

The risks of going it alone

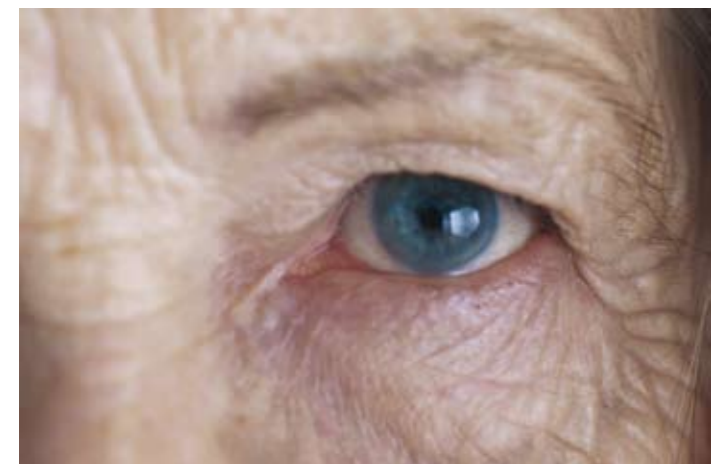
Self-managed super has been one of the fastest growing segments of the superannuation industry in recent years and now holds more than 30 per cent of Australia's super savings.

Self-managed super funds (SMSFs) have many advantages with the main one being the degree of control that they provide to the investor. They tend to appeal most to those with high super balances and who take an active interest in investment markets.

But SMSFs are not for everyone and there a few questions the ATO recommends you should ask yourself before you consider starting up your own SMSF:

1. How much time do you have?

'Self-managed' super means you have to run the fund yourself or pay someone else to do it for you. Have you got the time to keep up with what's happening in investment markets, make and implement investment decisions and cope with the administration and reporting obligations involved in running an SMSF?



2. What sort of expertise do you need?

Have you got the skills and experience to make better investment decisions than the investment professionals who follow markets and investment trends full-time? Have you got the legal and administrative experience to manage the many obligations that becoming a trustee demands?

For example, trustees of SMSFs have to submit regular income tax and regulatory returns and comply with a myriad of super and tax laws. They also have a host of legal responsibilities, including keeping proper records for 10 years, preparing an investment strategy and selecting and managing investments.

They also have to make all investment decisions in accordance with the sole purpose test which requires that investments be made to maximise retirement benefits and means that you can't lend super money to members or relatives or use investments like artworks for your immediate personal benefit.

If trustees don't comply with these statutory requirements, the Australian Taxation Office (ATO) can impose penalties ranging from fines and loss of tax concessions to imprisonment. The ATO has recently announced that it will double the number of audits and enlarge its oversight of fund auditors as it shifts its focus to compliance with the law from that of education.

3. What will it cost you?

If you haven't got the time or the expertise you can of course delegate the running of the SMSF to external providers but you will have to pay for those services.

It is often suggested that you need at least \$200,000 in super to make the costs of an SMSF worthwhile. With less than this amount, the fund may have difficulty earning enough to cover the set-up and running costs, such as auditing and regular reporting fees. According to the ATO, SMSFs can typically cost around \$2,000 to run each year and often much more. This doesn't take into account incidentals such as transaction costs.

If you outsource your administration and investment management then your expenses will rise even further and you will still, as a trustee, have to satisfy certain obligations that cannot be delegated altogether.

4. How does it really compare to your current super fund?

Anyone thinking of an SMSF should also make an assessment of the benefits they enjoy in their existing fund and consider whether they can be replicated in an SMSF. For example, could the SMSF provide life insurance at the same cost and the same terms and conditions as the previous fund? Would you be successful in qualifying for a new insurance policy with a new provider?

The same test should be applied to the other considerations already mentioned. Will the SMSF be as cost-effective? Will the extra time you'll need to devote to it be worthwhile? Are the legal and investment risks worth the trouble?

While there are many reasons why people invest in SMSFs they're not for everyone. If you'd like to talk to one of our financial planners about your options in this area, please call **1300 369 901**.

Investment performance Six months to 31 December 2010

Retirement Scheme Contributor Financed Benefit

Strategy	%
High Growth	8.5
Growth	6.6
Balanced Growth	7.2
Balanced	5.4
Conservative	4.1
Cash	3.0

Defined Benefit Scheme

Strategy	%
Defined Benefit	6.5

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.

What does a financial plan look like?

At various points in your life you will be faced with making big financial decisions, for example retrenchment, buying a house, inheriting money and retirement to name a few. Whenever you find yourself in this position you should get financial advice and that advice will often come in the form of a comprehensive financial plan. But if you've not received financial advice previously you may not know how a financial plan is constructed and what it contains and so for those members we provide an overview of what a plan looks like.

Retirement plan

Financial plans vary according to the needs of the person seeking advice. A financial plan for a young person borrowing to purchase shares will have a different structure from one for an older person leaving the workforce. In this example we will assume Peter and Jane are seeking advice about retiring. They have already completed a risk profile and 'client fact sheet' and have met with their financial planner.

A retirement financial plan has six main components:

- Description of current situation
- Needs, objectives and intentions
- Investment risk profile
- Strategy and recommendations
- Disclosure of fees
- How to proceed

Current situation

This is the starting point for any plan. It describes the applicant's personal and financial situation, existing insurance and estate planning arrangements and takes into account any employer termination payments that will be payable. A summary for Peter and Jane might look like this:

Asset description	Owner	Market Value
Residential home	Joint	\$600,000
Household contents	Joint	\$120,000
Cars	Jane	\$40,000
TOTAL		\$760,000

Investment Assets	Owner	Market Value
Local Government Accumulation Scheme - Cash	Peter	\$760,000
Australian Shares	Peter	\$12,000
Bank account	Peter	\$20,000
Local Government Accumulation Scheme - Balanced Growth	Jane	\$120,000
Bank account	Jane	\$80,000
TOTAL		\$992,000

Needs, objectives and intentions

This section summarises the short and long-term goals of Peter and Jane. Short-term goals can be things like renovating a section of the house, taking a holiday or upgrading the car.

Long-term goals relate mainly to the amount of income that this couple will need for the rest of their retirement and other investment settings. Peter and Jane would like at least \$55,000 net income per year and would like to leave their child something when they die.

Risk profile

Your risk profile describes what type of investor you are.

Peter found the global financial crisis nerve-racking and the responses he gave in the questionnaire indicate that he is a nervous investor. Jane's risk profile questionnaire suggested that she is a more aggressive investor. This difference in approach was acknowledged in the interview, discussed extensively and the 'Cash' risk profile was agreed to be the appropriate investment profile.

A Cash investor typically invests in short-term securities and is prepared to accept lower investment returns in order to protect capital despite higher returns being available. The investment strategy is always discussed in detail during the interview and any risks addressed.

Strategy and recommendations

This section recommends the most appropriate investment strategy to meet the goals and investment objectives of Peter and Jane. Here are just two examples of the sort of recommendations which may appear in this section, as there is not space to fit them all.

Withdrawal/recontribution strategy for Peter

This involves withdrawing a lump sum (\$450,000) from Peter's existing superannuation benefit and recontributing the funds back into his superannuation prior to commencing an income stream. This increases the tax-exempt component and provides estate planning advantages as this component paid to non-dependant beneficiaries are tax free.

Roll over Accumulation Scheme benefits to the Account-based Pension Plan

Account-based pensions have many advantages. They help members with eligibility for social security, they are flexible with regard to income and investment style and they offer capital growth in a tax-free environment. For these reasons it is recommended that Peter and Jane transfer their accumulation benefits to an account-based pension and nominate \$55,000, their income requirement, as the annual drawdown amount.

Illustrations

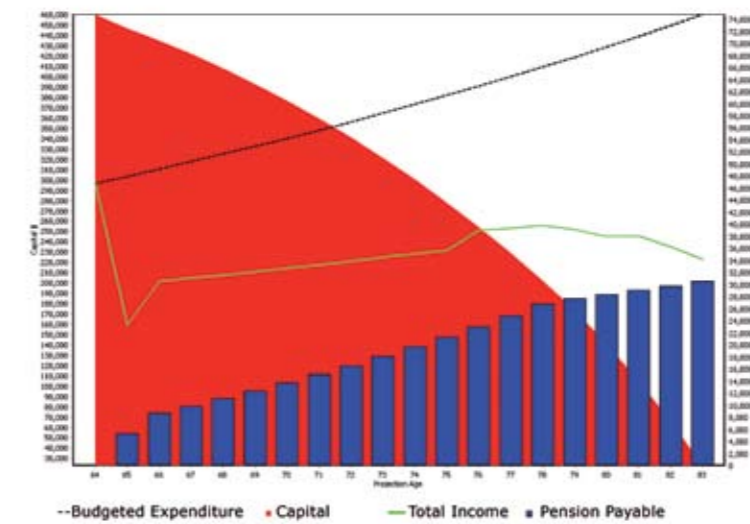
Most plans will contain graphical illustrations of how the investments are expected to perform over time based on certain assumptions.

For example, in Peter and Jane's plan there would be a 5 year projection of income and tax, an asset allocation chart showing the break-up of their investment among the various asset classes and a capital and income projection which would show how long the pension might be

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expected to last or how much capital might remain at the end of the investment period. It also shows the gap between income requirements and the capital available to meet those requirements. You can see that the old age pension becomes more significant as the couple grows older and their capital declines.

The graph below provides an example only as there is no room to go into the assumptions made to achieve these figures.



Disclosure of fees

This section outlines the fees and charges that will be payable for the recommended products and for the advice provided by the financial services provider. This is shown in a percentage and dollar format.

How to proceed

This is the final part of the financial plan. It explains in detail how to go about acting on the instructions contained in the plan. This includes all documentation requirements, an outline of the steps that will need to be taken and specifies any transactions such as bank transfers that will need to be completed for the plan to be set up.

Any plan needs to be reviewed carefully to make sure that the financial planner has understood your goals and needs correctly and has constructed the plan accordingly. If nothing needs to be changed then it's a matter of signing the authority to proceed and submitting all the necessary paperwork.

Once the plan is established it still needs to be reviewed from time to time when your circumstances or goals change or when government legislation or other factors alter the assumptions on which the plan is based.

Do you need a financial plan?

If you are thinking of retirement or have a major financial decision to make in the near future you should think about getting a financial plan. Financial decisions can seem very complicated and difficult, especially if you are unfamiliar with the financial sector and financial products. A financial plan provides a simple summary of your position, your options and what you should do to achieve your goals.

LGS has an experienced group of financial planners who can assist you with any financial planning needs you might have and this service is provided to you at no additional cost.

If you would like to consult one of our financial planners please call **1300 883 788** to make an appointment.



ME Bank

Term deposits back in vogue

Fashions have a way of repeating themselves, even, it seems in the world of Australian banking. We're not talking about a renaissance for ultra-conservative brown ties, but the humble term deposit.

If you are saving for a long term goal such as a deposit for a new home, to pay for your son or daughter's wedding, or another investment opportunity, then a Term Deposit may help you save towards your goal.

As a member of LGS, you're entitled to **bonus interest of up to 0.25% p.a.** with the Super Members Term Deposit.*

The Super Members Term Deposit provides you the peace of mind of knowing exactly what return you will receive when your investment finally matures. With a guaranteed interest rate that is locked in for the life of the term you choose, your money is protected from market fluctuation. Leaving you to simply sit back, relax and reap the full rewards.

You can open an account with a minimum deposit of \$1,000 and select your own term from between 1 month to 24 months, or select a maturity date that suits your end goal.

To view our current interest rates or for more information, visit mebank.com.au or call **13 15 63**. Apply online at mebank.com.au

* The Super Members Term Deposit interest rates are up to 0.25% p.a. higher than the interest rates for an ME Bank Standard Term Deposit. You will get the interest rate that applies to your deposit on the day your application is received. Terms and conditions available on request. This is general information only and you should consider if this product is appropriate for you. Members Equity Bank Pty Ltd. ABN 56 070 887 679.



Test your super knowledge

Answers on next page.

1. What tax rate is applied to Concessional contributions (e.g. Superannuation Guarantee, salary sacrifice)?
(a) 0% (b) 30% (c) 15% (d) 46.5%
2. At what age do you have to withdraw funds from super?
(a) 65 (b) Never (c) 75 (d) 90
3. If you exceed the Concessional cap what additional rate of tax applies to your contributions?
(a) 15% (b) 46.5% (c) 92% (d) 31.5%

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Simply call Accor Reservations on **1300 65 65 65** and quote company Accor ID Code **SC754685196**.

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- Enter City, Country or Hotel code.
- Enter arrival/departure dates.
- Click "OK" and continue on with booking.

Important note: When checking in, you will need to present your Fair Go membership card.

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 pre-retirement seminar. To view our full calendar of forthcoming seminars, visit www.lgsuper.com.au/Seminars/seminarcalendar.asp

We can help you with more than just your super



- Would you like to build an investment portfolio? **We can help you.**
- Need financial advice? **We can help you.**
- Looking to maximise your Centrelink and other Government entitlements? **We can help you.**

Call 1300 369 901 for more information.

quickquiz answers (p) 3 (b) 2 (c) 1

What's happened in investment markets?

The December half-year period produced very good returns for investors. The Australian share market was outstanding, while international share market returns were held back by the rising \$A. Fixed income markets were more restrained, as bond yields had started to rise by the end of the period. The property markets have produced moderate returns, with capital values steady. The outlook for the global economy has strengthened considerably over the period, even in the US and Europe. This has propelled commodity prices and the resources stocks but has also resulted in a sell-off in the bond markets.

The Reserve Bank of Australia (RBA) increased official interest rates once in the half-year when it hiked the rate 0.25% at the start of November. The RBA is concerned that inflation could start to become a problem due to the reasonably low 5.2% unemployment rate and the resources boom. This rise was the seventh increase in rates since the RBA began raising rates in October 2009. Official interest rate moves are important because they usually flow on to general interest rates. The standard variable housing loan rate actually rose by more than the RBA cash rate, bringing political pressure onto the banks. The Australian dollar increased in value strongly over the half year to December, breaking through parity with the \$US and reaching the highest level against the \$US since 1982.

The \$A has appreciated by 58% against the \$US since the low point in January 2009 and has also gone up against all other major currencies. One factor driving this advance is the current boom in commodity prices. The RBA's Commodity Price Index rose by 8% in average currency terms over the half, thanks to iron ore and coal export prices.

Chinese monetary policy was tightened in reaction to creeping inflation problems and strong house price growth. The main policy move was a requirement for the banks to hold more reserves, in an attempt to slow down lending. Interest rates have been on hold but more action may be required in 2011.

In a reaction to the persistently high US unemployment rate, the US Federal Reserve launched a second round of quantitative easing, whereby the central bank creates money to buy securities from the market. This has the effect of keeping interest rates low and is designed to stimulate the economy. Also, the temporary tax cuts for US individuals were extended. Business indicators suggest that industrial activity was already starting to recover.

Europe has been handicapped by the debt problems of some of the smaller nations. Some of the Irish banks faced liquidity problems caused by bad loans and they needed the support of the government. The IMF and the European Union agreed to help fund a bailout program of 85 billion euros. The concern is now whether Portugal and Spain will also get caught in the financial crisis.

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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 shares

The Australian stock market rose by 12.8%* in the second half of 2010 with four positive months out of six as the market was buoyed by a gradually improving economic backdrop and encouraging corporate profits.

Additionally, the continued demand for raw materials out of China gave the Australian miners a boost with record-high commodity prices and proposed sales volumes increasing.

* as measured by the S&P/ASX 200 Accumulation Index.

International shares

International stock markets rose by 19.0%* over the six months on a hedged basis. Like the domestic stock market, investors were encouraged by improving economic data and improved profit outlooks.

A further driver was the extremely low interest rates throughout much of the developed world, which enticed investors out of fixed interest markets and into riskier assets like equities in order to chase returns.

* as measured by the MSCI World ex-Australia Accumulation Index (Hedged).

Fixed interest and cash

With only Australia offering any kind of return on fixed interest investors, the majority of investors steered clear of bonds in favour of riskier assets and this led to very subdued returns in global fixed interest markets.

Australian bonds returned 0.6%* over the six months – the lowest 6-month return since October 2009. Meanwhile, global bonds returned 2.2%***, marginally higher than domestic returns, as the Federal Reserve (the US central bank) announced that interest rates would be left at emergency level for an extended period, which had the effect of pushing the capital value of bonds higher.

Australian cash investments produced an improved return of 2.5%^^ following the recent interest rate rises.

*as measured by the UBS Australian Government Bond Index.

**as measured by the Barclays Capital based Aggregate Index - \$A hedged.

^^as measured by the UBS Australian Bank Bill.

should seek professional advice that takes account of investment objectives, financial situation, and particular needs before making a decision in relation to any of the matters covered in this document. For more information about Local Government Super, contact Member Services on 1300 369 901 or go to www.lgsuper.com.au to obtain a copy of the relevant Product Disclosure Statement pertaining to your membership.

If you have any questions, feel free to contact Member Services on 1300 369 901 or visit www.lgsuper.com.au

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YOUR FUTURE



LOCAL GOVERNMENT SUPER
SUPERANNUATION SCHEME

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

Six months to 31 December 2010

Message from Peter Lambert, CEO

Taking control of our future



Over the next few years we are likely to see a lot of changes to superannuation in this country and all industry and retail super funds will be affected in some way or another.

So it's essential that Local Government Super be in the best position possible to take advantage of any reforms and continue to provide you with the best products, advice and service that we can offer.

That's why we at Local Government Super have made a few changes.

We've sold our stake in FuturePlus who until recently provided Local Government Super with administration and member services. FuturePlus will continue to provide administration services to Local Government Super but we will now directly undertake a range of member activities. In particular we have in-sourced client relationship and financial planning services and this means we can sharpen our focus to better meet the specific needs of people working in local government across NSW.

But of course, providing you with strong long-term returns on your super will always be our number one priority.

While investment markets have been performing well for some time now, fears about European debt and the weak US economy continue to dampen the global economic recovery.

We remain cautiously optimistic, but there may still be a way to go before we return to strong economic growth.

Our commitment to sustainable investing

Local Government Super (LGS) has for more than ten years displayed a commitment to sustainable and responsible investing and has used several programs to achieve our goals in this area. We take environmental, social and corporate governance (ESG) issues into account when choosing fund managers and run a socially responsible overlay which excludes companies such as tobacco, armaments and gambling which have a high ESG risk. We have also adopted an environmental policy designed to increase energy and water efficiencies in the properties we own directly throughout NSW.

LGS has adopted an environmentally responsible and sustainable approach to investing not only because it is good for the environment but also because it is good for investment returns. One of the primary aims of the LGS Trustee is to make sure it achieves the best possible returns for members and we believe that taking consideration of the ESG risks of the companies in which we invest enhances our ability to achieve that goal. The BP oil spill in the Gulf of Mexico last year is only one example of the consequences of ignoring them. Not only did it create environmental havoc and economic misery for the Gulf communities, it also halved BP's share price and left it with an uncertain future.

In order to promote our activities in this area LGS has appointed Bill Hartnett as our first Sustainability Manager. Bill has over ten years experience in developing environmentally and socially responsible investment strategies for financial institutions and he

will help our investment team to monitor our existing sustainable investment programs and develop new ones.

For example, we will expand our work on identifying sectors and companies with a high ESG risk and developing policies to deal with them to minimise our exposure to the negative consequences of events such as the BP oil spill.

We will also be exploring new investments (both companies and asset classes) that meet our environmental, social and governance criteria and our performance criteria so that we can consider what represents an attractive investment opportunity.

As mentioned earlier we run a Socially Responsible Investment overlay on our Australian share portfolio to minimise exposure to companies that do not meet our ESG standards and in 2011 we are going to extend this to our international share portfolio.

Finally, LGS will become more active in exercising its voting rights as a shareholder in Australian and internationally listed companies. This will cover a range of issues including excessive executive remuneration.

Local Government Super has a track record of investing in an environmentally and socially responsible way and at the same time providing members with strong, long-term returns and we believe that these two factors are mutually dependent. The best way to achieve strong long-term returns is to ensure that the companies we invest in are prepared for the risks that the future may hold.

For more information on our commitment to sustainable and responsible investing, please visit www.lgsuper.com.au

Office details are:

- Newcastle** 161 King St
From 1 March 2011 the Newcastle office address will be:
Suite 2/76 Park Avenue, Kotara, 2289
- Sydney** 28 Margaret St
- Wollongong** Shop 2/60 Burelli St
- Office hours** 8.30am - 5.00pm Monday - Friday

Offices in Lismore, Orange, Parramatta and Wagga Wagga are available on an appointment only basis.
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