

SuperViews

From the Office of Beryl Ashe, Full-Time Board Member –
SAS and FSS Trustee Corporations



AUTUMN 2001

Know the System and your Rights

Every member's superannuation account is an investment in their financial security in retirement. It is an extremely important, heavily relied upon, retirement savings strategy.

As well as knowing which scheme you are in, what the scheme rules are and how to ensure your account is in order, it is also helpful to understand the organisational structure within which your super is managed and the range of services provided to members.

Which Board looks after you?

Boards must act in the best interests of members. If you are a member of the State Super Scheme (SSS), the State Authorities Super Scheme (SASS) or the Police Super Scheme (PSS), your interests are looked after by the SAS Trustee Corporation (STC) Board. Each of these schemes has its own legislation which sets out the details of the scheme design and the rules.

If you are a member of the First State Super Scheme (FSS) your interests are looked after by the FSS Trustee Corporation (FTC) Board.

About the Boards

Each Board is comprised of 4 employer and 4 union representatives, with an independent chairman. Michael Cole is the Chairman of the STC Board and Dr Tom Parry chairs the FTC Board.

Who are your employee Board Members? The union representatives are from key NSW public sector unions, nominated by the Labor Council of NSW. They currently are:

STC Board:	Beryl Ashe	Full-time employee representative
	John Hennessy	NSW Teachers Federation
	Ron Davis	Public Service Association
	Nick Lewocki	Rail, Train and Bus Union

FTC Board:	Sandra Moait	NSW Nurses Association
	Michael Williamson	Health & Research Employees Assoc.
	Maurie O'Sullivan	Public Service Association
	Russ Collison	Australian Workers Union
	Beryl Ashe	Deputy and full-time employee rep.

Who are the employer Board Members? The employer representatives are nominated by the NSW Government, and currently are:

STC Board:	Don Nicholls	Retired Senior Treasury Official
	Catherine Prime	Actuary and Company Director
	Ian Blair	Accountant and Company Director
	Bill Gillooly	Retired Senior Public Servant
FTC Board:	Ian Blair	Accountant and Company Director
	Cristina Cifuentes	Company Director
	Bruce Foy	MD of an International Merchant Bank
	Mark Duffy	Consultant

FIRST STATE SUPER MEMBERS HAVE THEIR SAY

FSS members recently received a questionnaire from the Board seeking their opinions on a number of important issues.

Asking members what services they want, and how they view the current services provided, is a vital management tool and involves members in the management of their super. Your response is needed to ensure that the services members identify are provided to you.

Have you completed your questionnaire yet? If not, please assist the Board by completing and returning it as soon as possible.

SERVICE STANDARDS

The service standards required of SAC vary between STC and FTC, as the STC schemes have greater complexity. The following information is an interpretation of the standards from a member perspective.

SERVICE STANDARDS FOR FIRST STATE SUPER	
Service	Service Standard
Contribution processing receipt	Within 5 business days of receipt of all necessary information.
Benefit payment (excluding death and disability payments)	Within 5 business days of receipt of all necessary information.
Investment election change	Within 5 business days of receipt of all necessary information.
Alteration to records (eg. change of address)	Within 5 business days of receipt of all necessary information.
Benefit quotes	Within 2 business days of receiving completed information required.
Answering – Telephone enquiries	90% answered in 60 seconds. Abandoned calls less than 5%.
Correspondence, e-mails	Within 5 business days of receipt.
Follow-up action on any of the above	Within 10 business days of receipt of information.
Interviews – With an appointment	Less than 5 minutes waiting. Appointment within 10 days of request.
Without an appointment Follow-up action	Less than 30 minutes waiting. Within 10 business days for complex matters.

SERVICE STANDARDS FOR POOLED FUND MEMBERS	
Service	Service Standard
Benefit payment (excluding death and disability payments)	Within 5 business days of receipt of all necessary information.
Pension payment	On next pension day, providing all information was received 7 days prior to that pension date.
Alteration to records	Within 5 business days. (eg. change of address)
Simple benefit quotes	Verbal – immediately.
Complex/Multiple quotes	Within 5 business days of request provided all necessary information is available.
Answering – Telephone enquiries	90% answered within 60 seconds for SASS members and pensioners. 90% answered within 80 seconds for SSS and PSS members. Abandoned calls less than 5%.
Correspondence, e-mails	Respond within 5 business days.
Interviews – With an appointment	Less than 5 minutes waiting.
Without an appointment	Less than 30 minutes waiting.
Follow-up action	Within 10 business days for complex matters.
Special Services for terminally ill members	Immediately on identification.

The scheme design and rules are contained in a Trust Deed.

How are the scheme designs or rules amended?

STC scheme legislation requires amendment by Parliament. The FTC Trust Deed can be amended by the Board, after approval from the relevant Minister.

Requests for amendments may come from members, the Board, unions and the Labor Council of NSW or Government.

Who does the day to day administration?

Both Boards have contracts with an external organisation, the Superannuation Administration Corporation (SAC) to provide the administration services necessary to run the schemes and to give service to scheme members. Service standards are included in the contracts, and some of those standards are printed above for your information.

Unhappy about the service provided?

If you are unhappy about the quality of service provided by SAC, or the service given falls outside of service standards, you may lodge a complaint with SAC. When you contact SAC state that you wish to have a complaint registered, and indicate the reasons. All registered complaints are referred to the respective Board each quarter. This is one way the Board monitors the service provided. Write to CEO, SAC, GPO Box 5328 Sydney 2000 or call Customer Service, or write to CEO, STC, PO Box N259 Grosvenor Place, NSW 1220.

IS PROPERTY INVESTMENT THE RIGHT CHOICE?

Australians have traditionally had a love affair with property. This is evidenced by one of the highest percentages of home ownership in the world. However, buying a property to live in and buying property as an investment are two very different decisions.

Deciding to purchase a property to live in will be very dependent on your personal tastes and unique needs. However, the decision to buy an investment property should ideally be viewed from a more impersonal and financial perspective. Buying an *investment* property should be an *investment* decision.

Many investors have been attracted to property investment as a result of aggressive marketing campaigns, the apparent attractiveness of “negative gearing”, and even a sense of “prestige” associated with owning a rental property. Unfortunately, many investors have found their property investments unprofitable, disappointing, and an unsatisfying experience. So what are the potential pitfalls of property investment?

The potential benefits of negative gearing are often promoted as sufficient reason to invest in property. Negative gearing is where borrowed funds are used to buy a property and the cost of owning the property (eg. interest on loan, management fees, rates and maintenance costs) is

more than the rent. In this situation the loss suffered can be claimed as a tax deduction against other taxable income. However, negative gearing is successful only if the property rises in value enough to compensate for the continual losses suffered. No amount of tax deductions can make up for a poorly performing property that does not rise in value sufficiently. In many cases the value of the property does not increase with the rate of inflation or does not offset the accumulated ongoing losses.

These same issues equally apply to property that has no debt. Many people are surprised that once they take into account the costs of owning a property such as insurance, rates and repairs, the net rental return is often less than what may be earned with money in a bank account. Of course, you can't just look at the income from rent, there is also potential capital gain.

To properly assess the full return for a property investment, you also have to keep capital gains tax in mind. Under the new capital gains tax rules you will generally pay tax on half of the gains when you sell it. If the property was purchased prior to September 1999, you may instead choose to pay tax on the whole capital gain with allowance for inflation up to September 1999. Of course, these capital gains tax rules apply to all growth investments, not just residential investment properties.

Property is also very “illiquid”. This means that you cannot readily convert it into cash. This is the opposite of very liquid investments such as shares and unit trusts that can be sold in a few days, or even seconds over the Internet. Also,

whilst you are able to cash in part of your shares or unit trust investments, you are unable to cash *part* of a property – nobody would be prepared to buy just the kitchen or the bathroom!

One of the “golden rules” in investment is to spread your money around so as to reduce risk. However, when you buy an investment property, you are effectively putting your faith in a particular property, on a particular street in a particular suburb. Therefore, the return you achieve on such an investment is impacted by the factors that affect the value of that property. It is very difficult to achieve a sufficient spread of investments when you invest in property.

Many investors have found property investment an unsatisfying experience due to potential stress associated with property investment. This includes finding suitable tenants, chasing up rent arrears, being called upon to arrange for repairs and maintenance, and hoping that the property is being looked after. Much of this can be handled by a real estate agent for a fee of around 7% of the rent, but these potential hassles still exist. Vacant periods between tenants is another matter to consider.

Can purchasing an investment property be profitable and worthwhile? Yes it can. However, it requires careful thought and comparison to the other more liquid alternatives that are readily available these days. With all of the alternatives available today for sound investment, property no longer holds quite the attraction for the personal investor that it did in years gone by. ■

For more information, call 1800 620 305

Note: It should be noted that this article is published for your interest and every effort has been made to ensure the information contained in it is accurate. The item above is of a general nature only, is not completely comprehensive, and has not taken into account your personal situation or requirements. Also, changes in legislation sometimes occur quickly. Accordingly, we strongly recommend that you consult a Financial Planner before taking action based on the material above.



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INVESTMENT NEWS

What a difference a quarter makes.

In the last issue of Super Views, there was a table showing the performance figures for the State Super strategies for the twelve months ending 30 September 2000. The returns for the growth strategies ranged between 10 and 17% depending on the exposure to growth assets and in particular to international shares. In the year to December 2000, these same strategies have returned between 6 – 8%.

For some of the strategies, returns in the year ending December 2000 are half of the level achieved for the year ending September 2000. Unfortunately, it is not a printing mistake. What has happened is that the December quarter 1999, which delivered strong investment performance has been replaced by substantially lower investment returns in the December quarter 2000.

The good news is that the State Super strategies have all performed in line with or out-performed the average manager for similar strategies, as can be seen from the graph below.

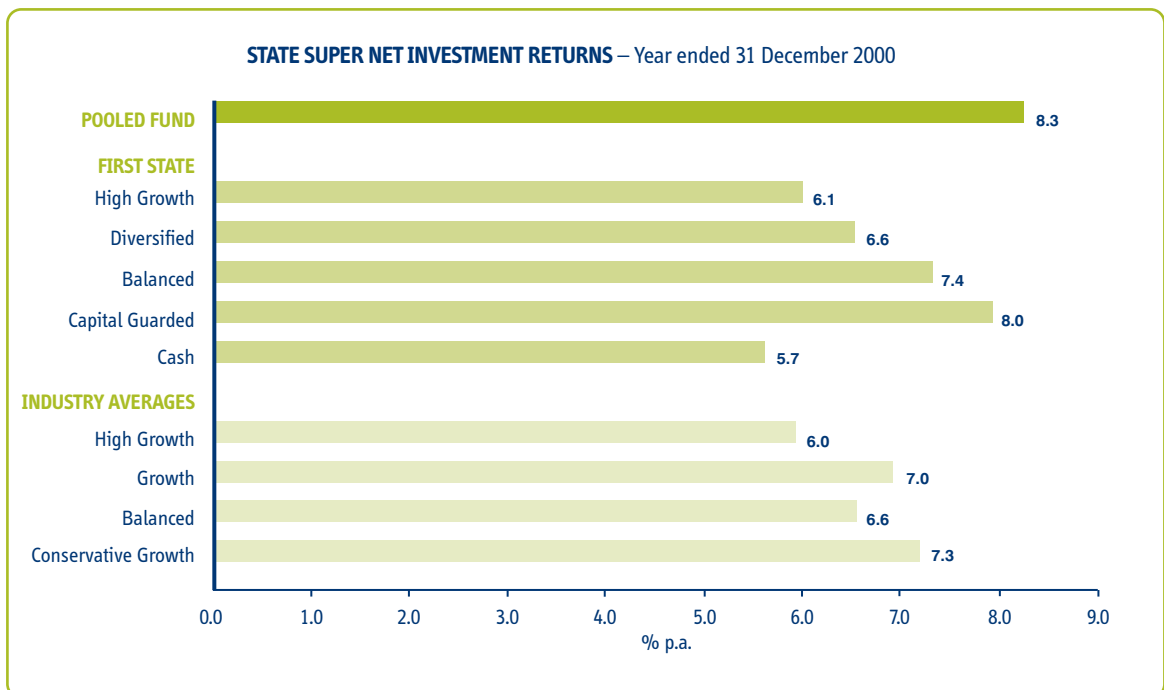
The story behind the drop in investment returns is closely linked to the US economy. It has for a number of years been the “locomotive” for the rest of the world, pulling other countries along its growth path. The strong economic growth was reflected in high stock market valuations, which from time to time made investors nervous that valuations were running ahead of the underlying fundamentals.

What was happening in the US, can be compared to blowing up a balloon and to keep blowing into it until it bursts, which happened in the middle of April 2000. The interpretation is no longer that the US economy can continue to grow strongly year after year. Instead the

prognosis is for a slow-down. How severe the slow-down will become is strongly debated at the moment.

To prevent a recession, Alan Greenspan, the Chairman of the Federal Reserve, the US Central Bank, has already reduced interest by 50 basis points and he could ease further during the first half of 2001.

It will take some time before any reduction in interest rates translates into improved economic conditions, so it is likely that 2001 will be a year where investment returns in the first half of the year reflect the negative sentiments associated with a downturn. This will then be followed by improved returns as optimism returns in the latter half of the calendar year. Looking ahead at the full year, members may achieve low single digit return and anything better than that would be a bonus, which markets can from time to time award to the patient investor. ■



Disclaimer: The information in this newsletter gives, by necessity, a general interpretation of the issues. Members should always seek advice from the appropriate authority on their individual circumstances before making decisions which may affect their future.