

in TOUCH

June quarter 2011

Our commitment to improving our services

At Local Government Super we're committed to improving our service to members and there are a number of things to look forward to in the new financial year.

We are pleased to announce that the success of last year's retired member forums held in Newcastle and Wollongong has prompted us to expand this year's schedule. This means a greater number of forums will be held right throughout regional New South Wales during August and September. Further information on dates and locations will be sent to members shortly.

One of the topics to be discussed at the forums will be the announcement of a new fixed interest investment option which is planned to be introduced later this year. This investment option will offer members the security of a term deposit while retaining the tax advantage of a superannuation investment.

In the second half of this year Account-Based Pension members can also look forward to the introduction of new investment options that will offer you the freedom to create your own investment mix between different asset classes.

Keep an eye out for further information from LGS on these exciting introductions and more.

Welcome. In this issue of inTOUCH you will find information on:

- The use of CPI as an investment benchmark
- Maximising Centrelink benefits
- Longevity risk
- Changes to nominating beneficiaries
- Online investment switches

Sustainability tip

To beat the cold this winter, make sure you shut windows and doors and close curtains when the heater is on, especially at night time. An uncovered window can lose ten times as much heat as the same area of insulated wall.

(Source: NSW Government)



Living longer is a good thing, right?

Today, the average 60 year old man can expect to live another 23 years, and when the average Australian woman turns 60, she can expect to be around for another 26 years.

This is a good thing, right? Well it is if your retirement savings don't run out.

The risk that your super will not last the distance is what's called 'longevity risk' and while we can't turn back the clock there still are a number of things you can do to minimise this risk.

Let's meet Janice ...

Janice

- 61 years old
- Single
- Retired for two years
- \$220,000 in an account-based pension



Janice is in good health and can expect to live for another 25 years, and even though she is very good at sticking to her budget, her pension may only last another ten years at the rate she is currently drawing it down.

So what sort of things could Janice do to reduce her longevity risk?

Take up some part-time work

Going back to work will not appeal to everyone but it can be good for your finances and your wellbeing.

While some of us are happy to just potter around the house, others may still want to travel and take up some new activities but these things can be a drain on your retirement savings.

Working part-time is certainly an option for Janice as it would allow her to do more while she's still active and draw down less from her pension in the early years.

Janice has always enjoyed the social interaction of the workplace and a part-time job would provide an opportunity for her to share her knowledge and experience.

Review investment options

Many retirees choose a conservative investment option for their account-based pension to protect their investment but this can mean lower returns and a greater risk of depleting their retirement savings in the longer term.

Janice is still in the early years of her retirement so she can afford to put some of her pension into an option which offers higher investment returns and capital growth over the medium to long term.

Janice could talk with her financial planner and work out an investment mix which would offer strong long-term returns without keeping her awake at night worrying about the risk.

Downsize the home

The family home may hold a lot of memories but the cost of maintaining a house that is just too big can really eat into your retirement income.

Janice still lives in a three-bedroom home and one way to free up more money would be to downsize to a smaller home or a unit and use the money from the sale to supplement her retirement income.

Living in a smaller home may also reduce a variety of costs including energy bills, maintenance costs and insurance premiums and these savings would provide Janice with more disposable income.

These are just some of the options which would help Janice live longer and really make the most of it.

Of course everyone has different retirement expectations but if you'd like to explore what options may be available to you, just have a chat with your financial planner.

Minimum draw downs for account-based pensions

If you have an Account-Based Pension, your age on 1 July each year determines the minimum amount you must draw down as a pension payment for that year.

Following the Global Financial Crisis, in 2009 the Government introduced a draw down relief which reduced the amount you had to compulsorily withdraw in a year.

In the current 2011/12 financial year, this draw down relief continues at a reduced level, however it will be phased out completely in the following financial year.

The following table summarises the minimum draw down requirements for the 2011/12 financial year.

Age on 1 July 2011	Standard minimum draw down percentage	Reduced minimum draw down percentage for the 2011/2012 financial year
Under 65	4%	3%
65 to 74	5%	3.75%
75 to 79	6%	4.5%
80 to 84	7%	5.25%
85 to 89	9%	6.75%
90 to 94	11%	8.25%
95 +	14%	10.5%

For example, Mary is 66 on 1 July 2011 and has an account balance of \$200,000. She elects to withdraw the minimum pension for the year, which would normally be an annual amount of \$10,000. As Mary has elected the minimum amount, these changes mean that Mary is only required to withdraw \$7,500 for the 2011/12 financial year.

It's important to note that this only applies to the minimum amount, so you are still able to draw down a higher amount of pension payments if you'd like to.

It is also possible that a change to your draw down amount could affect your Age Pension entitlements, so if you have an Account-Based Pension and you're not sure about the best way to manage your pension draw downs, you should talk with your financial planner.



Is your investment strategy right for your needs?

Not sure?

Might be a good time to review your financial plan to make sure you maximise your long-term investment returns.

Just call us on 1300 369 901 to make an appointment with one of our financial planners.

Nominating your beneficiaries

Up until recently, you could only nominate your legal personal representative (the executor of your will or administrator of your estate) to receive your super benefit in the event of your death, but we've changed our rules so you now have more options.

You can now choose to nominate your estate and/ or any number of your dependants, and you can specify what proportion of your super benefit you would like paid to each of your beneficiaries. Making a binding nomination means that you have the final say, so you can ensure that your super is paid as you want, after your death.

Why would I nominate a beneficiary?

Nominating a beneficiary is optional, but if you have not made a nomination, in the event of your death the Trustee will decide who your benefit is paid to. The Trustee must assess all claims made against your account and will pay your benefit to your legal personal representative and/or dependant(s).

If you haven't left any instructions by making a binding nomination, your benefit may not be distributed in accordance with your wishes. For this reason it's a good idea to consider nominating and regularly reviewing your beneficiaries.

How do you make a binding nomination?

To make a binding nomination, just go to the Forms section on our website at www.lgsuper.com.au, complete the Binding Nomination form and send the original to us by post.

We understand that your circumstances may change, so your binding nomination will remain valid for three years, after which we'll remind you that it's coming up for renewal.

Nominating a beneficiary is optional, but making a binding nomination means you can decide exactly who you want to receive your super benefit.

If you already have a nomination in place and would like to update it, you can simply complete a new Binding Nomination form.

Online investment switching

An upcoming enhancement to the member login area of our website means you will shortly be able to change your investment strategy online.

If you have an Account Based Pension, you will also be able to elect which investment strategy or strategies you would like to draw down your pension payments from.

To change your investment strategy, you will need to login to the secure section of the website. So if you haven't previously registered for access or if you have misplaced your login details, visit the Log in page at www.lgsuper.com.au for further instructions.

Switching investment options may not be for everyone.

Your current investment strategy may be suitable for your situation so it's important that you take the time to consider whether switching options is appropriate for you.

Our online Risk Profile calculator can help you with this process by assessing your risk and investment tolerances and suggesting an investment strategy that may be appropriate for you. You can access the Risk Profile calculator under the Tools menu on our homepage.

Of course, if you're still unsure about the investment strategy appropriate for you and your circumstances, you should seek professional financial advice. As a member of Local Government Super, this service is available to you at no additional cost. Just call **1300 369 901** to find out more.



Ask a planner

I've heard that I can put my superannuation in my spouse's name and in doing so I can receive a higher Age Pension from the government. Is this true and how can I go about it?

Yes, this strategy can work for some couples, however there are a few factors that will determine if it is possible.

There are two tests applied to assess your Age Pension eligibility, an 'Income' Test and an 'Assets' Test. Whichever test produces a lower rate of pension is the test that will be applied to determine your entitlements.

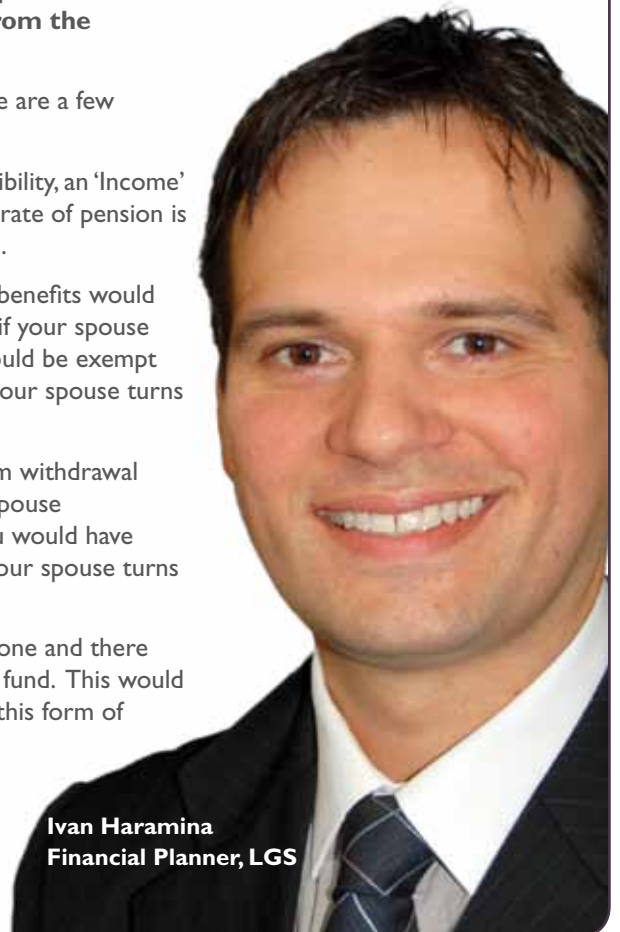
Assuming that the Assets Test is applied to you, your super benefits would normally be assessed as an asset under this test. However, if your spouse is under Age Pension age* their superannuation benefits would be exempt from your assessment under Centrelink's Assets Test until your spouse turns Age Pension age themselves.

Implementing this strategy would involve making a lump sum withdrawal from your super fund and re-contributing this money as a spouse contribution into your spouse's super fund. In doing so, you would have protected your super from assessment, until such time as your spouse turns Age Pension age.

It's important to note that this strategy does not suit everyone and there are limits to how much an individual can add to their super fund. This would need to be considered carefully at the time of looking into this form of sheltering strategy.

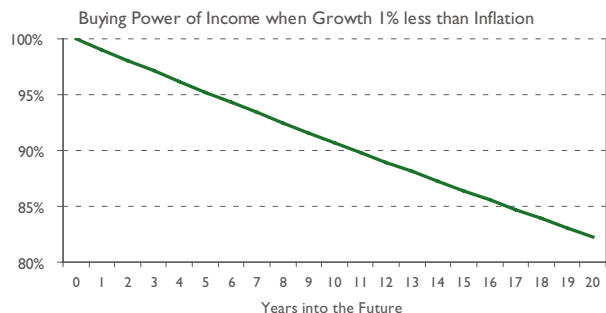
To find out more about maximising Centrelink and other government benefits, contact your LGS financial planner on **1300 369 901**.

*Currently age 65 for men and between ages 60-65 for women, depending on their date of birth.



Ivan Haramina
Financial Planner, LGS

The Consumer Price Index as a benchmark



When you measure the performance of any investment, you need to work out how it has performed in real terms. For example, if a term deposit earns a return of 6% per annum and over the same period the inflation rate is 4%, then the real return on that investment is 2%.

Up until recently the benchmark LGS used to measure the performance of our investment strategies was the cash rate, but on 1 July we changed this to the Consumer Price Index (CPI) for each of our investment strategies except 'Cash'.

While both the cash rate and CPI can be used as a benchmark, there is a distinct difference between the two.

Generally speaking, the cash rate is an artificial rate used as the basis for setting interest rates, such as deposit rates and mortgage rates. In contrast, CPI is used to measure inflation, which is a change in the purchasing power of your money over a period of time, when compared to a representative 'basket of goods and services'.

For example, the same 'basket of goods and services' valued at \$100 in the year 2000 would have cost you \$134.42 in 2010*, a total increase of 34.4% over a ten year period.

If this was your super investment, you would have needed to earn at least 34.4% over that same period, just for your money to keep up with inflation. To achieve strong long-term returns on any investment you need to achieve real returns in excess of inflation, otherwise inflation will start to eat into your investment.

So why have we made the change?

We have made this change as we believe that using CPI as a benchmark provides a truer picture of how your super investment is performing and better describes the long-term objective to provide you with sufficient super for a comfortable retirement.

It's important for your super to grow at a rate at least equal to inflation to avoid a decrease in the future purchasing power of your money. For example, if you were to retire today and your retirement income grew at a rate that was only 1% less than the rate of inflation, in 20 years time your benefit would only have 82% of the purchasing power it has today.

That means instead of being able to put 40 litres of petrol in your car, you would only be able to purchase 32.8 litres.

What this will mean for your super investment

Our aim is to achieve investment returns which exceed inflation and we aim to achieve this by making sure we have exposure to investments that have income linked to inflation, including shares, direct property, infrastructure and inflation linked bonds.

LGS is focused on achieving investment returns that are greater than inflation and we believe that CPI is a realistic benchmark that is more relevant to the future value of your funds

(*Source: RBA inflation calculator)

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What's happened in investment markets?

In the June quarter, share markets both in Australia and overseas fell on the back of a weaker outlook for global growth and the ongoing debt problems in Europe.

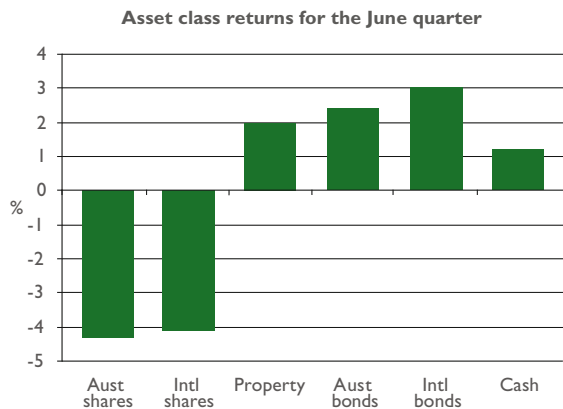
The Australian share market fell by 4% over the quarter as commodity prices softened following signs of slower growth in economies such as China and India. Smaller listed companies fell the most after a period of strong returns in the past year.

International shares fell at about the same rate after taking into account the appreciating Australian dollar, which rose over the quarter from US\$1.03 to US\$1.07. The biggest falls for the quarter were on the share markets in the emerging economies, such as India and China.

These share market falls resulted in a small negative return for Local Government Super's High Growth and Balanced Growth investment options which have a high exposure to both Australian and international shares.

Over the same period, bond markets rallied. Australian bond yields fell by 0.25% in the June quarter, resulting in a 2.4% return for normal bonds and a 3.9% return for inflation linked bonds. Bond investments have good returns when interest rates fall and with interest rates falling overseas, international bonds also produced good returns.

Australian 10 year Government bond yields fell down towards 5% to finish closer to the cash rate.



The Reserve Bank of Australia (RBA) left official interest rates unchanged over the quarter, steady at 4.75%. The RBA has noted that inflation has risen in the last year, but they put it down to temporary weather factors, such as the Queensland floods earlier in the year, and expect inflation to be close to the target for the next year.

The strong performance of bond markets resulted in positive returns for our defensive investment options, such as Conservative, which feature greater exposure to income-producing assets such as bonds.

Direct property had a steady gain of around 2%, which mostly reflects property income, as capital values have been stable. Global listed property also had a small positive return when the associated currency exposure was fully hedged.



We're not just talking about climate change...

Over the last few years there's been a lot of talk about climate change but most people would agree there has been very little in the way of action.

In fact, a recent survey conducted by the Climate Institute and the Australian Institute of Superannuation Trustees found that while over a third of super funds recognise the impact of climate change, only 11% of them have a strategy to measure and manage the risks of climate change.

The survey results also confirmed that Local Government Super is an industry leader in this field and for the second year in a row we've been named the best super fund when it comes to the management of climate change risks.

By leading the way on climate change and responsible investment, our aim is to achieve long-term sustainable returns for all our members.



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