METROPOLITAN FIRE SERVICE SOUTH AUSTRALIA

Your 2012 super update

The past financial year marks the fifth since the US mortgage loans scandal sparked the beginning of a global financial crisis. The main focus during the year was on whether certain European governments would default on their borrowings. This created an atmosphere of market uncertainty which made clear investment trends difficult to identify.

Despite these challenges, many super funds delivered positive returns for the year ending 30 June 2012. The SAMFS Super Scheme was among these super funds, delivering a return of 1.3% for its Growth option. This was higher than the 0.4% average return of similar investment portfolios in other superannuation funds, according to superannuation research company, Super Ratings.

The economic turmoil in Europe dominated markets over the past year, causing investor uncertainty and fuelling demand for "safe haven" investments.

These "safe haven" investments were bonds and cash options and they delivered the highest returns for the 2011/12 financial year. Super Ratings figures show fixed-interest options returned 8.9% on average and cash options provided an average 4.0% return. While bonds were the best-performing asset, record low bond yields may create new challenges for investors. This is because the rally in bonds may be at its peak and there appears to be little room for bonds to continue to provide strong returns.

In contrast to bond market returns, shares delivered negative returns over the year. Research house Chant West reported that international shares dropped 2.1% over the year in Australian dollar terms and Australian shares dropped 7.0%.

When shares perform poorly, investment options that are designed to achieve relatively high returns – and so have a relatively high exposure to shares – also tend to fall short of expectations.

The key drivers of the share market turmoil and poor share performance include significant bouts of uncertainty in the European markets. Fears that the Greek government may default on its borrowings plagued markets toward the beginning of the financial year.

European governments took action to restore confidence in the Eurozone with a series of bailout packages during the March quarter, resulting in a welcome surge in share markets. However, the global recovery again slowed sharply in the final three months of the financial year and renewed worries about Greece, together with economic woes in Spain, quickly undermined this market confidence.

There was also bad news out of the US as ratings agency Standard & Poor's downgraded the credit rating of the US Federal Government from AAA to AA+ for the first time ever.

At 30 June 2012, Europe was in recession and US growth continued to slow. Volatility is, therefore, expected to continue dogging markets in the near future.

How your Scheme has performed over the year

Your defined benefit has again been increased to a higher level in line with salary and multiple growth whilst the Scheme's investments have had a mixed year. The Scheme's investment returns for the 2011/12 financial year should be considered in light of the market turmoil that has continued to plague markets. All options bar High Growth have posted positive returns, an outstanding result compared with many of our peers and particularly given the negative returns for equities overall. While it has been a difficult year, returns have continued to build on the positive results achieved by the Scheme since the devastation of the GFC in 2009.

Additional information about the Scheme's returns is available in the *2012 Annual Report* and monthly investment returns are posted to the Scheme's website, **www.samfs.superfacts.com.** Keep in mind that although it gives an indication of overall performance, past performance is no guarantee of future performance.

Year ended 30 June	Investment option % p.a.							
	Cash	Capital Defensive	Conservative	Moderate	Balanced	Growth	High Growth	CPI
2012	4.1	7.4	5.6	3.5	2.3	1.3	-0.9	1.2
2011	4.3	6.3	7.6	8.5	9.4	9.9	11.0	3.6
2010	3.3	9.6	11.0	11.0	11.3	11.2	12.0	3.1
2009	4.8	-1.5	-6.5	-8.7	-14.0	-16.2	-17.7	1.5
Three year % p.a.	3.9	7.9	8.1	7.5	7.6	7.5	6.8	2.6

2012 Scheme Trust Deed changes

The Trustee constantly monitors super benefits and makes changes where necessary to ensure our members receive the best benefits possible from their super. To this end, there were three key changes made to the Scheme's Trust Deed over the year.

1. Employer defined benefit contribution increases

From 1 July 2012, employer defined benefit contributions increased by 2%. The additional 3% compulsory member contribution ceased on 30 June 2012 and this contribution reverted into your take home pay. However, depending on your savings goals and personal situation, you may want to consider continuing this additional contribution to give your super benefit an extra boost, while keeping an eye on annual contribution limits.

Contact the Super Office on **08 8204 3826** for the forms required to start your additional voluntary contributions.

It's your responsibility to monitor your contribution levels. You can do this online by signing into your super account on the Scheme's website, **www.samfs.superfacts.com** and go to the **Contributions** section, then the "Annual contribution limits" page. You can also use the **Retirement planner** on the website's **Webinars & planning tools** section to get an idea of the difference extra contributions may make to your final super benefit. It is important that you contact the Manager to discuss how your compulsory contributions and contributions from secondary employment count towards your contribution limit.

2. Benefits moved into Cash on retirement or death

On retirement, a member's **defined benefit** will now be automatically moved into the Cash investment option effective the date of retirement to safeguard it from any market falls while you decide what to do with your super. You can switch it back to any of the other six investment options at any time

On the death of a member, **both the accumulation and defined benefit components** of the member's crystallised death benefit will be switched to the Cash investment option, with effect from the date of the member's death.

3. Financial advice fees can be paid from super

To help members to access financial advice and meet the associated costs, members can have half their financial advice fees paid from their accumulation account balance. Be aware that advice must relate to your super benefits for this payment option to be allowed. To take advantage of this option, you should complete the *Financial advice fee deduction* form available from the website or by calling the Super Office.

Common money mistakes and how to avoid them

Making and learning from mistakes is part of life. When investing hard-earned cash however, learning from mistakes can be costly, so it's best if you avoid making them in the first place.

Many an investment that sounded like a good idea has delivered a less than stellar outcome. When investing, common sense is an excellent first test – if it sounds too good to be true, it probably is. A second rule of thumb worth remembering is if you don't understand it, don't invest.

In this article, we'll explore some common money mistakes that can stifle your financial progress.

#1. Holiday investment property – to buy or not to buy?

Well chosen property investment can be a great way to build wealth. It combines desirable investment features, such as the potential to generate income (rent) to help meet loan repayments, tax savings through negative gearing and capital growth. While the thought of having your own "weekender" may be a wonderful notion, as an investment, often the numbers don't stack up.

Peaks and troughs in occupancy throughout the year can result in unreliable income, demanding additional cash flow to meet loan repayments and expenses.

Management fees, advertising, maintenance and cleaning costs are usually higher than with residential tenancies and can eat into your rental return. There is also the trade off between using your property during peak holiday times or forgoing access to take advantage higher tariffs.

Finally, consider market demand and the potential for capital growth. There are usually a smaller number of buyers, thus lower demand for holiday properties. The ease with which you could dispose your property if you need the cash is another important consideration. Holiday properties are often the first casualties during market down turn, being sacrificed at drastically reduced prices, as was seen time and again during the Global Financial Crisis.

Be realistic and weigh up all the elements carefully *before* you buy or your holiday dream house could quickly turn into a financial nightmare.

#2. Managed funds: look carefully at all the costs

Managed funds are a convenient way to invest, allowing a professional to make the management decisions for you. However, be wary of choosing a managed fund on past performance alone. An impressive track record doesn't guarantee future returns or justify high fees and costs.

Fees are usually shown as a percentage of your account balance or contribution. Generally, funds promoting high returns have higher associated management fees, called the "management expense ratio" (MER). The higher the fees, the more they eat into your investment returns. You'll need to pay these fees even if the market isn't performing, in which case, your return is doubly impacted. There may also be a performance fee, which is an additional cost if the fund outperforms a pre-set investment return threshold. Throw in entry and/or exit fees and you'll have even less of your money invested, so less to generate a return.

Strict rules specify how fees must be disclosed, so you can easily make a cost comparison between funds. Compare the managed fund's fees with those you pay in the Scheme to see the difference. Investing in your super is just like investing in a managed fund, but fees in the Scheme are likely to be considerably less than in a retail managed fund. That's because the Scheme uses its size to negotiate lower fees and all profits are for the benefit of our members, not to profit the investment manager. With no entry and exit fees in the Scheme, more of your money is working for you.

#3. Short term savings in growth assets

Matching your investment type with your investment timeframes – how long it may be before you will need to access the money – is an important piece of the investment puzzle.

You may have money that you'll need in the near future, say for a holiday or a deposit on a house. Ideally, that money can still be invested until you need it.

Generally, the shorter the timeframe, the lower the investment risk, and the trade off may be a lower return. You may be tempted to invest in growth assets like the share market in the hope of making a quick buck. Even though share prices may rise quickly, there is also the increased risk of them falling just as quickly, resulting in a loss of some of your capital.

Short term investments usually offer lower risk, being protected from market ups and downs and easy access to your money. Keeping your money in the bank is secure but usually day-to-day accounts pay very low rates of interest. Term deposits, high interest savings accounts and short term bonds can be ideal for short periods, so shop around for the highest interest rate. If you look at using term deposits or bonds, be sure that you match your timeframe with the investment's maturity date. If you need to access money sooner, there may be penalties for early redemption.

#4. Chase hot share tips and you might get burnt

Stock selection in the share market is difficult, even for the most experienced investors. Blindly chasing a hot share tip without understanding the context or timing can be expensive if you get it wrong. Investor emotion often fuels market movements, defying market indicators or expectation.

Shares offer a higher potential return, but this is coupled with higher levels of risk. Investment principles supported by historical market movements advocate long term investment in shares, allowing time to ride out fluctuations and benefit from overall growth. Since markets are close to impossible to time, regular ongoing investment, regardless of market variations, has been shown to deliver sound returns while better managing risk.

Four of the seven investment options offered by the Scheme offer levels of exposure to Australian and international share markets in a far more disciplined way. Professional investment managers undertake stock selection and monitoring on a daily basis for a fraction of the cost of direct investment. Plus you gain exposure to a far broader range of shares than if you invested directly. You can enjoy all the benefits of being a shareholder without the challenges of doing it yourself. Information about these options is provided in the **Investments** section of the Scheme's website, **www.samf.superfacts.com.**

#5. Don't panic when the market drops

When investment markets head south, as we've seen in recent years, one of the biggest temptations is to panic and sell, sell, sell. Before you do, you may want to stop and think. If you sell your investment at this point, you'll realise your losses. However, if you sit tight, your loss is only on paper and you can potentially recover these losses when the market picks up. Historically, markets have always recovered in the long term after a fall, though there are periods where it has taken some time. Rather than letting panic dictate your investment plan, it can be a good idea to revisit your financial goals and how your investment fits with them. Getting financial advice from a licensed financial adviser can be a good investment.

#6. Investment is too risk adverse for age

Everyone's comfort level with risk is different. Generally, the level of acceptable risk in an investment is influenced by the investor's age. The longer the investment timeframe the more time there is available to ride out high and lows so the investor can usually afford to carry a higher level of risk. This is the opposite situation to Mistake #3 above.

On the flip side, if a long term investment is invested using a low risk approach to minimise the likelihood of negative returns, the potential for growth may be considerably reduced. A one or two percent difference in investment return over 20 years can mean thousands of dollars to the final outcome. If an investment keeps pace only with inflation, it is marking time in terms of buying power and there is limited capital growth.

The Scheme recognises that everyone has a different attitude towards risk, so we offer seven diversified investment options, each with a different risk level. To find out how comfortable you are with risk (that's your risk profile) and the investment types that may suit you take the quiz, *What type of investor are you?* – on the **Webinars & planning tools** page of the Scheme website.

No mistake – super can be a super investment

When considering your long term investment choices, super offers benefits that make it a hard investment vehicle to beat. While it might not provide a holiday home now (it might later!), it can help to safeguard against a number of the common mistakes we've discussed earlier.

On top of this, there are other advantages to investing in super, like concessional tax rates. Earnings on investments outside of super are typically taxed at marginal income tax rates (which can be as high as 45% depending on your income level). However, your super contributions and investment earnings are generally taxed at a maximum of 15%*. This lower rate of tax means more of your investment earnings stay invested to grow your savings.

As with all investments, super is not without risk, however this risk is constantly monitored and managed wherever possible by the Scheme. You should speak to a licensed financial adviser before you make any important investment decisions regarding your accumulation account.

* The Government has proposed to introduce a higher contribution tax rate of up to 30% where income is over $300,000 a year, which, if it comes into effect, will still be 15% lower than the current top marginal rate.