

# your FUTURE

Six months ending  
31 December 2011



**Peter Lambert**  
CEO

Welcome to your interim member statement and Your Future newsletter for the six months to 31 December 2011.

I'm pleased to announce that our commitment to sustainable investment practices has again been recognised, with LGS receiving *Money* magazine's Best Green Super Fund award in early December.

In the coming months LGS will start to offer contributory members of the Retirement Scheme a 'Transition to Retirement' pension option, which gives eligible members the opportunity to increase their retirement investment or reduce their working hours, without cutting back their current lifestyle. Further information can be found in this newsletter.

After achieving solid returns across all of our investment options in the 2011 financial year, the continued volatility of global investment markets has resulted in a number of our options providing a negative return for the first six months of this financial year.

It's important to remember that in volatile investment markets there is always the temptation to switch your investment to a more conservative option, though it pays to be aware of the implications of investment switching to minimise the risk of cementing losses. It's not always a straightforward decision to make, so if you're thinking of switching your investment option, you should consider talking with your financial planner first to make sure you're making the right decision for your investment.

## What a carbon price means for you

From 1 July 2012 the Australian Government will introduce a carbon price aimed at cutting pollution in Australia and driving investment in cleaner energy sources, such as solar, gas and wind.

### What this means for you

A carbon price is not a tax on households, it will be paid by Australia's biggest carbon polluters, but the Government recognises that some businesses will pass on the carbon price, leading to a modest increase in prices and your cost of living.

The Government aims to ensure that households are no worse off and will provide assistance in managing these increased costs.

### So what assistance will you receive?

It's expected that average household expenditure will go up by around \$9.90 a week and on average, households will receive \$10.10 per week in assistance. The assistance you receive will be in the form of:

#### Lump sum payments:

- Family Tax Benefit Part A recipients will get up to an extra \$110 per child per year
- Eligible families will get up to an extra \$69 in Family Tax Benefit Part B per year
- Single income families where the primary income earner has taxable income between \$68,000 and \$150,000 will also receive a new supplement payment of up to \$300 per year.

#### Tax cuts:

- From 1 July 2012, taxpayers with incomes up to \$80,000 will receive a tax cut, with most receiving at least \$300 per year
- Further tax cuts in 2015 and an increase in the tax-free threshold to \$19,400 mean tax payers with incomes below \$80,000 will receive a tax cut of up to \$385.

There will also be a range of benefits for allowance recipients, carers and pensioners. For full details, visit [www.cleanenergyfuture.gov.au](http://www.cleanenergyfuture.gov.au)

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## Inflation, interest rates and your retirement savings

The performance of the share market can affect the returns on your retirement savings but there are other factors, such as inflation and interest rates, which can also have an impact on your investments and your retirement savings.

### Our inflation rate is now falling

In October 2011, the Australian Bureau of Statistics (ABS) released a better than expected annual inflation rate of 3.5%. While this figure reflects overall price movements, economists focus more on the 'core' or 'underlying' inflation rate, which was only 2.3% for the year to September.

The core rate of inflation is calculated by removing any sharp price movements caused by one-off economic events, such as the natural disasters which hit Australian crops last summer, to get a better picture of the underlying trends.

### What does the inflation rate mean for your investments?

High inflation can erode the value of your retirement savings and if your returns do not keep pace with inflation, your retirement savings could go backwards in real terms.

The good news is that inflation appears to be falling and in the long run, a healthy economy and a moderate rate of inflation usually means better long-term returns for investors.

### Interest rates are also falling

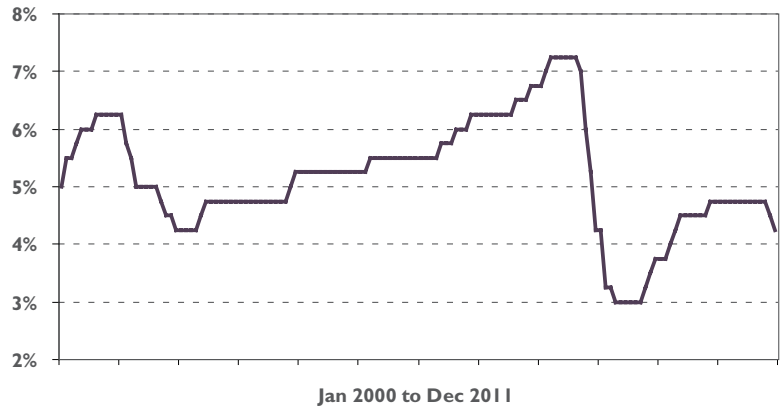
Before the running of last year's Melbourne Cup, the RBA cut the official cash rate from 4.75% to 4.5%, the first change in interest rates for 12 months and followed this up with a further 0.25% reduction in December.

The RBA cited a number of reasons for the rate cuts but the two crucial ones were:

- Expectation that our inflation rate will decline over the next year as prices for some key food products continue to fall
- Ongoing concerns about the European Union with expectations that economic conditions in Europe will continue to weaken.

Cutting rates and reducing the cost of borrowing generally provides an economic stimulus by increasing the volume of money circulating in the economy.

RBA official cash rate



Due to the ongoing concerns about Europe and the global economy, many analysts are predicting more interest rate cuts over the coming months to boost business and consumer confidence.

### How interest rate cuts can affect your super investment

In the short term, the returns on cash will fall but bond prices are more likely to rise. Fixed-term deposits will initially hold their value but returns on these deposits will fall when they are eventually rolled over for another term.

In the longer term, interest rate cuts will help to stimulate the economy and a stronger economy usually means higher share prices and greater returns for investors.

Inflation and interest rates are just two factors which can influence the returns on your retirement savings. That's why you need to have a good long-term investment strategy, one with the right mix of growth and income assets to achieve your long-term financial objectives. For current contributing members, it's also important to remember that a large part of your benefit is defined and will not change with investment returns.

If you need advice about your investment strategy, just call us on **1300 369 901** and make an appointment to speak with your financial planner.

## New Transition to Retirement option

In the coming months, LGS will introduce a Transition to Retirement (TTR) pension option for contributing members of the Retirement Scheme.

This pension is only available to contributing members who have reached their preservation age\*. So when you near your preservation age, contact an LGS financial planner to find out whether a TTR strategy could benefit you.

\*Your preservation age is generally the age you are allowed to access your super benefits when you stop working. Currently, this ranges between age 55 and 60, depending on when you were born.

# How do global markets affect our economy and your super?

Increasing globalisation over recent decades has meant that what happens in one part of the world can have a significant impact on countries all over the globe.

And investment markets are a good example.

Australia survived the financial global crisis in fairly good shape and while we can rely on our healthy trade with China to drive our economy, it does not make us completely immune from economic events in other parts of the world.

## The debt crisis in Europe

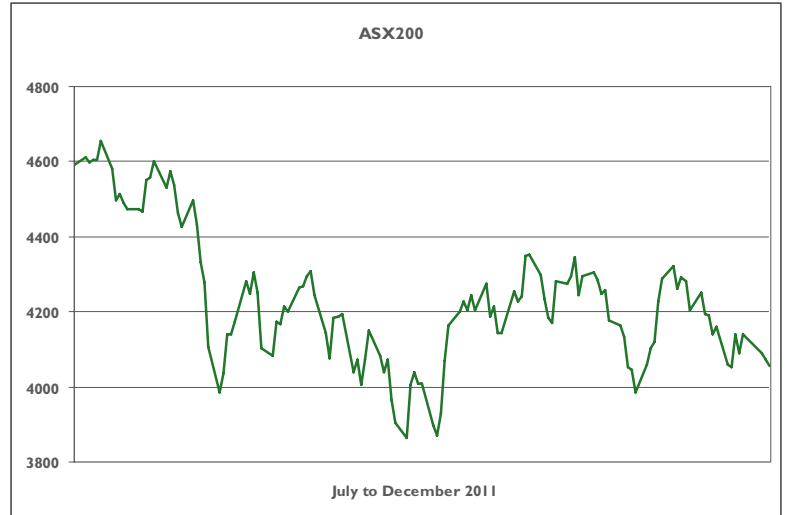
Over the last six months, the main issue to dominate global investment markets has been the debt crisis in Europe.

The European Union, the European Central Bank and the International Monetary Fund (IMF) have all been working on a solution but they are yet to actually resolve the crisis.

All this uncertainty has sapped confidence from global markets and the Australian share market has not been immune with the ASX200 falling by 12% in the six months to 31 December.

The main fear has been that many European banks have large exposures to struggling economies such as Portugal, Italy, Spain and Greece, and any default by these countries, particularly Greece, may trigger a financial liquidity crisis similar to one which followed the collapse of Lehman Bros in 2008.

The pressure has been on European leaders to find a workable long-term solution to relieve some of the uncertainty which has been driving down global markets over the last few months.



## How will this affect us here in Australia?

The debt crisis in Europe and the sluggish economy in the US will continue to dampen business and consumer confidence in Australia and have an impact on our economic growth.

The IMF has predicted that Australia's economy will now grow 1.8% this year, down from 3% which is still much better than most of the developed nations.

Once again solid growth in Asia, tipped to remain above 7% this year, should continue to drive the resource sector in Australia and help our economy weather any global economic slowdown.

The global uncertainty also caused the Australian dollar to fall below parity with the US dollar and this made our exports more competitive again.

## What does it mean for your super investment?

Any investment with exposure to Australian shares would have seen a decline in value over the last six months and the market is likely to remain volatile until there is more certainty about the global economy.

At these times, there's always a temptation to switch your investment to a more conservative option but it's important to note that the share market has already fallen a fair way and is probably near the bottom of the cycle. For current contributing members, it's also important to remember that a large part of your benefit is defined and will not change with investment returns.

Considering the relative strength of the Australian economy, particularly the resources sector, many shares are now considered to be underpriced. History suggests that as soon as investors perceive that the market has bottomed out, they will start buying again, and this will mean a rebound in the share market.

So if you are thinking of switching your super investment option, it may be best to talk with your financial planner first to make sure you're making the right decision.

## Green is good best!

Local Government Super has been committed to sustainable and responsible investing for over ten years now.

And that's why we recently received *Money* magazine's Best of the Best Award for the Best Green Super Fund in Australia.



# What's happened in investment markets?



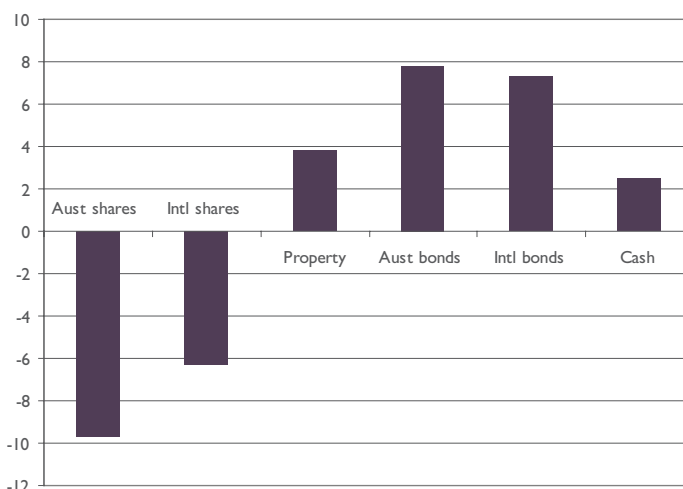
Australian and overseas share markets suffered negative returns in the half-year ended 31 December due to sharp falls in the September quarter. This was caused by concerns over global economic growth and the ongoing debt problems in Europe.

The Australian share market fell by nearly 10%, with resources as the weakest sector due to falling commodity prices and the softening economic outlook. Late in the period the retail sector also suffered. The telecommunications sector had the best return for the six months to December.

International share markets also had a negative return for the period, although not as bad as Australia. International asset returns were boosted by the fall in the Australian dollar over the six months. Several European countries are still struggling to maintain enough investor confidence to contain their interest rates.

Bond markets continued their impressive year-long rally, with ten year Australian Government bond yields falling from 5.2% at the end of June to 3.8% by the end of December. This resulted in good gains for defensive strategies with a high bond weighting. Inflation linked bonds had the best return, which was over 11% for the period.

The Australian economy was supported by two cuts to the Cash rate totalling 0.5%, which now stands at 4.25%. The Reserve Bank of Australia has become more relaxed about local inflation due to the softening in the economy. The Australian dollar fell from US\$1.07 to US\$1.02 over the half year.



Direct property had a steady gain of nearly 4%, comprising mostly property income as capital values have been stable. Global listed property had negative returns similar to the general equities markets.

Overall, our half-year returns for the growth and balanced type investment options were negative due to the weak equities performance in the September quarter. The Conservative investment option managed a positive return due to the strong Fixed Interest sector performance.

## Investment performance

as at 31 December 2011

Retirement Scheme Contributor Financed Benefit

Strategy	YTD*	3 years	5 years
High Growth	-6.1	6.6	-2.7
Growth	-3.9	4.3	-1.8
Balanced Growth	-3.8	6.7	-0.7
Balanced	-0.6	6.9	0.9
Conservative	1.6	7.1	2.4
Cash	2.0	5.4	5.1

\*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.

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