

FINANCIAL PLANNING

NEWS



LOCAL GOVERNMENT®
SUPERANNUATION SCHEME

Local Government Super

June quarter 2010

The markets and you



Craig Turnbull, Chief Investment Officer

Markets tend to move in cycles of upswings and downturns and one way of looking at the cause of the global financial crisis is to see it as a part of that ongoing market cycle. Of course the stages of the cycle

can vary in intensity and everyone would acknowledge that this downturn was exceptionally severe and its consequences were felt in all sections of the economy and the community.

So the question you might ask is where in the cycle are we now?

To answer that we need to return to the trigger of the global financial crisis and with hindsight that trigger can be summarised in one word: debt. Looking back, it is clear that while the crisis was sparked by the collapse in the US housing market it was sustained because overconfident individuals and corporations had overextended themselves and then found themselves increasingly unable to service their loans as the crisis deepened. This in turn put pressure on the banks and the financial services sector generally.

The collapse in the private sector forced governments around the world to become heavily indebted themselves as they embarked on stimulus programmes and bailout packages in order to promote economic growth and stabilise the financial system. In the last year these measures have proved to be fairly successful with a recovery in the markets and an improvement in economic growth and business confidence which has led to improved returns for members.

However, the recovery was achieved at a cost, and that cost was the transfer of the debt problem from the private sector to the government sector. It is this level of government indebtedness that presents the greatest risk for the world economy at the moment.

While Greece is currently the most prominent example, much of the developed world is carrying worryingly high levels of debt and the manner in which these countries reduce or manage these debt levels will determine how quickly and how durable the recovery is likely to be. To avoid defaulting on their debts these countries will need to reduce government

Welcome. In this issue of Financial Planning NEWS you will find information on:

- The markets and you
- The Federal Budget
- Tony Curtis, Financial Planner
- Stamp duty relief for those over 65
- The latest from Fair Go
- Health and lifestyle tips

spending (which will include limiting or cancelling their stimulus packages) and while this may restore confidence in the bond markets it will also dampen economic growth generally.

While it's impossible to say exactly where we are in the economic cycle it's our view that the shadows cast by the US and European debt problem will constrain world economic growth. That said, we still expect positive returns in the share market this year, although they're likely to be lower than last year. In general terms we believe that a well diversified portfolio with a moderate exposure to shares continues to be the right approach but we are watching the global economy closely as the risks remain significant.

I would like to emphasise that this is meant to be read as a general view and not as personal advice. If you have any questions about your personal investments you should contact your financial planner who can give you advice tailored to your individual circumstances and personal needs.

We can help you with more than just your pension

- ❖ Looking for advice about investing? We can help you.
- ❖ Are your family members looking for a flexible home loan? We can help you.
- ❖ Looking to maximise Centrelink and other government benefits? We can help you.

Call 1300 883 788 for more information.

50% minimum pension drawdown relief extended

The Government waited until the last moment and on 30 June 2010 announced that the 50% reduction of the minimum drawdown requirement for account-based pensions will be extended to the 2010/11 financial year.

This measure, first introduced in February 2009, is aimed at those who wish to preserve their pension benefit so that they are in a better position to recover losses as markets recover over time.

The age-based rates that will apply from 1 July 2010 are:

Age on 1 July 2010	Minimum drawdown (as % of account balance on 30 June 2010)
Under 65	2.0%
65 to 74	2.5%
75 to 79	3.0%
80 to 84	3.5%
85 to 89	4.5%
90 to 94	5.5%
95 or older	7.0%

Remember that the relief measure only applies to the minimum amount, so you are still able to draw down higher pension payments if you need to. It is also possible that a change in your pension drawdown amount may affect your Age Pension entitlement so you should check with your planner if you're unsure about your situation.

To reduce your pension drawdown or to find out more about the changes, please call **1300 883 788**.

Fair Go



Departure Lounge – Resorts Accommodation

Winter is here, so why not head north to warm up with a Departure Lounge winter escape. With more choice than ever, Departure Lounge is ready to send you on your next holiday or short break.

Members can save up to 55% with some fantastic winter specials at a range of Peppers, Mantra and BreakFree properties.

For couple escapes or family holidays, there is something for everyone!

Visit <http://www.lgsuper.com.au/fairgo/departurelounge.asp> for more information and current special offers.

Does your financial plan let you sleep well at night?



The global financial crisis has been a reminder that investing can be a risky business.

All investments come with some degree of risk. Growth assets, such as shares and property, generally have the potential to earn higher returns but also have a higher risk of declining in value over the short term. Defensive assets, like cash and fixed interest, have a lower chance of capital loss but generally earn a lower return.

Each person has a different ability to stomach the risks of losing money in exchange for the chance of making money. This is called their risk tolerance and it is experienced in two ways. One is how much they can afford to lose without affecting their lifestyle or ability to reach their financial goals. The second is how much they can lose before they start feeling stressed or suffer sleepless nights.

Some people are very cautious and are willing to accept low to moderate growth in their investments if it reduces the chances of losing money. Some are more aggressive and will tolerate larger losses in the short term in order to achieve the highest possible return over the long term. Others fall somewhere in between.

So, it's not only important for your financial planner to understand your specific financial circumstances and needs when they draw up an investment plan for you, they also need to know what kinds of risk you will be comfortable with. That's why consultations with a FuturePlus Financial Planner include a series of questions about your risk tolerance.

This information – combined with knowledge of your assets, liabilities and income, retirement goals and retirement timeframe – will help the planner put together an appropriate investment strategy that makes sense for your stage of life and will allow you to sleep well at night.

If you feel that your current investment strategy is out of kilter with your tolerance for risk or if your financial circumstances have changed, please call **1300 883 788** to talk to one of our financial planners, at no additional cost to yourself.

Meet Tony Curtis – Financial Planner



Tony Curtis is the latest recruit to the FuturePlus financial planning team and he will focus on reviewing the plans of existing members. The chief purpose of the review service is to check whether the settings of an existing plan remain relevant to a member's goals and needs in a changing world and also to check whether the member's

financial goals themselves might have changed over time.

Tony believes a regular review is essential to keep the member's financial plan current and for peace of mind. As Tony says, "The ongoing review of your financial plan is extremely important in ensuring that it is still appropriate for you. Life never sits still and people's financial and personal plans often need to adapt. Frequent changes in taxation, superannuation and social security alone (that you may not even be aware of) can have a significant impact on your

livelihood. If nothing else, the cost of living is ever increasing and I'm sure you'd like to know if you can keep pace with it. Retirement should be a time to be enjoyed and the review service can provide you with the reassurance that your best laid plans will continue to meet your lifestyle needs."

It is recommended that members undertake a review every 12 months or so to ensure that their plan is kept up to date. Invitations for a review are sent out yearly but members can apply for a review at any time if they require it.

Tony joined FuturePlus three years ago. He started in the Paraplanning division where he was engaged in the preparation of financial plans and then he became an Associate Financial Planner where he was involved in providing limited financial advice to members.

If you would like to arrange a review with one of our financial planners please call **1300 883 788** or email **reviews@futureplus.com.au** As a member, this service is available to you at no additional cost.

Stamp duty concession for older homeowners wanting to downsize



In the latest NSW state budget the state government has proposed a measure which would give homeowners aged over 65 stamp duty savings of up to \$22,490 to encourage them to downsize and therefore to encourage the construction of new dwellings in NSW.

The discount applies to purchases of newly constructed houses and units, off-the-plan acquisitions, and house and land packages.

Seniors who take up the offer will pay zero stamp duty on property purchases costing up to \$600,000 with roughly 70 per cent of NSW sales being under that threshold.

The state government scheme is an extension of the first home buyers scheme.

The budget also offers zero stamp duty - and the potential saving of \$22,490- to all home buyers and investors, albeit with a strict restriction.

It will only be available if they put a deposit down for an off-the-plan purchase or house and land packages costing less than \$600,000.

There will also be a 25 per cent stamp duty cut for home buyers and investors - and a potential \$5,623 saving - if construction is already under way.

The stamp duty discounts will be available for the next two years.

However, to qualify those over age 65 must sell their primary residence before moving into the newly constructed house or unit. Also the newly constructed homes for seniors must not have been previously occupied or previously sold.

For couples, at least one of the parties must be aged 65 or over to be eligible.

For more information visit

<http://www.nsw.gov.au/articles/nsw-zero-stamp-duty-0>



New benefits for LGS members

ME Bank was formed to provide great value in financial services to members of industry super funds. And, as a member of Local Government Super, you too have access to ME Bank's range of award winning banking products.

ME Bank, in addition to the discount already provided on its Home Loan product, has just announced a new deal for members of industry super funds, including LGS. Members can now qualify for an additional bonus interest rate of up to 0.25% on ME Bank term deposits. For example, the 3 month term deposit offers 5.75%* p.a. for members of industry super funds but only 5.50%* p.a. for the general public.

ME Bank is also offering members the opportunity to choose their own term for the term deposit, giving members more flexibility and the ability to tailor their investment to their own timetable. These variable maturity lengths can range from 1 month to 24 months.

It's little wonder then that ME Bank, the bank owned by some of Australia's leading Industry Super Funds, has once again earned the highest Net Promoter Score of all Australian banks in the independent Australian Retail Banking Tracker Report for January 2010.

In addition to a discounted home loan without the many fees other banks charge, ME Bank also offers a First Home Saver Account, a low rate personal loan and the low rate MasterCard.

For more information about ME Bank call **13 15 63** today or visit mebank.com.au

Terms, conditions, fees and charges apply. Applications for credit are subject to approval. This information does not take into account your situation and you should consider if these products are appropriate for you. Before you make any decisions about the First Home Saver Account you should review the Product Disclosure Statement and Terms and Conditions available from Members Equity Bank Pty Ltd
ABN 56 070 887 679.

Local Government Super makes no representations as to the suitability of ME Bank's products. Any loan you take out or deposit you make with ME Bank is an arrangement between you and ME Bank and LGS has no liability to you in relation to that deposit or loan.

* Rates current at 30 April 2010. Rates are subject to change. You will receive the interest rate that is current on the day your application is received by ME Bank. Terms and conditions of the deposit are available from ME Bank.

Get into shape

Feeling unfit?

Well, there's no better time to start getting into shape than right now.



Physical activity is important because it makes you look and feel better, gives you more energy, enables you to sleep better and relax - and it's social and fun. It also helps to control your weight, blood pressure, cholesterol, diabetes and arthritis and it reduces the risk of heart disease, stroke and some cancers.

It is recommended that you should do at least 30 minutes of moderate intensity physical activity on most, preferably all, days to keep your heart, lungs, muscles and bones in good working order. If you can't do 30 minutes now, start with 10 minutes once or twice a day. After two weeks, make it 15 minutes twice a day and you will have reached your goal of 30 minutes a day.

You don't have to puff and pant or work up a sweat, but it is okay if you do. To get started, try a brisk walk, working in the garden or going for a swim. Also consider joining a Tai Chi or yoga class to improve your balance and help prevent falls.

Make a specific time each day to do these exercises, or fit them in whenever you can. If you can, also try to reduce the time you spend sitting for long periods.

For more on how to become more physically active, you can order the Choose Health: *Be Active: A physical activity guide for older Australians*, published by the Department of Health and Ageing and the Department of Veterans' Affairs. Just call **1800 500 853** for a free copy.

The 2010 Federal Budget and you



Wayne Swan in the May Federal budget announced a number of measures which concern people who are approaching or who are already in retirement. The following is a summary of the changes that might affect you:

\$50,000 Concessional contributions cap to continue beyond 2012

The Government has proposed to allow individuals age 50 and over with superannuation balances less than \$500,000, to make Concessional contributions of up to \$50,000 per annum (indexed) after 1 July 2012. This will allow people to top up their super as they approach retirement as long as their account balance is under the threshold.

Super Guarantee for people over 70

Australians who continue working between the age of 70 and 75 will be eligible for the compulsory Superannuation Guarantee contributions (currently 9%) for the first time. At the moment people in this age bracket are limited to voluntary salary sacrifice contributions and/or personal post-tax contributions. This measure will take effect from 1 July 2013 and is aimed at providing an incentive for older people to remain in the workforce.

50 per cent tax discount for interest income

Commencing 1 July 2011, Government has proposed to provide a 50% tax discount on up to \$1,000 of interest earned by individuals. This will include interest earned from bank accounts, term deposits, bonds and annuity products. The discount will be available for interest earned directly, or indirectly such as through a trust or managed investment schemes.

This may increase eligibility for some social security entitlements as it can reduce ATI (Adjusted Taxable Income). If you are unsure you should contact Centrelink or your financial planner for assistance.

Amendments to Senior Australian Tax Offset (SATO) and Low Income Tax Offset (LITO)

Workers and senior Australians will benefit from an increase in tax offsets in 2010/11–

- The low income tax offset increases from \$1,350 to \$1,500 so workers eligible for the full benefit will not pay any income tax on the first \$16,000 of personal income.
- Senior Australians who are eligible for the low income tax offset and the senior Australian tax offset will pay no tax on income up to \$30,685 for singles and \$53,360 for the combined income of couples.

Seminars

If you haven't retired yet, or your partner is planning to retire, why not attend a free pre-retirement planning seminar? Also, if you have family or friends that you think may benefit, please feel free to invite them along too.

To view our full calendar of forthcoming seminars, visit:

www.lgsuper.com.au/Seminars/seminarcalendar.asp

To attend one of our free financial seminars near you, call **1300 369 901**. Alternatively you can book a seat by emailing: info@lgsuper.com.au

It couldn't be simpler.

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Monday - Friday

*Bookings are essential. Phone 1300 883 788 to make an appointment.

What's happened in investment markets?

June quarter 2010

The main focus of economic news turned to Europe during the quarter with several countries including Greece, Spain, Portugal, Ireland and Italy facing doubts about whether they would be able to meet their debt obligations. Greece, in particular, had its debt rating cut to below investment grade as the risk of a default increased. This sparked a big sell-down in global share markets as concerns emerged about which companies had exposure to the debt of these nations and what effect it would have on the wider European economy.

Domestically, the overriding feature of the Australian economy seemed to be stability. Unemployment has levelled out at a rate of 5.2% by the end of June and the rate of inflation is within the Reserve Bank's target range. One worrying area of the economy is the rate of property price increases with numbers indicating a year-on-year increase of 20%. This has been one of the reasons the RBA has been inclined to raise interest rates. With a pull-back in the first home buyers grant and other housing initiatives, this rapid increase in prices is unlikely to continue, but how the housing market performs without artificial stimulus is something to watch out for.

In the US, there are still structural issues that need to be addressed before investors can start to believe in a sustained economic recovery. The level of household debt is still at very high levels and with unemployment remaining in the 9.5-10% range it is difficult to see this improving any time soon.

The market commentary below is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset classes and should not be used as a measure for judging the performance of your investment strategy.

Australian Equities

The Australian share market benchmark, the S&P/ASX200 Accumulation Index, returned -11.1% for the quarter. The market really struggled after a good start to the quarter with a 6.5% return in April. From there, though, it was all downhill with mainly macroeconomic news driving the market down

as concerns emerged about the debt situation in some European states and its ramifications.

International Equities

International shares, like the domestic market, performed poorly after a positive start with the benchmark for global shares, the MSCI World ex-Australia Index, returning -11.8% on a currency hedged basis. The currency impact was significant in the quarter with the Australian Dollar falling against most of the major currencies, with the exception of the Euro. It is difficult to see where the markets will go from here but they are sure to be volatile for the next few months.

Listed Property

Australian Listed Property finished the quarter down with the S&P/ASX200 A-REIT Accumulation index returning -1.3%. This was a considerably better performance than shares in general as the property fundamentals limited the downside. Previously, listed property companies had received significant sell-downs due to their high levels of debt but, after significant capital raisings, investors were able to focus on the underlying property valuations, which have remained relatively stable and provided some growth.

Cash and Fixed Interest

There were a further two interest rate rises in the quarter with the Reserve Bank of Australia raising rates by 0.25% in April and May amidst concerns that the economy may be growing at too fast a rate following the general recovery. Rates are now at a level considered to be 'normal' as the stimulatory Government spending measures of last year have been progressively removed or wound back. There is scope for further rate rises but this is likely to be at a much slower pace than we have seen so far.

Short-term money markets produced decent returns with the UBS Bank Bill Index finishing up 3.6% for the quarter. Bond markets also produced significant returns over the quarter (particularly when compared with shares) with the UBS Australian Government Bond Index returning 4.1% as investors sought quality investments as a replacement for shares. Globally, government bond prices increased with the benchmark S&P/Citigroup World Government Bond Index (Hedged) returning 3.5% as the 'flight-to-quality' extended to global bond markets.

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