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## EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 405: COST OF DEATH AND DISABILITY BENEFITS IN SUPERANNUATION FUNDS

1 July 2016

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### About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation Practice Committee (SPC) to assist Members in understanding the changes made to Professional Standard 405 (Cost of Death and Disability Benefits in Superannuation Funds) (PS 405).

### Consultation

In December 2014, an Exposure Draft of proposed changes to PS 405 was distributed for comment. Following submissions from Members and the Australian Taxation Office (ATO), a Second Exposure Draft of proposed changes to PS 405 was released for comment in October 2015. No further submissions were received from Members. The ATO raised a minor issue, for which an explanation was provided, and no further comments were received from it.

### Overview of key changes from the June 2010 version of PS 405

Accompanying this Explanatory Memorandum is the revised PS 405, as well as a copy of the new edition showing tracked changes since the June 2010 edition.

To clarify, no further changes have been made since the Second Exposure Draft was released.

The changes from the June 2010 version are to:

- ▶ remove references to Australian Taxation Office Taxation Ruling IT 2617 (which has since been withdrawn). Items to be included in actuarial certificates for the purposes of section 295-465(3) of the Income Tax Assessment Act 1997 (Cth) are now specifically listed in PS 405 rather than incorporated by reference to that Ruling;
- ▶ include terminal medical condition benefits (because premiums, or notional premiums, for terminal medical condition insurance cover are tax deductible);
- ▶ for the purpose of calculating a tax deductible amount, and unless the Member certifies a greater amount is required, change the maximum amount of insurance cover, or notional insurance cover, for lump sum benefits to be (generally):

- the lump sum benefits (being the death, terminal medical condition and/or disability benefit);
- less the lesser of the Vested Benefit and the Accrued Retirement Benefit.

This change provides more consistency with the approach taken in the SPC's Discussion Note "Self-insurance Arrangements and Superannuation Prudential Standard SPS 160" issued in February 2014. In respect of underfunded schemes, Members continue to be able to certify a higher amount of insurance cover;

- ▶ include references to the proportions of premiums, or notional premiums, for disability benefits that are deductible, which depend on the definition of "total and permanent disability". The proportions are based on those in the Income Tax Assessment Regulations 1997 (Cth). The SPC notes that a superannuation fund can have an actuary provide a certificate with different proportions;
- ▶ bring the standard into line with the Policy for Developing Documents to Guide and Regulate Professional Practice (which replaced the Policy for Drafting Professional Standards); and
- ▶ other miscellaneous changes.

#### **Commencement date**

This edition of PS 405 applies to actuarial certificates under section 295-465(3) of the Income Tax Assessment Act 1997 (Cth) issued on or after 1 July 2016.

#### **END OF EXPLANATORY MEMORANDUM**