

YOUR

FUTURE



LOCAL GOVERNMENT®
SUPERANNUATION SCHEME

LOCAL GOVERNMENT SUPER
Retirement and Defined Benefit Schemes - ABN 28 901 371 321

Financial year ending June 2010

Message from Peter Lambert, CEO



At Local Government Super we are really pleased about the positive returns for this financial year after a disappointing result in 2009, and we will continue to drive the delivery of quality returns at a low cost for all members.

A real focus for me in the coming months will also be on operational

matters, as Local Government Super takes direct control of most of the services we offer to members.

This structural change has occurred off the back of the merger proposal initiated by the Energy Industries Superannuation Scheme (EISS) and submitted to the NSW State Government without our knowledge.

The Board examined this proposal, but was of the opinion that the merger would not be in the best interests of our members. In order to better focus on member services we also decided to sell our share in FuturePlus Financial Services to EISS and establish our own team of financial planners and member service staff.

This way all our staff will have a thorough understanding of the Local Government industry and how to improve service levels for our member base.

You won't see any immediate changes to the way we work with you, but we will ensure that our unique closeness to local government employers and members translates into superior, tailor made service.

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 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 speak to a financial planner who can give you advice tailored to your individual circumstances and personal needs.

How do you know if you've got enough super?



It's a shocking fact, but very few Australians are likely to retire with a comfortable amount of money. Many believe their superannuation contributions will be enough but Census data shows that many of us will have a much lower standard of living than we expect. Have you ever sat down and considered how much money you'll really need to fund your retirement?

Working out how much money you will need in retirement depends on your personal situation, of course. Not only does the amount of money you need depend on your lifestyle choices, but you may have some other income options in retirement (such as part-time work or payments from other investments) which will supplement your super.

But you need to think about how much you'll need early enough to do something about it.

The Association of Superannuation Funds of Australia believes a single person needs an annual income of \$39,159* and a couple needs \$53,565* to live comfortably in retirement. They define "comfortable" as having an income that permits the retiree to pursue a range of leisure and recreational activities and supports a good standard of living through the purchase of things like: household goods, a decent car, good clothes, private health insurance and occasional domestic or international travel.

So how do you get there?

This will depend on what savings you start off with, how long it is until your retirement, and what level of retirement income you are seeking.

The table below roughly sets out what an individual might have to save, in terms of percentage of their income, in order to meet certain retirement income targets.

Percentage of income over and above the 9% Superannuation Guarantee required to be saved to achieve 60% of pre-retirement income¹

Years to retirement	Final income (Retirement income sought)		
	\$35,000 (\$21,000)	\$50,000 (\$30,000)	\$75,000 (\$45,000)
10	37%	51%	59%
15	19%	29%	35%
20	10%	17%	22%
25	5%	10%	14%
30	2%	6%	10%
35	0%	3%	6%
40	0%	1%	3%

¹ Projections based on fund net (after tax and fees) earning rate of 7% nominal and growth in average earnings of 3.75% with contributions being made by the employer and subject to 15% tax. Source: ASFA

It is widely considered that a target of between 60% and 70% of annual pre-retirement income is needed in retirement. As the table below shows, unless you're a long way off retirement, reaching this target will involve more than the 9% compulsory contributions (SG) for most people.

How can you catch up?

The easy answer is to increase your contributions to super. There are several approaches you can take once you've decided to start making additional contributions:

Increase your contribution rate:

For members who are behind on their benefit points, increasing your contribution rate is one of the easiest ways to increase your super benefit. For further information about Benefit Points go to the Benefit Points Fact Sheet on the website or call Member Services on **1300 369 901**.

Salary sacrifice:

Salary sacrifice is an arrangement where you "sacrifice" a proportion of your pre-tax income and put it into your super. This can be a tax effective way to save for retirement on two levels. First, because you are making the super contribution from your before-tax income, it is taxed at the super contributions rate of 15%, rather than your normal rate of tax. Secondly, because you have effectively reduced your income (by the amount of your salary sacrificed super contribution), your income is lower and therefore the tax you pay on that remaining income will be lower too.

Remember you can also salary sacrifice your Benefit Points.

After-tax contributions:

You can also make additional contributions to your super from your after-tax income. Again, this will help grow your super plus it may even entitle you to take advantage of the Government Co-contribution scheme.

Government Co-contribution scheme:

If your before-tax income is \$61,920 or less, you may qualify for the Government Co-contribution scheme. This is where the Government could match your after-tax additional contributions to your super dollar for dollar, up to \$1,000 per annum.

Spouse rebate:

If you are not working, or are on a low income, another way to help boost your super is to have your spouse make a contribution on your behalf. To qualify for this, your income cannot exceed \$13,800 per annum. Your spouse, in turn will benefit from an 18% income tax rebate on any contributions made to your super up to the value of \$3,000. Please note, however, that any contributions in excess of \$3,000 will not be eligible for the rebate.

Get some advice:

If you have any concerns about your super, or want to start planning for your retirement, then it's a good idea to get some professional advice from a qualified financial planner. And because you're an LGS member, that advice is at no additional cost. Just call **1300 369 901** to make an appointment or to speak to a planner.

*Source: Association of Superannuation Funds of Australia Westpac ASFA Retirement Living Standard, 'How much do you need to spend to have a comfortable standard of living in retirement' March 2010.

Practical environmental leadership

LGS launches 1,000sqm solar installation

In July Local Government Super (LGS) launched the installation of 1,000sqm of solar photovoltaic panels on one of its commercial office buildings in Macquarie Park, New South Wales.

Generating some 15-20% of the required base building energy, the solar panels will significantly reduce the grid energy required by the building, reduce emissions and provide a leading example of how renewable energy can be applied in office buildings.

The solar power installation is just one of a number of initiatives LGS is undertaking as part of its wider environment investment strategy.

LGS has a long-standing commitment to environmental leadership and, in particular, the sustainable upgrade of existing buildings.

Many property owners in the commercial sector have been pursuing sustainable strategies but for the most part this has primarily been focused on new buildings, with existing buildings considered too expensive to upgrade or too difficult to implement.

LGS has however been able to demonstrate that there are cost-effective ways in which to upgrade existing buildings through the use of leading Australian technologies and a solid tenancy engagement strategy.

This solar panel project along with other LGS initiatives provides strong energy efficiency results. More importantly however it is a clear demonstration to the property industry that energy reduction is a reasonable and reachable target for all buildings in Australia, not only new ones.

Over the past 18 months, LGS has upgraded five of its commercial properties with the support of AusIndustry Green Building Fund grants.

Upgrade works have included the installation of leading Australian technologies including e1 lighting, the Shaw Method of Air Conditioning, solar panels, and a further exemplar project is looking to implement a tri-generation system powered by the multi fuel capable Bennett Clayton engines.

The results of these upgrades have already exceeded expectations, with the buildings targeted to move to a NABERS energy rating of 5 stars, in line with new building performance.



We can help you with more than just your super

- Looking for a low cost flexible home loan? **We can help you.**
- Would you like to build an investment portfolio? **We can help you.**
- Interested in gearing? **We can help you.**
- Need insurance? **We can help you.**

Call **1300 883 788** for more information.

Local Government Super tops climate change rankings

Local Government Super (LGS) has been ranked first for its climate change initiatives in an Asset Owners Disclosure Project on climate change.

The project is part of the Climate Change Investments Initiative, which is spearheaded by the Australian Institute of Superannuation Trustees (AIST) and The Climate Institute and aims to develop industry best practice. This is the second year the project has been run but the first in which ratings, compiled by SuperRatings, were assigned to participants.

The ratings were based on a survey completed by 32 Australian super funds, each with more than \$300m under management.

LGS was ranked first overall but also placed in top spot in six out of the 12 categories:

- asset allocation and asset consultants
- identification of climate change risks at the asset/manager/fund levels
- reporting of climate change issues and assets
- portfolio level climate change management
- information systems development
- and member engagement.

LGS was in the top ten for the remaining categories.

Bonus interest on **ME Bank** term deposits for LGS members



Here's some great news for Local Government Super members from ME Bank. If you take out a term deposit, Local Government Super members receive a bonus 0.25% interest on top of the normal rate!

For example, a term deposit of 7 months duration would get you 6.35% pa, PLUS 0.25% bonus. Or for three months, the rate would be 6.0% pa PLUS 0.25%.

To find out more, visit www.lgsuper.com.au and follow the ME Bank links.

ME Bank is a licensed Australian bank, owned by some of Australia's leading Industry Super Funds and was formed to provide great value in financial services to their members.

Your membership with Local Government Super also gives you access to a discounted home loan with the Super Members Standard Variable Rate Home Loan. You'll benefit from a discounted variable interest rate and won't pay an application fee, any ongoing account keeping fees or fees to fix, split or top up the loan. The discounted rate and low fees can really make a difference to how much you'll pay over the life of the loan.

Other products available from ME Bank include the Online Savings Account, the InterestME Savings Account (a two-in-one transaction and savings account), Term Deposits with 3, 6, 9, 12 or 24 month terms, the First Home Saver Account, a low rate Personal Loan and the low rate MasterCard.

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.

Seminars



Would you like to have a better understanding of how to manage your money, increase your savings, improve your investment portfolio or ensure you have enough on which to retire?

As a valued member you can attend a **FREE seminar**. To view our full calendar of forthcoming seminars, visit www.lgsuper.com.au/Seminars/seminarcalendar.asp

Fair Go Departure Lounge – Resorts Accommodation



Shake off winter by heading north to warm up with a Departure Lounge 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.

Frequently asked questions

Why can't my spouse's name appear on my statement as the beneficiary?



The Trust Deed that governs Local Government Super has specific rules about the payment of death benefits. Under the Deed, members can choose to make a binding nomination of beneficiary or not.

If you choose not to make a binding nomination of beneficiary, your death benefit will be paid to your spouse, if you have one. If you do not have a spouse, as defined in the Trust Deed, your death benefit will be paid to your estate.

If you choose to make a binding nomination, then the Trustee must pay the death benefit in accordance with your instructions. Binding nominations expire every three years and must be renewed in order to remain valid.

Either way, the Rules under which Local Government Super operates does not allow us to list the name of a nominated spouse on the member statement as the beneficiary.

Visit our website at www.lgsuper.com.au, where you will find a Fact Sheet with further information about Nominating Beneficiaries.

What is hedging?

The best way to understand hedging is to think of it as insurance. When people decide to hedge, they are insuring themselves against something negative that may happen in the future. This doesn't prevent a negative event from happening, but if it does and you're properly hedged, the impact of the event is reduced. It's just like insuring your house against theft, fire or damage. If any of these things happen, at least you're covered.

People investing in financial markets use hedging techniques to reduce exposure to potential risks, but it's more complicated than simply paying a premium to an insurance company. Hedging against investment risk means using financial instruments, such as forward contracts (an agreement to buy or sell at an agreed price on a fixed date), to minimise the risk of sudden downward or

upward movements in the value of the investment. In other words, investors hedge one investment by making another.

However, hedging can't help us escape the harsh reality of the trade-off between risk and return. A reduction in risk will always mean a reduction in potential profits, so hedging is not so much a technique designed to make you money, but rather reduce potential losses. If the investment you are hedging against makes money, you will most likely have made less than you may have without hedging. But if the investment loses money, your hedge, if successful, will reduce that loss.

The most common type of hedging we engage in is currency hedging. The reason for that is to reduce volatility. For example, if you invest in something like International Equities (or shares) which is a volatile asset class in the first place, and you add the uncertainty of currency movements, it can become an extremely volatile investment. Hedging moderates the ups and downs that a currency might go through and makes the investment more stable.

Hedging, of course, comes at a price and investment managers will always consider whether the potential benefits justify the expense. The thing to remember is that hedging is not about making money, it's about protecting against potential losses in more volatile investment options.

Investment performance 12 months to 30 June 2010

Retirement Scheme Contributor Financed Benefit

Strategy	%
High Growth	13.6
Growth	10.4
Balanced Growth	13.0
Balanced	12.4
Conservative	11.8
Cash	5.0

Defined Benefit Scheme

Strategy	%
Growth	10.4

All returns are shown to one decimal place. Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.

Regional office details

Lismore

81- 83 Molesworth St

Newcastle

161 King St

Orange

187 Summer St

Parramatta

Suite 3, Ground floor, 10-14 Smith St

Sydney

28 Margaret St

Wagga Wagga

Shop 2/209 Baylis St

Wollongong

Shop 2/60 Burelli St

Albury*

621 Dean St

Office hours 8.30am - 5.00pm
Monday - Friday

*Bookings are essential. Phone 1300 369 901 to make an appointment.

How have investment markets performed?



The 2009/10 financial year was a year of two halves. After a fantastic first six months where the Australian share market was up over 25%, the next six months saw it retreat back 10% to finish the year with a positive return just over 13%. Coming off the back of one of the worst financial years in history, at first glance a 13% return would appear to be reassuring, but there are underlying problems that need to be resolved if markets are going to advance from here.

Australia emerged from the global financial crisis (GFC) better than any developed nation. The Reserve Bank of Australia started to raise interest rates from as early as last October (bearing in mind that the US, UK and Europe still haven't begun). Consecutive rate rises followed with the overnight cash rate reaching 4.5% by June 2010. Further to this, unemployment continued to fall; going from a level of 5.8% in July 2009 to 5.2% in June 2010. Add to this an annual inflation rate of 2.9% and annual GDP growth at 2.7% and it is easy to see why Australia has been the envy of the world in an economic sense.

The Australian Dollar (AUD) was closely watched by traders throughout the year and displayed its capacity for volatility by peaking at around 94 US cents and falling to 81 US cents within the space of two months as investors lost confidence and became concerned about the supposedly risky nature of the AUD preferring the seemingly 'safer' US Dollar.

The US economy still looks shaky and didn't really achieve any real stability throughout the year. US unemployment rose in the first half

of the year, peaking at a rate of 10.1% before dropping down to 9.7% by June 2010. This left the Federal Reserve (the US central bank) with very little choice but to leave cash rates at close to zero for the entire year, and it indicated that this is likely to be the case for an extended period of time. Despite this stimulus, there was little in the way of inflation indicating that consumers are just not willing to spend while unemployment remains a real threat.

Like Australia, it was a financial year of two halves for world markets. The first half started where the last one left off with significant positive monthly returns for five of the first six months. Investors responded to the sell-down of the previous 18 months during the GFC, which saw shares trading at valuations that were too cheap to ignore. From January onwards, though, it was a different story as broader economic factors, such as unemployment, inflation and growth forecasts, drove markets down.

As the recovery began to falter, concerns emerged that some European nations would be unable to repay their debt obligations and might require bail-outs from the European Central Bank and the International Monetary Fund. This sparked a lot of fear in financial markets as investors were concerned about the effects that this would have on the European banking system and corporate access to credit. These fears dampened returns in the last quarter of the financial year and until they are addressed may continue to weigh on investor confidence.

Annual Reports online



Help us reduce our carbon footprint by viewing our annual report online instead. Like last year you'll be able to see the report online at our website www.lgsuper.com.au when it is released in December. If you would prefer a printed copy, please call us on 1300 369 901.

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