

## Are you on a slippery slide?



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### Chasing past investment returns can be risky

For many of us the festive season and start of a New Year can bring a chance to reflect on the important things in life – our well-being and the well-being of our loved ones, friends and colleagues. For those of us in the later stages of our working lives, our thoughts naturally turn to our future financial security and the kind of lifestyle our superannuation might afford us when we stop working. Although financial security is only part of the retirement story, thinking about super and other investment decisions is not something to be taken lightly.

Remember, past investment returns are not necessarily an indication of future returns.

# Cover story

## Chasing past investment returns can be risky (continued)

Members with an APSS Defined Benefit have the peace of mind and certainty of a superannuation benefit that is unaffected by investment markets and returns. However, for Members with an APSS Member Savings account, the value of those savings will depend on past and future crediting rates (or investment returns) of the investment option(s) that you select.

### Making active decisions

APSS members manage the investment options of their Member Savings in different ways. Many leave their savings in the same option since opening their account, while others switch frequently between the two investment options. There is no single 'right way' to invest, which is why we encourage members to seek independent financial advice before making investment decisions. However, there are risks both in never making an active decision about where to invest your savings and in switching between investment options often in the hope of achieving higher investment returns. This is sometimes referred to as 'performance chasing'.

### The risks of performance chasing

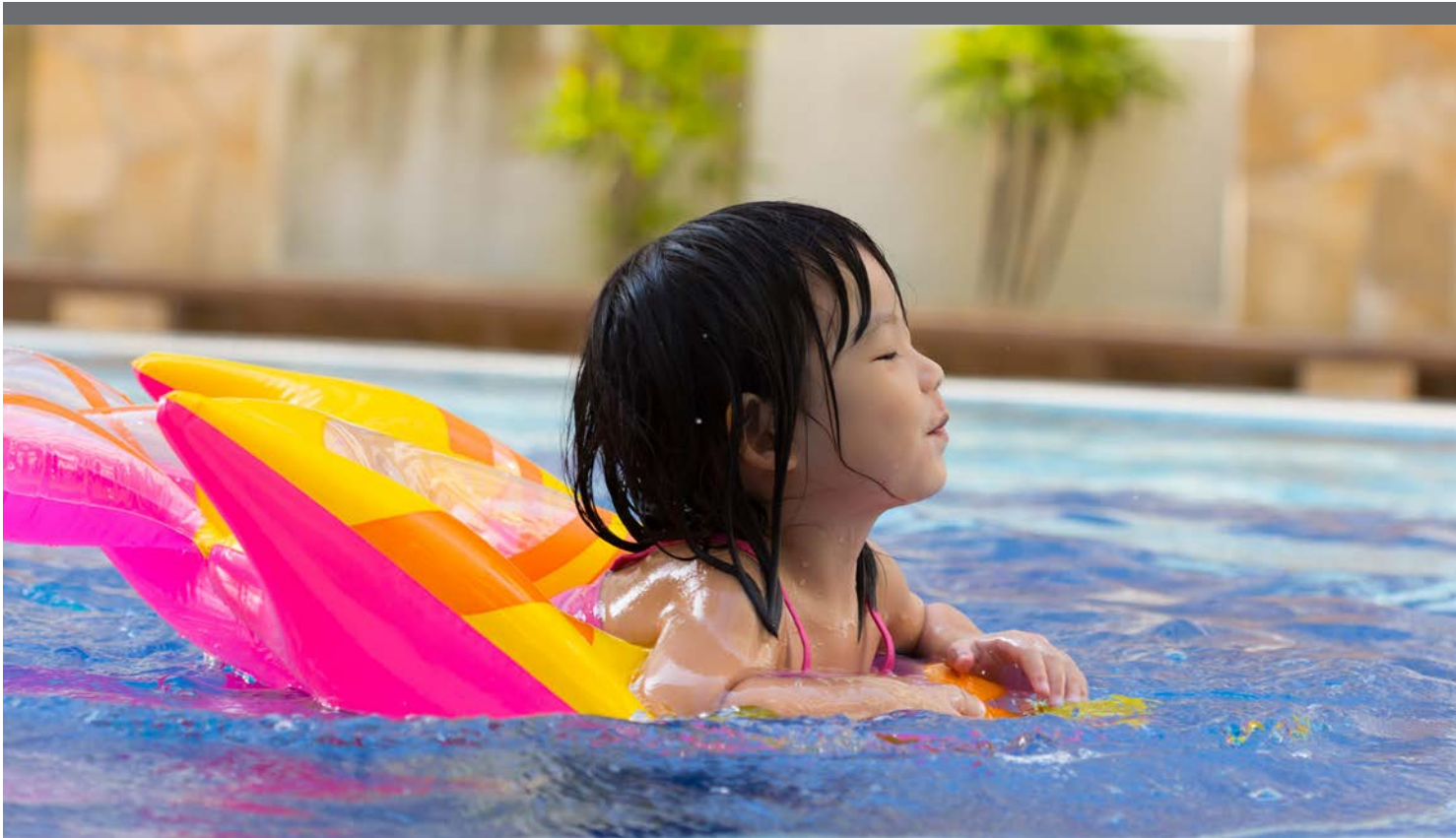
The expectation that investment returns of the past will repeat their successes in the future drives some members to switch to and from investment options after learning about a higher crediting rate in another option or after the option they are in has a negative crediting rate. Switching investment options in this way, with hindsight, can erode the value of your savings because investment returns are unpredictable. By the time your investment switch is processed, you may have missed the upswing altogether and be in a worse position than not switching at all. Although obviously some members get this timing right some of the time, it would be difficult to conceive of members being able to get this right all the time. Even investment experts cannot do this consistently!



## Switching based on share market returns

Rather than responding to past crediting rates, some members may be prompted to switch in and out of their Member Savings investment options when they observe positive or negative share market returns. It is important for members to be reminded that the APSS Market Return investment portfolio is highly diverse, with a large portion of private market investments, bond investments as well as international and Australian shares. There is a relatively small allocation to listed Australian and international shares (currently around 25%). For this reason, members should not expect to see investment returns in the APSS Market Return portfolio that are reliably in line with public share markets.

# Cover story



## Chasing past investment returns can be risky (continued)

### Investing for the long term

An alternative both to the 'do nothing' approach and to 'performance chasing' is to make and maintain an appropriate and informed investment choice that changes over time as your circumstances change, for instance as you near retirement. It is about having the right balance of investment security and long-term investment growth to suit your personal circumstances, despite short term fluctuations in investment returns.

So, as we begin a New Year, we encourage you to think about your superannuation, consider whether your current investment choices remain appropriate for your age and particular circumstances and how much income you might

need in retirement. The APSS website has a wealth of information to assist you. You can also login to the APSS website to obtain a current or projected benefit estimate to help you understand your future superannuation outcomes. Being informed about what you have and what you might need in retirement will help as you make those important decisions about your super as you get closer to retirement or as your financial circumstances change.

The APSS Trustee would like to wish all of our members and their loved ones a safe and happy new year. As always, if you need any help with your super in the APSS, please call *SuperPhone* on **1300 360 373**.

## Important

The APSS Trustee is not licensed to provide financial product advice. Before making a decision about switching Member Savings investment options, please read the relevant PDS and visit [apss.com.au](http://apss.com.au) to find out more. You should also seek the advice of a licensed professional financial and tax adviser.

# New Pension deeming rules



## From 1 January 2015, new deeming rules may reduce Government benefit entitlements for some APSS Pension members

With the recent passing of legislation, new deeming rules apply to income received from APSS Pension accounts that are opened (or substantially changed) from 1 January 2015 for those who are also receiving an eligible income support payment from Centrelink. Eligible income support payments include the Age Pension, Disability Support Pension or Carers' payment. This may impact members immediately or in the future and may reduce their entitlement to Government benefits.

### 'Grandfathering' provisions

If you were in receipt of a Government benefit and are receiving income from an APSS Pension account that was opened prior to 1 January, 2015, you are exempt and therefore unaffected by this change. However, if you were in receipt of an APSS Pension prior to 1 January 2015 but only became eligible to receive a Government benefit after 1 January 2015, then the new deeming rules will apply.

## What are the new rules?

From 1 January 2015, unless the 'grandfathering' provisions apply, income received by members from an APSS Pension account will ordinarily be assessed by Centrelink in the same way as income received from financial investments (such as cash, shares and managed funds). For these members the income received from an APSS Pension account will be subject to deeming rules for Income Test purposes when determining an individual's entitlement to Centrelink and DVA benefits.

## Beware

You can lose any applicable 'grandfathering' exemptions if you make certain changes to your APSS Pension account, including:

- adding or removing a reversionary beneficiary from your APSS Pension account
- cancelling an APSS Pension account and converting to an accumulation account
- commencing a new APSS Pension account from 1 January 2015, even if you have an existing pre-1 January 2015 Pension account
- converting a pre-1 Jan 2015 APSS Pre-Retirement Pension Account (PREP) to a Pension.

## More information

If you are in doubt about whether these changes affect you, please contact Centrelink on **132 300** or APSS SuperPhone on **1300 360 373**.

# BPay facilities now available

## A new way to make after-tax contributions to your Member Savings account

From early February, BPay facilities will be available for members who wish to make after-tax contributions to their existing APSS Member Savings account.

To transfer money to your APSS Member Savings account using BPay, contact your bank and provide the APSS BPay biller code (237628), and your unique Customer Reference Number (CRN).

To obtain your unique CRN, you can either call

*SuperPhone* on **1300 360 373** or login to your APSS account via **apss.com.au**, click on BPay and your unique details will be shown on screen.

There is a maximum BPay transaction of \$100,000 per day, and BPAY payments may take up to three business days to process.

Please note: BPay is **not available** for Pension members or for employee members wishing to make before-tax (salary sacrifice) payments.

## Remember

There are annual limits on the amount of contributions that can be made to your super and different limits apply to before and after-tax contributions. Go to **apss.com.au** for more details.

## LISC - are you eligible?

The low income super contribution (LISC) is a government payment of up to \$500 to help low-income earners who earn less than \$37,000 each year to save more in their superannuation.

If you are eligible, a payment will be automatically made by the Australian Tax Office (ATO) into your APSS Member Savings account. If you do not already have an APSS Member Savings account, one will be automatically opened so that the payment can be allocated to you. You don't need to do anything to receive a LISC.

The maximum payment you can receive for a financial year is \$500 and the minimum is \$10. If you receive a LISC payment, the ATO will write to you to let you know – usually in October each year.

For more information visit **ato.gov.au** and search for *Low income super contribution*.



## Don't forget to tell us

Please advise the APSS if your contact and/or personal details change – this includes updating your beneficiary nominations (especially if your personal circumstances have changed) your address and phone contact details. It's also a good idea to let your loved ones know that you have an APSS account.

# The Market Return Portfolio

The crediting rates for Market Return Member Savings are determined by reference to the investment returns of the Market Return Portfolio. The APSS Market Return Portfolio invests in a broad range of shares, real estate and bonds comprising both listed (public) and unlisted (private) global assets. The Market Return option has a higher relative risk and volatility than the Cash Return investment option with an expectation of higher returns over the long term. The APSS adopts strategies aimed at reducing the impact of volatility in financial markets and currency markets.

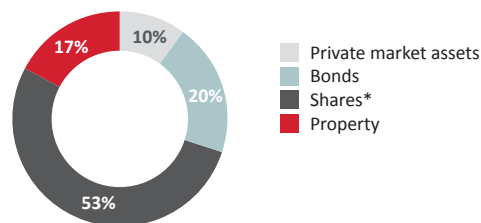


## Market Return Member Savings Crediting Rates to 31 December 2014

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	4.90%	11.77%	8.75%	8.91%
APSS Rollover	4.90%	11.77%	8.75%	8.91%
APSS Pension	5.61%	13.28%	9.80%	10.26%

The compound crediting rates shown above are after investment costs and tax (where applicable). Pension members do not incur tax on investment earnings of their APSS Pension Accounts.

## Actual asset allocation for the quarter ending 31 December 2014



\* This asset class is made up of 25% public market shares and 28% private market shares. Remember, the Trustee intends to scale down the private equity investments in the Market Return Portfolio over time and this asset class will ultimately consist of public market shares only.

**Important reminder:** Past investment returns are not necessarily indicative of future investment returns.

## Behind the numbers

The Market Return Member Savings portfolio gained 4.9% over the second quarter of the financial year bringing the crediting rates for the first half of the financial year to 7.6%. The crediting rates for APSS Pension Accounts are slightly higher because investment earnings are tax-free.

The December quarter saw a steep decline in global commodity prices, most notably in oil and iron ore.

Both of these key commodities roughly halved in value over the second half of 2014 as demand from major importers, specifically China, eased and competition between suppliers intensified.

The US economy remained on an upward trajectory but across other major economic zones the growth indicators were generally disappointing.

## Reminder

\* In June 2013, the Trustee amended the investment strategy for Market Return Member Savings and the assets held in the APSS to pay defined benefits (both of which are currently invested in the Market Return Portfolio), increasing the Market Return Portfolio's target allocation to public market investments and reducing the portfolio's target allocation to private market investments, without reducing the long-term expected investment returns. The transition is expected to take a further three years and is designed to ensure that the APSS has liquid assets to pay benefits now that it is closed to new Australia Post employees, while continuing to meet the long-term growth objectives of members who choose Market Return Member Savings.

# The Market Return Portfolio

## Behind the numbers (continued)

In currency markets, the impact of these factors through the December quarter was evident in a strengthening US dollar and declining currencies across commodity-exporting countries, including Australia.

The Australian dollar dropped by 6.3% against the US dollar during the quarter.

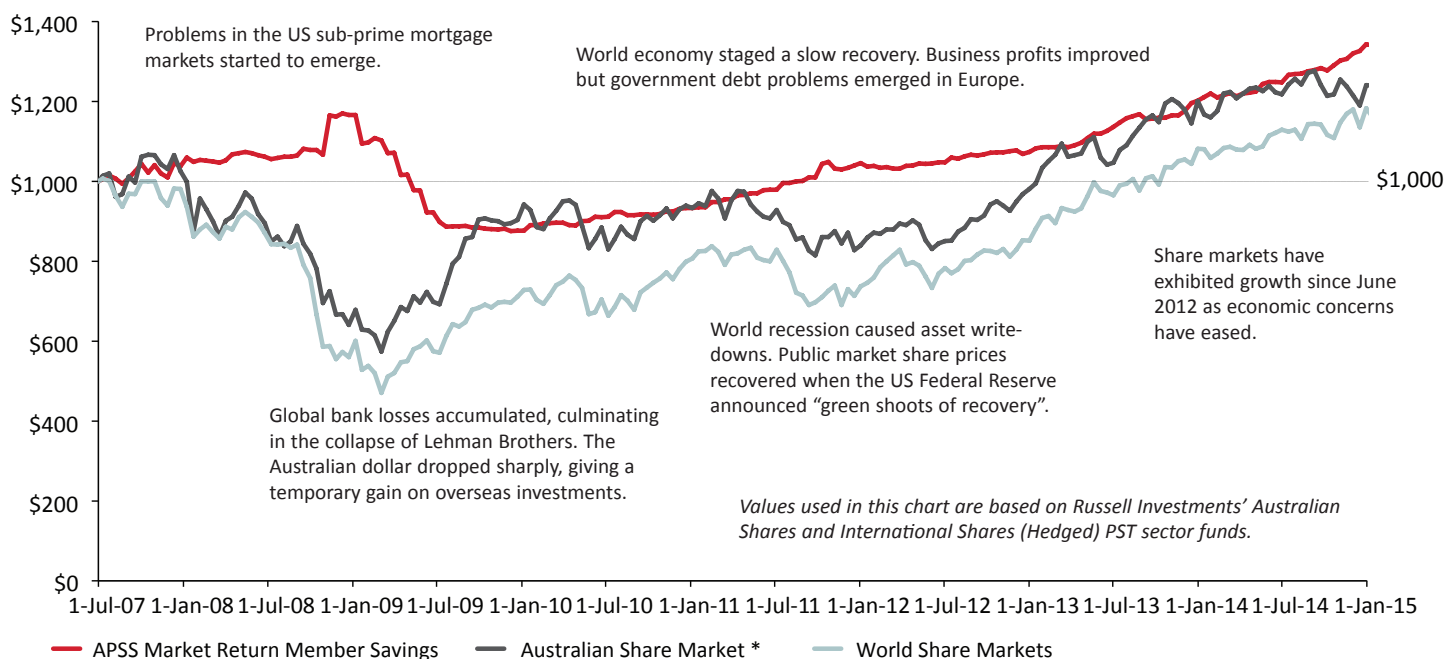
The mixed economic outlook was also reflected in elevated share market volatility through the quarter. Despite their volatility, world share markets gained a little over 3% in total for the quarter, led by the US, with Australia's share market gaining slightly below that level. Publicly-traded shares currently make up about a quarter of the APSS's Market Return Portfolio and had a neutral impact in the quarter's crediting rate.

The APSS's private market investments, which form the majority of the Market Return Portfolio, contributed most of the investment returns for the quarter, with global investor demand for good quality assets helping drive up private market asset values and generate profitable sales. The strength of the US dollar further boosted the value of private market investments in the US, along with smaller currency gains on other overseas investments.

Capital continued to flow into global bond markets, pushing government and high-grade corporate bond prices upwards in most of the major world markets, including Australia but driving future bond yields down even further. The APSS's bond investments delivered a small positive return in the December quarter.

## How we compare

How \$1,000 in APSS Market Return Member Savings would have changed in value since 1 July 2007 compared to the same amount invested in publicly-traded Australian and overseas share markets.

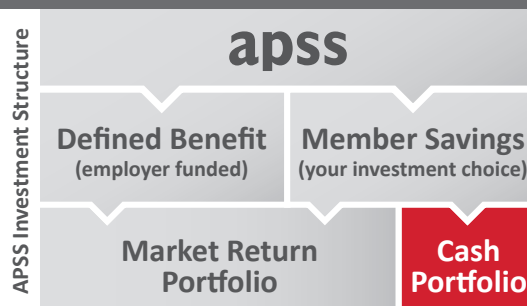


\* Australia Share Market reflects returns from Russell Australian Shares for period prior to 30 September 2014 and Russell After-Tax Australian Shares Unit (for Superannuation Investors) thereafter.

**Important reminder:** Past investment returns are not necessarily indicative of future investment returns.

# The Cash Portfolio

The crediting rates for Cash Return Member Savings are determined by reference to the investment returns of the Cash Portfolio. The APSS Cash Portfolio invests in high quality cash deposits or bills and short-term interest bearing securities. The Cash Return option is therefore relatively low risk, with a capital guarantee that means no negative crediting rates, but with an expectation of lower relative returns in the long term.



## Cash Return Member Savings Crediting Rates to 31 December 2014

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	0.56%	2.18%	2.53%	3.10%
APSS Rollover	0.56%	2.18%	2.53%	3.10%
APSS Pension	0.66%	2.57%	3.06%	3.69%

The compound Crediting Rates shown above are after investment costs and tax (where applicable). Pension members do not incur tax on investment earnings of their APSS Pension Accounts.

## Behind the numbers

Cash Return Member Savings aim to deliver crediting rates similar to the official cash interest rate set by the Reserve Bank of Australia (RBA), less investment fees and tax (where applicable).

The RBA left the official cash rate unchanged at 2.5% per annum through the December quarter. In its December 2014 meeting, the RBA signalled that the current period of stability in interest rates is likely to extend well into 2015 to support domestic demand and induce a lower Australian dollar to improve export competitiveness.

**Actual asset allocation for the quarter: Cash 100%**

**Important reminder:** Past investment returns are not necessarily indicative of future investment returns.

## Remember

When comparing the official cash interest rate to the APSS Cash Return crediting rates, keep in mind that, with the exception of the APSS Pension Accounts, the crediting rates are shown after tax is paid on investment earnings.

## How to contact the APSS

Call *SuperPhone* on **1300 360 373** between 9am and 5.30pm (AEST) Monday to Friday or visit us online at **apss.com.au**. Write to APSS, Locked Bag A5005, Sydney South NSW 1235 or Fax (02) 9372 6288.

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