	Nil
Severe financial hardship	For a person who has received Commonwealth income support payments for a continuous period of 26 weeks; and that person is unable to meet reasonable and immediate family living expenses) in each 12 month period, a single lump sum not less than \$1 000 and not more than \$10 000. Where the person is in receipt of a Commonwealth income support payment for a cumulative 39 weeks after reaching preservation age, and is not gainfully employed—Nil cashing restriction.
Attaining age 65	Nil
Compassionate ground	A single lump sum, not exceeding an amount determined, in writing, by the Regulator, being an amount that: (a) taking account of the ground and of the person's financial capacity, is reasonably required; and (b) to prevent foreclosure of a mortgage on a principal place of residence—in each 12 month period (beginning on the date of first payment), does not exceed an amount equal to the sum of: (i) 3 months' repayments; and (ii) 12 months' interest on the outstanding balance of the loan
Termination of gainful employment with an employer who had, or any of whose associates had, at any time, contributed to the regulated superannuation fund in relation to the member	1. Preserved benefits: Non-commutable life pension or non-commutable life annuity 2. Restricted non-preserved benefits: Nil
Temporary incapacity	A non-commutable income stream cashed from the regulated superannuation fund for: (a) the purpose of continuing (in whole or part) the gain or reward which the member was receiving before the temporary incapacity; and (b) a period not exceeding the period of incapacity from employment of the kind engaged in immediately before the temporary incapacity
Any other condition, if expressed to be a condition of release, in an approval under subparagraph 62 (1) (b) (v) of the Act	Restrictions expressed in the approval to be cashing restrictions applying to the condition of release

1. Senate Select Committee on Superannuation and Financial Services, *Early Access to Superannuation Benefits*, 31 January 2002, available at http://www.apf.gov.au/senate/committee/superfinan_ctte/early%20access/earlyacc_report.pdf.
2. Superannuation Industry (Supervision) Regulations 1994, Schedule 1 Regulated superannuation funds, made under Regulation 6.01.