Entrust

Binding Nominations

Driven by contributions and fund earnings, the total value of the superannuation pool has grown significantly over recent decades. With this comes a typical question covered in financial planning circles; 'How does my superannuation get paid in the event of death'. A common misconception is that a will automatically deals with an individual's superannuation assets. So how can you ensure that your retirement assets follow a desired outcome?

It is important to note that your superannuation is distributed in accordance with your beneficiary nominations. In simple terms, beneficiary nominations are elections that you make as to who will receive your superannuation benefit. The types of nominations include:

1. Non-binding nominations,
2. Binding nominations, and
3. Reversionary nominations (applicable to pension accounts).

The first type of nomination is 'non-binding' on the superannuation provider or trustee to follow. Although it is an instruction as you how you would like your super to be distributed, it is discretionary based and provides no certainty. Counter to that, a 'binding' nomination provides added security and certainty as to who receives your super benefit.

Binding death nominations are a powerful tool used to direct benefits to specific dependants in specific amounts, or to be dealt with under the written terms of a will. To be considered valid, a binding beneficiary form must nominate dependant/s (e.g. spouse or children) and requires completion in line with certain rules (e.g. witnessing guidelines). For the purposes of superannuation law, the full list of dependants include:

- A spouse,
- Children of any age,
- Any person(s) financial dependent on the member,
- Any person(s) in an interdependency relationship with the member,
- A legal personal representative (i.e. the executor or administrator of your estate).

While those considered tax dependants end up paying no tax on super death benefits, those classified as non-dependants can be subject to tax consequences.

Having a binding nomination can be an efficient way of paying funds direct to beneficiaries (i.e. skipping the estate administration process). This can be a prudent arrangement if you feel your estate could be disputed by an eligible family member. Hence, in conjunction with well documented estate plans, a binding nomination can be utilised to effectively manage the flow of benefits.

A binding nomination option may not always be valid – this may occur if circumstances change and you do not revise the nomination or the nomination lapses.

Disclaimer

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