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The Beginners Guide to Actuarial Certificates

Are you confused about what an actuarial certificate is and how it is calculated? Let us skip the technical lingo and break it down for you as simply as we can!

Before we dive in, and to save you the headache, we have included a glossary at the end of this article of any technical terms we mention that you are unsure of. Furthermore, this article is only going to be relevant if your SMSF is paying Account Based pensions[1]. If your SMSF is paying the old Defined Benefit Pensions[2], then give us a call instead to have a chat.

So, what is an actuarial certificate?

If you have an SMSF with a mix of non-retirement phase[3] and retirement phase[4] monies and would like to claim a portion of your income as tax free in your SMSF annual return (who doesn't hey?!) then by law, you need an actuarial certificate. That is, unless you have all retirement phase assets entirely separate from non-retirement phase assets, which is a lot of effort and very rarely done.

An actuarial certificate is a document prepared by a certified Actuary[5], where the Actuary calculates a percentage. This percentage will apply to your SMSFs' assessable income[6] for the given income year and help determine how much of your assessable income will be tax free. The technical lingo for tax free income in your SMSF annual return is referred to as 'Exempt Current Pension Income'.

How is the actuary's percentage calculated?

Ah great question! In the simplest terms we can make it, it is essentially:

$$\frac{\text{Daily weighted average of total}^{7}\text{ unsegregated retirement phase}^{8}\text{ accounts}}{\text{Daily weighted average of total unsegregated SMSF accounts}}$$

Daily weighted average of total unsegregated SMSF accounts
Remember to check out our glossary at the end of this article if any of the terms in the formula above confuse you

What affects the actuary's percentage?

Another great question! Opening balances as well as the timing and amounts of pension commencements[9], pension rollbacks[10], contributions[11], rollovers[12], non-retirement phase withdrawals[13] and pension withdrawals[14], will all influence the actuary's percentage.

The key thing to note with the actuary's formula is that the higher the actuary percentage, the more money you can claim tax free. Therefore, the greater the amount of money you have in your retirement phase accounts for more days during a given financial year, the higher the actuary's percentage will be.

Now on the flip side, the greater the amount of money you have in non-retirement phase for more days during the financial year will lower the actuary percentage.

Do I need an actuarial certificate?

Here at Act2 Solutions, we are all about making life easier for our clients. That's why we have created a simple questionnaire you can complete to determine whether you require an actuarial certificate or not (you're welcome!). Check out our questionnaire by clicking here.
We hope we have made this as simple as possible for you but if you still have any questions, please give our friendly team at Act2 Solutions a call on 1800 230 737 or email act@act2.com.au

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Glossary

1.Account Based Pensions	An income stream that is commenced with money from your super balance once you have retired/met a condition of release. Account Based Pensions include Transition to Retirement Pensions (only those in retirement phase) as well as Market Linked Pensions.
2. Defined Benefit Pensions	They are an older type of pension where the individual could purchase a series of regular payments from their super. Since 1 January 2006, you can no longer start a Defined Benefit Pension. Within the industry they're also commonly known as Complying Pensions or Legacy Pensions.
3. Non-retirement phase	For most of your working life, your super money is in 'non-retirement phase' and earnings are taxable.
4. Retirement phase	When you retire or meet a condition of release, you can move money into 'retirement phase' (e.g. start an Account Based Pension) and the earnings from that balance are exempt from income tax.
5. Actuary	No, they aren't beekeepers; that's an Apiarist. An Actuary is a qualified individual with advanced skills in mathematics and financial analysis.
6. Assesable Income	Income that is subject to income tax.
7. Daily weighted average	It is referring to how many days during the financial year the money was in the account divided by days in financial year.
8. Unsegregated	Unsegregated means you haven't set aside your retirement phase assets from your non-retirement phase assets, and they are mixed. Most funds are 'unsegregated' unless you are super organised and have intentionally been keeping them 'segregated'.
9. Pension commencements	The transfer of money from a member's non-retirement phase account to their retirement phase account.
10. Pension rollbacks	The transfer of money from a member's retirement phase account to their non-retirement phase account.
11. Contributions	Adding money to an individuals balance in your SMSF
12. Rollovers	Generally speaking, moving money from one super fund to another.
13. Non-retirement phase withdrawls	Withdrawing money from your non-retirement phase account.
14. Retirement phase withdrawls	Withdrawing money from your retirement phase account.

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