



Creating Reserve Accounts

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Superannuation Legislation and any other current relevant legislation (Relevant Law) permits the establishment of Reserve Accounts where the Trustee of a Superannuation Fund (Fund) has set aside surplus assets of the Fund into an account which do not immediately benefit a member. The trust deed of a Self Managed Superannuation Fund (SMSF) should empower the Trustee at any time to establish one or more Reserve Accounts. A Reserve Account can therefore be established to set aside surplus assets or earnings of an SMSF into an account which may not immediately be allocated to a Member's account. Allocations may be made from any Reserve Account according to the rules of the Fund.

Creating and utilising SMSF Accounts should only be undertaken where permitted under the requisite SMSF Trust Deed (see ili Trust Deed clauses 18, 19 and 20) and with the requisite training and tools to meet all legislative and compliance requirements.

What follows is an overview of Creating Reserve Accounts.

Reserve Accounts can be established for the following purposes:

- Income Stream Reserve Account - to fund current superannuation income stream liabilities such as a guarantee to pay an agreed rate of return in respect to an income stream.
- Lump Sum Death Benefit Reserve Account - where a bonus or additional payment is made directly under the Relevant Law to a Dependant of a deceased Member or the deceased Member's legal estate. This is also known as an anti-detriment payment to compensate the Member's Estate for any contributions tax paid by the deceased Member.
- General Reserve Account — where the trustee can allocate earnings of the SMSF.
- Self Insurance Reserve Account — where the trustee can fund temporary and permanent incapacity payments to

Members as well as Death Benefit Payments to Dependents and/or the legal estate of deceased Members.

- Expense Reserve Account — where the trustee can utilise the Reserve Account to fund general and specific expenses of the SMSF.
- Contribution Reserve Account — for short term “warehousing” of contributions for a term no greater than 28 days or as allowed under Superannuation Legislation.

If permitted under the SMSF Trust Deed at the time of establishment of any Reserve Account, the SMSF Trustee may determine additional requirements for the particular Reserve Account including, but not limited to the following:

1. The source of surplus cash and assets to be transferred to a particular Reserve Account including the transfer of cash or assets from a member superannuation interest to a Reserve Account or the receipt by the trustee of an authorised contribution, asset or investment which in the opinion of the trustee is not an entitlement of a member provided that any transfer or receipt is in accordance with the Relevant Law. This may include in the correct circumstances a distribution from a Family Trust to the SMSF;
2. The investment strategy for the Reserve Account as required by the Relevant law;
3. How, when and for what purpose amounts held in a particular Reserve Account are to be applied by the Trustee including the payment of any superannuation benefits in the event of the Member's retirement, temporary or permanent incapacity or as a death benefit (“a Self Insurance Reserve Account”);
4. Whether the Reserve Account is to be used to pay out expenses of the Fund including, but not limited to, administration, general and insurance expenses, any specific expenses and the payment of



superannuation income streams to Members or other entitled persons such as Dependants.

To find out more about Reserve Account Strategies and ili Tools in respect to Reserve Accounts please visit our website www.ili.com.au.

To find out more about the AIFA SMSF Specialist Program utilising ili Tools please visit http://www.aifa.edu.au/page/180/smsf_program.htm. This offer is only exclusively accessible through the Strategy Update and cannot be found through AIFA's general website.



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