SA METROPOLITAN FIRE SERVICE SUPERANNUATION SCHEME

Summer 2009

SUPER INFO

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

Welcome to the Summer edition of Super Info.

Have some questions about the global financial crisis and your super?

You're not alone. The following "Q and A" prepared by Mercer (Australia) Pty Ltd may help answer some of your questions and concerns. Bear in mind that this article was written with Accumulation funds in mind so for Defined Benefit members it is only applicable to your Accumulation Benefit.

Your questions answered

Q. How can my super be going backwards?

A. We understand that seeing the balance of your super decrease is disappointing and frustrating. However, super and the investment markets go hand in hand. Super isn't like a bank account – depending on how you have chosen to invest it, it will generally have exposure to shares, property, fixed interest and cash and can produce both positive and negative returns.

This has been a disappointing year for shares and property investments and it may be some consolation to know that super funds Australia-wide have been affected. So by sitting tight, losses are only on paper. Super invested in growth assets, as super usually is, will benefit again when the markets recover.

It is important to bear in mind that over the long term, shares and property investments have given higher returns than cash, even though it's been a bumpier ride.

Q. How can my investment option lose money?

A. The market downturn has affected super funds Australia-wide. Mercer chooses investment managers that focus on building and managing investments that maximise returns for investors over the long term.

There is a trade-off between long-term performance and the risk of a negative return in any given year. Informed by how markets have performed in the past, most types of investments are expected to deliver a negative return at some time.

The frequency of the negative returns depends on the asset class. For example, shares are expected to give a negative return one year in every three to five years; negative returns for cash are expected once every nine years*.

Look at your investment option's performance over the past five or ten years to see how it has been performing.

Q. When will this downturn end?

A. Unfortunately, no one can predict when markets will recover. Over the past 100 years, share or property markets have dived periodically, but they have experienced subsequent years of positive growth.

Q. Aren't you the experts – shouldn't you have prevented this happening to my super?

A. We've been expecting a correction for some time, but we couldn't have predicted the exact timing or the scale of it. Many factors have compounded to cause the downturn, including the collapse of the sub-prime mortgage market in the US, fluctuating oil prices and variable inflation.

Trying to switch investments to "time the market" has its own risks.

Q. Should I change investment options?

A. Generally, if you have a well-thought out investment strategy already, you shouldn't change your investment option unless something in your situation has changed: your investment timeframe, your investment objectives or your risk tolerance. For most people, super is a long-term investment so it's best to take a long-term view. Market downturns tend to be smoothed out over the long term.

Keep in mind too, that when the underlying value of investments is low, your super contributions have more buying power, which will be to your advantage when prices rise again.

When you choose your investment options, you should consider these factors:

- Your investment timeframe: do you have long until you will access the money?
- Your savings goals
- Your personal risk tolerance: are you able to cope with the occasional negative return?

If you aren't comfortable with negative returns you might need to review your investment options.
You should seek advice from a licensed or appropriately authorised financial adviser before making a change to your super.

Q. Is super really a good investment?
A. Yes – super can be a tax-effective structure for saving for the future. Super gives tax advantages at three points: 1) when your contributions go into your account; 2) on investment returns and 3) when you take your super payout if you over age 60.
By making best use of this tax effectiveness and channelling these savings into super, it can make a difference to the super payout in the long run.
Also, for most people, super is a long-term investment, being the duration of their working life, which is when the power of compounding interest (earning interest on interest) comes into its own. Additionally, super can be invested in growth assets such as shares, which sometimes reduce in value in the short term, but which have delivered the greatest long-term returns.
If you have a well-thought out investment strategy already, you shouldn't change it unless something in your situation has changed. (See question above.)

Q. Why wasn't my money switched to cash when the market went down?

A. Trying to switch investments to "time the market" has its own risks as there is no certainty when markets will turn around.
Managed funds that aim for higher investment returns are generally invested in a higher proportion of shares. It is anticipated that they will, on average, produce a negative return every three to five years* due to the cyclical nature of the market. Despite this fluctuation, growth assets like shares and property have produced the highest returns long term.
While fund managers aim to limit losses and may move some assets into cash, selling assets in a downturn is not always the best approach. In the past, the markets have always recovered after a downturn. So rather than selling and realising losses, investment managers must maintain their investment mandate.

Bear in mind that when prices are low, your super contributions have more buying power, which can be to your advantage when the market recovers.
If you aren't comfortable with negative returns you might need to review your investment options.

Q. I'm close to retirement or have only a few years to invest, what do I do?
A. If you are close to retirement age and plan to access your super in the next year or so, don't panic. There are still many years ahead for your savings to remain invested and some exposure to growth assets may be required.
Many individuals over age 55 may choose to maintain their savings in super to enjoy the concessional tax environment and the flexibility of certain allocated pensions.
It is recommended that you speak with a licensed or appropriately authorised financial adviser for advice on your investment strategy.

Long Term Industry Outlook Positive

The 12th edition of the Market Projections report issued by DEXX&R, a recognised research authority in terms of Fund Management Products in the Australian Risk and Investment Markets, has identified industry super funds and employer super funds such as the SAMFSS as having the strongest outlook for growth.

The report looks at growth opportunities in each of the key market segments in the financial services industry up to 2017 and covers superannuation, retirement incomes, retail investments, wholesale funds and risk management sectors.

Unsurprisingly, the current financial climate and downturn in equities and properties is expected to slow short term growth in each area. DEXX&R says, however, the decline in asset values in superannuation will be offset by the continued inflow of contributions driven by Superannuation Guarantee contributions. While discretionary superannuation contributions are expected to decline in the short term, the report predicts they will increase when the market stabilises.

Superannuation Taxes

Tax on Super
Superannuation in Australia is taxed at different points. From 1 July 2007, the tax on superannuation was simplified. This

information describes the tax that applies after 1 July 2007.

Tax on Contributions
All concessional contributions such as salary sacrifice contributions are taxed at 15%. If the Scheme does not have your Tax File Number your concessional contributions will be taxed at 45% plus the Medicare Levy.
Generally no tax is paid on Non-Concessional Contributions, unless you exceed the Government's contribution limits.

Tax on Earnings
There is a 15% tax on the investment returns of the Scheme, although some offsets such as imputation credits may apply. This tax on investment returns is reflected in the Unit Prices set which are declared on an after-tax basis. The Growth Portfolio for example pays an effective tax rate of 9% whilst the Cash Portfolio pays the full 15%.

Tax on Lump Sum Benefits
If you take any part of your benefit in cash after age 60, no tax will be payable.
Prior to age 60 some tax may be payable. This tax will be deducted from your benefit by the Plan. With your benefit details you will receive completed documentation regarding the tax deducted from your benefit.
For taxation purposes, your superannuation benefit will be divided into two parts as follows:

Component	Component Description	Tax you pay
Tax Free Component	Your crystallised (tax free) component at 1 July 2007 plus any non-concessional contributions made after 1 July 2007.	Nil
Taxable Component	The balance of your benefit	The amount of tax depends upon the age you receive the benefit: • If you are age 60 or older: Nil • If you are between age 55 and your preservation age: Nil on the first $145,000** and 16.5%* on the balance • If you are age less than your preservation age: 21.5%*

* This rate includes the Medicare Levy of 1.5%
** This amount is the threshold for the 2008/09 financial year and will change with increases in Average Weekly Ordinary Time Earnings (AWOTE) in $5,000 increments.

Tax on Death Benefits
Death benefits paid to dependants (as defined under tax laws) will be tax free. Death benefits paid to a non-dependant (as defined under tax laws) will be taxed at special rates (ranging from 15% to 30% plus Medicare Levy).

How Much Superannuation Do You Need?

To answer this question properly you need to consider a range of issues. Use the following nine point check list to help work out how much you will need.
1. How much do you need to live on each year in retirement?
2. How much would you like to live on each year in retirement?
3. Do you own your own home?
4. How much do you have in superannuation savings?
5. How much do you have saved in other investments?
6. Do you want to leave an inheritance for your children?
7. How is your general health – do you require much medical attention?
8. How will you spend your time in retirement and will this require much money?
9. Many financial planners will indicate that 70% of your pre-retirement annual income will be needed for a comfortable life in retirement.

You may also wish to seek the advice of a financial planner.
Your SAMFSS membership gives you access to commission-free, fee-for-service financial advice through Industry Fund Financial Planning or you may choose to seek financial advice from another professional.

Anti-Money Laundering and Counter-Terrorism Financing Act 2006

AUSTRAC has written to the Scheme to remind it that as a reporting entity that there are new obligations under the *"Anti-Money Laundering and Counter- Terrorism Financing Act 2006"* (AML/CTF Act) which took effect on 12 December 2008. These obligations relate to reporting requirements and ongoing customer due diligence (OCDD).

As a reporting entity, from 12 December 2008, the Scheme will need to report suspicious matters and, if applicable, threshold transactions and international funds transfer instructions to AUSTRAC.

From 12 December 2008, the Scheme will also need to conduct OCDD on applicable members. OCDD involves collecting and/or verifying additional "know your customer" information, monitoring customer transactions and where appropriate undertake enhanced customer due diligence.

As a consequence of the new requirements, the Scheme has initiated:

- An update to the Scheme's AML/CTF Program.
- An update to the Scheme's Risk Assessment Document. The purpose of the update is to make sure cross-references to the AML/CTF Program in the existing Risk Assessment Document are updated to reflect the amended Program.

Certified member identification documents are now required for any withdrawals from the Scheme.

For more information on certified identification documents, or if you have any other questions regarding AML/CTF, please contact the Manager..

Insurance Update

Further to introducing terminal illness as a new condition of release, the Board approved some additional enhancements to our AMP Group Life Policy at the December 2008 Board Meeting.

Consequently, we are in the process of making the following enhancements to the Scheme's current insurance arrangements:-

- The maximum cover limit for Total and Permanent disablement (TPD) has increased from $2M to $3M.
- The period of continued insurance cover whilst on leave without pay has increased from one year to two years without prior notification.
- The introduction of a terminal illness benefit as an early payment of the Death Cover. This is payable if the insured member is likely to die within 12 months because of illness. This insurance benefit is capped to a maximum of $2M with the balance being paid on the death of the insured member.

We will confirm once these enhancements have been finalised.

Please contact the Manager for any additional information on the insurance coverage the Scheme provides.

New Board Appointments

Due to the resignation of Mr Tony Norman as a Director of the Trustee, the Board approved at the 10 December 2008 Company Meeting, the Corporation's appointment of Mr Roy Thompson as a Director and Mr Glenn Benham as an Alternate Director.

The composition of the Board is now:

Elected by non-UFU members
Chairman - Mr Robert Tidswell

Directors appointed by the Corporation:-
Mr Grant Lupton
Mr Mick Smith
Mr Roy Thompson
Mr Garry Powell
Mr Ray Sedunary (Alternate Director)
Mr Glenn Benham (Alternate Director

Directors appointed by the UFU:-
Mr Bill Jamieson
Mr Greg Northcott
Mr Michael Vander Jeugd
Mr Greg Chivers (Alternate Director)
Mr Dave Harvey (Alternate Director)

Alan Kent
Manager