SA METROPOLITAN FIRE SERVICE SUPERANNUATION SCHEME

SUPER INFO

Summer 2011-2012

Welcome to the Summer 2011-2012 edition of Super Info

What's inside:

EXTRA 3% CONTRIBUTION TO CEASE FROM 1 JULY 2012

With the approval of the EB by UFU members and when subsequently ratified by the AIRC, it will be possible for the Trustee of the Scheme to apply the additional 2% employer contribution to all members' best interests.

Please note the following;

- February 2012 – The Scheme's actuary has reported to the Trustee on the funding impact of the additional 2% employer contribution. This report details how the Scheme's long term funding will be substantially strengthened and that the current additional member contribution of 3 % can cease from 1 July 2012 subsequent to EB ratification by the AIRC.
- April 2012 - The Scheme's trust deed will be amended to legally enshrine the additional employer contribution.
- Member's defined benefits have increased annually throughout the GFC despite the Scheme's five year investment performance to the end of January 2012 averaging only -0.8% per annum. This rate of return is indicative of investment returns experienced by 90% of the population with accumulation (defined contribution) accounts.
- From 1 July 2012 member compulsory contributions at new salary levels will commence from the first pay period in July 2012 but the additional 3 % compulsory contribution will also cease at this time.

(continued next page)

- From July 2012 some members may wish to re-direct their additional 3% compulsory contributions to voluntary salary sacrifice contributions that are invested in member's accumulation accounts. A new set of voluntary salary sacrifice forms will have to be completed so please visit the website or contact the Manager for the two forms required. You may wish to review which accumulation account portfolio best suits your personal risk/return profile at the same time.
- The next priority for the Trustee will be to repay the 3% additional compulsory contributions made (with interest) to the accumulation accounts of then employees. This action will be dependent on the Scheme returning to, and exceeding a fully funded position. Future investment returns will largely decide when this commitment will be able to be made good.

Please contact the Manager on 8204 3826 if you would like to arrange a time for a station / department visit to discuss all of the above and any other superannuation matter that is of interest to you.

Investment update

This update is provided by Mercer.

A roller coaster ride for investors

Against the backdrop of global political and financial shocks, 2011 was a roller coaster ride for investors - and it is clear that there is no quick solution to the problems that plagued markets for most of the year.

The much anticipated European Summit in December provided no obvious resolution to Europe's debt problems. Investors remain cautious going into 2012.

The third quarter of 2011 brought extreme and unusual volatility fuelled mainly by sovereign debt issues in the Eurozone. Fears of a default by Greece grew as that country continued to miss fiscal milestones established as part of earlier bail-out agreements.

More broadly, European policymakers struggled to agree on either an appropriate response or a credible plan to contain the spread of the debt crisis to global financial markets. Meanwhile, undercapitalised European banks responded by hoarding rather than lending money and deleveraging balance sheets.

By the end of the third quarter, consensus estimates for 2011 growth had fallen, along with forecasts for 2012.

The roller coaster ride for investors continued over the final three months of the calendar year. Global share markets reacted positively in October to news of a possible breakthrough in the Eurozone debt crisis and rebounded strongly. The markets fell in November due to further uncertainty related to that crisis, but surged again on the final day of the month in response to an agreement by six central banks to reduce the cost for borrowing for banks in emergencies.

Global share markets ended the year flat, with investors remaining cautious as it became apparent that the much anticipated European Summit would provide no clear resolution for the region's debt problems.

Behind the headlines – How do recent media issues really impact your super?

It is clear that there is no quick solution to the problems that plagued markets for most of 2011 and investors ended the year on a cautious note. The much anticipated European Summit in December provided no clear resolution to Europe's debt problems. Fears remained that the sovereign debt crisis troubling Greece, Italy, Ireland, Portugal and Spain would spread to other economies.

The worsening situation in Europe and its potential to impact the Australian economy prompted the Reserve Bank of Australia (RBA) to make two successive monthly rate cuts of 0.25% at the end of 2011, bringing our official rate down to 4.25%.

Reducing official interest rates can help stimulate economic growth and ward off recession, which is why most developed economies have used this policy aggressively in recent years.

For most consumers, such rate cuts are good news because they lead to lower mortgage repayments. However, for financial markets, the outcome of a change in interest rates will vary.

Share markets are generally expected to respond favourably to lower interest rates because they often create an expectation of an improved growth outlook that will benefit companies. But lower interest rates make that asset class a less attractive investment.

This is one of the reasons why investment experts recommend a well diversified investment portfolio, so you can take advantage of both the ups and downs.

There has been much made of a “slow down" in China but most emerging economies continue to have strong growth prospects, despite emerging market shares producing disappointing returns in 2011.

Increased urbanisation and a growing middle class in China and other emerging economies should tell us something.

These economies have very strong growth potential and, despite occasional "slow downs", will remain strong engines for growth over the coming decades.

Historically, the main way that investors have accessed this growth potential has been through investments in emerging market shares or "equities".

Good news on financial planning fees commencing 1 May 2012

A Beatles song suggests that the best things in life are free but I suspect that they weren't thinking of good financial planning advice. This will always come with a cost, and the cost will be higher if your situation is more complicated.

The good news is that you will be able to pay for half of the upfront fee of any pre-retirement financial planning advice out of your super Accumulation Account.

A couple of questions may occur to you, such as:

- Why can't I take all of the fee out of super?
- Why does this only apply to pre-retirement financial planning

The answers to both questions are similar.

> “… you will be able to pay for half of the upfront fee of any pre-retirement financial planning advice out of your super …”

The law that governs super funds is based around something that is called the sole purpose test. This says that a super fund must be used for providing retirement or death benefits. Super funds can be penalised if they conduct commercial activities outside of these strict guidelines.

This affects what financial advice can be funded out of super. For example, you can get general information from the Scheme on superannuation matters such as contributions, investments and insurance. But we can't advise you on buying or selling an investment property.

If you get professional advice that comes at a cost, it has to be pre-retirement advice for us to be sure that we are complying with the sole purpose test. We have fixed the limit at 50% of the fee as many people have other investments, or other issues that are not strictly to do with retirement but that they may receive advice on from a financial planner at the same time. This limit is set to protect the Scheme and avoid financial penalties.

This deduction is not limited to any particular financial planning firm, nor is there a limit on how much you can ask to be deducted as long as your Accumulation Account has sufficient funds. However, any claim must be supported by an invoice from a firm that holds an Australian Financial Services Licence to give personal financial advice.

Please call the Scheme on (08) 8204 3826 if you or your adviser have any questions.

This information has been prepared by the SA Metropolitan Fire Service Superannuation Board as trustee for the SA Metropolitan Fire Service Superannuation Scheme. This material includes general advice. The general advice had been prepared without taking into account your personal objectives, financial situation or needs. Therefore, before acting on this advice you should consider the appropriateness of the advice having regard to your personal objectives, financial situation and needs. You should also consult a licensed or appropriately authorised financial adviser before making any investment decision. Neither Mercer (Australia) Pty Ltd nor Mercer Investment Nominees Limited take any responsibility for the content or presentation of the material provided by the Trustee.

Important checklist reminder*

1 Change of Address Have you advised the Scheme of your change of address?

2 Nomination of Beneficiary Form Is your Nomination of Beneficiary form up to date?

3 Leave Without Pay Are you going on Leave without Pay? If so, all your insurance cover may cease.

4 Long Term Sick leave Members under age 60, is your sick leave due to run out?

5 Maternity leave Are you going on maternity leave? When your wages cease your insurances will be affected.

6 Working less than 20 hours per week For members working less than 20 hours per week, your insurance cover will be reduced to Death insurance only. Death insurance will cease if you are working less than 10 hours per week.

7 Salary Sacrifice Forms Please ensure you send in original signed Salary Sacrifice forms to this office. If you fax your copies in, we still need the originals to be signed off by the employer before forwarding to Shared Services.

**Please advise the Scheme on any of the above and contact the Manager, Mr Alan Kent on 8204 3826 for any clarification you may require. Information is also available in the Member Benefit Guide on the website www.samfs.superfacts.com*

Note: If you are on extended leave at any time, you can always access the Super Info on the website.

Forgotten your PIN?
Call the Helpline on 1300 132 573 and one of our friendly consultants will assist you.

Latest changes to super: a simple summary

On 29 November 2011, in its Mid-Year Economic and Fiscal Outlook, the Government announced plans to makes change to super and super pensions.

Here's a summary of what is changing and how it might affect you.

Co-contributions

From 1 July 2012, the Government will refund the tax payable on superannuation contributions, including the superannuation guarantee, if you earn up to $37,000.

As a trade-off, the current co-contribution matching rate will be reduced by 50%. This will be up to a maximum of $500 on a $1,000 contribution if you earn up to $31,920 in 2012-13, with the co-contribution phasing out at when your income is $46,920.

Overall, the Government says that this, along with some changes to eligibility, will make the co-contributions scheme available to more low-income earners, benefiting around three times as many people.

A 'pause' in indexing of the before-tax contributions cap

The Government has decided to put a one-year hold in 2013-14 on indexation of the before-tax contributions cap, keeping it at $25,000 for those under 50 and $50,000 for those over 50. Indexing will start again in 2014-15.

Removing the Superannuation Guarantee (SG) age limit

In a widely welcomed move, the Government has removed the SG maximum age limit from 1 July 2013.

This means if you are working and aged 70 or older, you will now be eligible for the compulsory SG contribution from your employer.

Reduction in the minimum payment amounts for account-based pensions

The Government will extend its current drawdown relief for retirees for another year by reducing the minimum payment amounts for super pensions by 25% for 2012-13.

This is designed to help retirees with these pensions through the current volatile market. The Government anticipates around 125,000 retirees will benefit from this decision.

For more information about these proposed changes to super, please contact the Manager.

HOW much is enough superannuation?

Is it $1 million, $2 million or $500,000? Even $100,000 is going to help, but how much do we need to live independently of the age pension?

Or perhaps that shouldn't be the aim. Maybe we should be factoring in a regular top-up from Centrelink and the discounts a government pension card brings with it.

In all cases, the answer to how much super is enough will be different for each household and ultimately will depend on what type of lifestyle you want.

For example, will your mortgage be paid off? Will you need a new car? Do you want to travel, expect to do a lot of socialising or help family with expenses?

What about your partner and their income? Will you work part-time, increase or reduce your living expenses when you retire, downsize your home or move away?

These are just a few of the issues you need to decide upon before you'll know how much income you'll need in retirement.

But let's start with a few assumptions and use a basic benchmark to help decide if you want more than the experts predict or if you are able to get by on less.

The $500,000 question

According to the Association of Superannuation Funds of Australia (ASFA) retirement standard, a single person needs an income of about $40,500 during retirement to fund a "comfortable" lifestyle, while a couple needs an income of $55,000.

Based on the SmartMoney calculator provided by government investment watchdog the Australian Securities and Investments Commission, a super balance of about $500,000, including a top-up from the age pension, provides an income of about $54,000 a year.

So for many, half a million dollars will be the goal.

Many people don't have a good idea of how much money they will need. A super balance on retirement of $400,000 may seem ample to a 25-year-old, but in reality it may not fund the lifestyle they are hoping for.

Generation Y

By the time they retire at age 67 the average 25 to 34-year-old receiving 12 per cent super and the low income earner contribution will have almost 99 per cent of a "comfortable" retirement balance for the rest of their lives, from a combination of super and the age pension.

However, if they wanted to live off their super balance only, the money would last about 18 years at the "comfortable" level, before running out and them having to rely on the age pension only.

Young Boomers

Unfortunately the news is not so good for people aged 55 to 59. Many will be retiring at age 67 with just half the income they need for a comfortable lifestyle (about 54 per cent). Or if they choose to spend their super first, their money will be gone in about nine years, before having to rely on the age pension.

But it's not all bad news for people with a low super balance. "It's important to remember that the safety net of the age pension will still be available to most people and will boost their total retirement income," Australian Institute of Superannuation Trustees' Fiona Reynolds says.

"So it's certainly not all doom and gloom for older workers who are worried that they don't have enough super to retire on. Indeed, AIST research on women found that while many of them had retired with little super, they were living happy, fulfilled lives.

"However, this generation of women was used to doing it tough in their working lives, so they have been able to adjust quite well to a frugal retirement. Future generations who have enjoyed far more affluent lifestyles are likely to have much higher expectations.

This will change over the years, as everyone now has compulsory super contributions from their first day of employment but at present there are still more than a generation of people with only partial savings, she says.

"While it's widely considered that a retirement balance of about $500,000 is necessary for a comfortable retirement, it's clear many people will retire with significantly less."

"This is particularly so for those who have not benefited from a working lifetime of compulsory super. Equally, what's considered adequate for some won't be anywhere near enough for others to maintain a pre-retirement standard of living."

The preceding article is sourced from the Herald Sun and does not take into account your personal circumstances. 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.

Alan Kent
Manager

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 of 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

This Newsletter is issued by SA Metropolitan Fire Service Superannuation Pty Ltd ACN 068 821 750 99 Wakefield Street, Adelaide 5000.