SUPER INFO
SUMMER 2016

What's inside:

Changes to the Scheme's investment options

The Scheme's investments are managed by Funds SA. Effective 1 January 2016 Funds SA made the following changes to the Scheme's investment options:

- The objectives of the Conservative, Moderate, Balanced, Growth and High Growth investment options will reduce by 0.5% p.a.
- The Standard Risk Measure* of the Capital Defensive investment option will change from "very low" (Risk Band 1) to "low" (Risk Band 2). This means that the likelihood that you may receive a negative return will increase from less than 0.5 years in 20 years to between 0.5 and 1 year in 20 years.

The following table summarises the changes to the investment objectives:

Investment option	Investment objectives			
	Investment time horizon	**Pre 1 January 2016**	**Post 1 January 2016**	**Chance of a negative return as defined by the Standard Risk Measure**
Cash		Maintain capital value	No change	Less than 0.5 years in 20
Capital Defensive	At least 2 years	Inflation +1.5%	No change	Between 0.5 and 1 year in 20
Conservative	At least 4 years	Inflation +2.5%	Inflation + 2.0%	Between 1 and 2 years in 20
Moderate	At least 6 years	Inflation + 3.5%	Inflation + 3.0%	Between 2 and 3 years in 20
Balanced	At least 7 years	Inflation + 4.0%	Inflation + 3.5%	Between 3 and 4 years in 20
Growth	At least 8 years	Inflation + 4.5%	Inflation + 4.0%	Between 3 and 4 years in 20
High Growth	At least 10 years	Inflation + 5.0%	Inflation + 4.5%	Between 4 and 6 years in 20

Each investment option has been structured with the aim of achieving a return in excess of inflation by the amount stated in the investment objective, within the period of the investment time horizon. There is no guarantee, however, that the objectives will be met, as investment markets are volatile and future returns may vary from returns earned in the past.

The investment objectives are designed to help members with their investment decisions and have been developed having regard for the long term performance and characteristics of investment markets.

**The Standard Risk Measure was developed by the Association of Superannuation Funds of Australia (ASFA) and the Financial Services Council (FSC). The Standard Risk Measure is based on industry guidance to allow members to compare investment options that are expected to deliver a similar number of negative annual returns over any 20 year period.*

The Standard Risk Measure is not a complete assessment of all forms of investment risk, for instance it does not detail what the size of a negative return could be or the potential for a positive return to be less than a member may require to meet their objectives. Further, it does not take into account the impact of administration fees and tax on the likelihood of a negative return.

Members should still ensure they are comfortable with the risks and potential losses associated with their chosen investment option/s.

Don't panic – the world is not falling apart.

Source: Mercer

Financial markets have had a nervous start to the 2016 calendar year, with many key equity markets under pressure.

It is not easy to hold your nerve as you watch share markets plunge – but 'don't panic' really is good advice.

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Don't panic – the world is not falling apart *Source: Mercer*

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What happened in China?

An unofficial measure of manufacturing activity released in January showed that the Chinese manufacturing sector continued to contract in December, by more than expected.

Another survey, showing a record loss of capital from China in the fourth quarter, prompted a strong reaction from the Chinese equity market, which fell 7% in the first week of January; the maximum level allowed before authorities apply "circuit breakers" and suspend trade for the day.

With the continued volatility authorities were prompted to dump the circuit breakers altogether. Chinese equities posted modest gains after that change.

Why the Chinese market dived

The fall was due to economic reporting and the decision to allow the Chinese currency to devalue was a key factor behind the selloff later in the week.

It is worth pointing out that the Chinese equity market is unique.

The daily fixing of the Chinese currency, the Yuan, against the US dollar, has been watched closely since the panic in August last year when the People's Bank of China (PBoC) shocked markets by devaluing the currency by more than 1%, two days in a row. The currency is now fixed daily to trade between +/- 2%.

In the first week of 2016, the PBoC lowered the fix by 0.5%, prompting fears that Chinese authorities may be attempting a competitive devaluation to boost their exports. The Yuan has now depreciated by a total of 7.3% against the US dollar since August 2015.

While these movements may lead to losses in Chinese equity markets, the panic-like nature of the recent selloff seems excessive.

A slowdown in the Chinese economy is widely expected as China transitions from a manufacturing to a services driven economy. At the same time, efforts to crack down on corruption and reduce pollution in China are thought to have weighed on growth, which is to be expected.

It is worth pointing out that the Chinese equity market is unique. Unlike in Australia and the United States, equity market turnover is dominated by domestic "mum and dad" investors, many of whom have a short time horizon and limited experience in trading shares. Fortunately though, shares only comprise about 17% of average household wealth, meaning that even large declines in equities have a small impact on overall household wealth.

Further, only about 2% of non-financial companies in China rely on equity markets for finance, so there is very limited correlation between the strength of the Chinese economy, and returns in the Chinese equity market. For example, during the strong growth period between 2010 and 2012, when the economy was growing between 8 and 12% p.a., the Shanghai composite lost around 7% p.a. In contrast, when the economy slowed over the year to June 2015, growing by just 7.0%, equities gained over 50%.

The global impact

Outside of China, developments at the start of 2016 have been positive overall. It has been reported that US employment increased by 292,000 workers in December, well ahead of market expectations of 200,000 and continuing a run of very strong jobs data. The US unemployment rate remains at 5.0% and there are also tentative signs of higher wage growth.

Additionally, the US Federal Reserve raised interest rates for the first time since the GFC. The minutes of the December board meeting confirmed that The US Federal Reserve (the Fed) also expects to raise rates gradually, which should limit the impact on financial markets. So despite the strong employment numbers, the Fed is likely to closely monitor the impact of their December increase before increasing rates again.

Outside of China, developments at the start of 2016 have been positive overall.

The size of equity market falls may seem disproportionate to the news released since the turn of the year, but it illustrates investor anxiety regarding the implications of a slowing Chinese economy. In that sense, we have reverted to the market psychology of last August and September, when global equity markets fell around 10%, only to recover most of the lost ground by the end of the year.

The outlook

Providing the Chinese authorities recover their poise and the slide in economic data is arrested, there is a strong possibility that equity markets will bounce back to reflect the improving economic picture in the developed world.

Don't put all your eggs in one basket

Source: Mercer

The purpose of your superannuation is to provide you with a sustainable income throughout your retirement.

We also aim to provide our members with flexibility and choice when it comes to investing. How you choose to invest your super; that's up to you.

We encourage you to learn about the investment options available to you as a Scheme member, consider the investment options that are right for you now for your accumulation account and also the ones that provide the best outcome for your future.

What you choose to invest in will vary depending on several factors, primarily your level of risk tolerance and how long you've got until retirement. Often, the more years you have to invest, the higher your tolerance to risk is.

Generally, as you get closer to retirement, your appetite for risk and your ability to recover investment losses usually decreases; so it makes sense to reassess your investment strategy over time.

The importance of diversification

An important part of reducing risk is diversification of investments.

The Scheme's Investment Choice options are invested in many different investments to reduce the risk posed by a single investment. In addition, the diversified Member Investment Choice options (High Growth, Growth, Balanced, Moderate, Conservative and Capital Defensive) invest in multiple asset classes with different return drivers. This increases the expected return that can be achieved for the same level of volatility.

If you feel you need help with retirement planning and investment choice, we encourage you to get in touch with a Financial Planner.

We're here to help you get organised and prepared for retirement.

The Scheme offers a number of investment options for your accumulation account with different levels of risk and return. To read more about investment options visit our website **www.samfs.superfacts.com**.

An Investment Performance report is posted to the website monthly.

Understanding your super: Anti-detriment payments

Source: Mercer

Anti-detriment payments, it's a mouthful to say (or even read) – but what is it? Anti-detriment payments are, in their most simplistic form, is a payment made as part of your death benefit for the contributions tax that you paid on your super account over your lifetime as a member

Who can it be paid to?

These payments are paid to your beneficiary/beneficiaries, for example a spouse, ex-spouse or child (including adult children).

How does it work?

This payment forms part of your death payment – which can be made up of a number of parts including insurance payments and your account balance.

Super funds are not legally bound to pay anti-detriment payments, so are able to make up their own policy about their payments. SAMFS believes that all our members' beneficiaries should be able to receive an anti-detriment payment if they are eligible.

When is the payment made?

SAMFS automatically pays anti-detriment payments where they apply to lump sum death benefit payments to your beneficiaries. No paperwork or hassles.

It's important to know that tax may be payable on anti-detriment payments made to adult children, just as it applies to death benefits. The amount of tax will depend on each individual's circumstances.

Need more information?

As with all estate planning and decisions about your super, we recommend you seek advice from a licensed financial adviser that takes into account your personal circumstances, to make sure you make the right decision for yourself and your loved ones. For more information contact us on **(08) 8204 3826**.

Contribution caps for your super

Contribution caps apply to all contributions made to your super within a financial year. The caps apply to:

- Concessional Contributions; and
- Non-concessional Contributions.

Contributions in excess of these caps are subject to extra tax. This article provides you with a general understanding of how these caps work and the penalties for exceeding the caps.

Concessional contributions

What is a concessional contribution?

Concessional contributions include the following:

- Employer contributions (including compulsory superannuation guarantee, voluntary employer contributions and salary sacrifice) from all employers;

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- Employer paid expenses such as fees and insurance premiums, if applicable;
- Personal contributions to super for which you have been able to claim a tax deduction;
- Certain allocations from reserves of a superannuation fund or scheme; and
- Notional taxed contributions if you are a defined benefit member.

Note: this is not a comprehensive list

What is the concessional contribution cap?

The concessional contributions cap for the 2015/2016 financial year depends on your age at the end of the previous financial year. The caps are:

Age at 30 June 2015	Concessional contribution cap
48 or less	$30,000
49 and above	$35,000

The Australian Taxation Office (ATO) will determine whether you have exceeded the cap that applies to you and will notify you if any additional tax is payable.

What happens if you exceed the cap?

If you have exceeded the cap then the excess will be added to your assessable income for the year and taxed at your marginal rate. A 15% tax offset will be allowed for tax already paid within the fund on contributions as normal. You have the option of paying this tax yourself or you may elect to have it paid out of your super. You cannot elect to have any additional tax paid out of any defined benefit you might have.

As well as having to pay additional tax on excess concessional contributions, the excess amount is also counted towards your non-concessional contributions.

Non-concessional contributions

What is a non-concessional contribution?

Non-concessional contributions include:

- personal contributions for which a tax deduction is not claimed;
- spouse contributions (in respect of the receiving spouse);
- the tax free part of an amount transferred from a foreign super fund;
- contributions in excess of the concessional contributions cap; and
- some amounts transferred from reserves.

Note: this is not a comprehensive list

What is the non-concessional contribution cap?

The non-concessional contributions cap is $180,000 for the 2015/16 financial year and applies to individuals of all ages.

If you are under age 65 at any time during a financial year, you can bring forward two financial years of non-concessional contributions and make total non-concessional contributions of up to $540,000 over a three year period.

The “bring forward” provision is automatically triggered if you contribute more than $180,000 of non-concessional contributions in a financial year. Subsequently, if that contribution plus the next two financial years’ of contributions exceed $540,000, the amount over this cap will be considered to be an excess non-concessional contribution.

You cannot utilise the “bring forward” provision if you are 65 years or older on 1 July 2015 – in this case a cap of $180,000 applies in respect of your non-concessional contributions for each financial year.

What happens if you exceed the cap?

Generally, if you exceed the non-concessional contributions caps, any excess contributions will be taxed at 46.5%.

The ATO will determine whether you have exceeded the limits and whether you are required to pay any additional tax. You must nominate a super fund to release monies from your super account to pay this tax liability.

Alternatively, you can elect to get a refund of the excess contributions (less the 15% contributions tax for excess contributions), but note that refunds do not apply for excess contributions prior to 1 July 2013.

How you can monitor your contributions

SA Metropolitan Fire Service Superannuation Scheme members can monitor contributions:

- **Online** at **www.superfacts.com/samfs**, or
- **Calling us** on 08 8204 3826

What if I’m a defined benefit member?

As a defined benefit member, generally your retirement benefit is worked out using a formula which usually takes into account your salary at or near retirement and your years of defined benefit membership.

Both you and your employer make contributions to fund the retirement benefits of all members. The employer contributions for the purpose of reporting concessional contributions to the ATO are calculated by the Scheme. These are called the “notional taxed contributions”. The notional taxed contributions are calculated based on factors worked out by the Plan’s actuary using Government-specified assumptions. This amount includes any salary sacrifice contributions you make to fund your defined benefit (but not additional voluntary salary sacrifice).

Any additional concessional contributions you make may put you in a position where you exceed your relevant cap.

You can check your level of notional taxed contributions, as well as any other concessional contributions, for the current financial year by logging on to **www.superfacts.com/samfs** or calling the Manager on 08 8204 3826.

Given the complexity of the regulations and the serious implications if you exceed the concessional contributions cap, defined benefit members should manage and plan their overall super contributions and retirement wealth with care.

Important notice: The information in this newsletter is for educational purposes only and is not intended to be advice. It has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting upon any of the information in this newsletter, you should consider its appropriateness having regard to your objectives, personal situation and needs. It is recommended that you seek professional financial advice from a licensed or appropriately authorised financial adviser before making any decisions in respect to your membership of the Scheme. Please note that there are no guarantees the investment performance of the Scheme’s assets and the value of your investment in the Scheme may rise or fall from time to time. You should also note that past performance is not an indicator of future performance. For further information about the Scheme, you should read and consider the Scheme’s Member Benefit Guide which you can obtain by calling the Manager on (08) 8204 3826.

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