Why do some large super funds offer a “retirement bonus”?

If you are approaching retirement, you may have heard that some APRA regulated super funds pay a "retirement bonus" or "pension bonus" when you move your super into a retirement phase pension. It is money added to your account reflecting a provision of tax set aside on future capital gains.

Where does the money come from?

While your super is in the accumulation phase, your fund pays tax on the earnings including any capital gains. Large super funds set money aside to cover future capital gains tax on investments that have grown in value but have not yet been sold.

When you retire and move your super into a retirement phase pension, such as an account-based pension, the earnings on that money become tax-free. The tax your fund had set aside is no longer needed and so it can be repaid to your account as a “retirement bonus”.

SMSFs do not pay a “retirement bonus”

SMSFs do not set aside money for future capital gains tax, so they do not pay a “retirement bonus” when you start a pension. Because no provision for tax is deducted, an SMSF member's balance already reflects the full value of the fund's assets, including unrealised gains. For this reason, SMSFs are at no disadvantage.

Retirement bonuses can vary

There is no standard bonus amount. Funds that pay a bonus usually calculate it as a percentage of the balance you transfer.

The amount depends on:

- your fund's own tax position
- the investment options your money has been sitting in
- how long you have held those investments and how much unrealised gain has built up

Two people moving the same balance in two different funds could receive very different amounts. Many funds pay nothing at all. Rates can also be changed by the trustee at any time.

Check the eligibility rules carefully

Every fund sets its own conditions. Common requirements include:

- a minimum membership period before you start your pension

- moving from an eligible account or investment option, with some cash options excluded
- transferring on a like-for-like basis, meaning the option you hold in super is also available in pension
- a limit of one bonus per member

Some funds will also claw the bonus back if you cease being a member shortly after starting the pension.

Be careful with timing

Because these bonuses are tied to how long you have been a member and which options you have held, moving your money around shortly before you retire can cost you.

Consolidating several super accounts into one is often sensible but doing it in the months before you start a pension can wipe out a bonus you would otherwise have qualified for. So too can switching investment options.

Reminder

Whether a retirement bonus is available to you and how much it might be, depends on your fund's rules. Speak with a financial adviser before you start a pension or move your super.