



## **Oak Pension Fund**

- **Product Disclosure Statement**
- **Deed of Establishment**
- **Rules of the Fund**

### **Espreon Corporate Services Pty Limited**

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Deed of Establishment and  
Rules of the Fund prepared by:  
Robert Richards  
Robert Richards & Associates  
Revenue and Corporate Law

Product Disclosure Statement  
prepared by:  
Grant Abbott  
SMSF Strategies  
SMSF Specialist

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# Oak Pension Fund

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# PRODUCT DISCLOSURE STATEMENT

By Grant Abbott, SMSF Strategies

## 1. Introduction

Self managed super funds or SMSFs as they are commonly known are increasingly popular. At 31 March 2006 there were 317,000 SMSFs holding more than \$208 billion in assets. However there are a number of statutes and laws that govern SMSFs. So too are there various regulators such as the Australian Taxation Office ("ATO") and the Australian Securities and Investment Commission ("ASIC"). To commence or be a part of a SMSF is a big responsibility and one not to be taken lightly. The responsibility extends to each member of a SMSF having to become a trustee of the fund or if the fund has a corporate trustee – a director of the trustee company under the *Superannuation Industry (Supervision) Act 1993* ("SIS Act").

Before establishing a SMSF, it is vital that a potential member do the following things:

1. Read all of the following information including the PDS and the governing rules of the SMSF. These documents provide the potential member with all the benefits that are payable by the trustee of the fund, when those benefits may be paid and how they will be paid. They also cover how a member's benefits are taxed, the risks involved in being a trustee and member of a SMSF and how a SMSF compares to other superannuation fund investments.
2. Watch the SMSF DVD, which covers many of the issues in the PDS in an audiovisual format featuring Grant Abbott – one of Australia's leading SMSF experts.
3. Read the ATO's publication "DIY Super: It's your money ... but not yet." This publication provides an excellent guide to trustees on what can and cannot be done as well in a SMSF.
4. Read a copy of the CCH "Guide to SMSFs" by Grant Abbott. This manual provides trustees and members of a SMSF with case studies applying the wide-ranging superannuation laws.

*Caution: In May 2006 the government announced sweeping changes to superannuation known as the Simpler Super reforms. The changes include, amongst others:*

- ▶ *a retiree member being able to take a lump sum or pension from their SMSF after age 60 tax free;*
- ▶ *the abolition of the reasonable benefit limits; and*
- ▶ *a cap on the amount of contributions that may be made into the fund by a member.*

*Whilst the government has confirmed that they will proceed with these changes the relevant superannuation laws have not yet been amended at this stage. The Strategist trust deed broadly incorporates the reforms as confirmed however other laws may be enacted both now and in the future outside of the Simpler Super reforms that may require the deed and rules to be upgraded in the future.*

## 2. Why the need to know so much?

The *Corporations Act 2001* provides that where a person is provided with a financial product they must receive a Product Disclosure Statement, commonly referred to as a PDS. A PDS is a statement that contains information required by the *Corporations Act 2001* to provide a person with sufficient information to make an informed decision about acquiring a financial product. Importantly the PDS must provide information about any significant benefits in a Fund to which any prospective or existing member may become entitled as well as the circumstances, process and timeframe in which those benefits may be provided.

It may seem strange but the government now includes as financial products various superannuation interests that may be found in a SMSF including, but not limited to:

- ▶ the making of a contribution into a fund;
- ▶ the payment of a SMSF income stream including a transition to retirement income plan;
- ▶ taking a disability benefit;
- ▶ putting in place an investment strategy;
- ▶ paying out benefits in the event of a member's death;
- ▶ making an investment that is a financial product;
- ▶ withdrawal of a lump sum from the fund;
- ▶ creating an insurance plan for the trustee of the fund.

It is important to understand that it is the trustee's responsibility to provide members and prospective members with a PDS. This is the case even though the members of the fund may be trustees or directors of the corporate trustee. This PDS is provided by the trustee whose name and address may be found in the Rules.

### 3. Superannuation Product Comparisons

A SMSF is one of a number of types of superannuation funds in which a person may accrue their retirement savings and receive retirement benefits.

The following table is an indicative guide that seeks to highlight the main differences between the most common forms of superannuation for a member of a superannuation fund. However before choosing any type of superannuation, a member should seek professional advice. A professional superannuation adviser can provide a detailed understanding of the differences between various types of superannuation fund.

<b>Feature</b>	<b>Self Managed Superannuation Fund</b>	<b>Retail Superannuation Fund</b>	<b>Industry Superannuation Fund</b>
Investment choice	Unlimited*	Limited	Limited
Control of the fund	Yes as trustee or director of a trustee company	No	No
Compliance responsibilities	Full responsibility of the member as trustee or director of a trustee company	None	None
Fees payable: - Establishment - Ongoing	Yes Flexible	Yes % Funds under management	Nil % Funds under management or set fee per month
Pension types available	Wide range *	Restricted	Restricted
Death benefits available: - Lump Sums - Pensions	Yes Yes	Yes Yes - Limited	Yes Yes - Limited
Disability benefits			

available - Temporary - Permanent	Yes Yes	No Yes – Limited	No Yes – Limited
Membership	Wide provided the member acts as trustee	Conditions Applying	Conditions Applying
Spouse Splitting	Yes	May apply	May apply

\* Subject to compliance with the relevant laws

#### 4. Are all SMSFs the same?

Not all SMSFs are the same. The governing rules of a SMSF provide the trustee with its powers, members with their benefit entitlements and deal with the general operation of the fund. However the governing rules vary depending on the lawyer who has produced the rules. The Strategist governing rules have been specifically designed to provide a wide range of benefits to members, provide trustees with flexible powers and simplify the operation of the fund. It is crucial that a member, trustee, director of a trustee company or prospective member read, understand and be aware of the rules. Many current SMSF governing rules do not allow for benefit payments in the event of temporary incapacity, taking a pension prior to retirement as well as being able to split super contributions with a spouse. In addition most trust deeds that were put in place prior to May 2006 did not allow for changes proposed by the government under the Simpler Super reforms. The Strategist governing rules include these benefits, the proposed Simpler Super reforms and those detailed within the rules and PDS.

#### 5. The Purpose of the Fund

The Fund is a SMSF. Many members of SMSFs know their funds as family superannuation funds. This means that the members of the Fund would normally only be family members. For example the members might be a husband and wife and their children. It may also include brothers, sisters, grandparents and other family members. The trustee may accept non-family members into the Fund however as the Fund can only have four members at any time, it may be appropriate to limit membership to immediate family. Under no circumstances can a SMSF have more than four members. To accept a fifth member may see the trustee, if found guilty subject to a term of imprisonment of six months.

The general purpose of a SMSF is to provide retirement, death, or incapacity benefits to the members and their dependants. Benefits might be provided by way of lump sum or an income stream (that is a pension). The trustee may also provide benefits by way of a combination of a lump sum and pension. In addition the trustee may provide members who have reached their preservation age – age 55 for those born before 1960, with a transition to retirement income stream (even though the member is still working).

#### 6. The Ten Key Benefits of a Strategist SMSF

The following benefits may ensue where you choose to use the *Strategist* SMSF governing rules and have structured the SMSF to take full advantage of the benefits - this is the benefit of obtaining the services of a SMSF adviser.

*Caution: Please be aware that these benefits do not necessarily apply to any other SMSF governed by different rules including prior Strategist SMSF governing rules.*

##### 1. The Fund lets you look after your family

For many people their family is the most important thing in their lives. As such, the provision of financial benefits to the family is a major concern and consideration. Where a family member is a member of a Fund they may access a variety of superannuation benefits at certain stages of their lives. In addition a member may look after their dependants in the event of their death by way of a lump sum or income stream.

## **2. Providing a supplement to salary while working**

The governing rules provide a member of the fund with the ability to access superannuation benefits before retirement as a transition to retirement income stream. Prior to the introduction of these new rules on 1 July 2005, small business owners, trades people, executives and other workers looking to cash in and use their superannuation had to permanently retire from the workforce. The transition to retirement rules provide that once a person reaches age 55 (if they are born before 1960 – a later age applies for those born after 1960) they can *access all or part of their superannuation* as an income stream provided the income stream is not taken as a lump sum. Once they retire, provided the income stream allows, they may be able to take part or all of their superannuation as a lump sum.

## **3. Provide a secure income in retirement**

In retirement an income from alternative sources other than employment is a necessity. This may come from investments or from other sources such as social security. Upon retirement, a trustee may establish an income stream - known as a pension, for a member to provide the member with a comfortable lifestyle for the rest of their life. The size and duration of the pension will depend upon a number of factors including the balance of the member's account at the time of retirement, the member's age when the pension commences and also what style of pension is to be taken from the Fund.

For example if the member commences an allocated pension this pension only lasts as long as the underlying pension capital remains. If the capital reduces to nil, then the pension ceases. On the other hand where the member commences a market linked pension the pension can be payable up until the member's 100<sup>th</sup> birthday and in some instances the 100<sup>th</sup> birthday of their spouse. Trustees seeking to pay a member a pension should ensure that they receive advice from a SMSF adviser as the government made a number of important changes to pensions paid from superannuation funds from 1 January 2006 and also in the Simpler Super reforms that will commence from 1 July 2007. If the trustee breaches these rules the fund may be considered a non-complying SMSF and the trustee may be liable to serious financial penalties and possible imprisonment.

## **4. Offering a financial helping hand if your health deteriorates**

Health is one of those things that can never be taken for granted. A SMSF may provide members with income if they become seriously ill or incapacitated. This income is to compensate a member for lost income from employment. It may be payable for a certain period of time if a member is only temporarily incapacitated or until the normal age of retirement if a member is permanently incapacitated. As with retirement income the length and quantum of the income stream depends upon the balance of a member's account at commencement of the income stream. However the amount payable to an incapacitated member may be supplemented by reserves, this is known as self-insurance.

Additionally, a trustee may insure against a member becoming incapacitated so as to be able to pay a pension to a member if the member becomes incapacitated.

## **5. Investment choice**

One of the major reasons that SMSFs have become so popular is the ability of the trustee to invest the Fund's assets so as to reflect a member's wishes. The governing rules of the *Strategist* SMSF provide the trustee with wide ranging investment powers allowing the trustee to invest in shares, property, trusts, options, bonds, overseas investments as well as property development ventures. However the trustee must ensure, in terms of any investment that:

- ▶ All investments must be made at arm's length;
- ▶ The trustee may not lend to members or related parties;
- ▶ The trustee may not invest more than 5% of the assets of the Fund in related entities such as a unit trust that the member controls or in shares of an employer that contributes to the Fund;



- ▶ The trustee cannot borrow;
- ▶ The purpose of any investment is to secure benefits for members in the event of their retirement, incapacity or for their legal estate or dependants in the event of a member's death. Any investment seeking to provide a member or related party with a benefit not having one of these purposes is prohibited;
- ▶ Generally the trustee cannot acquire an asset from a member or related party unless the asset is a listed share, managed fund, fixed term deposit or business real property.

## 6. Low taxation fully sanctioned by the government

A SMSF is very tax effective if properly established and maintained, even more so now that the Simpler Super reforms have been finalised - please see below for more detail about the impact these changes will have. However if the fund is **not** maintained for the sole purpose of providing members with retirement, transition to retirement and disability benefits or benefits to a deceased member's dependants or legal estate then the fund may be taxed at a rate of 45% which includes as fund income the market value of the assets of the fund.

In terms of getting money into the Fund, the trustee of a SMSF using the *Strategist* governing rules can receive superannuation contributions, which may be tax deductible or non-tax deductible contributions. For example employers are generally able to make tax deductible contributions to a SMSF on behalf of employees. However a spouse cannot make a tax deductible contribution on behalf of a non-working spouse. Further a self-employed person can make a tax deductible contribution but an employee generally cannot.

The tax deduction available to a person making contributions to the Fund is limited by the age of the person on whose behalf contributions are being made. For the 2007 year the age based limits are:

- ▶ \$15,260 for a person under the age of 35 years
- ▶ \$42,385 for a person aged between 35 and 49 years
- ▶ \$105,113 for a person aged 50 and over

Where an individual makes a tax deductible contribution it is only the first \$5,000 and then 75% thereafter of any contribution which is deductible - subject to the age based limits. Contributions received by the Fund no longer attract the superannuation surcharge.

A Contribution received by the trustee from an employer or from a member where that member has claimed a tax deduction for the contribution will be included in the fund's assessable income. Any taxable income (assessable income less deductions) earned by the trustee is subject to a concessional tax rate of 15% provided the Fund is a complying SMSF during the income year. A complying SMSF is a fund where the trustee does not breach any of the laws found in the *SIS Act* and its regulations, which we will call the superannuation laws, during the income year. Further, the trustee must not breach any of the governing rules of the Fund, which is the main reason why the trustee and members should make themselves familiar with the rules.

Where the trustee of a complying Fund realises a capital gain on the disposal of an asset held for more than one year, only two thirds of that gain will be included in the Fund's assessable income.

If the trustee of a complying Fund sets aside assets of the Fund to pay pensions to members then any assessable income including capital gains made by the Fund on those assets is exempt from tax. Where a pension is payable by a Fund to a member, the member must include the pension in their assessable income.

Benefits payable to members, either as a lump sum, a pension or combination of both may be subject to concessional rates of tax. This will depend upon whether the benefits taken from a Fund are excessive having regard to reasonable benefit limit rules found in the *Income Tax Assessment Act 1936* ("*the Tax Act*").

The Simpler Super reforms introduce major taxation changes to SMSFs from 1 July 2007. These changes include:

- ▶ The age based deductible contribution limits are to be abolished including the special rules for individuals making deductible contributions;
- ▶ Taxable contributions, including those paid by an employer and deductible member contributions will be subject to ordinary 15% tax in the fund up to a limit of \$50,000 per member (across all superannuation fund investments). For those aged 50 or more at 1 July 2007 a \$100,000 cap applies until 30 June 2012. Any amounts in excess of the threshold will be subject to tax in the fund at 45%;
- ▶ Pension and lump sum payments to members after the age of 60 will be tax free;
- ▶ The reasonable benefit limit rules which used to cap the amount of concessional tax benefits from a superannuation fund will be abolished.

### **7. Looks after your family when you die**

In many instances a Fund is the most flexible, most targeted and the most tax effective vehicle to provide lump sums or income streams to a member's spouse or children when the member dies. For example a Fund may provide a minor dependant of a deceased member with an income stream until the minor reaches age 35. This pension income is tax free to the minor if the minor has no other assessable income and the amount is less than \$26,000. As with incapacity benefits referred to above, the quantum of the benefits payable to a member's dependants or their legal estate may be enhanced where the trustee has chosen to insure or self-insure against the member's life.

The Simpler Super reforms mean that a member of a SMSF may now leave their benefits in a lump sum account for the remainder of their lives to draw upon at will. Any monies left over in the lump sum account on death may be passed to a deceased member's dependants tax free. If the member also has a pension account, then the account balance can be paid tax free to a dependant or if the member has made the pension reversionary it can continue to be paid to a dependant. If the deceased was over age 60 at the time the pension will be tax free in the dependant's hands. Otherwise it will be included in the dependant's assessable income but will attract a 15% tax rebate.

### **8. Access to the age pension**

Benefits from a Fund are treated favourably for Centrelink purposes. In terms of the assets test, the member's account balance in the Fund is not tested until the member becomes entitled to an age pension – for a male this is at age 65 and for a female it is currently at age 62 but increasing to age 65 by 2014. On becoming entitled to the age pension and only until 20 September 2007 a member may commence a partially assets test exempt pension from the Fund.

The underlying capital from which such a pension is paid is discounted by 50% for assets test purposes and favourably treated for income test purposes. This may enable some members to access the age pension, on top of the private pension that they receive from a Fund, if they choose to transfer the majority of their assets into the Fund (subject to the investment restrictions and excluding the family home). However partially assets test exempt pensions will be abolished from 20 September 2007 under the proposed Simpler Super reforms. Instead from this date the current assets test taper rate will be reduced to \$1.50 per fortnight for every \$1,000 of assets above the assets test free threshold.

### **9. Protection from creditors**

Protecting assets from creditors is a major concern for many people. One of the key benefits of a superannuation fund is that when a person gets into serious financial difficulty, a member's benefits – up to a generous limit now of about \$1.3 million – may be protected from creditors. However clawback rules apply where a person has sought to escape their creditors by deliberately transferring assets or monies into a SMSF. One downside of bankruptcy is that

a person cannot remain as a member of a self managed superannuation fund if they are bankrupt, as this will jeopardise the Fund's SMSF complying status. Should this arise the trustee should consider various actions including transferring the member's benefits to a commercial superannuation fund where they may also be protected. Another alternative is to remove the existing trustees and appoint a professional trustee, also known as an approved trustee.

### **10. Splitting benefits with a spouse**

A member of a SMSF may apply to the trustee to transfer some of their benefits to their spouse - including a de-facto spouse. There is a limit of the amount of benefits that can be transferred. The limit is 100% of any non-deductible contributions and 85% of any deductible contributions made on behalf of the member, including personal contributions during the prior financial year. However in the first year of operation - the 2006-2007 financial year, it is only those contributions made between 1 January 2006 and 30 June 2006 that are to be taken into account for spouse splitting purposes.

## **7. Trustee of the Fund**

A SMSF is a trust where the trustee takes in monies on behalf of a member, invests those monies pursuant to an investment strategy and at some time in the future - subject to an event such as retirement where the member reaches their preservation age (age 55 for those born before 1960), death or disability, agrees to pay the benefits plus earnings thereon back to the member. As noted previously all members must be trustees or directors of a trustee company of the Fund. As such a member, in their guise as trustee, has significant influence and control in the Fund. This is opposed to retail and industry based superannuation funds where the trustee stands apart from the members.

There are limited exceptions to the rule that a member must be a trustee. Where a member is a minor the law does not allow them to be a trustee or director of a trustee company. This means that their legal personal representative, parent or guardian must be appointed as trustee on their behalf until they reach age 18 if the fund is to remain a complying SMSF. Likewise where a person becomes mentally incapacitated and is unable to make sound decisions, a legal personal representative may be appointed to take the incapacitated member's place as trustee.

Quite apart from the requirement for members to be trustees there is an additional requirement that all trustees be members of the Fund. This means, for example that a trustee company cannot have a director who is not also a member. As such it is generally advisable that where a trustee company is appointed that the company act as trustee of the SMSF only - not other trusts nor carry on investments or business in its own right.

There are limited exceptions to the rule requiring all trustees to be members of the Fund. In the event of the death of a member the deceased member's legal personal representative - normally the executor of their legal estate - may be appointed as trustee from the time of the member's death until the time when any death benefits commence to become payable.

Furthermore, where there is only one member, there is a need to have more than one trustee since a person cannot be a trustee for themselves. As such in a single member Fund, another person must be appointed as trustee provided they are not an employer of the member or a trustee company with a sole director may be appointed as trustee.

Where trustees hold a meeting to decide various matters in the fund such as the establishment of an investment strategy, the making of investments, the acceptance of contributions, the payment of benefits and the like, each trustee will hold that number of votes as is equal to the account balance of the members that they represent (including themselves). This may also be the case for a corporate trustee of the fund where a *Strategist* special purpose SMSF trustee company has been established.

Great care needs to be taken at the time of establishment of the Fund as to the type of trustee. Although individual trustees do not cost anything in terms of establishment they may cost the fund and its members a considerable amount - see the following table.

### Benefits of a Trustee Company v Individual Trustees

- ✓ A trustee company is able to pay members a lump sum as well as a pension. Under the superannuation laws, it is a requirement that *where the trustees are individuals* then a pension and not a lump sum needs to be taken by the members. This may also include any death benefits payable to dependants or the legal estate of a deceased member. With the Simpler Super reforms allowing retiree members to draw upon their lump sum account at will for the remainder of their lives, a corporate trustee is essential for SMSFs with members using this strategic lump sum option.
- ✓ There is a possibility that where a trustee is an individual member that any pension income will **not** be entitled to a 15% tax rebate. However if a company is the trustee then the tax rebate applies provided the member is over age 55 or it arises from the permanent disability or death of a former member.
- ✓ Where there are individual trustees and a trustee dies, retires or is removed then any assets of the Fund in the name of the departed trustee must be switched into the names of the remaining trustees. This can be time consuming and expensive.
- ✓ If a trust incurs a liability, the trustee's personal assets may be exposed. Normally a Fund cannot borrow but nevertheless liabilities can still arise. For example, a contractor engaged to repair a rental property may suffer an injury and can sue the trustee for damages. Alternatively, a fund may invest in a property syndicate that acquires land, which is subject to the hefty costs of an asbestos or environmental clean-up. As companies are subject to limited liability a trustee company will remove the risk that an individual trustee suffers a personal liability in these cases.

## 8. Responsibilities of the Trustee

Being a trustee or director of a trustee company provides the member/trustee with a wide range of investment and other powers not seen in retail, employer and industry based superannuation funds. However, being a trustee is also about legal responsibility. This means at all times, a trustee is required to act honestly, prudently and in the best interests of members in relation to all matters concerning the Fund.

Member and prospective members should be aware that both civil and criminal penalties can be imposed under the superannuation laws for any breach of these and other trustee responsibilities including breaking the Fund's governing rules. Prior to accepting an appointment as trustee, it is important that a person consider the risks associated with such an appointment. The excuse that the trustee was not aware of the superannuation laws or the rules of the Fund is not valid at law. If a person is unwilling to take on the responsibilities as trustee or director of a trustee company then it may be advisable to become a member of a retail or industry based superannuation fund.

Some of the more important responsibilities of a trustee include but are not limited to:

- ▶ Act honestly;
- ▶ Act in the best interests of members and other beneficiaries;
- ▶ Keep the money and assets of the Fund separate from the trustee's personal assets and money or those of another person including other trusts, companies and businesses that the member or trustee may have an interest in;
- ▶ Formulate and implement an investment strategy for the Fund. This strategy must follow the fund's investment objective and should be detailed and in writing;
- ▶ Abide by the rules of the Fund at all times;

- ▶ Ensure that the trustee does not breach any of the superannuation laws;
- ▶ Ensure proper accounting including the maintenance of member accounts;
- ▶ Appoint an auditor and other specialists to the Fund;
- ▶ Meet all regulatory obligations.

Failure to properly meet any of these responsibilities may render the trustee liable to a substantial fine and if the breach has been wilful, may result in a term of imprisonment. It is important therefore that the trustee seeks the help of a SMSF adviser where appropriate.

Additionally the Regulator of SMSFs – the ATO - may also determine the Fund to be a non-complying fund. This would result in the Fund being subject to tax at a penalty rate of 45% on all income and capital gains of the Fund as well as the market value of the Fund's assets at the end of the last financial year.

The ATO has the power to remove the trustees of a SMSF who have not met their responsibilities and appoint their own trustee to manage and operate the Fund thereby ensuring that it finds its way back to complying status.

## 9. Approved Trustee

As mentioned earlier there may be circumstances where it is appropriate or necessary to appoint an approved trustee in place of the members being appointed as trustee under the mechanism described above. For example if a member is prohibited by the superannuation laws from acting as a trustee or simply does not wish to assume the role and responsibility associated with being a trustee then an approved trustee may be appointed. The effect of the appointment is that the Fund is converted from a SMSF to a "small APRA fund" or SAF as they are commonly known.

These funds are regulated by APRA rather than the ATO. While the rules of the Fund may permit the appointment of an approved trustee it is usually the case that the newly appointed approved trustee will amend the deed and rules at that time to reflect the change in the type of superannuation fund. A small APRA fund is a public offer superannuation fund and is therefore subject to more stringent regulation in the superannuation laws. The rules attached to this PDS are designed entirely to reflect the intention for a Fund to be a complying SMSF.

## 10. Member Rights and Entitlements

Under the *Strategist* SMSF governing rules members have a number of rights and entitlements. It is incumbent upon members and trustees to make themselves aware of these entitlements and more importantly when and how they may be claimed. A thorough reading of the rules is required prior to any person being accepted as a member. The ATO requires the trustee to ensure that they know the rules of the Fund as well as the superannuation laws that apply to the trustee. As was stated previously ignorance is no excuse!

Some of the more important rights and entitlements, subject to the superannuation laws include:

- ▶ *Membership* - Any person is able to become a member provided the person completes an application form stating that they have read the rules, agree to abide by the rules and will also accept appointment as trustee or become a director of the trustee company and the trustee accepts the person as a member;
- ▶ *Trusteeship* - As a member of the Fund the member has the right to become a trustee or appoint a person to become a trustee in their place if allowed;
- ▶ *Contributions* - A member or any other person may contribute on behalf of the member. These contributions may be made in cash or by an in specie transfer of assets. The Simpler Super reforms will impose a \$150,000 per annum limit on the amount of undeducted or non-taxable contributions made by a member from 1 July 2007. Transitional arrangements have been introduced for the period 10 May 2006 to

30 June 2007 to allow members with plans in place to make undeducted contributions of up to \$1,000,000 provided they meet the relevant work test in the superannuation laws. Averaging rules will apply allowing a member to contribute \$450,000 in one year providing no further contributions are made in the following two income years.

There are two exemptions to these new rules; the first entitles a member to contribute amounts up to a lifetime limit of \$1m (indexed) from the sale of assets qualifying under the small business capital gains tax (CGT) concessions. This exemption will also apply to pre-CGT assets that would otherwise have qualified but for their pre-CGT status or to assets sold as a result of the business owner suffering permanent incapacity.

The second exemption entitles a member to contribute the proceeds of any settlement received for injuries resulting in permanent disablement;

- ▶ *Transfers* - A member may transfer benefits into and out of the Fund;
- ▶ *Investments* - A member may request the trustee to set a separate investment strategy in the Fund for the member;
- ▶ *Retirement Benefits* - The trustee may pay the member a retirement benefit by way of a lump sum or a pension;
- ▶ *Access to benefits while still working* - The trustee may commence a transition to retirement income stream where a member has reached their preservation age;
- ▶ *Incapacity Benefits* - The trustee may pay the member an incapacity benefit in the event the member is temporarily or permanently incapacitated;
- ▶ *Death Benefit Nominations* - The trustee may accept a binding death benefit nomination from a member requiring the trustee to comply with the member's death benefit wishes in the event of the member's death;
- ▶ *Death Benefits* - The trustee may pay death benefits by way of a lump sum or a pension to the deceased member's legal estate or their dependants in such proportions and in such manner as the trustee sees fit unless a binding death benefit nomination is operative.

## **11. Income Stream Entitlements**

A member or a dependant of a member may become entitled to an income stream. In a SMSF the income streams available include the allocated pension, the non-commutable allocated pension, the market linked pension and the proposed flexible pensions under the Simpler Super reforms (once enacted). However each style of pension has a wide range of options including term, range of income options each year and what may happen on the death of a deceased pension member. The rules regarding both allocated and market linked pensions were changed with effect from 1 January 2006 and the *Strategist* SMSF governing rules reflect these changes and the opportunities created therein. The proposed Simpler Super reform flexible pensions are allowed under the *Strategist* rules. More details on the four types of income stream are found below:

### **1. The allocated pension**

In essence an allocated pension is a lump sum draw down account where the member must receive at least a minimum amount from the member's allocated pension account each year and no more than a maximum amount. The factors for determining the minimum and maximum amounts are laid down in the superannuation laws. For allocated pensions that commenced prior to 1 January 2006 the minimum and maximum factors can be found in Schedule 1A of the *SIS Regulations*. For allocated pensions commenced after this time the relevant factors are found in Schedule 1AAB. Importantly the factors in Schedule 1AAB provide lower minimum amounts thereby enabling a member to run the pension longer where only the minimum amount is taken each year.

An allocated pension is tested against a member's lump sum reasonable benefit limit ("RBL") – see RBLs later. The advantage of an allocated pension for a member is that they can withdraw a lump sum – known as a commutation from their allocated pension account at any time. If this is done obviously any future minimum and maximum payment calculations will be adjusted accordingly given that the pension account balance has been reduced. Where a member dies their estate or dependants should receive any remaining account balance as a lump sum or pension or combination of both.

Allocated pensions may also be set for a term – the term certain allocated pension. For example a member of a fund may commence an allocated pension for a period of ten years or until the account balance in the pension reaches nil – whichever is earlier. If at the end of ten years assets remain in the pension account then the pension will cease and the remaining funds paid to the member as an eligible termination payment. The member may elect, subject to the superannuation laws to commence a new pension at this time.

## **2. The non-commutable allocated pension**

This pension is the same as an allocated pension but with two differences:

- ▶ The pension cannot be taken as a lump sum until the member meets a condition of release such as retirement, death, permanent disability or age 65;
- ▶ Under the Simpler Super reforms, the maximum pension payment in any one year is to be 10%. For example if a member commenced a non-commutable allocated pension on 1 July 2007 with a \$1.8M account balance then the maximum draw down under the non-commutable allocated pension would be \$180,000.

A non-commutable allocated pension can be for a term or left until it runs out. A non-commutable allocated pension is a pension of choice for members seeking to commence a transition to retirement pension.

## **3. The market linked pension**

The market linked complying pension is a relatively new pension that is like a fixed term allocated pension. It is based on a member's market linked pension account – with payments to be determined according to factors set down in Schedule 6 of the *SIS Regulations*. It is a fixed term pension where the member has the opportunity of choosing any term between their life expectancy and their 100<sup>th</sup> birthday. Where the pension has a reversionary pensioner who is the spouse then the spouse's life expectancy or 100<sup>th</sup> birthday may be used at the election of the market linked pension member.

One important difference between the market linked pension and the fixed term allocated pension is that it cannot be commuted except in limited circumstances including:

- ▶ to commence another market linked pension. For example a market linked pension may be commenced by a pension member for a term equal to their life expectancy. After five years they may commute the pension and recommence a new market linked pension in their SMSF with a term that extends to their 100th birthday;
- ▶ on the death of the market linked pension member, the member's account may be paid as a lump sum or used to fund a new pension to the deceased member's dependants or their legal estate. However where there is a reversionary pension member such as the spouse, the pension carries on and must await the death of the reversionary beneficiary before commuting;
- ▶ where a member is subject to a superannuation split pursuant to a separation or divorce under the *Family Law Act 1975*, the market linked pension may be commuted to give effect to the split.

Two added advantages of the market linked pension are that they are favourably treated under the RBL and Social Security rules. In terms of RBLs, where a pension member has taken 50% or more of their superannuation benefits as a market linked pension – in this instance called a complying pension, then the member can use the higher pension RBL without losing tax

concessions such as the 15% tax rebate on pension income. However with the abolition of RBLs effective from 1 July 2007, members must be careful of using a market linked pension as it cannot be commuted.

As a further incentive for members to provide for their own retirement by way of a market linked pension, the *Social Security Act 1991* and the *Veterans' Entitlements Act 1986* provides a 50% exemption for assets backing the market linked pension. For the purposes of these two Acts the assets test provides a means tested threshold that limits the amount of age pension a person can obtain from the government after age pension age. For example if a 66-year-old male member with \$700,000 in superannuation benefits commenced a market linked pension on 1 July 2006, the member would only include 50% of those benefits for assets test purposes. The market-linked pension like the allocated pension is treated favourably under the incomes test. However partially assets test exempt pensions will not be able to be commenced after 20 September 2007 under the Simpler Super reforms.

#### 4. The Simpler Super reform pensions

The Simpler Super reforms propose to make pensions simpler by removing many of the rules. Importantly if a pension is put in place prior to 1 July 2007 this may continue and would be deemed to be a suitable pension. The pensions proposed under the reforms will generally be commutable, have a band for minimum draw downs (see below) but cannot be built with a residual capital value unlike current allocated pensions. In addition for transition to retirement pensions, a maximum 10% draw down is available in any one income year.

Ages	% of account balance to be taken
55-64	4
65-74	5
75-84	6
85-94	10
95+	14

*Before commencing any pension, a member should seek SMSF advice to ensure that their current income, tax concession, RBL and social security entitlements are maximised and built into the pension commenced.*

## 12. Estate Planning

A key feature of a SMSF is the ability of a member to directly provide for their dependants in the event of their death. A member may provide the trustee with binding and non-binding nominations as to how their superannuation benefits are to be distributed in the event of their death. Such benefits are called death benefits and may be by way of lump sum or pension. Any lump sum payment does not have to be in cash and may consist of assets of the Fund under the *Strategist* SMSF governing rules.

A dependant under the *SIS Act* includes a person who is a financial dependant and includes a person who, although is not financially dependant, is the spouse or child of the deceased person. It also includes a person who is in an interdependent relationship with the deceased member such as a sister living with a member or possibly the same sex partner of a member who lives under the same roof. A member may also direct some or all of their superannuation benefits into their legal estate on death and allow those benefits to be distributed according to the deceased's will. This includes a pension that may have been payable to a member at the time of their death.

Any such direction is made in writing and known as a death benefit nomination. There are two types of nomination – a binding death benefit nomination ("BDBN") and a non-binding death benefit nomination ("NBDBN"). A BDBN is one where a member requests that the trustee pay all or part of their benefits - either by way of pension or lump sum - to a nominated dependant



or dependants. If the trustee accepts the request, then on the member's death the trustee is bound to pay those benefits in accordance with the member's nomination.

On the other hand a NBDBN is where the member requests the trustee to make certain payments to specified beneficiaries. However as the nomination is non-binding the trustee is not obliged to carry out the request. If the member dies and no nomination has been made then the trustee has full discretion to choose the manner in which to allocate the deceased member's superannuation benefits.

A reversionary pension is a pension payable to a member that reverts or automatically carries on in the name of the spouse, dependant or legal estate. A reversionary pension has built in estate planning however the decision on where the pension is to be transferred is made at the time of commencement of the pension. It is the documents put in place for the pension that guide what happens on the death of the pension member not a BDBN or NBDBN.

As the member was a trustee or director of the trustee company at the time of death, then the governing rules of the *Strategist* SMSF allow the deceased member's executor be appointed as trustee or director of the corporate trustee. The purpose of this is to ensure that the member's death benefit nominations are carried out according to their wishes. However the appointment can only be in force until the first death benefits are paid out. At that time the executor must resign as trustee otherwise the fund may lose its complying SMSF status.

There are significant taxation advantages of paying a death benefit directly from a Fund to a dependant rather than through the deceased's legal estate. Broadly the following rules apply in relation to death benefits:

- ▶ any lump sum payment to a spouse, child under age 18 or financial dependant - provided it is under the member's higher pension reasonable benefit limit at the time of payment - is tax free;
- ▶ if the child is over age 18 or the person is not a financial dependant for taxation purposes then the lump sum tax is generally 15% - excluding Medicare Levy - provided that the payment is within the deceased member's pension reasonable benefit limit;
- ▶ any lump sum payment in excess of a member's pension reasonable benefit limit is subject to tax at a rate of 38% - excluding Medicare levy;
- ▶ any pension income, again provided it has no excess benefits is assessable to the dependant or legal estate at their normal tax rates less a 15% tax rebate. Furthermore where the dependant or the trustee of the legal estate commutes the pension, it will be taxed as an ordinary lump sum (see above). However if the pension has an excessive component it is to be taxed at a rate of 38% - which can prove a shock for the estate or dependants.
- ▶ From 1 July 2007 any lump sum payment to a dependant upon the death of a member is to be tax free with RBLs being effectively abolished from that time. In addition where a dependant is to be paid a reversionary pension and the deceased member was age 60 or more at the time of death, the pension payment will be tax free in the hands of the dependant.

Finally the deceased member's will cannot direct the trustee as to how superannuation benefits are to be distributed. Whilst the trustee may take the member's will into account they are required to follow any BDBNs or continue a pension payment on where there is a reversionary beneficiary. The trustee may consider but not necessarily follow any request in the deceased member's will where there is no death benefit nomination made or the nomination is a NBDBN.

Until a SMSF estate plan is created for the member, the trustee will have full control of what happens to the member's superannuation benefits in the event of their death. As such estate planning is vital in a SMSF and needs to be considered at the time a person becomes a member or soon thereafter. As it is complex and the options are many, the member should seek the advice of a superannuation specialist.

### 13. Taxation of the Fund and Members

One of the major benefits of commencing a SMSF is that the Fund may be concessionally taxed on its income and members may be concessionally taxed on benefits received from the Fund. Importantly these taxation concessions only apply where a Fund is a complying superannuation fund during the income year. A non-complying SMSF is taxed at a rate of 45% on its income and capital gains. This once again emphasises the need for trustees to be vigilant in monitoring the compliance of the Fund and ensuring that they abide by the governing rules of the Fund and also the relevant superannuation and taxation laws.

#### Taxation of the Fund

Broadly the trustee of the Fund is taxed like any other taxpayer except that:

- ▶ any taxable income of a complying superannuation fund is taxed at a 15% rate excluding income that is special income, such as private company dividends and non-arms length income received by the Fund. Special income is taxed at a 45% rate;
- ▶ any capital gains earned by the trustee upon the disposal of an asset that has been held for more than one year is entitled to a 33 1/3% discount;
- ▶ the trustee is to include in its assessable income any contributions (taxable contributions) it receives excluding contributions from a member on their own behalf for which they have not claimed a tax deduction and contributions made on behalf of a spouse or child under the age of 18;
- ▶ any income or capital gains earned on assets that are being used by the trustee to provide pensions is exempt from taxation provided that the trustee has segregated those assets from the accumulation assets of the Fund. Upon segregating, the Fund will have two parts – the accumulation side and the pension side, each with different taxation consequences. If the trustee does not segregate the assets of the fund when a pension commences then a portion of the income and capital gains of the fund will be tax exempt according to an actuarial report that the trustee is required to obtain;
- ▶ the trustee may obtain a tax deduction for premiums paid for life insurance, permanent disability and temporary incapacity (where the term of the contract is no longer than 2 years). The trustee may also receive a tax deduction for self-insurance provided an actuary determines the arms length amount of the premium that could have been claimed. The *Strategist* SMSF governing rules allow the trustee to self insure;
- ▶ where a member dies or becomes permanently incapacitated prior to age 65 and while they are working the trustee may obtain a significant tax deduction based on a proportional amount of benefit paid to the member or the member's dependants or legal estate;
- ▶ where a member dies and the trustee has included some of the contributions on behalf of the member in its assessable income in prior years, then the trustee may be able to claim a tax deduction for any bonus payment made to the deceased member's dependants or legal estate to compensate them for tax paid on these contributions. However this bonus payment must be established by the trustee as being for the specific purpose of making such anti-detriment payments.
- ▶ The Simpler Super reforms propose that the first \$50,000 of taxable contributions per member (across all superannuation funds) are to be taxed at the normal superannuation fund tax rate of 15%. For members over age 50 at 1 July 2007, a \$100,000 limit applies until 30 June 2012. Any amounts over these limits are to be taxed in the trustee's hands at a rate of 45%.

## **Taxation of Benefits to a Member**

Benefits paid to a member will be taxed dependent upon what type of benefit they are:

### **1. Excessive Benefits**

Under the Tax Act a member is only allowed to access a certain amount of concessional taxed superannuation benefits. For the 2007 year the RBL lump sum base amount is \$678,149 where the member takes a lump sum benefit or an allocated pension. The RBL lump sum amount is to be reduced by 2.5% by every year that a person is under age 55. Where at least 50% of a member's benefits are taken as a market linked pension then the member may access the higher pension reasonable benefit limit of \$1,356,291.

Any lump sum amount that is excessive as determined by the Commissioner of Taxation is taxed from 38%. If the member is in receipt of a pension benefit then the member will have their rebate entitlements reduced to the extent that the pension is excessive. Any commutation of the pension will see the excessive benefits component taxed from 38%.

*Note: As a consequence of the Simpler Super reforms RBLs will be abolished with effect from 1 July 2007.*

### **2. Lump Sum**

Where a member is entitled to and takes a lump sum benefit then if the member is under age 55 and there are no excess benefits the maximum tax rate on the benefit is 20% excluding the Medicare levy. Where the member is over age 55 the first \$135,590 (being the threshold for the 2007 income year) of lump sum benefits taken by the member is tax-free. Any amount over this – except an excessive benefit - is taxed at a maximum rate of 15% excluding the Medicare levy. There are some lump sum amounts such as undeducted contributions, post June 94 invalidity components and the CGT exempt component which are tax free. That part of the lump sum that relates to service by the member prior to 1 July 1983 is known as the pre-83 component and only 5% of this amount is to be included in the member's assessable income where it is to be taxed at their marginal tax rate.

*Note: As a consequence of the Simpler Super reforms lump sums received after age 60 will be tax free from 1 July 2007.*

### **3. Pension**

Where a member is in receipt of a pension benefit all or part of the pension payment is included in the member's assessable income. However any amount of undeducted contributions made by a member or where the member has a CGT exempt component from the disposal of a business that is used to acquire the pension then these amounts are to be excluded from assessable income.

The tax-free amount for each year of the life of the pension – called the deductible amount - is the amount of undeducted contributions and CGT exempt component divided by the term of the pension. From 1 July 2007 this deductible amount will include that part of a member's superannuation account that is known as the pre-83 component (relative to service prior to 1 July 1983 if any).

If the pension is an allocated pension then the term will be the member's life expectancy at the time of commencing the pension. Otherwise it is simply the maximum duration of the pension including any reversionary benefit. For a 55 year old member with a market linked pension payable until their 100<sup>th</sup> birthday, a term of 45 years will be used as a factor to determine the tax free amount.

In addition, a member may access a 15% tax rebate on assessable pension income where the member is over age 55 or the pension payable as a consequence of the death or permanent incapacity of a member. As noted above to the extent the pension is excessive, the Commissioner of Taxation may reduce the rebate. Where the pension member is aged 60 at the time of receipt of the pension it will be tax free from 1 July 2007. If the member commutes the pension then lump sum tax rates will be payable as determined above.

## **14. Appointment of Specialists**

The superannuation and taxation laws, particularly as they apply to SMSFs are complicated. Serious breaches may render a fund to be a non-complying superannuation fund, which is taxed on its income at a rate of 45%, and the trustee may be subject to financial and criminal penalties.

The rules allow a trustee to appoint managers, advisers, and to engage other specialists to assist the trustee in the management of the Fund. It is highly recommended that the trustee appoint an experienced SMSF auditor and SMSF adviser to look after the Fund.

## **15. Costs and Expenses of the Fund**

SMSFs can be costly to run depending on the size of the Fund as most of the costs are fixed. For example the costs of administering a fund with assets of \$100,000 may be the same as a fund with \$2M in assets.

However administration costs, although important are not the only costs for a trustee to manage and operate a complying SMSF. Some other costs include but are not limited to:

- ▶ The acquisition of the deed and the rules and establishment of the Fund as a regulated self managed superannuation fund;
- ▶ The potential acquisition of a trustee company – see above on why a special purpose trustee company is recommended;
- ▶ The provision of specialist advice to the trustee or members in relation to the establishment of the Fund, restructuring of assets into the Fund, plans for member retirement incomes, incapacity benefits or benefits payable in the event of the member's death;
- ▶ The provision of investment advice concerning the development and implementation of the Fund's investment strategy;
- ▶ The acquisition by the trustee of insurances for the Fund for the benefit of members including life, total and permanent disablement as well as temporary incapacity insurances;
- ▶ Administration, accounting and audit fees in relation to the provision of audited accounts and complying certificate as required by the superannuation laws;
- ▶ The provision of actuarial advice should the Fund self-insure or the trustee pay a pension to any member or their dependant in the event of the member's death.

Costs associated with any of the above may be obtained in a schedule from the provider of any financial services to the trustee.

## 16. Understanding the Governing Rules of the Fund

A SMSF has a lifecycle and the governing rules of the *Strategist* SMSF have been designed to reflect this. This lifecycle at first requires the Fund to be formed, a trustee appointed and members admitted. The Fund will then receive contributions and may receive transfers of benefits from other superannuation funds. Once received the trustee then invests those monies or assets. The trustee must comply with the superannuation laws in all its operational activities. The SIS Act requires the Fund to be audited each and every year. An important part of the lifecycle – the most important for members – are the benefits; when, how and the quantity that are to be paid to members. Although SMSFs can continue indefinitely the trustee may also terminate the Fund.

To reflect the lifecycle of the Fund the governing rules are contained in the following Parts:

Part One	Establishment of the Fund
Part Two	Operation and Administration of the Fund
Part Three	Payment of Benefits by the Trustee
Part Four	Changes to the Fund
Part Five	Winding up of the Fund
Part Six	Interpretation

For a more detailed look at what each part contains refer to the index at the start of the rules.

Great care has been taken to ensure that the rules remain as flexible as possible yet still ensure that they meet current standards of the superannuation laws as well as other laws that may impact on the trustee and members of the Fund. These other laws include taxation, bankruptcy, family, social security and trustee laws.

Most rules have been divided into two parts. The first part provides a broad explanation of the rule. This explanation is designed to assist the reader to understand the purpose of the rule. Importantly the explanation does not form part of the rules; rather it is ancillary to them. The second part of each rule is the rule itself.

At the end of the rules are interpretative provisions. When reading the rules, if a particular term or word is capitalised then a definition may be found in the interpretative provisions.

# Establishment of the Oak Pension Fund

## Explanation

*A superannuation fund is a form of trust. Trusts are normally required to be established by deed. By execution of this Deed the Trustee formally establishes the Fund.*

*To benefit from concessional taxation rules the sole purpose of the Fund must be the provision of superannuation pension benefits or retirement, incapacity or death benefits to Members (or relatives of deceased Members). The Fund might also be able to provide pension benefits to members prior to the retirement of the member. However the Fund should not be formed to carry on a business.*

*In order for this Deed to be admissible as evidence in a court of law it may have to be stamped in the local jurisdiction of the Trustee.*

*The Deed does not contain the rules of the Fund. Rather the rules of the Fund are contained in a separate document and unlike the Deed can be (and should be) amended from time to time to reflect legislative changes.*

## THE DEED

THIS DEED is made on 6 DECEMBER 2006

BY: Acorn Melody Pty Ltd [ACN 098 614 674] ("Trustee")

## WHEREAS

- A The Trustee is that person who has executed this Deed or if more than one person those persons collectively.
- B The Trustee wishes to establish a superannuation fund ("the Fund").
- C The Trustee intends that the Fund should be a "complying superannuation fund" for the purposes of the *Income Tax Assessment Act 1936* and the *Superannuation Industry (Supervision) Act 1993*.
- D By execution of this Deed the Trustee signifies its consent to its appointment as the first Trustee of the Fund and acknowledges that it has read and agree to be bound by the rules of the Fund.
- E The Trustee intends that the Fund should be a complying self managed superannuation fund as defined for the purposes of the *Superannuation Industry (Supervision) Act 1993*.

## **NOW IT IS HEREBY AGREED**

### **Initial Trustee**

- 1** The Trustee if allowed by the rules of the Fund to be appointed as a trustee of the Fund is hereby appointed as the trustee of the Fund.

### **Establishment of the Fund**

- 2** The Trustee hereby agrees to receive contributions and any other amounts paid to it on behalf of members and will hold those contributions and any income thereon according to the rules of the Fund.

### **Name of the Fund**

- 3** The name of the Fund will be **Oak Pension Fund** or such other name as the Trustee might decide.

### **Rules of the Fund**

- 4** The rules of the Fund are those rules attached to this Deed, any amendment of or substitution of those rules, and any other rule that is deemed by any law to be a rule of the Fund.

### **Purpose of the Fund**

- 5** The Fund is to be maintained solely for the provision of one or more of those purposes referred to in section 62 of the *Superannuation Industry (Supervision) Act 1993* as core purposes or ancillary purposes including any purpose that the Regulator (as defined by the *Superannuation Industry (Supervision) Act 1993*) approves in writing.

### **Complying Self Managed Superannuation Fund**

- 6** The Fund must at all times do those things that would cause it to be a "complying self managed superannuation fund" as defined for the purposes of the *Superannuation Industry (Supervision) Act 1993* and the *Income Tax Assessment Act 1936* and must not do those things that would or might cause it not to be a "complying self managed superannuation fund" as defined for the purposes of the *Superannuation Industry (Supervision) Act 1993* and the *Income Tax Assessment Act 1936*.

### **Successor Acts**

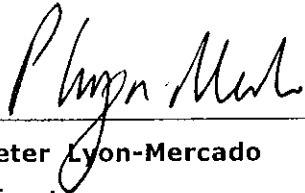
- 7** A reference to an Act includes a reference to any successor act to that Act.

This Deed establishing the Oak Pension Fund is hereby executed as a deed on

61 12 2006

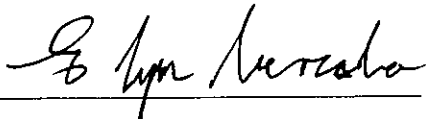
by Acorn Melody Pty Ltd  
ACN 098 614 674

as Trustee by being signed on  
behalf of the directors of the  
Company pursuant to the  
*Corporations Act 2001*



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Peter Lyon-Mercado  
Director



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Elizabeth Lyon-Mercado  
Director



# THE RULES OF THE FUND

Note – terms capitalised are defined in the Definitions.

## Part One: Establishment of the Fund

### Purpose of the Fund

#### Rule 1. The Fund must satisfy the sole purpose test

##### Explanation

*The Fund must be established and must be maintained solely for the provision of Core Purposes or for the provision of Core Purposes and Ancillary Purposes.*

*The SIS Act defines Core Purposes to include the provision of Benefits to a Member upon his or her retirement or to the Legal Personal Representative or Dependants of the Member in the event of the Member's death.*

*The SIS Act also provides that the Trustee may maintain the Fund for both Core Purposes and for Ancillary Purposes. An Ancillary Purpose may include the provision of Temporary or Permanent Incapacity Benefits to a Member where the Member terminates employment as a consequence of ill health.*

*An Ancillary Purpose also includes the provision of such Benefits as the Regulator has approved in writing.*

##### Rule

The Trustee must ensure that the Fund is maintained for one or more of the Core Purposes or for one or more of the Core Purposes and for one or more of the Ancillary Purposes and for no other purpose.

### Appointing the Trustee

#### Rule 2. Who may and may not be a Trustee

##### Explanation

*The Fund must have a Trustee.*

*Section 17A of the SIS Act must be satisfied in order for the Fund to be a Self Managed Superannuation Fund. This section requires that:*

- *each Member must be a Trustee or if the Trustee is a company each Member must be a director of that company;*
- *a person who is not a Member may not be a Trustee or a director of a company which is a Trustee,*

*except that a Legal Personal Representative may also be a Trustee.*

*On the Death of a Member the Legal Person Representative of that Member should be appointed as a Trustee or as director of a company that is a Trustee – see Rule 51.*

*For single member funds another person is required to be appointed as a Trustee, not being an*

*employer of the Member unless also a relative of the Member.*

*However these Rules do not allow – for the purposes of administrative simplicity – for a company to be a Trustee if a Member is also a Trustee.*

*If a company is appointed Trustee the constitution of that company should be compatible with the Rules.*

*Any person accepting appointment as a Trustee or director of a company that is the Trustee must read and agree to the Rules.*

*A disqualified person may not be a Trustee. A disqualified person may include a person who has committed a civil or criminal offence.*

*If a natural person is a Trustee a company cannot also be a Trustee.*

## **Rule**

### **Who may be a Trustee**

- 2.1.** Natural persons may be Trustees or a company may be the Trustee but natural persons and companies cannot both be Trustees.
- 2.2.** Subject to this Rule and Rule 51 below (which applies on death of a Member) an individual may only be a Trustee if the individual is a Member.
- 2.3.** Subject to this Rule and Rule 51 below (which applies on the death of a Member) a company may only be a Trustee if all the directors of the company are Members.
- 2.4.** Notwithstanding Rule 2.2 and Rule 2.3 if there is only one person who is a Member then:
  - (a) that Member or the Legal Personal Representative of that Member and one other natural person who is a Relative of the Member or is a person who is not an employer of the Member may be the Trustee; or
  - (b) a company may be the Trustee the sole director of which is the Member or the Legal Personal Representative of the Member or the company may have two directors one of which is the Member or the Legal Personal Representative of the Member and another person who is a Relative of the Member or is a person who is not an employer of the Member.
- 2.5.** If the Member is under a legal disability then that Member cannot be appointed as a trustee but the Legal Personal Representative of that Member may be appointed as a Trustee.
- 2.6.** If the Regulator appoints a person or company as a Trustee that person or company may be a Trustee.
- 2.7.** Notwithstanding any other provisions of these Rules a person or company shall not be appointed as a Trustee unless they have provided the Trustee with a written consent to that appointment and have acknowledged that they have read and agreed to be bound by the Rules.
- 2.8.** Notwithstanding any other provision of these Rules an Approved Trustee may be appointed as the Trustee.

## Who may not be a Trustee

**2.9.** A person cannot be a Trustee if:

- (a) at any time
  - (i) the person was convicted of an offence against or arising out of a law of the Commonwealth of Australia, a State or a Territory of Australia or a foreign country, being an offence in respect of dishonest conduct; or
  - (ii) a Civil Penalty Order was made in respect of the person; or
- (b) the person is an insolvent under administration; or
- (c) a Regulator has disqualified the person (for the purposes of section 120A of the SIS Act) and the Regulator has not waived that person's status as a disqualified person.

**2.10.** A company cannot be a Trustee if:

- (i) the company knows, or has reasonable grounds to suspect, that a person who is, or who is acting as a Responsible Officer of the company has been disqualified by the Regulator (for the purposes of section 120A of the SIS Act); and
  - (ii) the company knows or has reasonable grounds to suspect that:
    - (1) the person is not eligible under section 126B(1) of the *SIS Act* to apply to APRA for a declaration waiving his or her status as a disqualified person; or
    - (2) the person is so eligible under section 126B(1) of the *SIS Act* to apply to APRA for a declaration waiving his or her status as a disqualified person but that person will not make an application under subsection 126B(3) of the *SIS Act* seeking a waiver of that status; or
- (b) a receiver, or a receiver and manager, has been appointed in respect of property owned by the company; or
- (c) an official manager, deputy official manager or administrator has been appointed in respect of the company; or
- (d) a provisional liquidator has been appointed in respect of the company; or
- (e) the company has begun to be wound up.

**2.11.** Notwithstanding Rules 2.9 and 2.10 above a person or company can be appointed as a Trustee if that appointment as a Trustee is authorised by the Regulator.

### Rule 3. Appointment of a Trustee

#### Explanation

*This Rule provides the mechanism for appointing those persons eligible to be appointed as Trustees. This Rule also allows an individual to be replaced as a Trustee by a company which is a Trustee and for a company which is Trustee to be replaced as Trustee by an individual.*

*Trustees of the Fund will be personally liable for any liabilities incurred by the Fund (although they may be entitled to indemnity by the Fund). Where there is more than one Trustee each Trustee is jointly and severally liable for the liabilities of the Fund. As a consequence persons causing the establishment of the Fund might prefer that a company be appointed the Trustee of the Fund rather than individuals being appointed Trustees of the Fund.*

#### Rule

- 3.1.** Upon establishment of the Fund a person is appointed as Trustee provided that that person:
- (a) has agreed to be Trustee by reason of execution of the Deed; and
    - (i) has consented in writing to become a Member or is the Legal Personal Representative of a person and has agreed in writing to that person becoming a Member; or
    - (ii) if the Fund has only one Member – is a Relative of the Member or is a person who is not an employer of the Member;
  - (b) has agreed to be bound by the Rules;
  - (c) is eligible to be appointed a Trustee; and,
  - (d) has read the Product Disclosure Statement.
- 3.2.** Upon establishment of the Fund a company is appointed as Trustee provided all the following conditions are met:
- (a) the company and its directors have agreed to be Trustee by reason of execution of the Deed;
    - (i) all directors have consented in writing to become Members or they are the Legal Personal Representative of a person and have agreed in writing to that person becoming a Member; or
    - (ii) if the Fund has only one Member and two directors – the director that is not a Member is a Relative of the Member or is a person who is not an employer of the Member;
  - (b) the company and its directors agree to be bound by the Rules;
  - (c) the company is eligible to be appointed a Trustee; and
  - (d) all the directors have read the Product Disclosure Statement.
- 3.3.** Subject to the provisions of these Rules where the Trustee accepts a person as a Member, that person or a Legal Personal Representative of that person is appointed as a Trustee unless that person or a Legal Personal Representative of that person becomes a director of a company which is the Trustee.

- 3.4.** Upon retirement of a Trustee and at the direction of that Trustee one of the following is appointed as Trustee in place of the Trustee who has retired:
- (a) if that Trustee is a person - another person who is a Member or a Legal Personal Representative of a Member or a company of which the Member or the Legal Personal Representative of the Member is a director; or
  - (b) if that Trustee is a company - a company all the directors of which are Members or are Legal Personal Representatives of Members
- provided that person or company is not already a Trustee.

## **Becoming a Regulated Superannuation Fund**

### **Rule 4. The Trustee must ensure that the Fund is a Regulated Superannuation Fund**

#### **Explanation**

*The tax concessions contained in the Income Tax Assessment Act 1936 only apply to a Self Managed Superannuation Fund that is a Complying Self Managed Superannuation Fund. A Self Managed Superannuation Fund will not be a Complying Self Managed Superannuation Fund if it is not a Regulated Superannuation Fund.*

#### **Rule**

The Trustee must cause the Fund to at all times be a Regulated Superannuation Fund.

## **Trustee Operations and Obligations**

### **Rule 5. Removal and Retirement of a Trustee**

#### **Explanation**

*The purpose of this Rule is to provide a mechanism for the removal or retirement of a person or company as a Trustee.*

#### **Rule**

- 5.1.** A Member may retire as a Trustee provided:
- (a) a company of which the Member is a director is appointed as Trustee; or
  - (b) a Legal Personal Representative of that Member is appointed as a Trustee.
- 5.2.** If the Fund has only one Member, a person who is not a member and who is a Trustee may retire as a Trustee provided that another person who is a Relative of the Member or is a person who is not an employer of the Member is appointed as a Trustee.
- 5.3.** A company may retire as a Trustee provided:
- (i) all the directors of that company are appointed as Trustees; or
  - (ii) another company is appointed as a Trustee, provided the directors of that company are also directors of the company retiring as Trustee.
- 5.4.** Notwithstanding any Rule a Trustee may retire as Trustee of the Fund if an Approved Trustee is or has first been appointed as the Trustee of the Fund;

- 5.5.** Subject to these Rules and the Act a person or company is removed as a Trustee:
- (a) if the Trustee is a Member – upon that person ceasing to be a Member;
  - (b) If the Trustee is a Member – upon that Member becoming incapable of acting as Trustee unless a Legal Personal Representative of that Member is appointed as a Trustee in place of that Member;
  - (c) if the Trustee is a company – on that date four months from the time one or all of the directors of the company cease to be Members or the Legal Personal Representatives of Members;
  - (d) if the Trustee is prohibited from being a Trustee by reason of Rules 2.9, 2.10 or Rule 2.11 – on that date a Trustee is so prohibited from being a Trustee;
  - (e) if the continued appointment of the Trustee as a Trustee will cause the Fund to be a Non-Complying Self Managed Superannuation Fund – on the day before the day the continued appointment of the Trustee as a Trustee will cause the Fund to be a Non-Complying Self Managed Superannuation Fund.

## **Rule 6. Remuneration and Indemnification of a Trustee**

### **Explanation**

*A Fund will not be a Complying Self Managed Superannuation Fund if the Trustee receives any remuneration for acting as Trustee unless the Trustee is an Approved Trustee.*

### **Rule**

- 6.1.** A Trustee shall not be entitled to be remunerated for acting as a Trustee unless the Trustee is an Approved Trustee.
- 6.2.** A Trustee may apply the assets of the Fund in indemnification of itself or a former Trustee for expenses incurred by itself or a former Trustee in managing or administering the Fund provided:
- (a) the Trustee or the former Trustee acted honestly in the matter in respect of which the indemnification is sought;
  - (b) the Trustee or the former Trustee did not intentionally or recklessly fail to exercise, in relation to the matter in respect of which indemnification is sought, the degree of care and diligence that the Trustee or the former Trustee was required to exercise.

## Rule 7. Meetings of the Trustees

### Explanation

*If there is more than one Trustee, the Trustees should meet to decide matters such as the:*

- *appointment of various professional advisers to the Fund including the Auditor,*
- *establishment of a bank account or cash management trust for the Fund,*
- *setting of an investment objective and investment strategy for the Fund,*
- *admission of Members to the Fund,*
- *acquisition and disposal of investments pursuant to the Fund's investment strategy,*
- *approval of the payment of Benefits to a Member (including payment of a Pension),*
- *payment of a Death Benefits,*
- *acceptance of a Binding Death Benefit Nomination from a Member,*
- *review of audit reports,*
- *creation of any Reserves.*

*Normally the Manager, the person whom the Trustees have appointed to be responsible for the day-to-day administration of the Fund, will call meetings. However Members with Members' Account balances equal to 50% or more of the balances of all Members' Accounts can also call a meeting.*

*Where the Trustee is a company decisions will be made at meetings of the directors of that company rather than at meetings of the Trustees. In this case meetings of the company must be held in accordance with the constitution of that company. It is important that the constitution of any company that is a Trustee be compatible with the Rules.*

*These Rules are designed to ensure that Members would normally vote according to their interests in the Fund. The constitution of the Strategist special purpose company contains rules that are designed to only allow directors of any such company to vote at directors' meetings of that company according to the directors' interests in the Fund (or the interests of those Members who those directors represent).*

### Rule

- 7.1.** If there is more than one Trustee the Trustees must meet if the Manager or Members, the balance of whose Members' Accounts is equal to more than one half of the balance of all Members' Accounts, serves a notice of the meeting upon the Trustees requiring the Trustees to make a decision in respect of the Fund.
- 7.2.** The Manager or Members must give reasonable notice of any such meeting to each of the Trustees (which may be by mail, facsimile or email to that address, facsimile number or electronic address last nominated by each Trustee) unless the Trustees unanimously agree that the meeting may be held on some earlier date. Such written notice must:
- (a) set out the place, date and time for the meeting (and, if the meeting is to be held in two or more places, the technology that will be used to facilitate this); and
  - (b) state the general nature of the business of the meeting.

- 7.3. Where, through a link established by means of any system of telephone, audio or audio-visual communication approved by the persons eligible to attend a Trustee Meeting those persons will be taken to be assembled together at a meeting and all proceedings of those persons, conducted with the aid of the link, will be as valid and effectual as if conducted at a meeting at which all those persons were physically present.
- 7.4. At any Trustee Meeting a quorum is equal to that number of Members, or the Legal Personal Representatives of those Members, the balance of whose Members' Accounts, is equal to more than one half of the aggregate balance of all Members' Accounts.
- 7.5. At any Trustee Meeting, unless the persons entitled to and present at that meeting unanimously agree otherwise, a person shall be entitled to cast that number of votes as is equal to the nearest number of whole dollars of the balance of the Member's Accounts of that Trustee.
- 7.6. A resolution shall not be passed at any Trustee Meeting unless it is passed by the casting of a majority of the votes entitled to be cast by persons who are present at that meeting.
- 7.7. A person may appoint another person to act as that person's proxy at any Trustee Meeting.
- 7.8. If a circulating minute, containing a statement that the Trustee is in favour of a resolution in the terms set out in that document, has been signed by all persons entitled to attend a Trustee Meeting, a resolution in those terms will be taken to have been passed at a meeting held on the day and at the time at which the document was last signed by any such person. Two or more separate documents containing statements in identical terms, each of which is signed by one or more persons, will together be taken to constitute one document for the purposes of this Rule.

## Rule 8. Trustee's records

### Explanation

*A written record must be kept of all decisions made by the Trustee in relation to the Fund. Those records should be held for ten years.*

### Rule

- 8.1. If there is only one person who is a Trustee that person must make a written record of all decisions made by that person as Trustee.
- 8.2. If there is more than one person who is a Trustee the Trustee must keep minutes of every meeting held by the Trustees.
- 8.3. If the Trustee is a company the minutes of the meetings of the directors of that company shall be deemed for the purposes of this Rule to be records of the Trustee.
- 8.4. Records and minutes required by this Rule must be kept for at least ten years from the date the decision was made or the date of the meeting.



## Rule 9. Trustee's covenants

### Explanation

*The Act requires that the rules of a Regulated Superannuation Fund contain certain covenants (if the rules do not contain these covenants the Rules are deemed to contain those covenants). Whilst some of those covenants are contained elsewhere in these Rules they have all been reiterated here to highlight the code of conduct that a Trustee must adopt as a Trustee.*

### Rule

A person by accepting appointment as a Trustee agrees:

- (a) to act honestly in all matters concerning the Fund;
- (b) to exercise, in relation to all matters affecting the Fund, the same degree of care, skill and diligence as an ordinary prudent person would exercise in dealing with property of another with whom the person felt morally bound to provide;
- (c) to ensure that duties and powers of the Trustee are performed and exercised in the best interests of the Members;
- (d) to keep the money and other assets of the Fund separate from any money and assets, respectively:
  - (i) that are held by a Trustee personally or,
  - (ii) that are money or assets as the case may be, of a Standard Employer-Sponsor, or an Associate of a Standard Employer-Sponsor, of the Fund;
- (e) not to enter into any contract or do anything else, that would prevent the Trustee from, or hinder the Trustee in properly performing or exercising the Trustee's functions and powers;
- (f) to formulate and implement a written investment strategy in accordance with the provisions of the Act;
- (g) if there are any Reserves – to formulate and implement a written strategy for the prudential management of those Reserves consistent with the Fund's investment strategy and its capacity to discharge liabilities (whether actual or contingent) as and when they fall due; and
- (h) to allow a Member access to Prescribed Information and any Prescribed Documents.

## Admittance of Members

### Rule 10. Who may become a Member

#### Explanation

*There are generally no restrictions on who can be a Member of the Fund provided the Member or their Legal Personal Representative is eligible to be appointed a Trustee. For example a child or a person that is not employed may become a Member of the Fund.*

*This Rule would also allow the Trustee to admit a spouse of a Member who is not also a Member as a Member to allow any superannuation splitting arrangement as ordered by the Family Court.*

#### Rule

**10.1.** The Trustee may in its absolute discretion admit a person as a Member provided:

- (a) that person or that person's Legal Personal Representative has provided the Trustee with an Application Form and has agreed to be bound by the Rules;
- (b) admission of that person as a Member would not cause the Fund to become a Non-Complying Self Managed Superannuation Fund; and
- (c) the person or the Legal Personal Representative of that person is eligible to act and accept appointment as a Trustee or is eligible to be and is willing to accept appointment as a director of a company which is eligible to and will accept appointment as a Trustee.

**10.2.** Subject to these Rules and the Act the Trustee must admit a person as a Member where that person will be paid a Pension from the Fund.

### Rule 11. Members have read and are bound by the Rules

#### Explanation

*This Rule is to protect the Trustee against any claims made by a Member who claims not to understand what rights and obligations the Trustee and Member has under the Law and Rules.*

#### Rule

By applying for membership of the Fund a Member acknowledges having read the Product Disclosure Statement and agrees to be bound by the terms of the Deed and the Rules. Subject to Rule 10.2 a Trustee may prohibit a person becoming a Member of the Fund if they are of the opinion that the person has not read and understood the Fund's Product Disclosure Statement, the Deed and the Rules of the Fund.

## Rule 12. Application Form

### Explanation

*A person wishing to become a Member must provide the Trustee with an Application Form.*

*The Application Form may (amongst other things) require such a person to:*

- acknowledge that the person has read the Product Disclosure Statement;*
- agree to be bound by the Rules;*
- be a Trustee of the Fund or a director of a company which is the Trustee of the Fund;*
- provide such information (including medical information) to the Trustee as the Trustee requires;*
- provide the Trustee with a death benefit nomination.*

### Rule

- 12.1.** A person shall not be admitted as a Member or receive a Pension from the Fund unless that person has completed an Application Form in the form required by the Trustee and has confirmed in writing that he or she has read the Product Disclosure Statement, Deed and Rules of the Fund and has agreed to be bound by the Rules of the Fund.
- 12.2.** Where a person may be entitled to be paid a Pension following the death of a Member and that person does not wish to become a Member or the Trustee decides that the person should not become a Member then the Trustee is to transfer that amount as is in or would have been added to a Member's Pension Account to fund the payment of the Pension to that person to another Complying Superannuation Fund or Eligible Rollover Fund. Any such transfer is to be made in accordance with Rule 26 and must occur within three months of the time that the person became entitled to be paid a Pension.

## Rule 13. Receipt of an Application Form

### Rule

- 13.1.** On receipt of an Application Form from a person and after that person produces such documents and evidence, and submits to such medical examination and checks, as the Trustee may reasonably and lawfully require the Trustee may admit that person as a Member.
- 13.2.** Within 6 weeks of receipt of an Application Form the Trustee shall advise the person applying for membership whether or not that person has been accepted for admission as a Member and whether or not any conditions will be attached to that person's membership of the Fund.
- 13.3.** If the Trustee has agreed to accept a person as a Member but subject to conditions as to that person's membership that person can within 6 weeks of notification by the Trustee pursuant to Rule 13.2 either accept or reject that offer of membership.
- 13.4.** If after six weeks a person neither accepts or rejects an offer of membership of the Fund that person shall be deemed to have rejected that offer of membership.

## Estate Planning

### Explanation

*A Member's expectation to be paid Benefits by the Fund may not be dealt with by his or her will. This is because normally the Trustee has discretion as to how Benefits should be paid. However the Act or the Rules allow:*

- *a Member to provide the Trustee with a Non-Binding Death Benefit Nomination in which the Member may request but cannot bind the Trustee to pay Benefits payable by reason of that Member's death as that Member directs;*
- *a Member to provide the Trustee with a Binding Death Benefit Nomination in which the Member may require the Trustee to pay Benefits payable after that Member's death to a Legal Personal Representative or Dependant of that Member. However such requests are current for only a three year period;*
- *a Member might cause the Rules to amended to ensure that Benefits payable as a consequence of that Member's death are paid in a particular way. The Rule may only be varied with that Member's consent.*
- *the terms of a Pension payable to a Member to be incorporated as a Rule -as a consequence the Trustee is obliged to ensure that payments are made after that Member's death according to the terms of the Pension.*

## Rule 14. Non-binding Death Benefit Nomination

### Explanation

*A Member might request the Trustee to pay a Benefit after the death of the Member to persons nominated by that Member. However the Member might prefer -so as to not bind the Trustee- that this direction is made more as a statement of wishes than as a mandatory order.*

### Rule

- 14.1.** A Member or the Legal Personal Representative of a Member may provide the Trustee with a Non-Binding Death Benefit Nomination. This Nomination may request the Trustee, at its discretion, to provide benefits on death of the Member to persons named by the Member in that nomination.
- 14.2.** The Trustee may accept, amend or reject a Non-Binding Death Benefit Nomination. If the Trustee amends or rejects the Non-Binding Death Benefit Nomination the Member or the Legal Personal Representative of the Member may submit another Non-Binding Death Benefit Nomination.
- 14.3.** A Non-Binding Death Benefit Nomination is not binding upon the Trustee.
- 14.4.** A Member or the Legal Personal Representative of a Member may also direct the Trustee to act, do or carry out a particular course of action on their death or incapacity. However the Trustee is not bound by any such direction and the Trustee must not comply with that direction if it causes the Fund to become a Non-Complying Self Managed Superannuation Fund.

## Rule 15. Binding Death Benefit Nomination

### Explanation

*The SIS Act states that if the Rules of a Fund permit it a Member of the Fund may require the Trustee to provide any Benefits in respect of the Member, on or after the death of the Member, to the Legal Personal Representative or a Dependant of the Member. The Member does this by making what is commonly referred to as a "Binding Death Benefit Nomination"*

*These Rules allow the Trustee to accept a Binding Death Benefit Nomination. However the Trustee must first provide a Member with sufficient information for the purpose of submitting a Binding Death Benefit Nomination.*

*The Member may amend a Binding Death Benefit Nomination at any time provided the Trustee is notified in writing of that amendment.*

*A Binding Death Benefit Nomination ceases to have effect on that date three years after it was first signed or last confirmed or updated by the Member.*

*A Binding Death Benefit Nomination is quite limited and accordingly a Member who wishes to have certainty when providing for a Dependant should consider making use of one of the other options available as detailed in Rules 16 and 17.*

### Rule

- 15.1.** The Trustee must when required to do so by the Act provide a Member with that information that the Trustee reasonably believes the Member reasonably needs for the purpose of submitting a Binding Death Benefit Nomination.
- 15.2.** A Member or the Legal Personal Representative of a Member may provide the Trustee with a Binding Death Benefit Nomination or a replacement to a prior Binding Death Benefit Nomination.
- 15.3.** The Trustee may accept or reject a Binding Death Benefit Nomination. If the Trustee accepts a Binding Death Benefit Nomination the Trustee shall be bound to act in accordance with that Binding Death Benefit Nomination. If the Trustee does not accept a Binding Death Benefit Nomination within six months of receiving it it is deemed to have been rejected. If the Trustee rejects the Binding Death Benefit Nomination the Member or the Legal Personal Representative of a Member may submit another Binding Death Benefit Nomination.
- 15.4.** A Binding Death Benefit Nomination:
- (a) must be in writing;
  - (b) must require the Trustee to provide any benefits in respect of the Member, on or after the death of the Member, to a Legal Personal Representative or a Dependant of the Member;
  - (c) must be signed, and dated, by the Member in the presence of two witnesses, being persons:
    - (i) each of whom has turned 18; and
    - (ii) neither of whom is a person mentioned in the notice; and
  - (d) must contain a declaration signed, and dated, by the witness stating that the notice was signed by the Member or the Legal Personal Representative of a Member in his or her presence.

- 15.5.** A Member or the Legal Personal Representative of the Member may confirm, amend or revoke a Binding Death Benefit Nomination previously given by the Member to the Trustee. A confirmation must be in writing, dated and signed by the Member or the Legal Personal Representative of the Member. An amendment or revocation of a Binding Death Benefit Nomination must be in writing and must be dated and signed by the Member or the Legal Personal Representative of the Member in the presence of two witnesses each of whom has turned 18 and neither of whom is mentioned in the notice.
- 15.6.** Unless sooner revoked by the Member or the Legal Personal Representative of the Member who gave the Binding Death Benefit Nomination a Binding Death Benefit Nomination ceases to have effect after the end of the period of three years after the day it was first signed or last confirmed or amended by the Member or the Legal Personal Representative of the Member.

## **Rule 16. Incorporation of a Death Benefit request in the Rules**

### **Explanation**

*The SIS Act states that if the Rules of a Fund permit it a Member may request the Trustee to provide any Benefits in respect of the Member, on or after the death of the Member, to the Legal Personal Representative or a Dependant of the Member provided any such request would not render the Fund to be a Non-Complying Self Managed Superannuation Fund.*

*These Rules permit a Member to request that the Trustee establish a Death Benefit Rule. The request if accepted will bind the Trustee to pay a Member's Benefits upon the Member's death as that Member requests.*

*However before accepting a Member's request to establish a Death Benefit Rule, the Trustee should assess the cash flow requirements that may be faced by the Fund in the event of any Death Benefit becoming payable upon the Member's death.*

*If the Trustee is of the view that the Trustee may be unable to comply with the Member's request the Trustee may, after discussion with the Member, request that the Member resubmit the request. Alternatively, the Trustee may reassess the Fund's insurance plan and increase any life insurance cover.*

- 16.1.** A Member or the Legal Personal Representative of the Member may provide the Trustee with a notice in writing requesting the Trustee to establish a Death Benefit Rule that requires the Trustee to pay Benefits in the event of the death of the Member in a manner and form that the Member or the Legal Personal Representative of the Member so chooses including whether the Benefit is to be a Lump Sum Benefit, a Pension Benefit or combination of both.
- 16.2.** The Trustee may accept or reject any notice referred to at Rule 16.1 and must do so if it holds a Binding Death Benefit Nomination for that Member. If the Trustee accepts the notice the Trustee shall be bound to act in accordance with that Death Benefit Rule that is established as a consequence of it accepting the notice. The Trustee shall not accept any such notice if that would cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

## Rule 17. Terms and conditions of a Pension deemed to be a Rule

### Explanation

*Rule 47.2 states that the Trustee must document the terms and conditions set down for the payment of a Pension and notify the Member of these terms and conditions. This Rule deems that those terms and conditions to be part of the Rules.*

*This ensures that where for example the terms and conditions of a Pension provide for a reversion of the Pension on death of the Member to their Spouse, Dependant or Legal Personal Representative the Trustee is bound to act in accordance with those terms and conditions.*

### Rule

A Member or the Legal Personal Representative of the Member may in writing notify the Trustee of his or her acceptance of the terms and conditions of a Pension payable according to Rule 47 as a Rule. Upon that acceptance by the Member or the Legal Personal Representative of the Member those terms and conditions will be deemed to be a Rule.

## Part Two: Operation and Administration of the Fund

### Termination of Membership

#### Rule 18. Expulsion of a Member

### Explanation

*The object of this Rule is to allow the Trustee to expel a Member for any reason the Trustee considers necessary. The Trustee might do this if the Trustee felt that a Member's continued membership of the Fund was not in the interests of the Fund. An example might be where there is a family break down and inter personal relationships threaten the viability of the Fund.*

### Rule

- 18.1.** The Trustee may expel a Member as a Member of the Fund for any reason that the Trustee determines. At the same time the person must retire as Trustee of the Fund.
- 18.2.** If a Member is expelled from the Fund pursuant to Rule 18.1 the balance of the Member's Accounts is to be transferred to such other Superannuation Entity as requested by the Member and if the Trustee of the Fund has not received a transfer notification from a Member or former Member within a period of sixty days from the time the Trustee notified the Member of their expulsion, the Trustee may transfer the Member's Accounts to an Eligible Rollover Fund.

## Rule 19. Ceasing to be a Member

### Explanation

*Normally a Member will only cease being a Member:*

- *if the Member dies; or*
- *the Member is no longer entitled to receive Benefits from the Fund; or*
- *the Member ceases to be eligible to be a Trustee (or ceases to be eligible to be a director of a company which is a Trustee).*

*The Trustee also has the power to determine that a Member should no longer be a Member (for example if two Members who are spouses separate or divorce the Trustee might decide that in the interests of the Fund one of those persons should not be a Member of the Fund).*

### Rule

Unless prohibited by the Act a Member shall be deemed to have ceased to be a Member on the first to occur of the following:

- (a) the Member no longer being entitled to receive Benefits from the Fund;
- (b) the Trustee determining that the Member should no longer be a Member;
- (c) the death of the Member or if the Trustee decides otherwise, no later than the time any Legal Personal Representative of the Member remains as Trustee or director of the Trustee Company;
- (d) the date being no later than the earliest of either:
  - (i) four months from the date a Member became ineligible to be a Trustee or to be a director of a company which is a Trustee unless a Legal Personal Representative of that Member is appointed a Trustee; or
  - (ii) the date just before a Member became ineligible to be a Trustee or to be a director of a company which is a Trustee unless a Legal Personal Representative of that Member is appointed as a Trustee.

## Members' Accounts

### Rule 20. The Trustee must keep Members' Accounts

#### Explanation

*The Trustee must keep an individual account for each Member. An account may be either a Member's Accumulation Account or a Member's Pension Account. More than one account may be kept for each Member.*

#### Rule

- 20.1.** The Trustee must keep for each Member an account that records Contributions received, Earnings, amounts allocated to or from Reserves, Benefits paid and all other amounts that the Trustee resolves should added to or deducted from those accounts.
- 20.2.** The balance of a Member's Account must be positive.
- 20.3.** The Trustee can keep more than one account for a Member including a Member's Accumulation Account and a Member's Pension Account.



## Rule 21. Additions to a Member's Account

### Explanation

*Additions to a Member's Account will normally represent Contributions, roll-overs or Earnings. Additions may also include an allocation made by the Trustee from a Reserve into a Member's Account.*

*Contributions may include Splittable Contributions that have been transferred from a Member's Spouse in accordance with the spouse contributions splitting rules in the Act - see Rule 26.*

### Rule

On the last day of each month or such other time as the Trustee might determine or on any earlier date as required by the Act the Trustee shall add to a Member's Account:

- (a) the amount of Contributions received by the Trustee for the benefit of the Member; and
- (b) at the discretion of the Trustee such part of the Earnings as the Trustee believes should be added to that Member's Account; and
- (c) the amount of any Splittable Contributions as the Trustee has agreed to add to that Member's Account; and
- (d) any amount to which a Member is entitled because of a Payment Split; and
- (e) such other amounts including allocations of Reserves as the Trustee might determine;

provided that any such addition to the Member's Account does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

## Rule 22. Deductions from a Member's Account

### Explanation

*Deductions from a Member's Account will normally represent expenses directly attributable to the Member or that portion of the Fund's general expenses that the Trustee requires to be allocated to the Member's Account. Deductions may also include any losses which the Trustee believes should be attributed to that Member and any transfers such as transfers of Splittable Contributions taken by the Trustee from a Member's Account and transferred to another account.*

### Rule

On the last day of each month or such other time as the Trustee might determine or on any earlier date as required by the Act the Trustee shall deduct from a Member's Account:

- (a) that part of the expenses of the Fund that the Trustee believes should be deducted from that Member's Account; and
- (b) that part of any losses of the Fund that the Trustee believes should be deducted from that Member's Account; and
- (c) the amount of any payments of Benefits made to the Member or any other person from that Member's Account; and
- (d) the amount of any Taxes payable by the Trustee that the Trustee believes should be deducted from that Member's Account; and
- (e) the amount of any Splittable Contributions that the Trustee has agreed to deduct from that Member's Account; and

- (f) any amount which is to required to be deducted from that Member's Account because of a Payment Split; and
- (g) any other amount which the Trustee believes should be deducted from that Member's Account, including any amount to be transferred to a Reserve or to another Member's Account, provided that the amount of any such deduction would not cause the balance of the Member's Account to be less than that Member's Minimum Benefits unless allowed by the Act; and

provided that any such deduction does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

## Appointment of Auditor and Specialists

### Rule 23. The Trustee must appoint an Approved Auditor and may appoint a specialist

#### Explanation

*The Trustee must each year appoint an Auditor to audit the Fund. The Auditor is required to produce an annual report.*

*The law relating to Self Managed Superannuation Funds is extremely complex; a failure to comply with the law might see the Fund severely penalised and might cause a Trustee to be fined and even imprisoned. As a consequence the Trustee might decide that it is prudent that a specialist be appointed to assist the Trustee in ensuring that the Fund remains a Self Managed Superannuation Fund and to assist the Trustee in the administration and management of the Fund.*

#### Rule

- 23.1.** On establishment of the Fund and for every subsequent year of income the Trustee must appoint an Auditor to audit the Fund who must give to the Trustee a report in the form required by the Act.
- 23.2.** On establishment of the Fund and thereafter as the Trustee may determine the Trustee shall appoint such specialists as required by the Trustee to assist the Trustee in ensuring that the Fund remains a Complying Self Managed Superannuation Fund as well to assist the Trustee in the management and administration of the Fund.

## Contributions, Roll-Overs and Transfers

### Rule 24. Who can make Contributions

#### Explanation

*The Trustee may accept Contributions from:*

- (i) a Member;
- (ii) a Member's employer;
- (iii) a Member's Spouse;
- (iv) a relative of a Member;
- (v) an employer of the Spouse or relative of the Member;
- (vi) the Regulator;
- (vii) the Government, or
- (viii) any other person or entity,

*provided the Contributions are made in accordance with the Act. Contributions may be*

*made in cash or by an in specie transfer of assets. However care needs to be taken that the rules in the Act dealing with the acquisition of assets from Members are not contravened.*

#### **Rule**

A person may make Contributions to the Fund for the benefit of a Member provided the Fund will not, by reason of acceptance of those Contributions:

- (a) become a Non-Complying Self Managed Superannuation Fund, or
- (b) be in breach of the Act.

### **Rule 25. The Trustee may accept a transfer from another Superannuation Entity**

#### **Explanation**

*A Member may request the Trustee to accept a transfer of an amount from another Superannuation Entity.*

*The Trustee has absolute discretion as to whether to accept any such transfer or not. The Trustee can make an acceptance subject to conditions. Where the Trustee resolves to accept an in specie transfer of assets the Trustee must ensure that the transfer of the assets to the Fund does not breach the Act or the Rules of the Fund.*

#### **Rule**

A Member or the Legal Personal Representative of the Member may request that the Trustee accept a transfer of an amount from another Superannuation Entity. The Trustee shall in its sole discretion determine whether or not to accept the whole or part of such amount and whether or not conditions should apply to the acceptance of that transfer. The Trustee cannot accept a transfer of an amount to the Fund if acceptance of that amount would cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

### **Rule 26. Allotments, Transfers and Rollovers of Benefits**

#### **Explanation**

*A Member may request the Trustee to allot, transfer or rollover all or part of their Member's Account to another Superannuation Entity or to another Member's Account. The Trustee may also at its discretion so allot, transfer or rollover all or part of a Member's Account.*

*Examples of where such transfers might be appropriate are:*

- *upon receipt of a request from a Member to transfer an amount of Splittable Contributions from their Member's Account to their Spouse's Member's Account;*
- *where a Payment Split is required to be made for the purposes of Part VIII B of the Family Law Act 1975; and*
- *where one Member separates from his or her Spouse who is also a Member.*

#### **Rule**

**26.1.** If a Member or the Legal Personal Representative of the Member:

- (a) requests the Trustee to allot, transfer or rollover all or part of their Member's Account to another Superannuation Entity or to another Member's Account, and
- (b) the Trustee is satisfied that any such allotment, transfer or rollover will not cause the Fund to be a Non-Complying Self Managed Superannuation Fund,

or if the Trustee is required by law or agreement made for the purposes of the *Family Law Act 1975* the Trustee shall within such period as required by the Act or other law,

allot, transfer or rollover the whole or that part of the Member's Account to that other Superannuation Entity or to the other Member's Account.

**26.2.** The Trustee at its sole discretion unless prohibited by the Act may transfer the balance of a Member's Account to another Complying Superannuation Fund or to another Member's Account provided that in so doing the Fund does not become a Non-Complying Self Managed Superannuation Fund or breach the Minimum Benefit provisions.

**26.3.** The Trustee may effect the transfer or rollover in the manner and form of its choice including whether the transfer is by way of cash or assets or has conditions attached.

## Investments

### Rule 27. The Trustee must formulate a written investment strategy

#### Explanation

*The Trustee must prepare and implement a written investment strategy. This is a requirement of the Act. The investment strategy:*

➤ *must reflect the purpose and circumstances of the Fund and have particular regard to the membership profile, Benefit structure, tax position and liquidity requirements of the Fund;*

➤ *should set out the investment objectives of the Fund and detail how the Trustee will achieve those objectives.*

*Breaches of the investment strategy requirement may result in the Trustee being fined or sued for loss or damages. In addition, the Fund could become a Non-Complying Superannuation Fund.*

*If the circumstances of the Fund changes (for example because of the receipt of an exceptional Contribution) the Trustee should reconsider and possibly revise its investment strategy.*

#### Rule

**27.1.** The Trustee must formulate and implement an investment strategy that considers the whole of the circumstances of the Fund including, but not limited to, the following:

- (a) the risk involved in making, holding and realising, and the likely return from the Fund's investments considering its objectives and its expected cash flow requirements;
- (b) the composition of the Fund's (or part of the Fund's) investments as a whole including the extent to which the investments are diverse or involve the Fund in being exposed to risks from inadequate diversification;
- (c) the liquidity of the Fund's investments considering its expected cash flow requirements;
- (d) the ability of the Fund to discharge its existing and prospective liabilities.

**27.2.** The investment strategy must be documented in writing and signed by the Trustee.

- 27.3.** The investment strategy may consist of one strategy for the whole of the Fund or separate investment strategies for the various parts of the Fund.
- 27.4.** The Trustee may amend an investment strategy from time to time. If the Trustee amends an investment strategy all Members affected by any such amendment shall be advised in writing of all details of the amendment.
- 27.5.** A Member may at any reasonable time request the Trustee to produce the investment strategy for inspection and the Trustee shall comply with this request by the Member.
- 27.6.** The Trustee must also set an investment strategy for one or more Reserves of the Fund. Any such investment strategy must be based upon the prudential management of assets of the Reserve or such other requirements as laid down in the Act.
- 27.7.** In setting the investment strategy the Trustee may act on the advice of an investment adviser provided the Trustee reasonably believes that the adviser is qualified and has the necessary skills to provide such advice.

### **Rule 28. The Trustee must invest the assets of the Fund**

#### **Explanation**

*The Trustee must invest the assets of the Fund.*

*The Trustee must ensure all investment decisions are made in accordance with the investment strategy.*

*While all of the assets of the Fund might be in cash, the Trustee of the Fund must have determined in an investment strategy that the holding of cash is the appropriate investment for the Fund at this time.*

#### **Rule**

The Trustee must invest the assets of the Fund in accordance with the Fund's investment strategy.

### **Rule 29. A Member can request the Trustee to invest their account separately or jointly**

#### **Explanation**

*The Trustee may adopt a "pooled investment strategy" or a "separate investment strategy" for the Fund. A Member may request the Trustee to adopt a separate investment strategy for that Member.*

#### **Rule**

A Member or the Legal Personal Representative of the Member can request the Trustee to invest Contributions, transfers or rollovers made to the Fund for the benefit of that Member and income from the investment of those Contributions, transfers and rollovers separately from any other investments of the Fund. The Trustee need not accept that request.

### **Rule 30. Authorised investments**

#### **Explanation**

*These wide provisions are to ensure that there is no doubt as to a Trustee's ability to make various investments. The Trustee should not make investments if that would cause the Fund to fail the "sole purpose test" or become a Non-Complying Self Managed Superannuation Fund.*

## Rule

- 30.1.** Subject to the Act, these Rules and provided any investment does not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund the Trustee may invest the assets of the Fund as if it were the absolute and beneficial owner of those assets. In investing the assets of the Fund the Trustee shall exercise that diligence and prudence an ordinary prudent person would exercise in conducting his or her own affairs.
- 30.2.** Unless otherwise prohibited by the Rules, the Trustee may invest the assets of the Fund in any investment the Trustee believes appropriate. The investments may be both within and outside Australia. In particular, the Trustee shall have the power to apply or invest any moneys requiring to be invested under these Rules either alone or in partnership or co-ownership with any person or persons:
- (a) *Authorised investments:* in any one or more of the investments from time to time sanctioned by law in any State or Territory of Australia for the investment of trust moneys;
  - (b) *Real and personal property:* in the acquisition of real or personal property or any interest therein and without limiting the generality thereof of any patent, copyright, design, formula, secret process, concession, trademark and other like right or privilege in Australia or in any other country;
  - (c) *Shares:* in the acquisition of fully or partly paid shares including redeemable, preference or redeemable preference shares, stock debentures, debenture stock bonds, units, securities or obligations or any interest, with or without deferred, restricted, qualified or special rights relating thereto and whether or not there is or is not a liability in respect of any such shares, units, securities or interests, of or in any public proprietary or no liability company, association, firm, mutual fund or unit trust wherever incorporated or formed, whether carrying on business in Australia or in any other country, or in giving any guarantee or otherwise becoming a proprietor of a company limited by guarantee;
  - (d) *Option and rights:* in the acquisition of options, entitlements or rights to any of the securities mentioned in paragraph (c) of this sub-clause;
  - (e) *Deposit:* on fixed deposit or at call with any bank, savings bank, building society, company, corporation or firm wherever incorporated or situated and wherever carrying on business;
  - (f) *Insurance:* in the acquisition of any policy of assurance or insurance of any kind whatsoever and wherever made;
  - (g) *Loans:* in making loans to any person or company except to Members or a relative of a Member;
  - (h) *Precious objects:* in the purchase of gold, silver, works of art, coins, stamps, furniture, ornaments, precious objects, jewellery and antiques;
  - (i) *Commodity contracts:* in the acquisition of foreign currencies, hedging contracts, commodity contracts and also options or future contracts of any kind which are quoted on a recognised stock exchange;
  - (j) *Permanent building society:* in the lodgement of moneys with a permanent building society wherever situated by taking up shares therein or depositing funds therewith;
  - (k) *Deferred property:* in the acquisition of any reversionary or deferred property or rights of any description.

## Rule 31. Trustee Powers

### Explanation

*This Rule is designed to give the Trustee sufficient powers to administer the Fund and manage the investments of the Fund.*

### Rule

- 31.1.** In the administration of the Fund and in the exercise of the powers, authorities and discretions conferred by the Deed, by the Rules or by law the Trustee shall have the following powers:
- (a) *To deal with assets:* to sell, call in, convert into money, grant options or rights to purchase, mortgage, charge, sub-charge, or otherwise deal with or dispose of or transfer any item or asset comprising the whole or part of the Fund;
  - (b) *Real property:* to acquire, dispose of, exchange, strata title, subdivide, mortgage, sub-mortgage, lease, sub-lease, grant, release or vary any right or easement or otherwise deal with any interest in real property;
  - (c) *Personal property:* to acquire, dispose of, exchange, hire, lease, mortgage or otherwise deal with any interest in personal property;
  - (d) *Lease:* to rent premises from any person, acquire the interest of any lessee in any lease, purchase, hire, take on lease, grant leases, sub-leases, tenancies or rights of any nature to any interest in real estate, motor vehicles, computer hardware and software, fixtures and fittings, furniture, utensils, plant and equipment and other personal property of any description;
  - (e) *To let:* to lease and let property owned by the Fund or held by the Trustee pursuant to the provisions of these Rules upon terms and conditions as the Trustee may decide, to accept surrenders from, and to make arrangements with a lessee or tenant as the Trustee may consider appropriate;
  - (f) *Engage specialists:* to employ or engage agents or professionals in the execution of the trusts and powers and instead of acting personally from time to time to employ or engage and pay out of the trust fund such managers, agents, self managed superannuation fund advisers, solicitors, barristers, auditors, accountants, brokers, surveyors or other persons, to transact any business or to do any act required to be done in connection with the administration of the trusts declared in the Deed, and to act upon the opinion or advice of any such person without being responsible for any loss or damage occasioned by acting in accordance therewith;
  - (g) *To lend:* subject to these Rules and the Act to lend and advance moneys;
  - (h) *Bank accounts:* to open in the name of the Fund or in the name of any person or corporation as nominee of the Trustee, or in the joint names of the Trustee and another, any cheque, savings or other bank account with any bank or financial institution wherever situated, as the Trustee decides, with full power to operate or close any such account;
  - (i) *Management expenses:* to pay out of the assets, Reserves or the income of the Fund all costs charges and expenses incidental to the management of the Fund or to the exercise of any power, authority or discretion contained in the Rules or the Deed;
  - (j) *Pay general expenses:* to pay insurance premiums, rates, taxes, rents, and outgoings in connection with any real or personal property of the Fund from the assets, Reserves or the income of the Fund and to manage such property and effect repairs as the Trustee may consider necessary or advisable;

- (k) *Corporate securities:* with respect to any company in which the Trustee holds shares, stocks, debentures, options, convertible notes or is otherwise interested or concerned ("securities") to exercise the following powers in addition to powers conferred by law:
- (i) to pay calls on securities or to permit securities to be forfeited and sold;
  - (ii) to purchase securities and to take up securities of a new issue;
  - (iii) to attend meetings personally or by proxy, attorney or representative and vote at the discretion of the Trustee;
  - (iv) to sell securities at such price and upon such terms with or without security as the Trustee decides;
  - (v) to agree to any arrangement relating to the sale, transfer or exchange of any securities, or modifying any rights, privileges or interests in relation to the securities, to agree to any scheme or arrangement for the increase or reduction of the value or amounts of any shares or stock or of the capital of any company in which any securities form the whole or any part of the Fund, or by which any such securities are substituted or given in exchange, either wholly or partly for other securities, whether in the same company or not, for any such purpose to deposit, surrender or exchange any scrip or documents of title relating to the securities and generally to manage and deal with any securities as if the Trustee owned them beneficially; and
  - (vi) to agree in respect of a winding up with the liquidator of a company or any member of such company or any other person, in all things as the Trustee shall decide, for the division or partition in kind or specie of the assets or property of whatsoever nature of the company and to accept any of the assets and property in payment or satisfaction of any interest of the Trustee in the company with power to pay any moneys by way of equality of division or partition;
- (l) *Unit trust interests:* to acquire units or sub-units of any fixed or flexible unit trust either by way of application, purchase or by way of settlement by the Trustee in the establishment of such unit trust and to exercise all rights including voting rights and perform all obligations as a holder of any units in such trust and to accept all distributions by the trustee of such unit trust;
- (m) *Franchises:* to acquire by means of purchase or otherwise and to sell, dispose, relinquish or otherwise deal in franchises, franchise agreements, licences or things of like nature;
- (n) *Subdivision of property:* to partition or agree to the partition of or to subdivide or agree to the subdivision of property of any kind which, or any interest in which, may for the time being be subject to these trusts and to pay moneys by way of equality or partition;
- (o) *Maintain property:* to maintain and preserve in good condition any real or personal property of the Fund or otherwise held by the Trustee according to the Rules and to pay or defray those costs;
- (p) *Power to set aside:* to set aside out of the income or capital of the Fund from time to time such money as may in the opinion of the Trustee be sufficient to meet any debt or obligation due or accruing;
- (q) *Future contracts and options:* to engage brokers and commission agents and vary and determine the terms of any such engagement and either directly or through any broker or agent in any market in any part of the world buy sell,



- open, close-out or otherwise deal in futures contracts of all kinds, to enter into, vary, exercise, abandon or sell any put or call option or rights, or to place bids, make offers, hedge and effect orders including buying, selling, straddle, switch and stop-loss order, to tender and take delivery of commodities and currencies which are the subject of any futures contract or option, and otherwise to do and perform all things so as to operate on, utilise or deal with the facilities of any stock or futures exchange provided the Trustee maintains a risk management strategy;
- (r) *Trustee's power to deal with itself:* notwithstanding any rule or law or equity to the contrary:
- (i) to acquire as property of the Fund real or personal property the legal and beneficial interest in which is at the date of such acquisition the absolute property of the Trustee PROVIDED THAT any property so acquired is acquired for a consideration being not greater than the current Market Value of the property and upon which such acquisition the beneficial interest in and to the property shall be held by the Trustee according to the Rules;
  - (ii) to dispose of any beneficial interest in property of the Fund to itself;
  - (iii) to lease to the Fund any real or personal property the legal and beneficial interest in which is at the date of such acquisition the absolute property of the Trustee;
  - (iv) to lease any property of the Fund to itself.
- (s) *Policies:* to effect or acquire policies of life assurance of any kind on the life of any Member or in respect of sickness, disability or accident to any Member, to pay premiums transfer, surrender, change the situs of and deal with these policies in any manner whatsoever, whether or not these policies are individual policies on the life of one person or a group policy on the lives of two or more persons, to purchase or enter into insurance or investment bonds whether or not the bonds are linked to a policy over the life of any person;
- (t) *Agency and licences:* to apply for, purchase and hold any permit, agency or licence which may be desirable or required to enable or facilitate the carrying on of any business which the Trustee is empowered to engage in and to surrender, relinquish, sell, vary or assign the same;
- (u) *Choses-in-action:* to acquire choses-in-action including debts and obligations of all kinds for value or by way of gift or at a discount or at a premium and to assign, release, vary, relinquish or otherwise deal with the choses-in-action in any way whatsoever on such terms and conditions as the Trustee may see fit;
- (v) *Receive gifts or distributions:* to receive property by gift inter vivos or by distribution under a will or under the provisions of any other trust or otherwise from any person as an addition to the trust fund, whether subject to liabilities or not and to hold these gifts according to the Rules and to administer such additions under these provisions;
- (w) *Legal proceedings:* to institute, join in and defend proceedings at law or by way of mediation or arbitration and to proceed to the final end and determination of, or to compromise the same and to compromise and settle any such dispute or proceedings for such consideration and upon the terms and conditions as the Trustee may decide;
- (x) *Intellectual property:* to apply for, purchase or otherwise acquire and to sell patents, patent rights, copyrights, trade marks, designs, formulas, licenses, concessions, know-how and the like, conferring any exclusive or non-exclusive

or limited right to use of any other intellectual property rights and to use, exercise, develop or grant licenses in respect of or otherwise turn to account the property rights or information so acquired;

- (y) *Release of powers:* by irrevocable deed to renounce and release any power conferred on the Trustee under the Rules in respect of the whole or any part of the Trustee or the income or any part thereof. Upon such renunciation and release any power or powers shall be deemed to be at an end and no longer exercisable by the Trustee to the extent of the renunciation and release;
- (z) *Incidental powers:* to do all such other things as may be incidental to the exercise of the powers, rights, discretions and authorities hereby conferred on the Trustee.

**31.2.** These powers shall be in addition to any other powers, authorities and discretions vested in the Trustee by another provision of the Deed, the Rules or by law.

**31.3.** These powers shall not be limited by, or be construed so as to be limited by any other powers, authorities and discretions otherwise provided by the Deed, the Rules or by law.

**31.4.** In exercising these powers the Trustee must ensure at all times that the Fund remains a Complying Self Managed Superannuation Fund.

**31.5.** A Trustee who is a natural person may be a director of any company in which any moneys forming part of the Fund are from time to time invested and may receive the remuneration attached to such office without being liable to account for it unless that appointment would cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

**31.6.** Subject to the terms of these rules the Trustee may exercise or concur in exercising all powers and discretions given under this Deed or by law notwithstanding that it or any person being a director or shareholder of the Trustee has or may have a direct or indirect interest in the result of exercising such powers or discretion or may benefit either directly or indirectly as a result of the exercise of any such power or discretion and notwithstanding that the Trustee for the time being is the sole Trustee.

## **Rule 32. The assets of the Fund are to be held in the Trustee's name**

### **Explanation**

*The SIS Act as well as the Rules require that all the assets of the Fund be in the Trustee's name and be held separately from any assets held by the Trustee personally, a Member, or by an employer of a Member. No Member has any entitlement to a specific asset of the Fund.*

### **Rule**

All the assets of the Fund must be held in the Trustee's name and must be held separately from any assets held by the Trustee personally, a Member, by an employer of a Member or any other person unless otherwise allowed by the SIS Act.

## Rule 33. Trustee may receive gifts or distributions

### Explanation

*The Trustee of the Fund may receive gifts or distributions (additional to investment income derived from any investments made by the Fund) from:*

- (ix) any company;*
- (x) any trust including a family trust, testamentary trust or the legal estate of a deceased person;*
- (xi) any partnership;*
- (xii) any government or statutory body;*
- (xiii) any business, commercial or investment enterprise.*

*so long as the acceptance of any such gift or distribution does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.*

*Gifts or distributions received by the Fund can be in cash or property.*

*Distributions would normally be from a trust - note that there can be adverse tax consequences if the Fund receives a distribution from a private trust.*

### Rule

**33.1.** The Trustee can accept a distribution or a gift made to the Fund provided the Fund will not by reason of acceptance of that distribution or gift become a Non-Complying Self Managed Superannuation Fund or the Trustee otherwise resolves that the Trustee should not accept that distribution or gift.

**33.2.** The Trustee may allocate any such distribution or gift at its discretion to the Earnings, a Reserve, a Member's Account or apply it for any such purpose as the Trustee determines including the payment of a pension to a Member, their Legal Personal Representative or to a Dependant in the event of the Member's death.

## Rule 34. The Trustee must not borrow

### Explanation

*Normally the Trustee cannot borrow. A borrowing includes an overdraft. This is a prohibition imposed by the Act. These Rules reflect that prohibition. As such this prohibition may prevent the Trustee from acquiring a particular investment. If the Trustee wishes to borrow he or she should first obtain advice from a specialist or the Auditor.*

### Rule

Except as otherwise provided by the Act the Trustee must not:

- (a) borrow money; or
- (b) maintain an existing borrowing of money.

## Determination of and allocation of the Earnings

### Rule 35. The Trustee must determine and allocate the Earnings of the Fund

### Explanation

*The Trustee must determine the Earnings of the Fund each Financial Year.*

## Rule

- 35.1.** The amount of the Fund's Earnings for all or part of a Financial Year is to be determined by the Trustee and may include income received and accrued, realised and unrealised gains and any other such amounts as the Trustee believes should form part of the Fund's Earnings.
- 35.2.** The Trustee has sole discretion as to where to allocate or as to how to apply Earnings including allocating Earnings to an Accumulation Account, a Pension Account, or a Reserve and using Earnings to pay a Benefit or expense of the Fund or any tax imposed upon the Fund.

## Reserves

### Rule 36. The Trustee may establish a Reserve

#### Explanation

*The Trustee may create a Reserve. Normally a Reserve would be created to meet an expected liability of the Fund. A Member does not have any entitlement to amounts credited to a Reserve.*

*As examples the Trustee might establish a Reserve to which the following amounts may be added:*

- *Earnings before being allocated to Members.*
- *An amount (generally on the advice of an actuary) so as to ensure that the Trustee has sufficient funds to pay a Pension.*
- *Amounts to be held in reserve for unexpected contingencies.*
- *Self-insurance amounts (whether for the Members generally or just for only one or more of the Members).*

*Further the Trustee might establish a "section 279D Reserve" from which tax deductible amounts may be paid to the Legal Personal Representative or Dependant of a Member in the event of the Member's death.*

*The Trustee should determine at the time of establishment of a Reserve:*

- *What amounts are to be added to or deducted from the Reserve,*
- *The investment strategy to be adopted for that Reserve, and*
- *The proposed application of that Reserve.*

## Rule

- 36.1.** The Trustee may from time to time establish such Reserves and add, deduct and allocate amounts to those Reserves as it considers appropriate (except that it may not establish a Reserve or add or deduct any amount to or from a Reserve if that would result in the Fund becoming a Non-Complying Self Managed Superannuation Fund).
- 36.2.** The Trustee must formulate and implement a separate investment strategy for any Reserve. The investment strategy must be consistent with the Fund's investment strategy and with the Trustee's ability to discharge liabilities wherever actual or contingent, as and when they fall due.
- 36.3.** No Member nor or any other person shall have any entitlement to any amount in a Reserve.

## Taxation

### Rule 37. Payment of Tax and allocation to Members' Accounts

#### Explanation

*The general rule is that a Complying Superannuation Fund will be assessed to Tax on:*

- (i) Contributions made to the fund on behalf of a member (except non-deductible Contributions made by a Member); plus*
- (ii) Earnings derived by the fund on investment of contributions; less*
- (iii) Deductible expenses incurred by the fund (which might include insurance expenses).*

*Tax is levied at a rate of 15% on the net income of a Complying Superannuation Fund (although "special income" is taxed at a rate of 47%). The allowance of any imputation credits received on franked dividends derived by the Fund will reduce the effective rate of Tax payable by the Fund.*

*Where a Trustee holds assets for the purposes of paying a Pension or Pensions the Trustee will not be subject to Tax on any income or gains derived from the investment of assets used to fund payment of those Pensions.*

*The Fund might also be subject to a Superannuation Contributions Surcharge imposed on the gross amount of Contributions received by the Fund (although this tax is only levied on contributions made before 1 July 2005).*

*Tax payable by the Fund need not be deducted from the Member's Account of any particular Member-it might be paid from a Reserve or deducted from Earnings.*

#### Rule

- 37.1.** The Trustee must pay all Tax properly assessed to the Trustee.
- 37.2.** The Trustee may in its discretion deduct from a Member's Account Tax paid or payable by the Trustee:
  - (a) as a consequence of the receipt by the Trustee of a Contribution for the benefit of a Member,
  - (b) payable on any income added to a Member's Account, and
  - (c) any Tax which the Trustee reasonably believes may be payable as a consequence of a payment to a Member.
- 37.3.** The Trustee may in its discretion deduct from any account, including a Reserve, Tax paid or payable by the Trustee provided any such deduction will not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.
- 37.4.** If the Trustee receives a refund of Tax the Trustee may add that refund to such Members' Accounts or to such Reserve as it determines provided that addition will not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.

## Insurance

### Rule 38. The Trustee may establish an insurance plan

#### Explanation

*The Trustee may establish an insurance plan. The insurance plan may provide, amongst other things, lump sum or annuity cover payable in the event of a Member's death or disablement. The insurances that may be acquired by the Trustee include sickness and accident, trauma, permanent disability and life insurance.*

#### Rule

The Trustee may establish an insurance plan for the benefit of the Fund so as to enable the Fund to make payments (including the payment of Benefits on death or disability) to a Member, a Member's Dependant or the Legal Personal Representative of a Member in the event of a Member's death, disablement, illness or as otherwise allowed by the Act.

### Rule 39. The Trustee may self insure

#### Explanation

*The insurance plan may also require the Trustee to self-insure the Fund (so as to enable the Trustee to pay a Benefit to a Member or to a Member's Legal Personal Representative). In the event that the Trustee seeks to self-insure the Trustee should:*

- (iv) engage an actuary to provide such advice to the Fund;*
- (v) determine the scope of the Fund's self insurance needs;*
- (vi) establish a self insurance Reserve;*
- (vii) set a separate investment strategy for the self insurance Reserve.*

*An amount paid from a Reserve established for the purpose of self insurance might be tax deductible. A "section 279D Reserve" is an example of self insurance by the Trustee.*

#### Rule

The Trustee can elect to self insure and may establish a Reserve:

- (a) to which such amounts as the Trustee might require shall be added for the purpose of self insurance;
- (b) from which the Trustee may pay amounts required to be paid as a consequence of the Trustee self insuring against an event; and
- (c) from which amounts no longer required for the purpose of self insurance may be transferred to such other Reserve or to such Member's Account as the Trustee may determine.

### Rule 40. The Trustee has discretion as to the application of any insurance proceeds

#### Rule

**40.1.** Subject to the Act the Trustee has absolute discretion as to the application of any insurance proceeds received by the Fund and may allocate the proceeds to any Member's Account or to Reserves of the Fund.

**40.2.** No Member nor their Legal Personal Representative nor any other person has any interest in any insurance proceeds that might be received by the Fund.

## Annual Accounts

### Rule 41. The Trustee must prepare annual accounts

#### Rule

- 41.1.** The Trustee must keep such accounting records as are required by the Act.
- 41.2.** Such accounting records are to be kept in such form and supported by such documentation as to enable those accounting records to be properly audited.
- 41.3.** The Trustee must as soon as practical after the end of each Financial Year:
- (a) prepare a balance sheet recording the assets and liabilities of the Fund as at the end of that preceding Financial Year;
  - (b) prepare a profit and loss account recording the profit derived or loss incurred by the Fund for that preceding Financial Year (or part year if the Fund was not in existence for a full year);
  - (c) arrange for the Fund's balance sheet, profit and loss account and accounting records to be audited by an Approved Auditor;
  - (d) arrange for all tax returns and other statements required to be lodged pursuant to the Act by the Fund to be lodged as and when required; and
  - (e) prepare any Member and other statements and reports as required by the Act.
- 41.4.** The Trustee must retain the accounts and statements prepared in accordance with Rule 41.3 for a period of 5 years after the end of the Financial Year to which they relate.

## Fund Compliance

### Rule 42. The Trustee must maintain the Fund's complying status

#### Explanation

*The Trustee must ensure that at all times the Fund is a Complying Self Managed Superannuation Fund. This means that it must at all times comply with the provisions of the SIS Act and its regulations and the Rules of this Fund.*

*In certain cases the Trustee may become aware that it has taken an action that may result in the Fund losing its status as a Non-Complying Self Managed Superannuation Fund. In these circumstances the Trustee must prepare a Compliance Plan that results in the Fund returning to or ensuring its Complying Self Managed Superannuation Fund status.*

*The action required under the Compliance Plan may result from advice from the Fund's Auditor, an adviser to the Fund, or the Regulator.*

#### Rule

Where the Trustee becomes aware or is notified by the Auditor, an adviser to the Fund or the Regulator that the Fund may lose its status as a Complying Self Managed Superannuation Fund the Trustee must:

- (a) liaise with the Auditor, adviser or Regulator to determine a Compliance Plan to ensure the Fund's status as a Complying Self Managed Superannuation Fund is maintained;
- (b) notify Members of any action required under the Compliance Plan; and

- (c) take such action as is required under the Compliance Plan within a reasonable time frame and before the lodgement of the Fund's next regulatory return.

## Fund Insolvency

### Rule 43. The Trustee must develop a Solvency Plan

#### Explanation

*The Trustee of the Fund must be able to pay Benefits and expenses as and when it is required to do so.*

*If the Trustee believes that the Fund may become insolvent than the Trustee must prepare a Solvency Plan which if followed would ensure that the Fund remains solvent.*

*The Solvency Plan may be written by the Trustee, the Fund's actuary, the Auditor, an advisor to the Fund or the Regulator.*

#### Rule

Where the Trustee becomes aware or is notified by the Auditor or the Fund's actuary that the Fund is or may become insolvent, the Trustee must:

- (a) meet with the actuary or Auditor to determine a Solvency Plan to ensure the Fund's solvency including but not limited to reducing any Members' Accounts or Members' Benefits;
- (b) notify Members of any action required under the Solvency Plan; and
- (c) take such action as is required under the Solvency Plan prior to the lodgement of the Fund's next regulatory return.



# Part Three: Payment of Benefits by the Trustee

## Benefits Payable to a Member

### Rule 44. Benefits payable to a Member

#### Explanation

*Members can elect whether to receive a Lump Sum Benefit or a Pension Benefit (or both a Lump Sum Benefit and a Pension Benefit). A Pension Benefit may be able to be paid to a Member once that Member is aged 55 or more even if that Member is still working.*

#### Rule

A Member or a Dependant of a Member or the Legal Personal Representative of a Member or any other person may be entitled to receive one or more of:

- (a) a Lump Sum Benefit,
- (b) a Pension Benefit,
- (c) a Temporary Incapacity Benefit,
- (d) a Permanent Incapacity Benefit, or
- (e) such other Benefit as the Trustee might determine,

provided that any such Benefit would not result in the Fund breaching the Minimum Benefit provisions, the Fund becoming a Non-Complying Self Managed Superannuation Fund or would be in breach of the Act or these Rules.

### Rule 45. When must Benefits be paid to a Member

#### Explanation

*This Self Managed Superannuation Fund has been established to provide Benefits to the Members or to their Dependents. This Rule ensures that Benefits are paid in accordance with the Core and Ancillary Purposes of the Fund.*

#### Rule

Subject to any other provision of these Rules, a Benefit must be paid to a Member or a Dependant of a Member or the Legal Personal Representative of a Member once:

- (a) the Member dies; or
- (b) the Member or the Legal Personal Representative of the Member requests payment of a Benefit and the Trustee is of the opinion that a payment may be made to the Member or the Legal Personal Representative of the Member and that the making of the payment will not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund; or
- (c) the Act requires the Benefit to be paid,

unless the Act allows otherwise.

## Rule 46. Payment of a Lump Sum Benefit

### Explanation

*Normally Lump Sum Benefits can only be paid to a Member on retirement of the Member (provided the Benefit is not a Preserved Benefit), the Member is permanently disabled, or if the Member turns 65 years of age. The Trustee may also be able to make payments to a Member on compassionate grounds or if that Member is suffering severe financial hardship.*

### Rule

- 46.1.** Provided the Fund remains a Complying Self Managed Superannuation Fund and subject to the Rules, a Member or the Legal Personal Representative of the Member can at any time request and the Trustee may at its discretion pay a Lump Sum Benefit to the Member.
- 46.2.** Subject to Rule 46.3 the Trust may only pay a Lump Sum Benefit to a Member that does not exceed the balance of that Member's Accumulation Account.
- 46.3.** The Trustee may determine that the whole or any part of a Reserve can be paid to the Member in addition to the payment of that amount made pursuant to Rule 46.2.

## Rule 47. Payment of a Pension Benefit

### Explanation

*The Rules allow the Trustee to pay Pensions. The Trustee can decide whether the Pension should be an Allocated, Market Linked, Partially Asset Test Exempt, Complying or Flexi Pension or some other type of Pension provided payment of the Pension is authorised by the Act.*

*The Fund may pay a Pension to a Member aged 55 or more even though that Member continues to work. This is as a consequence of the introduction of the 'Transition to Retirement' laws introduced by the government on 1 July 2005.*

*From 1 January 2006 the Trustee of a Self Managed Superannuation Fund cannot commence to pay a Defined Benefit Pension which includes all Pensions excluding the Allocated, Non-Commutable Allocated and the Market Linked Pension.*

*The Trustee must set out the terms and conditions of a Pension in writing and notify these to the Member commencing the pension. These terms and conditions may then form part of the Fund's Rules.*

### Rule

- 47.1.** A Member or the Member's Legal Personal Representative may request the Trustee to pay a Pension to the Member, a Dependant of the Member or a Legal Personal Representative of the Member, provided the Pension is of a type referred to at Rule 62. The payment of any Pension must not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund.
- 47.2.** The Trustee may offer a Pension to a Member and must document the terms and conditions of the Pension and notify the Member in writing of these terms and conditions.
- 47.3.** Notwithstanding Rule 47.1 the Trustee cannot pay a Defined Benefit Pension after 31 December 2005 unless the payment of the Pension would not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund.
- 47.4.** Upon each anniversary of the Commencement Date of a Defined Benefit Pension the Trustee must consult with an actuary to determine the amount to be set

aside by the Trustee to fund payment of the Pension including any amount that should be credited to a Reserve.

- 47.5.** The Trustee in its sole discretion may apply any amount standing in a Member's Accumulation Account, a Member's Pension Account or a Reserve for the benefit of the provision of a Pension to a Member, a Dependant of the Member or a Legal Personal Representative of the Member.

## Incapacity

### Rule 48. Member to advise Trustee of incapacity

#### Rule

- 48.1.** As soon as practical after becoming incapacitated a Member or the Member's Legal Personal Representative shall advise the Trustee of that Member's incapacity. The Member shall submit to whatever medical examination might reasonably be required by the Trustee.
- 48.2.** On receipt of that advice and after receipt of any medical opinion that the Trustee might require the Trustee shall determine whether or not the Member has been Temporarily Incapacitated or Permanently Incapacitated.

### Rule 49. Benefits payable for Temporary Incapacity

#### Explanation

*The Trustee may be able to pay a Member a Temporary Incapacity Benefit provided that the amount of that Benefit is not greater than the amount the Member was receiving from Gainful Employment. An amount received from Gainful Employment would include salary, wages, a share of the profit of a partnership, a distribution from a trust, a bonus, or any other form of benefit provided it was linked to the provision of services by the Member.*

#### Rule

- 49.1.** Where the Trustee is of the opinion that the Member is Temporarily Incapacitated the Trustee may pay a Temporary Incapacity Benefit to the Member provided such payment does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund for a period commencing from the time of that Temporary Incapacity to the earlier of:
- (a) that date the Member is re-engaged in the kind of employment engaged in by the Member immediately before becoming Temporarily Incapacitated,
  - (b) that date on which the Trustee forms an opinion that the Member has become Permanently Incapacitated,
  - (c) the date of the death of the Member; or
  - (d) such other time as is allowed under the Act.
- 49.2.** Subject to the Act the amount of that Temporary Incapacity Benefit shall be no more than that amount which the Member was receiving from his Gainful Employment before that Temporary Incapacity.
- 49.3.** The Trustee may draw upon any Reserve to pay a Temporary Incapacity Benefit or, if there are no Reserves, deduct an amount from the Member's Account or any other account the Trustee so determines.

## Rule 50. Benefits payable for Permanent Incapacity

### Explanation

*Where a Member is Permanently Incapacitated the Trustee may pay the Member a Benefit until such time as the Member retires or dies. The Benefit may be a Lump Sum, a Pension or combination of a Lump Sum and Pension.*

*The Trustee might be able to make any such payment by way of charge against the Member's Member's Account. Alternatively or additionally the payment might be funded from a Reserve.*

*The Trustee may be able to claim a tax deduction for the payment of a Permanent Incapacity Benefit. Any such deduction may be used by the Trustee as an offset against same year or future year assessable income of the Fund.*

### Rule

**50.1.** If the Trustee is of the view that a Member has become Permanently Incapacitated and provided that any such payment does not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund, the Trustee, in its absolute discretion may:

- (a) pay all of any balance of the Member's Accumulation Account and Pension Accounts to the Member, a Dependant or Legal Personal Representative of the Member as a Lump Sum Benefit;
- (b) pay part of any balance of the Member's Accumulation Account and Pension Accounts to the Member, a Dependant or Legal Personal Representative of the Member as a Lump Sum Benefit and the balance of the Member's Accounts (as increased from time to time) to the Member as a Pension;
- (c) pay all of any balance of the Member's Accumulation Account and Pension Accounts (as increased from time to time) to the Member, a Dependant or Legal Personal Representative of the Member as a Pension;

**50.2.** The Trustee may also allocate an amount from any Reserves of the Fund to the benefit of a Member, a Dependant or Legal Personal Representative of the Member in the event of the Member's Permanent Incapacity for the purposes of paying a Lump Sum Benefit, a Pension or combination of both.

## Death Benefits

### Rule 51. What must happen on death of a Member

#### Explanation

*A purpose of the Fund is to provide Benefits to a Member's Dependants or Legal Personal Representative on death of the Member. Where a Member dies the Trustee may pay a Benefit to the Member's Dependants or Legal Personal Representative in accordance with any Binding or Non-Binding Death Benefit Nominations made by the Member. The Benefit may be a Lump Sum, a Pension or a combination of a Lump Sum and Pension.*

*Prior to any Benefits being paid a person must be appointed Trustee in place of the deceased Member. Typically this is the Legal Personal Representative of the Member. That person may only remain Trustee for the period until death Benefits commence to be paid otherwise the Fund may lose its complying status.*

## Rule

On death of a Member:

- (a) if the Member was a Trustee the deceased Member's Legal Personal Representative is by reason of this Rule appointed a Trustee for the period from the date of death of the Member until the date of payment of any Benefits payable as a consequence of the death of the Member provided the Legal Personal Representative is eligible, pursuant to these Rules, to be a Trustee and has consented to act as such;
- (b) if the Member was a director of a company which is a Trustee that company may continue as a Trustee from the date of death of the Member until the date of payment of any death Benefits payable as a consequence of the death of the Member provided the Legal Personal Representative of the Member is appointed as a director of the company for any such period and provided the company and the Legal Personal Representative is otherwise eligible pursuant to these Rules to be a Trustee and has consented to act as such.

## Rule 52. Payment of a Death Benefit

### Explanation

*The payment of a Benefit on death of a Member may be made from the Member's Account or a Reserve. The Trustee may also be able to claim a Tax deduction for the payment of such a Benefit.*

*After the death of a Member the Trustee should determine whether it holds a Non-Binding Death Benefit Nomination for the Member, a Binding Death Benefit Nomination for the Member, or has established a Death Benefit Rule at the request of the Member to pay Benefits to particular people in a particular manner and disperse Benefits as authorised by this Rule.*

## Rule

- 52.1.** On the death of a Member the Trustee shall distribute the balance of the Member's Accounts as a Benefit in accordance with this Rule to one or more of the Member's Dependants, the Member's Legal Personal Representative or any other Account in the Fund including another Member's Account or a Reserve provided any such distribution does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund.
- 52.2.** If the Trustee holds a Non-Binding Death Benefit Nomination for the deceased Member the Trustee may but is not obliged to pay such Benefits to such persons as are nominated in that Non-Binding Death Benefit Nomination of the deceased Member.
- 52.3.** If the Trustee holds a Binding Death Benefit Nomination for the deceased Member the Trustee must pay such Benefits in the manner and form as are nominated in that Binding Death Benefit Nomination of the deceased Member. However the Trustee is not required to make a payment under a Binding Death Benefit Nomination if that payment may result in the Fund becoming insolvent.
- 52.4.** If at the request of the deceased Member the Trustee has established a Death Benefit Rule the Trustee must pay any Benefits payable as a consequence of the death of that Member in accordance with that Death Benefit Rule. However the Trustee is not required to make a payment under a Death Benefit Rule if that payment may result in the Fund becoming insolvent.

- 52.5.** If the terms and conditions of a Pension payable to the deceased Member have been incorporated as a Rule the Trustee must pay the Pension according to the terms of that Pension.
- 52.6.** Except if one or more of Rules 52.1, 52.2, 52.3, 52.4 or 52.5 apply the Trustee shall distribute or transfer the balance of the Member's Accounts as the Trustee in its absolute discretion may decide.
- 52.7.** Notwithstanding Rule 52.1 the Trustee is authorised to pay such additional amounts to a Dependant or the Legal Personal Representative of a deceased Member as the Trustee in its absolute discretion may decide, including an amount from a Reserve, provided the payment does not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund. These amounts are not to be taken as forming part of the deceased Member's Benefits.

## Conversion of Benefits

### Explanation

*Members in receipt of Benefits have the flexibility of converting their Benefits to another style of Benefit provided that such a conversion is allowed under the Act and does not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund.*

## Rule 53. Conversion of a Lump Sum Benefit into a Pension

### Rule

- 53.1.** At the request of a Member or, in the event of the Member's death, at the request of the Member's Dependant or Legal Personal Representative and subject to the Rules and the Act, the Trustee may convert any Lump Sum Benefit payable to the Member either in whole or in part into a Pension payable to the Member or if the Member is deceased the Dependents or Legal Personal Representative of the Member.
- 53.2.** The Member or, in the event of the Member's death, the Member's Dependant or Legal Personal Representative must notify the Trustee of the type of Pension as required under Rule 47 and the Trustee is to use the Lump Sum entitlement to fund any Pension.

## Rule 54. Commutation of a Pension

### Rule

- 54.1.** At the request of a Member or, in the event of the Member's death, at the request of the Member's Dependant or Legal Personal Representative and subject to the Rules and the Act, the Trustee may commute part or the whole of any Pension payable to the Member in accordance with Rule 54.2 and 54.3.
- 54.2.** Any amount resulting from the commutation may be applied by the Trustee:
- (a) to pay a Lump Sum Benefit or some other type of Pension to the Member, a Dependant or Legal Personal Representative of the Member; or
  - (b) to be allocated into the Member's Accumulation Account.
- 54.3.** Prior to commuting the Pension the Trustee must determine the possible taxation consequences or commutation limits that may arise in relation to the commutation of the Pension and notify the Member, Dependant or Legal Personal Representative of the Member of this information.

## Part Four: Changes to the Fund

### Rule 55. Becoming a Small APRA Fund

#### Explanation

*This Deed is not a suitable deed for a fund that is not a Self Managed Superannuation Fund. A fund will not be a Self Managed Superannuation Fund if it has more than four members.*

*If the Fund ceases to be Self Managed Superannuation Fund it will be in breach of the SIS Act unless its trustee is an Approved Trustee. An Approved Trustee is some entity – such as a publicly listed trustee company – that APRA has declared may be appointed as the trustee of a fund that is not a Self Managed Superannuation Fund.*

*Where a fund ceases being a Self Managed Superannuation Fund it must within 21 days of that change provide the Taxation Office with details of that change.*

*In some instances the members of a fund might believe that even though the fund has less than four members that rather than the members being the Trustees an Approved Trustee should be the Trustee. The Members may not wish to undertake the responsibilities attached to the role of Trustee or may have particular family reasons for wanting an Approved Trustee to be the Trustee. This Rule allows an Approved Trustee to be appointed as the Trustee at any time. These Rules are not suitable to Funds where an Approved Trustee is the Trustee.*

#### Rule

- 55.1.** Notwithstanding any other provision of these Rules at any time the then Trustee may retire as the Trustee and appoint an Approved Trustee as the Trustee.
- 55.2.** If an Approved Trustee is appointed as the Trustee the Members shall forthwith meet and agree to a replacement to these Rules.

### Rule 56. The Trustee may amend the Deed or the Rules

#### Explanation

*Given that constant changes are made to the Act it is important the Rules of the Fund can be amended so as to ensure continued compliance with the Act. The rules of most funds are amended or replaced from time to time.*

#### Rule

The Trustee may in its absolute discretion amend the Deed or the Rules (in whole or in part) by way of written resolution provided:

- (a) if there is more than one Member the change is authorised by the Trustees or if the Trustee is a company at a meeting of the directors of the Trustee Company;
- (b) any change to the Deed or the Rules does not result in the Fund becoming a Non-Complying Superannuation Fund or being in breach of the Act;
- (c) the amendment does not reduce the amount of any Benefit accrued or accruing to a Member as at the date of amendment unless the Member or the Legal Personal Representative of the Member has in writing consented to any such amendment;
- (d) the amendment does not amend the term of a Pension which has been incorporated as a Rule or a Death Benefit Rule unless the Member or the Legal Personal Representative of the Member who accepted the term of the Pension or who requested the Death Benefit Rule to be incorporated has in writing consented to any such amendment;

- (e) the amendment does not allow a person other than a Constitutional Corporation to be eligible to be appointed as a Trustee unless the Rules then provide and will continue to provide after the amendment is made that the Fund has as its sole or primary purpose the provision of old age pensions, or
- (f) the amendment does not allow the sole or primary purpose of the Fund to be a purpose other than the provision of old age pensions unless the Rules provide and will continue to provide after the amendment is made that the Trustee must be a Constitutional Corporation.

## Part Five: Winding Up of the Fund

### Termination

#### Rule 57. Termination of the Fund

##### Explanation

*On termination of the Fund the Trustee should:*

**Step One** – *have the Fund audited;*

**Step Two** – *determine the Market Value of the Fund's assets;*

**Step Three** – *determine if the cash assets of the Fund are sufficient to discharge the Fund's debts and liabilities. If not the Trustee shall determine which assets will be disposed of to obtain sufficient cash;*

**Step Four** – *pay out all expenses of the Fund including any Taxes, administration costs, government imposts, amounts due to Members, other expenses plus any expense incurred to wind up the Fund;*

**Step Five** – *declare a final distribution amount (being that amount that is equal to the value of the assets of the Fund less expenses paid).*

*Any final distribution amount may at the Trustee's discretion (and subject to the Act) be distributed by the Trustee to any of:*

- (viii) Members and former Members of the Fund;*
- (ix) relatives of any Member or former Member;*
- (x) any Legal Personal Representative of a Member or former Member;*
- (xi) any other person; or*
- (xii) a charity or public benevolent institution.*

##### Rule

**57.1.** The Fund shall be wound-up and terminated on the first to occur of the date:

- (a) on which the Trustee resolves that the Fund should be wound up and terminated;
- (b) the Fund must be wound up for the purpose of the Act;
- (c) the Fund ceases to have Members; or
- (d) the Regulator requires that the Fund be wound up.

**57.2.** The Trustee shall on Termination Date:

- (a) dispose of assets of the Fund in order to have sufficient cash with which to meet any debts and liabilities of the Fund. The Trustee has discretion to determine which of the Fund's assets are to be disposed of;



- (b) pay out any debts and liabilities of the Fund;
- (c) determine to whom any Benefits are to be paid including former Members, trusts that former Members were beneficiaries of, the Legal Personal Representative of former Members or any other person. The Trustee retains sole discretion as to where Benefits are to be paid and how they are to be made including in-specie or cash Benefits and is to ensure that the payment of any Benefits does not breach the sole purpose test; and
- (d) pay out any Benefits due by the Fund to the Members. The Trustee retains sole discretion as to how these amounts are to be paid including making an in-specie transfer of assets or cash amounts;

**57.3.** After the Trustee has made all such payments as the Trustee is required or has resolved to pay pursuant to Rule 57.2 the Trustee may distribute the remaining assets of the Fund to such charities or public benevolent institutions as it might determine provided any such payment does not breach the sole purpose test or otherwise render the Fund a Non-Complying Self Managed Superannuation Fund.

## Part Six: Interpretation

### Governing Law

#### Explanation

*The governing law is simply that law which is to be applied by a court if the court is required to consider the Rules.*

### Rule 58. The governing law is to be nominated by the Trustee.

#### Rule

The Deed and the Rules are to be interpreted according to that law the Trustee nominates at any time or if the Trustee makes no nomination, according to the laws of New South Wales. Such nomination shall be made by written resolution of the Trustee.

### Status of the Act

### Rule 59. The Act is paramount

#### Explanation

*The Rules define the Act to include the SIS Act, the Income Tax Assessment Acts 1936 and 1997 and the regulations made pursuant to those acts.*

*If the Fund fails to comply with a provision of an Act the Fund might become a Non-Complying Self Managed Superannuation Fund (with the result that it would not be concessional taxed).*

*If the Trustee contravenes a provision of the Act the Trustee might be subject to a fine or criminal penalty. This Rule is designed to protect the Fund in the event that the Rules of the Fund and the provisions of an Act contain some unintentional inconsistency but more importantly, in case the provisions of the Act change (and it is almost certain that the provisions of the Act will change).*

#### Rule

The Rules are subject to the Act. If there is any inconsistency between the provisions of the Act and the Rules the provisions of the Act shall prevail.

## Interpretation

### Rule 60. Rules as to interpretation.

#### Rule

- 60.1.** Explanations accompanying a Rule are for information and disclosure purposes only but may be taken into account in interpreting a Rule:
- (a) in considering the purpose or object underlying a Rule; or
  - (b) to confirm that the meaning of a Rule is its ordinary meaning conveyed by its text taking into account the purpose or object underlying the Rule; or
  - (c) in determining a Rule's meaning if the Rule is ambiguous or obscure; or
  - (d) in determining the Rule's meaning if the ordinary meaning conveyed by its text, taking into account its context in the Rules and the purpose or object underlying the Rule leads to a result that is manifestly absurd or unreasonable.
- 60.2.** A reference to any person or body shall include a reference to a company, references to its respective authorised officers, agents, delegates, successors, assigns, executors and administrators.
- 60.3.** Words importing any one gender include all genders and words importing the singular number include the plural and vice versa.
- 60.4.** Unless the contrary intention appears when a word or phrase is given a particular meaning other parts of speech and grammatical forms of the word or phrase have a corresponding meaning.
- 60.5.** In determining whether the Fund will or will not be a Complying Superannuation Fund or Complying Self Managed Superannuation Fund the Trustee shall only consider whether or not any course of action to be followed by the Trustee in relation to the Fund would or would not cause the Fund not to be a Complying Superannuation Fund or Complying Self Managed Superannuation Fund and must not take into account any discretion which might or might not be exercised by the Regulator.
- 60.6.** A reference to a provision of an Act includes a reference to any similar provision in any successor Act.
- 60.7.** A reference in these Rules to "pay" includes a reference to "credit" or "distribute".

## Definitions

### Rule 61. Definitions

In this Deed the following words or expressions have the meaning thereafter ascribed to them:

<b>Act</b>	The <i>SIS Act</i> , the <i>Income Tax Assessment Act 1936</i> , the <i>Income Tax Assessment Act 1997</i> , the <i>Corporations Act 2001</i> , the <i>Family Law Act 1975 (Part VIII B)</i> , the <i>Social Security Act 1991</i> , the <i>Veterans' Entitlements Act 1986</i> , any successor acts and all regulations made pursuant to the foregoing acts.
<b>Ancillary Purposes</b>	Those purposes as defined in section 62 of the <i>SIS Act</i> including the purpose of providing such benefits as the Regulator approves in writing.
<b>Application Form</b>	An application form as referred to at Rule 12.
<b>Auditor</b>	An auditor who is an Approved Auditor as defined in section 10(1) of the <i>SIS Act</i> or any successor Act or otherwise determined by the Regulator.
<b>Approved Trustee</b>	A trustee as approved by the Regulator pursuant to section 26 of the <i>SIS Act</i> .
<b>APRA</b>	The Australian Prudential Regulatory Authority or any successor authority to that authority.
<b>Associate</b>	A person who is an associate as defined by section 12 of the <i>SIS Act</i> .
<b>Benefit</b>	A benefit or entitlement payable by the Fund in cash or property.
<b>Binding Death Benefit Nomination</b>	A death benefit nomination made by a Member in accordance with Rule 15 that must be followed by the Trustee in the event of the Member's death.
<b>Civil Penalty Order</b>	An order or declaration made by a court under section 196 of the <i>SIS Act</i> .
<b>Child</b>	Any person as defined for the purposes of the Act.
<b>Commencement Date</b>	In relation to a Pension has the meaning given by the <i>SIS Regulations</i> .
<b>Compliance Plan</b>	A plan established for the purpose of Rule 42.
<b>Complying Self Managed Superannuation Fund</b>	A Fund which is a complying self managed superannuation fund for the purposes of section 42A of the <i>SIS Act</i> .

<b>Constitutional Corporation</b>	A body corporate which is: <ul style="list-style-type: none"> <li>(a) a trading corporation formed within the limits of the Commonwealth of Australia (within the meaning of paragraph 51(xx) of the <i>Constitution of the Commonwealth of Australia</i>),</li> <li>(b) a financial corporation formed within the limits of the Commonwealth of Australia (within the meaning of paragraph 51(xx) of the <i>Constitution of the Commonwealth of Australia</i>).</li> </ul>
<b>Core Purposes</b>	Those purposes as defined in section 62 of the <i>SIS Act</i> .
<b>Contributions</b>	Amounts paid or property transferred to the Trustee for the benefit of a Member or Members.
<b>Death Benefit Rule</b>	A Rule established as a Rule by reason of Rule 16.
<b>Deed</b>	The deed establishing the Fund as amended from time to time.
<b>Defined Benefit Pension</b>	A Pension of the type as defined in Regulation 9.04E of the <i>SIS Regulations</i> .
<b>Dependant</b>	In relation to a person includes a financial dependant, the Spouse, any Child of the person and any other such person determined as a dependant for the purposes of the Act.
<b>Earnings</b>	The earnings of the Fund determined in accordance with Rule 35.
<b>Eligible Roll-over</b>	An eligible roll over as defined for the purposes of by the <i>Income Tax Assessment Act 1936</i>
<b>Financial Year</b>	A year ended 30 June or that period of twelve months adopted by the Trustee as the Fund's financial year.
<b>Fund</b>	The self managed superannuation fund established by the Deed.
<b>Gainful Employment</b>	That activity in which a person is engaged for gain or reward in any business, trade, profession, vocation, calling, occupation or employment.
<b>Legal Personal Representative</b>	The executor of the will or administrator of the estate of a deceased person, the trustee of the estate of a person under a legal disability or a person who holds an enduring power of attorney granted by a person.
<b>Lump Sum Benefit</b>	A Benefit which is payable to a Member pursuant to Rule 46.
<b>Manager</b>	The person or entity appointed by the Trustee to manage the Fund.

<b>Market Value</b>	The amount that a willing buyer of an asset could reasonably be expected to pay to acquire the asset from a willing seller if the following assumptions were made: <ul style="list-style-type: none"> <li>(a) that the buyer and the seller dealt with each other at arm's length in relation to the sale;</li> <li>(b) the sale occurred after proper marketing of the asset;</li> <li>(c) the buyer and seller acted knowledgeably and prudently in relation to the sale.</li> </ul>
<b>Member</b>	Any person who is accepted by the Trustee as a member of the Fund.
<b>Member's Account</b>	An account established by the Trustee on behalf of a Member.
<b>Member's Accumulation Account</b>	A Member's Account established by the Trustee, the balance of which is the amount that can be paid to the benefit of a Member, their Dependant or Legal Personal Representative as a Lump Sum Benefit and / or a Pension Benefit.
<b>Member's Benefit</b>	The amount of a Benefit payable to a Member, their Dependant or Legal Personal Representative in the event of the Member's death as determined by the Trustee.
<b>Member's Pension Account</b>	A Member's Account established by the Trustee from which the payment of a Pension will be debited.
<b>Minimum Benefits</b>	An amount determined by the Trustee of the Fund as a minimum benefit for a Member pursuant to Part 5 of the <i>SIS Regulations</i> .
<b>Non-Binding Death Benefit Nomination</b>	A death benefit nomination as referred to in Rule 14 that is not binding upon the Trustee.
<b>Non-Complying Self Managed Superannuation Fund</b>	A superannuation fund that is not a Complying Self Managed Superannuation Fund.
<b>Payment Split</b>	A "payment split" as defined by section 90MD of the <i>Family Law Act 1975</i> .
<b>Pension Benefit</b>	A Benefit which is a pension as defined by Rule 62.
<b>Permanent Incapacity Benefit</b>	A Benefit payable pursuant to Rule 50.

<b>Permanently Incapacitated</b>	In relation to a Member means a Member who has ceased to be Gainfully Employed because of ill-health (whether physical or mental) where the Trustee is reasonably satisfied that that Member is unlikely, because of the ill health, ever again to be Gainfully Employed in any employment for which that Member is reasonably qualified by education, training or experience.
<b>Preserved Benefit</b>	A Benefit which Regulation 6.01 to the SIS Act states is a preserved benefit.
<b>Prescribed Documents</b>	Any documents that are prescribed documents for the purposes of the <i>SIS Act</i> .
<b>Prescribed Information</b>	Any information which is prescribed information for the purposes of the <i>SIS Act</i> .
<b>Product Disclosure Statement</b>	The product disclosure statement of which these Rules form part.
<b>Regulated Superannuation Fund</b>	A superannuation fund that is a regulated superannuation fund as defined within section 19 of the <i>SIS Act</i> .
<b>Regulator</b>	The Commissioner of Taxation or any person or entity appointed to regulate a self managed superannuation fund as defined in section 10(1) of the <i>SIS Act</i> .
<b>Related Party</b>	A person who is a related party as defined in section 10(1) of the <i>SIS Act</i> .
<b>Relative</b>	A person who is a relative as defined by section 17A (9) of the SIS Act.
<b>Reserve</b>	An amount as referred to at Rule 36
<b>Responsible Officer</b>	<ul style="list-style-type: none"> <li>(a) a director of a company, or</li> <li>(b) a secretary of a company; or</li> <li>(c) an executive officer of a company.</li> </ul>
<b>Rules</b>	The rules of the Fund.
<b>Self Managed Superannuation Fund</b>	A fund that is a "self managed superannuation fund" as defined in section 17A of the <i>SIS Act</i> .
<b>SIS Act</b>	The <i>Superannuation Industry (Supervision) Act 1993</i> .
<b>SIS Regulations</b>	The <i>Superannuation Industry (Supervision) Regulations 1994</i> .

<b>Specified Work Test</b>	Those conditions found in Part 6 of the <i>SIS Regulations</i> determining the time at which a person must be paid a Benefit from the Fund.
<b>Splittable Contribution</b>	An amount that has the meaning for the purposes of Part 6 of the <i>SIS Regulations</i> .
<b>Solvency Plan</b>	A plan established for the purposes of Rule 43.
<b>Spouse</b>	In relation to a person includes another person who, although not legally married to the person, lives with the person on a genuine domestic basis as the husband or wife of the person or such other person as the Act may allow or determine.
<b>Standard-Employer-Sponsor</b>	A person who is a standard-employer-sponsor as defined in section 16(2) of the <i>SIS Act</i> .
<b>Superannuation Entity</b>	<ul style="list-style-type: none"> <li>(a) a superannuation fund, or</li> <li>(b) an approved deposit fund, or</li> <li>(d) a pooled superannuation trust; or</li> <li>(e) a life insurance company or similar entity,</li> </ul> <p>whether such an entity is a resident or non – resident of Australia.</p>
<b>Tax</b>	Any tax levied by any taxation law including any surcharge levied pursuant to the <i>Superannuation Contributions Tax Imposition Act 1997</i> (or any successor legislation).
<b>Temporarily Incapacitated</b>	In relation to a Member means a Member who has ceased to be gainfully employed, including a member who has ceased temporarily to receive any gain or reward under a continuing arrangement for the member to be gainfully employed, because of ill-health (whether physical or mental) but does not mean a Member who is Permanently Incapacitated.
<b>Temporary Incapacity Benefit</b>	A non-commutable income stream payable pursuant to Rule 49.
<b>Termination Date</b>	The date on which the Fund terminates.
<b>Total Member Entitlements</b>	That amount equal to the total value of all Members' Accounts.
<b>Trustee</b>	A person or company appointed a trustee of the Fund under Rule 3.
<b>Trustee Meeting</b>	A meeting as referred to at Rule 7.1.

## Rule 62. Pension Definitions

### Explanation

*The Trustee may pay any Pension authorised under the Act including those Pensions defined in the SIS Regulations, the Social Security Act 1991 and the Veterans' Entitlements Act 1986 provided the payment of the Pension does not cause the Fund to become a Non-Complying Self Managed Superannuation Fund. These Pensions include:*

**Complying Pension** - *Includes a lifetime complying pension that meets the standards found in Regulation 1.06(2) of the SIS Regulations, a fixed term complying pension that meets the standards found in 1.06(7) of the SIS Regulations and a market linked pension that meets the standards of 1.06(8) of the SIS Regulations at the time of commencing the pension. The term also includes such other standards as may be required under the superannuation laws in respect of the trustee paying a complying pension.*

**Allocated Pension and Non-Commutable Allocated Pension** - *Includes a pension that meets the standards found in Part 6 of the SIS Regulations and 1.06(4) and 1.06(5) of the SIS Regulations at the time of commencing the pension. The term also includes such other standards as may be required under the superannuation laws in respect of the trustee of the fund paying an allocated pension as well as a non-commutable pension under the transition to retirement laws.*

**Flexi Pension** - *A pension that could be offered by the Trustee to members of a Self Managed Superannuation Fund prior to 1 January 2006 that is flexible as to term, pension payment and residual capital value provided it meets the standards laid down for the flexi pension in Regulation 1.06(6) of the SIS Regulations at the time of commencing the pension. The term also includes such other standards as may be required under the superannuation laws in respect of the trustee paying a flexi pension. A flexi pension includes a lifetime commutable pension and a fixed term commutable pension.*

**Partially Assets Test Exempt Pension** - *Is a pension that is partially exempt from the assets test to the extent provided under the social security and veterans' entitlement laws.*

*Given the danger of non-compliance the Trustee should ensure that it takes advice from a qualified self managed superannuation fund adviser before agreeing to pay any Pension Benefit from the Fund.*

### Rule

A Pension for the purposes of the Fund is any series of payments that are determined or held to be a Pension under any Act, law, court or otherwise and includes any Pension that meets the conditions of:

- (a) a lifetime complying pension pursuant to Regulation 1.06(2) and (3) of the SIS Regulations;
- (b) an allocated pension pursuant to Regulation 1.06(4) and (5) of the SIS Regulations;
- (c) a flexi pension pursuant to Regulation 1.06(6) of the SIS Regulations;
- (d) a fixed term complying pension pursuant to Regulation 1.06(7) of the SIS Regulations;
- (e) a market linked pension pursuant to Regulation 1.06(8) and (9) of the SIS Regulations;
- (f) a non-commutable allocated pension pursuant to Regulation 6.01(2) of the SIS Regulations;
- (g) a lifetime partially assets test exempt pension payable pursuant to Section 9A of the Social Security Act 1991;



- (h) a fixed term partially assets test exempt pension payable pursuant to Section 9B of the Social Security Act 1991;
- (i) a lifetime partially assets test exempt pension payable pursuant to Section 5JA of the Veterans' Entitlements Act 1986; or
- (j) a fixed term partially assets test exempt pension payable pursuant to Section 5JB of the Veterans' Entitlements Act 1986

provided the payment of any such pension does not result in the Fund becoming a Non-Complying Self Managed Superannuation Fund.

