apss
AUSTRALIA POST SUPER SCHEME

Insight

News from the Australia Post Superannuation Scheme

Quarter ending September 2016

The super landscape is changing

INSIDE THIS EDITION

The Federal Coalition government announced a number of major changes to super in its May 2016 budget. Here's an update.

The government's proposed changes were put on hold until after the Federal election in July. When the re-elected government returned to implementing them, some of the original budgeted proposals were revised. The government plans to have the new laws passed in the coming months, reshaping the super landscape as the changes take effect from 1 July 2017. Keep in mind that these changes are still *proposed* and not yet legislated at the time of writing. Also, while most APSS members are unlikely to be all that affected by them, it's still important to be informed and understand what's happening in the wider super environment.

Cover story

The list of proposed changes to super and their subsequent revisions are extensive and can be quite mind boggling! So this article aims to summarise the main changes and what they may mean in terms of what might be better, what might be worse for some, and what's not all that different. Most of the changes that have been announced don't relate directly to defined benefits but we highlight where some of the changes may affect the APSS Defined Benefit (DB).

Remember

These changes were still proposed at the time of publishing this edition of *Insight* and were yet to be passed as laws.

Proposed changes for the better

Proposed changes are likely to benefit members contributing to super for a spouse and those who may now qualify to claim a tax deduction up to $25,000 per annum (indexed) when making personal super contributions. A recent government reversal on the idea of a lifetime limit on certain super contributions is also good news for members who have already made significant after-tax contributions since 2007. The key changes for the better include:

- **More opportunity to claim the full $540 low income spouse tax offset.** If contributing to super on behalf of your spouse (e.g. via an APSS Spouse Account), currently your spouse's income must be less than $10,800 per annum. Under the proposed changes, from 1 July 2017, the income threshold to claim the $540 tax offset will jump to $37,000 a year (assuming your spouse is under age 70 (and if aged between 65 to 69, meets a work test).
- **Ability to claim an annual tax deduction up to $25,000 for personal contributions.** From 1 July 2017, if you're under the age of 65 (or 65 to 74 and meet the work test), you will be able to claim an annual tax deduction, regardless of your employment status. Read more about the $25,000 limit in the next section. In addition, if you have less than $500,000 in super, it will be possible to make 'catch up' contributions provided you haven't reached your $25,000 a year (indexed to AWOTE) limit over a rolling five-year period commencing 1 July 2018.
- **Lower after-tax contributions cap and no backdating.** The government initially proposed the introduction of a lifetime limit of $500,000 (indexed) for contributions to super from after-tax salary. This was going to be effective from 3 May 2016 and backdated to include all after-tax contributions made since 1 July 2007. The government scrapped this proposal on 15 September, and replaced it with an annual limit of up to $100,000 per year from 1 July 2017, subject to an eligibility threshold, as explained under the following heading.

Cover story

Proposed changes that may not be so great

Generally affecting higher income earners, the thresholds that trigger higher super tax payments are being lowered, which means more tax will be payable.

- **Before-tax contributions:** From 1 July 2017, the most you will be able to contribute to super from your before-tax salary at the 15% tax rate will be $25,000 a year (indexed). If you have a defined benefit in the APSS, the 'notional taxed contributions' that are deemed to be paid into the APSS on your behalf are treated as before-tax contributions. Therefore, before making any extra before-tax contributions to super, you need to check how much is already taken up by your notional taxed contribution, which you can find by going on-line to **apss.com.au** and logging into your secure section, or by calling *Super*Phone on **1300 360 373**. Also, a higher tax rate of 30% applies to higher income earners whose total adjusted income exceeds $250,000, a threshold reduced from the current $300,000. This could mean that more DB members have an additional 15% tax (Division 293 tax) payable on their notional taxed contributions, with potentially more financial impact on DB members because if Division 293 tax applies, it will apply to all notional taxed contributions, not just up to $25,000 of those contributions, as there is no proposed grandfathering of Division 293 tax.
- **After-tax contributions:** You won't be able to contribute more than $100,000 per year after tax to your super from 1 July 2017, and you won't be able to contribute anything at all if your super account balance as at 30 June in the previous year exceeds $1.6 million. This concept of 'account balance' will also extend to defined benefits (e.g. withdrawal value). The new $100,000 threshold will be less than the current $180,000 per person per year, although you may be able to bring forward up to three years of this annual limit to make up to $300,000 in one year, depending on your total superannuation balance. The new $100,000 contributions cap will be indexed to AWOTE, but the $1.6m transfer cap will be indexed to inflation (i.e. CPI).
- **Lifetime pension transfer cap of $1.6 million:** Although amounts above $1.6 million can remain in an accumulation account, it won't be possible to transfer that excess amount into a tax-free retirement account like the APSS Pension. Instead, the money over the $1.6 million lifetime cap will start incurring a 15% tax on its investment earnings.

Furthermore, members transitioning to retirement with an APSS Pre-Retirement Pension account currently pay no tax on their investment earnings but the proposed changes will mean that they start paying 15% tax on these earnings from 1 July 2017 until they retire.

Not really that much of a change

People earning less than $37,000 a year currently receive what's called a 'Low Income Super Contribution' of up to $500 to offset the 15% super contributions tax. This $500 maximum will remain, only it will be called a 'Low Income Super Tax Offset' and will be subject to some new eligibility requirements.

Changes to the Age Pension

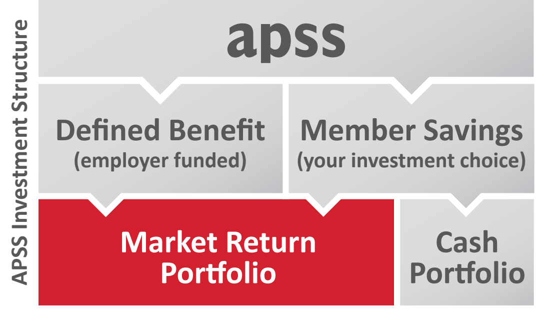
Members receiving a Government pension may be aware that last year the Government announced changes to the assets test to apply from 1 January 2017. The limits on how much income you can earn to qualify for the Government's Age Pension haven't changed. You can find out more about your Age Pension eligibility or make an appointment to speak to a Financial Information Services Officer about your Centrelink benefits at **humanservices.gov.au/Centrelink**.

Stay informed

We'll bring you updates on the website's *Latest News* section. If you are concerned about how any of the proposed changes might affect you, please contact *Super*Phone on **1300 360 373**.

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.

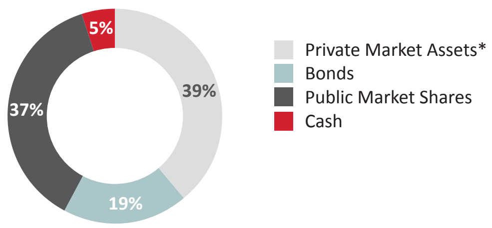


Market Return Member Savings Crediting Rates to 30 September 2016

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	1.99%	3.43%	8.62%	7.86%
APSS Rollover	1.99%	3.43%	8.62%	7.86%
APSS Pension	2.26%	3.56%	9.64%	8.89%

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 30 September 2016



* The Private Market asset class is made up of Private Property and Private Market Assets. Remember, the Trustee intends to scale down the private markets assets in the Market Return Portfolio over time.

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

Behind the numbers

The Market Return Crediting Rate was just about 2% over the September quarter, providing a reasonably positive start to the new financial year. The crediting rates for APSS Pension Accounts are slightly different because investment earnings of these accounts are tax-free.

Most of the gain for the quarter arose in July, as the Australian and international share markets continued to recover from the shock of the UK's 'Brexit' referendum. Encouraging Chinese economic growth signals also helped. The share market rally tapered off in August and September,

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 several 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)

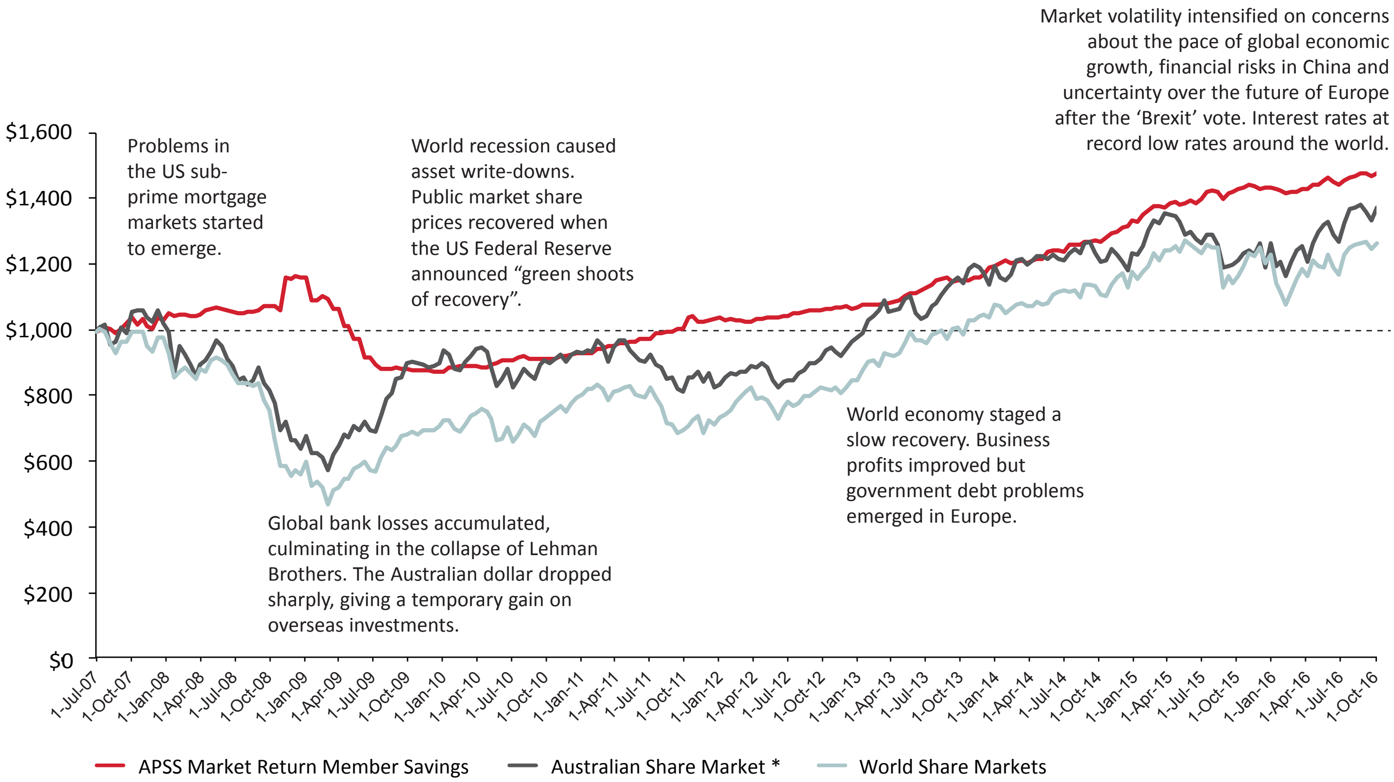
as weaker U.S. economic indicators emerged. The U.S. Federal Reserve, the country's central bank, continued to agonise over whether to lift the official interest rate another notch but decided to defer its decision to the end of 2016. There is little doubt that extremely low interest rates have inflated asset prices in the past few years. Although any shift towards higher interest rates, beginning with the U.S., is likely to be very gradual, there is a sense that stronger global economic growth will soon be needed to achieve reasonable investment returns in the coming few years.

Over the quarter, the APSS's public market share portfolio gained 4.0% in value, while the bond portfolio gained 0.6%.

The Australian dollar rose by nearly 3% against the U.S. dollar in the September quarter and was also higher against other main currencies. Most of the APSS's private market investments are overseas and so, weaker overseas currencies weighed on their value. Despite this, improving asset valuations resulted in a 1.0% net gain for these investments.

How we compare

How $1,000 invested 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 shares.



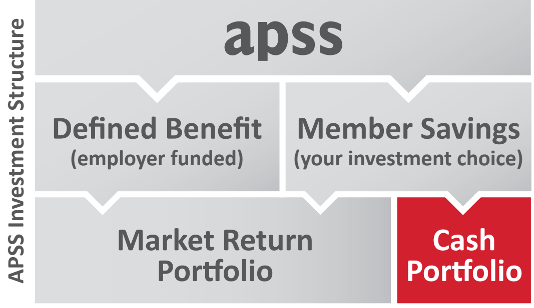
**Australian Share Market reflects returns from Russell Australian Shares for period prior to 30 September 2014 and Russell After-Tax Australian Shares Unit (for Superannuation Investors) thereafter.*

Values used in this chart are based on Russell Investments' Australian Shares and International Shares (Hedged) PST sector funds.

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 provided by Australia Post that means crediting rates will not be negative, but with an expectation of lower relative returns in the long term.



Cash Return Member Savings Crediting Rates to 30 September 2016

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	0.35%	1.59%	1.92%	2.33%
APSS Rollover	0.35%	1.59%	1.92%	2.33%
APSS Pension	0.41%	1.86%	2.25%	2.79%

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: Cash 100%

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

Behind the numbers

The Cash Return Crediting Rate follows the official cash interest rate set by the Reserve Bank of Australia (RBA). With inflation continuing to run low and the growth in house prices appearing to ease, the RBA decided to reduce the cash rate from 1.75% to a new record low of 1.50% in August. The RBA believes that a low interest rate is appropriate to support the Australian economy onto a sustainable growth footing. Over the September quarter, all this led to a Cash Return Crediting Rate of 0.35%.

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 *Super*Phone 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.