apss
AUSTRALIA POST SUPER SCHEME

Insight

News from the Australia Post Superannuation Scheme

Quarter ending September 2013

Keep an eye out: Potential changes to super

INSIDE THIS EDITION

Following the change in Government after the Federal Election in September 2013, there is the possibility of minor changes to the Federal Government's superannuation policy.

Some developments since the Election, along with key aspects of the Coalition's pre-election policy on superannuation, are summarised below.

- **Two-year pause to Superannuation Guarantee (SG) rate increase** – Consistent with the Coalition's pre-election policy, the Government has released for consultation draft legislation to maintain the current minimum SG rate of 9.25% for the 2014-15 and 2015-16 years. However, the Treasurer has said that the Government will not overturn the gradual increase in the SG rate to 12% following this two-year pause.

Cover story

Keep an eye out: Potential changes to super (continued)

- **Superannuation Incentives for Low Income Earners** – The Government has released for consultation draft legislation to repeal the Low Income Superannuation Contribution. The Coalition's pre-election policy also foreshadowed that other current incentives for lower income earners, such as super co-contributions, would be reviewed once the Federal Budget returns to a strong surplus.
- **Concessional Contribution Caps** – The Coalition's pre-election policy proposed a review of the current concessional contribution caps once the Federal Budget returns to a strong surplus.
- **Minimum Pension Payments** – As part of the Coalition's pre-election policy, a review of the minimum pension payment levels would be conducted in view of current financial market conditions to ensure that these levels remain adequate and appropriate.
- **Implement Process For Excess Contributions Breaches** – The Coalition's pre-election policy stated that the Government would work with the superannuation industry to develop a process to address unintentional breaches of the contribution caps where an individual can show that their mistake was genuine and the error would result in a disproportionate penalty (noting that the previous Government's recent amendments only extend to before-tax contributions, not after-tax contributions).

We will continue to keep you updated on what the new Government has in store for super, and how it could affect you.

Remember

These policies may be altered in future and none of the proposed legislative changes have been enacted into law at the time of publishing this newsletter.

Getting ready for retirement

Have you ever thought you'd like to ease into retirement, without having to retire completely?

If you're currently 55 or over and still working, an APSS Pre-Retirement Pension (or 'PREP' for short) can in the lead up to retirement:

- **Offer access to your super while you're still working**
- **Help you build your super, and**
- **Provide a tax-effective option to boost your income.**

What is a PREP?

A PREP allows members aged 55 or over, access to some of their super in the form of regular pension payments (similar to a salary) without having to stop work or retire permanently. This is provided you have reached your 'preservation age', which is generally between the ages of 55-60 depending on your date of birth. If you are under age 65 and still working, you can withdraw between 4% and 10% of your pension account balance each financial year. Note that this is based on current legislative limits which are subject to change in the future.

To learn more about how a PREP works and the eligibility rules that apply, please refer to the *APSS Pensions* PDS available at **apss.com.au** or by calling *Super*Phone on **1300 360 373**.

How do I decide if a PREP is right for me?

Before you open a PREP account, you need to consider if this type of income stream is right for you and how it fits with your work, retirement and super plans. Some things to consider:

- What are your priorities now, as you get closer to retirement and beyond?
- How much income do you need now and in retirement?
- Will your super last you long enough?
- Will the income from a PREP account affect your or your partner's social security and other Government entitlements?
- How tax effective is a transition to retirement strategy like the APSS PREP account for your situation?

What are the benefits?

A PREP can enable you to:

- **Cut your working hours and maintain the same take home income level**

  Starting a PREP could help you by enabling you to reduce your working hours without reducing your take-home income level. You can work part-time and supplement your salary with income from your PREP account. You could receive the same take home income level using this approach.

- **Boost your retirement savings and take advantage of tax concessions**

  A PREP allows you to contribute extra to your super from your before-tax salary (i.e. salary sacrifice) while at the same time receiving income from your PREP account. For most people aged 60 and over, both before-tax contributions to super and pension payments from a PREP account will be taxed at a lower rate than their salary. Any tax savings could then be used to boost your super.

- **Boost your income if you want to keep working full time**

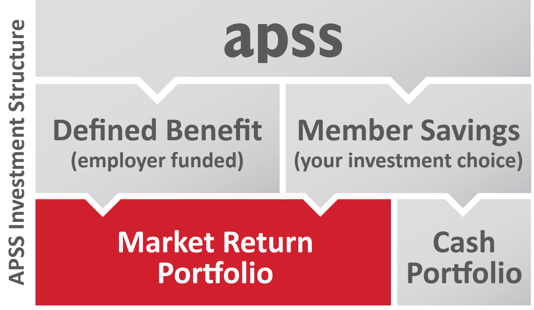
  Income from a PREP account can supplement your current salary and can be used for other investments or to spend as you wish. Be careful however, of using super savings that you'll need in retirement.

Get advice

A transition to retirement strategy can be complex and whether it is the right option for you will depend on your personal situation. We strongly recommend that you seek licensed financial advice that is tailored to your individual financial and tax situation, objectives and needs before starting a PREP account in the APSS.

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.

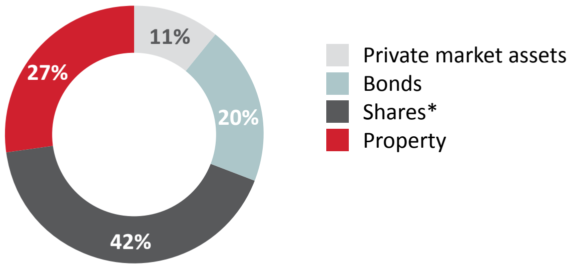


Market Return Member Savings Crediting Rates to 30 September 2013

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	2.02%	8.34%	8.07%	1.42%
APSS Rollover	2.02%	8.34%	8.07%	1.42%
APSS Pension	2.32%	9.21%	9.55%	1.85%

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 2013



* Currently invests 14% in public market shares and 28% in private market opportunities. 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 Portfolio delivered a 2% compound Market Return crediting rate over the September quarter, maintaining the positive trend of the previous year. The portfolio benefited from gains on the APSS's private market investments, another rally in publicly traded shares and a small return on its bond investments.

Across the private market investments, which form the majority of the APSS Market Return Portfolio and include private market shares (private equity), property and other assets, market conditions have been steadily improving since the global financial crisis and the European credit crisis. Investments in the US and Europe are generally operating well and attracting more interest from buyers, allowing the APSS to sell out of these positions at a profit. As usual there are some soft spots in such a diversified investment program. Recently, segments of the Asian and Australian real estate investments have had weaker performance as economic growth in the region has slowed.

Publicly traded share markets meanwhile staged another strong rally after the US central bank, the

Reminder

Under the new investment strategy for the Market Return Portfolio effective 25 June 2013, the portfolio now comprises new asset class categories. Asset classes are broad groupings of investments according to their expected return and risk, and whether they are traded in public or private markets. Each asset class has a different level of risk and return in the long term. Generally the greater the potential return in the long term, the greater the risk an asset class has.

The Market Return Portfolio

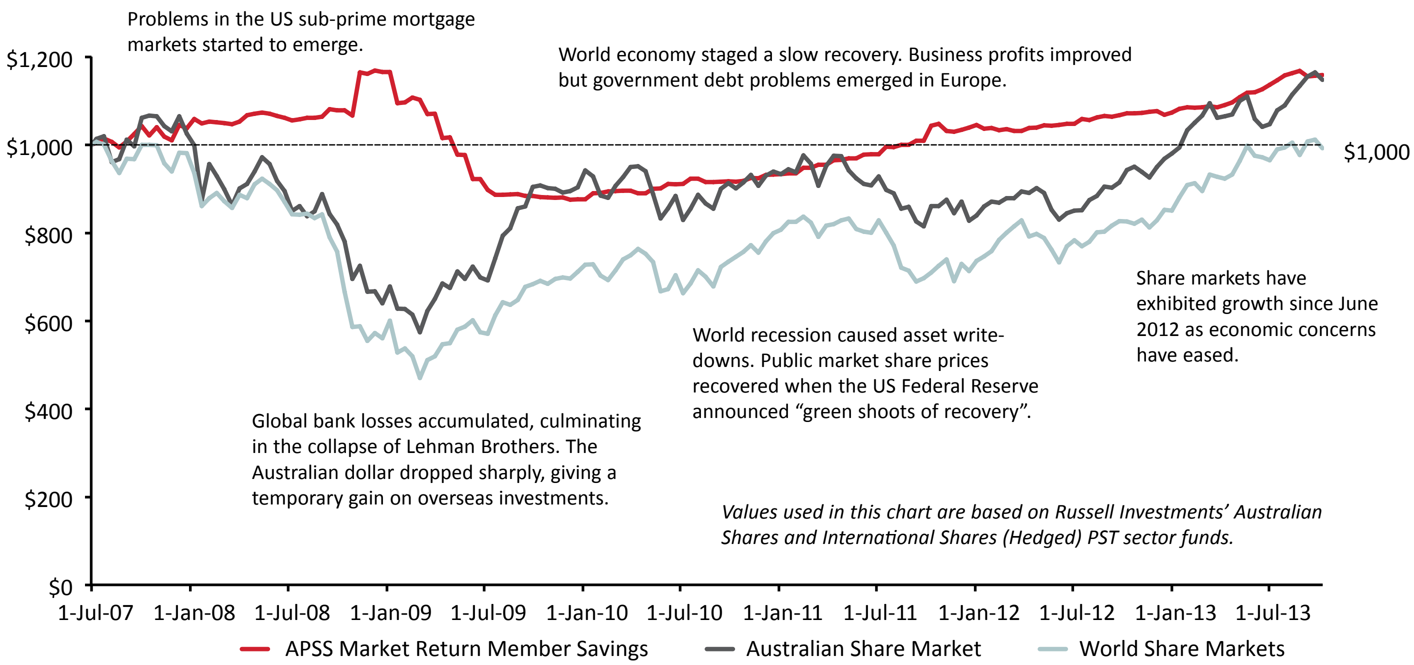
Behind the numbers (continued)

Federal Reserve, deferred its plans to taper its monetary stimulus program. The Australian share market was among a number of major markets that had gains of around 10% for the quarter. At least until the US economic recovery is more advanced, investor confidence seems to be reliant on continuing monetary support from the Federal Reserve and other central banks.

The Australian dollar took a round trip in the quarter, losing value against the US dollar in July and August before regaining ground in September as global market sentiment turned on US monetary policies and China's economic outlook. The standoff between the Democrats and Republicans over the US budget and debt limits did not encourage confidence in the US dollar and it continued to weaken into October. Currency movements overall had a minor negative effect on the investment return for the 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.



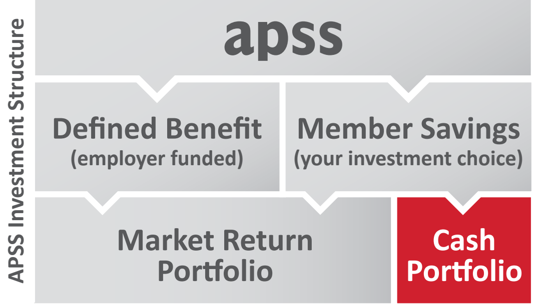
Important reminder: Past investment returns are not necessarily indicative of future investment returns.

Remember

You can contact the APSS by calling ***Super*****Phone 1300 360 373** Monday – Friday 9.00am – 5.30pm (AEDT) or you can visit us online at **apss.com.au**

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 30 September 2013

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	0.56%	2.41%	3.32%	3.40%
APSS Rollover	0.56%	2.41%	3.32%	n/a
APSS Pension	0.65%	2.95%	4.02%	n/a

Rollover and Pension Cash Return Crediting Rates are available from 5 August 2009.

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.

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

Actual asset allocation for the quarter: Cash 100%

Behind the numbers

The Cash Return Crediting Rate continued to track the cash interest rate set by the Reserve Bank of Australia (RBA), reduced by investment fees and tax (where applicable).

The RBA lowered the cash rate by one-quarter of a percent in August, to 2.5%. Australia's economic slowdown and the high Australian dollar have been among the reasons given in RBA statements for its recent round of interest rate cuts. The effect has been to bring the cash interest rate virtually into line with the inflation rate, which has usually moved in a 2-3% range. Once tax is deducted, the cash rate is expected to fall slightly below the inflation rate in the foreseeable future.

Even in the face of declining interest rates, the Trustee has maintained a strict policy of investing only in the most liquid, highly rated and diversified money market securities, rather than introduce riskier or less liquid investments into the Cash Portfolio to enhance the return.

Remember

When comparing the official cash interest rate to the APSS Cash Return crediting rates, keep in mind that, with the exception of the Pension Accounts, the crediting rates shown are after tax has been deducted from the investment earnings (the applicable tax rate is approximately 15%).

How to contact the APSS

Call ***Super*Phone 1300 360 373** Monday – Friday 9.00am – 5.30pm (AEDT) or visit us online at **apss.com.au**
Write to APSS, Locked Bag A5005, Sydney South NSW 1235 or Fax (02) 9372 6288