

Your Financial Future



Local Government Super



September quarter 2010

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Welcome to the September quarter 2010 edition of Your Financial Future.

In this issue, Craig Turnbull, the Chief Investment Officer at LGS, outlines the changes being made to the LGS investment strategies.

Other features include a strategy to maintain eligibility for the transitional caps, the real cost of financial plans and why the conservative and aggressive strategies produced similar returns in the last financial year.

As usual, we include an offer from the Fair Go Member Benefits program, information about the new rates for the ME Bank First Home Saver Account and we update you on how the different asset classes and investment markets have performed in the past quarter.

Changes to the investment strategies

The Trustee constantly monitors and reviews investment performance to ensure that its investment approach is achieving the best possible returns with the lowest level of risk. To this end we make changes from time to time to the types of assets we choose to invest in as well as the level of exposure we have to the various asset classes in response to changing circumstances.

As a result of the latest review the Trustee has decided to establish a new asset class called Defensive Illiquids. Investments in this area would target low risk assets that produce high returns such as infrastructure, royalties, timber and some forms of debt such as property-related debt.

I would emphasise that this is intended to be a low risk, defensive asset class and is designed to improve the diversification of our overall portfolio and make the returns from our investment strategies more stable.

Liquidity refers to the relative ease with which an asset can be sold at a reasonable price. Some assets such as shares are highly liquid while others such as property take a longer time to sell and are therefore more "illiquid". Many investors became nervous about illiquid investments during the global financial crisis because it became very difficult to get out of those investments at a reasonable price.

All the LGS investment strategies are highly liquid and their exposure to illiquid investments is well below the target levels. While the new asset class, Defensive Illiquids, will form part of this position it will not have a material impact on the flexibility of the overall portfolio. It will in fact reduce the risk profile of the investment strategies by increasing diversification, giving members access to a greater range of stable investments than was previously available.

The exposure of the investment strategies to Defensive Illiquids will be small, ranging from 1% in High Growth to 5% in the Conservative strategy. It will be higher in the more conservative strategies as it is a defensive and stable asset class.

The introduction of this new asset class will also have a minor impact on the asset allocation ranges of some of the other asset sectors. For further details about this and to see the current asset sector composition of the investment strategies please go to the Performance section of [our website](#).

Investment returns

[Click here](#) for information about the latest returns.



Craig Turnbull,
Chief Investment Officer

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We can help you.
- Would you like to build an investment portfolio?
We can help you.
- Need insurance? We can help you.

Call 1300 883 788 for more information.

Investment commentary

[Click here](#) for commentary on how investment markets performed over the September quarter 2010.

Making the most of transitional caps

At the moment there is a cap on Concessional contributions (for example SG, salary sacrifice and Award) of \$25,000 per annum. Contributions which exceed the cap are taxed at 31.5% in addition to the 15% contributions tax.

There is a transitional Concessional contributions cap for members aged 50 and over or who turn 50 before the end of the 2011/12 financial year of \$50,000 per annum. This transitional cap was due to expire 1 July 2012 but the Government in the May Federal Budget announced that this transitional cap will be extended beyond 2012 for those over 50 who have a superannuation account balance of less than \$500,000.

This has not yet become law and questions remain about exactly how the \$500,000 threshold will apply but if we assume that it will proceed it has implications for member contribution strategies.

For those who want to contribute as much as they can as they approach retirement it is clearly beneficial to retain the higher \$50,000 threshold if possible. One method of doing this is to keep your account balance below \$500,000 by splitting contributions with your spouse.

Contribution splitting has been available for some time and was established to allow a more equitable division of super between spouses. It is sometimes recommended as a means of paying for a spouse's insurance policy with salary sacrifice (or pre-tax) dollars when that would otherwise not be possible.

It might now also help members restrict growth in their account balances so that they continue to qualify for the higher transitional \$50,000 cap.

Case study

Martin is 48 and is trying to put as much as he can into super before retirement. He is currently salary sacrificing \$15,000 per annum and would like to contribute more while his employer contributions are \$9,000. This takes him close to the Concessional contributions cap of \$25,000. His account balance is \$320,000.

Cathy, his wife, has only recently returned to the workforce after raising a family and has a super balance of only \$60,000.

If Martin continues to make contributions at this rate, and if we assume annual earnings of 5%, his account balance will reach \$500,000 within five years at which point he would lose the ability to contribute at the higher \$50,000 threshold.

If instead he splits all his salary sacrifice and employer contributions with his wife then his account would only grow with investment returns, keeping it under the \$500,000 threshold longer.

Once he turns 50 he can increase his contributions as he qualifies for the higher threshold but he can keep splitting the contributions to his spouse's account.

It is important to remember that this strategy is based on the assumption that the transitional cap is extended in this way.

Although this measure is designed to commence from 1 July 2012, forward planning will be important for members who are approaching \$400,000 in superannuation and will most likely reach \$500,000 by 2012.

If you would like further information about contribution splitting please contact Member Services on **1300 369 901** and ask for a Contribution Splitting Fact Sheet.

Whether this strategy is suitable for you depends very much on your personal circumstances and goals. When making decisions of this kind it's always good to discuss your options with a professional financial planner. If you would like to explore this topic further with one of our financial planners, please contact us on **1300 883 788** for assistance. Remember that any advice we provide is at no additional cost to you.

How much does a financial plan cost?

Every time you see one of our financial planners you do so at no direct cost to yourself. But if you did have to pay to see a financial planner how much would it cost?

It's difficult to place an exact cost on the preparation of a financial plan. It can vary depending on the size of the financial planning company, the complexity of the plan and the types of investments recommended, to name just a few factors.

However, the Financial Planning Association of Australia has conducted research in this area to attempt to determine the average cost of drawing up a complex plan across the financial planning industry. It calculates that, on average, an initial complex plan would cost around \$3,600. Business Health, a financial services research company, has estimated that the average cost of reviewing an existing plan is roughly \$2,500.

Based on these figures, if you had a financial plan drawn up, accepted its recommendations and then had an annual review in the first five years the average direct cost to you would be \$13,600.

The research also indicates that nearly half of those surveyed think that \$500 is about the right price for a financial plan while a quarter thought that \$1,500 was the limit for a reasonably priced plan. The respondents felt that any price beyond those limits would discourage them from paying for financial planning advice.

That is why Local Government Super has adopted a model which provides additional services to members throughout their working lives and in retirement at no additional cost and without the discouragement of an upfront fee.

So make the most of it! Remember that all the additional services we provide are designed to make your preparations for retirement easier.

If you would like to speak to a financial planner or you would like to review an existing financial plan please call **1300 883 788**.

The risks of DIY Super

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

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 the following are some considerations that anyone thinking of adopting an SMSF should reflect on:

1. Time

'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. Expertise

Have you got the skills and experience to make better investment decisions than the investment professionals who follow markets full-time and investment trends? 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, knowing their fund's investment strategy and ensuring their Trust Deed is current.

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 rules, the Australian Taxation Office (ATO) can impose penalties ranging from fines and loss of tax concessions to imprisonment. If a fund loses its compliant status, half the assets in the fund can be forfeited. 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 are the costs?

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. Make a comparison

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 cheap? 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, call please call **1300 883 788**.

Frequently asked questions

In the last financial year, why was the Conservative strategy return so close to that of Balanced Growth?

A number of members have questioned why the returns of the aggressive strategies (High Growth and Balanced Growth) were so close to the more conservative ones (Balanced and Conservative) in the last financial year.

The answer in short is twofold - the relatively strong performance of fixed interest or bond type investments and timing - but to explain this more fully it is necessary to provide a little background.

All the investment strategies have an investment objective for a specified investment timeframe. For example, High Growth has an objective of 3.5% net return above the "cash" rate (whose benchmark is the UBS bank bill index) over a rolling nine year period. In contrast, the investment objective for the Conservative strategy is 1% above the cash rate over a rolling three year period.

Another difference between strategies is the volatility or risk of short-term upward and downward movements in the value of the investment. For instance, volatility is much higher in a strategy like High Growth than the Conservative strategy. This can be summarised by the investment motto "The higher the return the higher the risk".

You would expect therefore that over time High Growth would outperform the more conservative strategies. However, its volatile nature means that taking a snapshot at one particular moment can produce irregular results. For example, the High Growth return for the financial year was 14.6% but if the financial year had ended three months earlier i.e. the 12 months to 31 March 2010, its return would have been 30.8%.

In other words, when assessing the relative performance of investment strategies you need to take their character into account. Snapshots of a strategy like High Growth with its nine year investment timeframe could produce wildly differing and misleading results while a stable strategy like Cash is meant to be judged over the short term as that is its benchmark.

Timing however is not the only explanation for the close relative performance of the aggressive and conservative strategies in the last financial year.

In the first half of the last financial year share markets around the world recovered from their lows reached during the global financial crisis while they were flat in the second half as worries about debt and the strength of the recovery repressed investor confidence. It was the reverse for bonds and fixed interest investments; while shares performed strongly they struggled but when the mood became more defensive in the second half of the year they rebounded, producing a relatively strong return for the financial year.



LGS wins another Green award

Local Government Super was recently selected as the winner of the 2010 Australian Business Award for Environmental Sustainability in its industry. The awards are open to all Australian companies and organisations both private and public. Winners of this prize have to display a commitment to the enhancement, preservation and protection of the environment.

LGS has a longstanding commitment to sustainable and environmentally responsible investing and this award is further recognition of its achievements and leadership in this field.



For further information about this please [click here](#).



ME Bank's First Home Saver Accounts
offer even more value



Recent changes to the First Home Saver Accounts make saving with ME Bank even more appealing.

The Federal Government has increased the Account Balance Cap and Contribution Threshold on First Home Saver

Accounts in line with Average Weekly Earnings as it promised when the savings product was first introduced in October 2008.

The First Home Saver Account "Account Balance Cap" and "Contribution Threshold" were raised effective from 1 July 2010.

	Old	New (effective 1 July 2010)
Account balance cap	\$75,000	\$80,000
Contribution threshold	\$5,000	\$5,500
Maximum government contribution (remains at 17% p.a.)	\$850	\$935

The Contribution Threshold is defined as the amount that a First Home Saver Account customer can put into the account in a financial year that will receive the additional 17% p.a. Government contribution.

You can currently earn a high 6.25% p.a. interest rate on every dollar you deposit in an ME Bank First Home Saver Account. There is no account keeping fee. Contributions are tax free, while investment earnings (or interest) are taxed at the concessional rate of 15%; not your marginal tax rate.

ME Bank was formed to provide great value in financial services to members. As a member of Local Government Super, you too have access to ME Bank's range of award winning banking products and in some cases at a discounted rate.

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

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.

Terms, conditions, fees and charges apply. Applications for credit are subject to approval. This information does not take into account your personal objectives, financial situation or needs 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.

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Gym Passport holders have access to a wide variety of health clubs and facilities including climbing gyms, swimming pools, squash courts, tennis courts, yoga and Pilates studios, martial arts, dance studios, outdoor training and more.

Check out the Gym Alliance website www.gymalliance.com to find out more or our

[Gym Locator](#) to find your nearest club.

FAIR GO MEMBER OFFER:

10% off any Gym Passport membership- paid monthly

Joining Fee of \$59.95 waived

Promotion Code: FAIRGO

Passport	Cost Per Week	10% Discount
Bronze	Was \$17.00	Now \$15.30
Silver	Was \$19.00	Now \$17.10
Gold	Was \$21.00	Now \$18.90

Diamond Was \$25.00 Now \$22.50

Gold Gym Passport - Paid in Advance

Joining Fee of \$59.95 waived

These options are ideal for those who do not like to direct debit - or - are looking for additional savings on membership fees.

Term	Cost	% Saving	Promotion Code
3 Months	\$232.00	15%	FAIRGO3Month
6 Months	\$435.00	20%	FAIRGO6Month
12 Months	\$819.00	25%	FAIRGO12Month

PURCHASE METHOD:

1. 'Try for Free': Sign up online to activate your free 5 day Trial gym Passport.
2. 'Join Now': Sign up online, entering the promotional code "**FAIRGO or as above**" in step 2.
3. Visit any gym /club in the Gym Alliance Network using your fingerprint or registered email address to gain access.

PLEASE NOTE: Gym Passport is ONLY available by signing up on line with Gym Alliance www.gymalliance.com

Corporate offers are not available from any Alliance Partner clubs.

Come along to a seminar

Would you like to know more about investment options and risk and return? Are you wondering whether you will have enough money to retire on?

You could get the answers to these questions, and more, by attending one of the free pre-retirement planning seminars we are running at a venue close to you. To find out more, [click here](#) or contact Member Services on 1300 369 901.

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