Application by a member of a superannuation fund for a pension

To: B and D SMSF Pty Ltd — the Trustee of the B and D Super Fund (**Fund**)

Name of member:	Belinda Watson
Date of birth:	09/07/1962
Contact details:	2119 Fernlea Close, Hope Island Q 4212

1 I am a member of the Fund.

2 I hereby apply for an Account based pension.

3 I have satisfied a condition of release under superannuation law.

If the Trustee agrees to pay the pension, I agree that the pension will be paid under a pension payment agreement to be signed by both parties.

Signed by the member: B Watson

Date: 1 July 2022

Attach the member's Application Form to the front of this PDS

Product Disclosure Statement ('PDS')

Account-based Pension

B and D Super Fund

1 July 2022

Trustee

B and D SMSF Pty Ltd ACN 642 045 967

C/-Unit 30, 340 Hope Island Road

Hope Island, QLD 4212 Australia

Member

Belinda Watson

2119 Fernlea Close

HOPE ISLAND QLD 4212

Australia

This Product Disclosure Statement is to be given to you before you sign a Pension Payment Agreement.

Introduction

This PDS is relevant if you are considering drawing either **an account-based pension** or a **transition to retirement account-based pension** from the fund. It contains a summary of the important provisions of the pension payment agreement and the effects which those provisions may have on you. The *Corporations Act* requires that you be given this PDS when you apply for a pension.

If you have any questions at any time about the pension, then you should ask the fund's trustee to answer them. However, the trustee can only provide you with information – so you will need to seek your own legal, accounting and financial advice.

Words or phrases which are capitalised in this PDS are defined in Schedule 1 of this PDS.

You should consider getting professional advice about any pension

Your decisions about drawing a pension from the fund are important and involve issues including taxation, estate planning and social security. The trustee strongly recommends that you consider consulting an appropriately qualified adviser before you decide either whether to draw a pension from the fund, what type of pension to draw and what arrangements you should make regarding the capital funding the pension on your death.

This PDS is prepared for your general information only and is not, and is not intended to be, a recommendation to draw a pension regardless of the type. This PDS does not take into account your investment objectives, financial situation or retirement planning needs. You should not base a decision whether to draw a pension, or what type of pension to draw, solely on the information in this PDS. You need to consider, and obtain advice on, the suitability of any pension in view of your investment objectives, financial situation and retirement planning needs.

Your potential benefits under the pension

When you become entitled to be paid a **lump sum benefit**, the trustee may allow you to choose to receive that lump sum in the form of regularly paid income. This is called a pension. Under the trust deed, if you are to be paid a pension from the fund, then the pension will be an account-based pension or a transition to retirement account-based pension.

Different types of pensions operate differently and will impact on you differently. You should discuss the right type of pension for you in detail with your adviser before you select the pension you would like to receive. This PDS is relevant only if you are considering drawing either **an account-based pension** or a **transition to retirement account-based pension** from the fund.

1 **Account-based Pension**

If you have retired and reached preservation age (or satisfied another release condition), then you may take an account-based pension. With an account-based pension, you must receive at least one pension payment annually, but you may receive more frequent payments. The amount of your payments must be equal to or above minimum levels calculated on the basis of the amount in your pension account and your age.

2 **Transition to retirement account-based pension**

In some circumstances, you may be able to be paid a pension before you actually retire but after you have reached your preservation age. These pensions are referred to as 'transition to retirement pensions'.

There are three important differences between account-based pensions and transition to retirement account-based pensions:

2.1 If you are paid a transition to retirement account-based pension, then (unlike a regular account-based pension and subject to certain exceptions) in each financial year you can only be paid a maximum of 10% of the pension account balance. The pension account balance is determined at the previous 1 July or, in the first year of the pension, the pension's commencement day. A regular account-based pension has no maximum limit;

2.2 From 1 July 2017, the fund's earnings on the capital funding a transition to retirement account-based pension will not receive an earnings tax exemption (of 0% – which applies to a regular account-based pension): instead those earnings will be taxed at 15%; and

2.3 Generally you will not be able to end the transition to retirement account-based pension and cash it out to yourself as a lump sum (known as 'commuting' the pension). This is discussed in more detail below under the heading 'Can you access your capital?' at 12 below.

Another important note concerning the transition to retirement account-based pension is that the 'maximum 10% of pension account balance' rule does not apply if the pensioner has satisfied a condition of release in respect of which the cashing restriction for preserved benefits and restricted non-preserved benefits is 'Nil'. Accordingly, once this condition of release has been satisfied:

2.4 The pension payments do not have a maximum annual limit;

2.5 The earnings tax exemption should apply to the fund's earnings on the capital funding the pension; and

2.6 There are less stringent rules on when the pension can be commuted to a lump sum and cashed out to yourself.

From 1 July 2017, a transition to retirement pension is not considered to be a retirement phase income stream and as such earnings on assets supporting the transition to retirement income stream are taxed. Once you satisfy a condition of release, and if required (see below) you notify the trustee that you have satisfied the condition of release, your transition to retirement pension will automatically revert to a retirement phase income stream and income on the assets supporting it will qualify for tax exemption. When the transition to retirement income stream becomes a retirement phase income stream, there will be a credit to the member's transfer balance account and will be subject to the transfer balance cap.

Where you are in receipt of a transition to retirement income stream, you must notify the trustee once you satisfy a condition of release if the release condition relates to any of the following:

2.7 your retirement;

2.8 a terminal medical illness; or

2.9 permanent incapacity.

Until you provide that notice, the pension continues as a transition to retirement pension (and the earnings on the assets supporting it do not qualify for tax exemption).

3 References in this PDS to 'pension' is to both types of pension

Generally, in this PDS, a reference to 'pension' or to 'pension account' is to both an account-based pension and a transition to retirement account-based pension or the relevant account. However, if a comment in this PDS refers to only one of the types of pension or account, then the comment says which one it applies to.

4 The pension payment agreement

4.1 Before a pension can be paid to you, the trustee and you need to agree on the terms of the pension. These terms will be set out in a written pension payment agreement (**PPA**) between you and the trustee. The PPA will deal with things such as the rights and obligations of you and the trustee, and deciding the amount you will be paid each year under your pension. That amount must be equal to or above minimum amounts set by superannuation law (for the first year of your pension, these limits are pro-rated to 30 June). Generally, this minimum limit is a set percentage determined by reference to:

- for the first year of your pension, your age on the pension's commencement day; and
- for each following year, your age at each 1 July.

As a result of the COVID-19 pandemic, for the 2019/2020 and 2020/2021 financial years, announced government relief measures halve the set percentage used to calculate the minimum limit – effectively halving the minimum amount of the pension required to be paid to a member in those financial years. Your adviser can show you how your limit is calculated. Remember, there is also an annual maximum limit for transition to retirement account-based pensions.

4.2 If you start your account-based pension after 31 May in any year, then you can choose to delay the first payment until the following financial year.

4.3 The trustee can advise you of the minimum limit (and, for transition to retirement account-based pensions – the maximum limit) that applies to your pension. At any time, you may apply to the trustee to change the amount of your pension, as long as it complies with these limits.

4.4 As soon as practicable after the end of each year, the trustee will give the member a statement setting out:

4.4.1 the pension account balance;

4.4.2 the total amount of the pension to be paid to the member in the year the statement is issued; and

4.4.3 any other information the trustee considers appropriate.

You may also request the trustee to provide a pension statement at any other time during the year. However, the trustee is not under any obligation to provide that statement.

4.5 You may request that the trustee vary the annual amount, frequency or method of payment of the pension. The trustee has a discretion as to whether to approve these variations. The trustee will advise you whether a variation will be approved as soon as practicable after you make your request.

5 How your pension account is set up and your pension's effect on the fund

Once the terms of your PPA are settled:

5.1 the pension account will be established in one of the two following ways:

5.1.1 **Segregated assets basis**: The trustee will transfer the assets supporting your pension into a separate sub-fund. These assets will remain in that sub-fund and will be 'segregated' from the remaining assets of the fund. Some of the implications of this approach, and associated risks, are set out in 7 below.

5.1.2 **Non-segregated assets basis**: The trustee will fund your pension from the fund's assets generally (not from any particular assets or sub-account). Some of the implications of this approach, and associated risks, are set out in 7 below.

Before you enter into the PPA, you and the trustee will need to agree whether your pension is established on a segregated assets basis or a non-segregated assets basis. Your choice will depend also on whether restrictions from adopting a particular basis are contained in the fund's trust deed. The trustee:

- will not advise you which basis to choose; and
- strongly recommends that you consider consulting an appropriately qualified adviser before you decide.

5.2 amounts will be debited or credited to your pension account over time, including:

5.2.1 Debits in respect of tax paid on earnings (for transition to retirement pensions);

5.2.2 Debits in respect of pension payments made to you;

5.2.3 Debits made in respect of a proportional amount of the fund's expenses; and

5.2.4 Credits in respect of earnings on the assets which fund the pension, or a proportion of earnings on the fund's assets.

However the trustee is prohibited from adding capital amounts to the pension account after the pension has commenced.

6 Your pension's effect on the fund – effect on borrowing arrangements

6.1 A condition of your pension at law is that 'the capital value' of the pension and the income from it cannot be used as security for a borrowing.

6.2 The effect of this provision is that if the Fund has a limited recourse borrowing arrangement in place, whereby the trustee (through a custodian) has provided security over an asset of the fund, then the trustee may need to take steps to ensure that that asset does not comprise part of the 'capital value' of the pension to be paid to you.

6.3 You and the trustee will need to seek legal and accounting advice on this matter prior to the commencement of the pension.

The risks associated with the fund

7 Details of risks

7.1 **Changing value:** If you choose to receive an account-based pension or a transition to retirement account-based pension, then the amounts you receive are calculated by reference to the value of those fund assets (represented by the balance of your pension account) which are the source of your pension payments. The value of these assets will increase and decrease in line with movements in the underlying value of the fund's assets, for instance movements in share or property prices.

7.2 **Poor investment:** Poor investment performance may reduce the amount the trustee can pay to you – perhaps even to zero if the underlying assets are exhausted or become worthless. The trustee is responsible for choosing an appropriate investment strategy: but even with a sound investment strategy adverse economic, political or social conditions may mean the performance of investments generally is affected, reducing the value of underlying assets.

7.3 **Nature of assets:** The nature of the assets may impact on your ability to take or continue to receive a cash pension – for example, if the assets of the fund are illiquid (such as a large commercial property) then it may be difficult to make the minimum annual payment in cash. In such instances, it may become necessary to sell some of the fund's assets to enable pension payments to be made.

7.4 **Supplier:** If you have asked the trustee to purchase your pension from a third party (such as a life assurance company), then the third party manages the investments. However, you still bear the risk associated with the variations in the value of the assets which fund the pension.

7.5 As mentioned in 5.1 above, there will be additional risks associated with whether your pension is funded on a **segregated assets basis** or a **non-segregated assets basis**.

7.5.1 **Segregated assets basis**: If your pension is funded from segregated assets, then the risks relating to investment performance outlined in 7.1 to 7.2 above must be considered by reference to those segregated assets. For instance, the investment performance of those segregated assets may differ from the performance of the remaining assets in the fund. This may also occur if the trustee applies a different investment strategy to the segregated assets from the strategy the trustee applies to the remaining assets in the fund. Whether the trustee may adopt a separate investment strategy, and whether you get to choose a separate investment strategy, depends on the provisions of the fund's trust deed. You should discuss this with the trustee.

7.5.2 **Non-segregated assets basis**: If your pension is funded from non-segregated assets, then the risks relating to investment performance outlined in 7.1 and 7.2 above are those associated generally with **all** the fund's assets. There is also the additional risk associated with the fact the trustee can not adopt a separate investment strategy that is particularly appropriate to assets which are being used to fund your pension. If assets are non-segregated, then the fund's investment strategy must accommodate the assets which represent the interest of a member in the accumulation phase (if any) as well as the assets used to fund your pension.

Again, the trustee:

- will not advise you as to which basis should be preferred; and
- strongly recommends that you consider consulting an appropriately qualified adviser before you decide.

Other significant information about the fund

8 Preservation Age

Set out below are the Preservation Ages relevant to members of the fund:

- for a person born before 1 July 1960 – 55 years
- for a person born during the year 1 July 1960 to 30 June 1961 – 56 years
- for a person born during the year 1 July 1961 to 30 June 1962 – 57 years
- for aperson born during the year 1 July 1962 to 30 June 1963 – 58 years
- for a person born during the year 1 July 1963 to 30 June 1964 – 59 years
- for a person born after 30 June 1964 – 60 years.

9 Investment of fund assets

9.1 The trustee may make a wide range of investments provided that the investment accords with the trustee's investment strategy. The trustee is required to establish an investment strategy (or strategies), outlining how the assets of the fund will be invested. The trustee can alter the strategy or strategies provided the new strategies are appropriate. If the trustee offers more than one strategy, then (subject to the fund's deed and the agreement of the trustee), you may choose the appropriate strategy. But you may be restricted from choosing particular investments within the strategy.

9.2 The trustee cannot lend money from the fund to a member or to a member's relative. Also, the assets of the fund cannot be used as security for borrowing. These rules apply to assets which are being used to fund a pension.

10 Taxation

The information in this section is general only as the taxation rules applying to superannuation are complex. The trustee recommends that you speak to your adviser to properly understand your options and the tax treatment of your pension.

10.1 Capital Gains tax on transferring assets into your pension account?

Generally, when you move from the accumulation phase to the pension phase, if the trustee transfers fund assets into your pension account no capital gains tax is payable on that transfer (provided you comply with your transfer balance cap as discussed in detail below).

10.2 Tax on amounts received by the trustee or on assets in your pension account?

Generally, while you are alive the fund will not have to pay income tax on income or capital gains attributable to the assets in your pension account (provided you comply with your transfer balance cap as discussed in detail below). However, from 1 July 2017, the tax exempt status of income from assets supporting transition to retirement account-based pensions will be abolished. Earnings will be taxed concessionally at 15 percent.

Note, as assets supporting transition to retirement pensions will no longer be tax exempt, these assets will not count towards the transfer balance cap.

10.3 Tax on pension payments received by you?

If you are 60 years of age or older and eligible to receive the pension, then payments to you will be tax free.

If you are less than 60 years of age but still eligible to receive the pension, then you will be assessed on pension payments that you receive as follows:

10.3.1 the tax-free component of assets used to fund the pension (such as contributions you made from money on which you had already paid tax) is tax-free;

10.3.2 the taxable component of assets used to fund the pension which has been 'taxed in the fund' (such as compulsory super contributions made by your employer which were taxed in the fund) are taxed at your marginal tax rate with a 15% tax offset; and

10.3.3 the taxable component of assets used to fund the pension which has not been 'taxed in the fund' (such as super benefits that have come from an unfunded government super scheme) are taxed at your marginal tax rate with no offset.

10.4 **Tax on commutations and transfers to another fund**

Capital gains tax may be payable if you decide to stop your pension (known as commuting) or to transfer the assets supporting your pension to another superannuation fund (or both stop and transfer).

10.5 **Tax on Death Benefits**

The taxation treatment of death benefits from amounts still in the fund at the time of your death depends on a variety of circumstances including:

10.5.1 whether the beneficiary is dependant for superannuation purposes;

10.5.2 whether the beneficiary is also a dependant for tax purposes;

10.5.3 the form in which the benefit is paid;

10.5.4 your age when you die; and

10.5.5 the age of the person to whom the benefits are paid.

Different circumstances can have very different results. Again, the trustee recommends that you speak to your adviser to understand the options and tax treatment of your pension and benefits paid on your death.

10.6 **Effect on my entitlement to a government aged pension?**

The government decides whether someone is entitled to an aged pension based on a means test. They look at the value of your assets and the amount of your income. All the assets used to fund an account-based pension are taken into account in this means test. This is not the case for all pensions.

11 What happens when you die?

If your account-based pension account still has assets when you die, then either of the following may occur:

11.1 if you nominated a 'reversionary pensioner' when you commenced your pension, and that person is still alive (and is a person to whom Superannuation law permits benefits to be paid – that is, they must be a 'pension dependant') then the trustee will continue to pay the pension to that person. (This nomination will override any Binding death benefit notice that you have given and any other binding arrangement such as a 'death benefit agreement'.)

11.2 if you have not nominated a 'reversionary pensioner' (or if the reversionary pensioner has died before you or is not eligible under Superannuation law to receive a benefit) then the balance of your account-based pension account will be paid to:

- the beneficiary/ies you nominate in any Binding death benefit notice or under any other binding arrangement such as a 'death benefit agreement' (provided they are eligible under Superannuation law to receive a benefit – if the benefit is to be paid as a pension, then that person must be a 'pension dependant'); or
- depending on the terms of the trust deed, the dependant/s or legal personal representative the trustee chooses. You should discuss this with the trustee.

If either a member dies on or after 1 July 2017, or a death benefit is to be paid on or after 1 July 2019, the fund will not be permitted to claim a tax deduction for that part of a lump-sum benefit paid to compensate for income tax paid by the fund in respect of contributions made during the deceased member's life ('anti-detriment' payments).

12 Can you access your capital?

Whether you can access your capital depends on the type of pension that you have. If you have:

- an account-based pension, then you will generally be able to draw lump sum withdrawals from time to time, as agreed with the trustee; or
- a transition to retirement account-based pension, then you will generally not be able to access any capital unless you have retired or satisfied another release condition (such as reaching age 65).

13 Other considerations concerning investments made by the fund

The trustee is required to inform you of whether labour standards or environmental, social or ethical considerations are, or will be, taken into account when the trustee selects, retains or realises an investment. At this stage, the trustee does not take any such considerations into account. However, the trustee may incorporate this into its investment strategy if it sees fit.

14 Income benefits which may become payable on the death of another person.

In some circumstances, you may be entitled to a death benefit from another fund (when you are a dependant of the deceased). If you are a pension dependant of the deceased, then the death benefit may be rolled-over or transferred into the fund. The fund must use all of that amount to pay a pension to you.

In those circumstances, you must work closely with the trustee to ensure that the pension will not result in your transfer balance exceeding your transfer balance cap (see discussion at paragraph 15). In some circumstances, if you are already receiving a pension, and the new pension will result in you breaching your transfer balance cap, then it may be beneficial to commute part of your existing pension to ensure compliance with the transfer balance cap, and transfer the relevant assets back to your accumulation account. You must obtain professional advice in relation to any such measures, including the taxation consequences of commuting that amount.

A pension paid in these circumstances from the fund will then be paid in accordance with the terms of the relevant pension payment agreement, and the fund's deed.

15 Transfer balance cap of $1.6 million

From 1 July 2017, persons who are receiving or are to receive a pension will have a 'transfer balance'. In short this is an amount, which is generally capped at $1.6 million (but which will be subject to indexing over time), determined by reference to the assets which have been transferred into the pension accounts of your superannuation fund(s) for the purpose of paying pensions to you. That means that your transfer balance takes into account, for instance, assets which fund a pension from this fund, as well as assets which fund pensions paid to you from other funds. Your 'transfer balance' in your 'transfer balance account' must not, at any time, exceed the 'transfer balance cap'. Where your transfer balance exceeds the transfer balance cap (or is likely to exceed it), either you or the trustee will be required to remove the excess assets from the pension account and either:

15.1 transfer the excess capital back into your accumulation account (with any earnings attributable to the excess assets being taxed in accordance with the Tax Act); or

15.2 withdraw the excess assets from superannuation, where permitted.

The steps in items 15.1 and 15.2 may be taken with respect to excess assets from the pension account under this fund or from a pension account you have with another fund.

If, on or before 30 June 2017, the transfer balance of your transfer balance account is between $1,600,00.00 and $1,700,000.00, then the trustee will have until 31 December 2017 to return the excess assets back to your accumulation account to ensure your transfer balance is under the transfer balance cap. No penalty will apply within this period.

If, on or before 30 June 2017, the transfer balance of your transfer balance account is above $1,700,000.00, then by 30 June 2017 the trustee will be required to remove the excess assets using one of the methods described in items 15.1 and 15.2 above

16 Changing information

Information in this PDS may change. The trustee will notify you of any changes that have a materially adverse impact on you or other significant events that affect the information in this PDS. Other information may be obtained from your financial advisor.

17 You can contact the trustee for more information

If you require more information (including information concerning the fund, the fund deed, the fund's performance or your rights as a member), then you can contact the trustee using the contact details at the beginning of this PDS.

Product Disclosure Statement – Schedule 1

Definitions

The words and phrases listed below explain some of the terms used in this PDS. You should also refer to the definitions in the pension payment agreement.

Binding death benefit notice means a notice given by a member or beneficiary to the trustee in accordance with regulation 6.17A of the Superannuation Industry (Supervision) Regulations.

Commute has the same meaning as under superannuation law. Generally, it refers to when a right to receive a **regular payment** (like pension or annuity payments) is converted into the right to receive a **lump sum payment**.

COVID-19 determination means a determination from the regulator issued pursuant to regulation 6.19B of the SIS Regulations for an amount not exceeding the amount validly stated in the determination.

Pension means an account-based pension or a transition to retirement account-based pension, as relevant.

Pension dependant means a person who satisfies the requirements of regulation 6.21(2A) of the SIS Regulations.

PPA means the pension payment agreement under which the trustee pays the pension to you.

Preservation age means the minimum age after which your Preserved Benefits may be paid to you.

Regulator means the particular Commonwealth body responsible for the administration of the relevant aspect of superannuation. It may be the Commissioner of Taxation, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission or some other body.

Preserved benefits means those benefits which can only be paid to you upon your Retirement.

Release condition means a condition which, when satisfied by the member, enables the trustee to pay the member a pension (or other retirement benefit), and which conditions must also be a 'condition of release' as defined in the SIS Regulations.

Retirement occurs:

- If you have reached a Preservation Age less than 60, and
    - an arrangement under which you were gainfully employed comes to an end; and
    - the trustee is reasonably satisfied that you never intend to become gainfully employed (either full time or part time); or
- if you have reached age 60 and an arrangement under which you were gainfully employed has come to an end and either of the following circumstances apply:

- you have attained that age on or before ending employment; or
- the trustee is reasonably satisfied that you never intend to become gainfully employed (either full time or part time).

Superannuation law means:

- any law of the Commonwealth of Australia including the *Corporations Act* 2001 and the *Social Security Act* 1991, which deals with any aspect of superannuation or taxation in relation to superannuation, and
- any lawful requirement in relation to the fund by the Commissioner of Taxation, the Australian Tax Office, APRA, ASIC or any other body that has responsibility in connection with the regulation of superannuation,

It includes changes to any superannuation law after the date of this deed. It also includes any proposed law or lawful requirement that the trustee believes may have retrospective effect.

Tax Act means the *Income Tax Assessment Act* 1936 or *Income Tax Assessment Act* 1997, as appropriate, and the regulations made under the relevant Act.

Transfer Balance Account has the same meaning as in section 995-1(1) of the Tax Act.

Transfer Balance Cap has the same meaning as in section 995-1(1) of the Tax Act.

Trust deed means the deed which contains the rules that govern the operation of the fund of which you are a member.