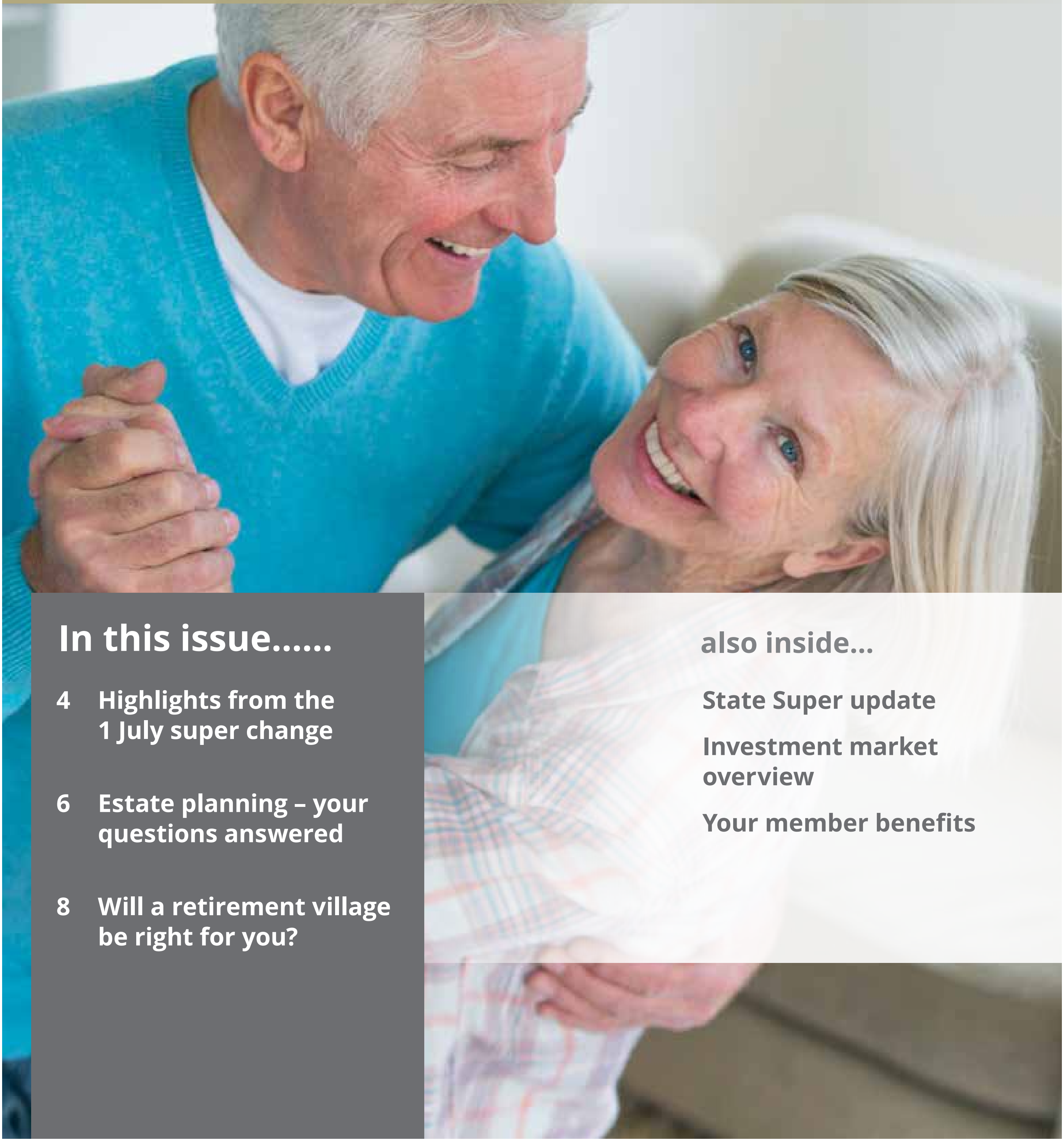
STATE SUPER
SAS Trustee Corporation

2017

Pension NEWSLETTER

Keeping members super informed



In this issue......

also inside...

State Super update

Keeping you informed on latest news and updates to State Super

Welcome to State Super's new administrator

The sale and name change of Pillar Administration to Mercer Administration Services is now complete. After many years of providing administration services to our schemes the revamped team will continue the great work in providing services to our members.

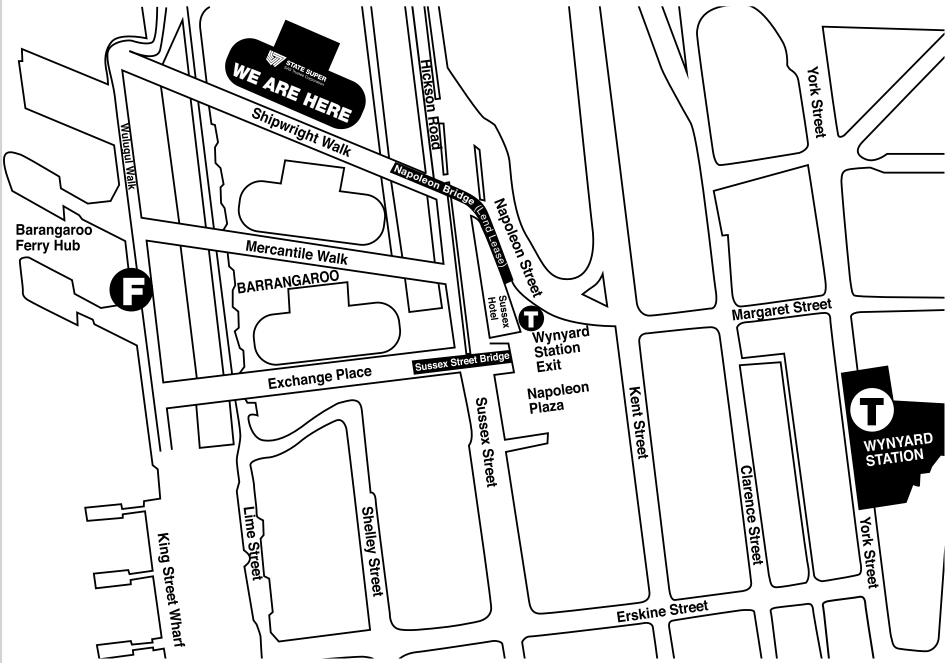
Member Interviews new location

The new Mercer Australia premises are in Sydney's Barangaroo precinct and will be the new location for State Super's Member Interview Service from September 2017, continuing the existing services where members can meet face to face with customer service staff. It's a 6-minute walk from Wynyard Station – just follow the signs to Exit 4 and take the Wynyard Walk tunnel.

Interviews are available here and at selected StatePlus locations. Call these numbers to make an appointment:

- Sydney **02 9238 5540** or
- Parramatta/Newcastle/Wollongong **1800 620 305**.

State Super (Mercer Administration) is located at One International Towers, 100 Barangaroo Avenue Sydney



Key Service Provider updates

We pride ourselves on ensuring all organisations we partner with are selected to provide superior services to our members and all our business partners.

As previously advised, JP Morgan have been selected as preferred custodian of the combined investment funds of three NSW Government agencies – including SAS Trustee Corporation (State Super). This is a continuation of a project aimed to create efficiencies and reduce costs by bringing together the investment assets of NSW under one master investment manager (TCorp).

PricewaterhouseCoopers (PwC) was appointed as our new actuary from 1 August 2017 with a five-year contract. PwC is an active participant in the superannuation industry and a leading advisor to industry, public sector and corporate funds in Australia.

Keep an eye on the news!

These and other State Super updates and announcements are provided to members as they become available via the State Super website. Visit the Latest News section at www.statesuper.nsw.gov.au

Investment market overview

Global GDP on the way up

Global GDP growth seems to be on a positive trajectory, albeit quite modest and still short of historical averages. The OECD projection for world growth in 2017 sits at 3.5%, which is up from 2016's 3.0% and this rate is expected to be a touch higher next year. The spectrum of projected growth for 2017 across the globe has some predictable regional variations, with India leading the charge at 7.3% and China at 6.6%, while the US is at 2.1%, the Eurozone 1.8%, the UK 1.6% and Japan at 1.4%.

The commensurate pickup in global trade features a lift in Chinese manufacturing and infrastructure investment and steel production in China has driven demand for iron ore and coking coal. This bodes well for our mining exporters, who have also profited from some buoyancy in commodity prices over the last year.

Despite all of this moderately positive news, global wage growth remains weak and while headline employment indicators are improving, labour markets are still lethargic.

Are global interest rates ready to head north?

Central banks around the world have been providing low interest economic stimulus for some time, but there are now some real signs that a tentative tightening may be on the way. Several central bankers from major western economies have hinted that gradual rate rises are on the horizon, as deflationary risks seem to have subsided and economic growth is on the up. Having said that, inflationary pressures are still weak, so any monetary tightening is likely to be very modest, if and when it does occur.

Positive signs in the domestic economy

The RBA reports that domestic growth is expected to edge up to just under 3% by early 2018. Positive indications continue in relation to non-mining sector growth, which indicates that the adjustment to greater diversity in the economy is advancing, although increases in non-mining business investment have been patchy.

On the property front, the strength in residential investment is likely to remain high, thanks to continuing low interest rates and plenty of construction activity. That said, housing is likely to have less of an impact on growth going forward.

Employment growth has picked up in the first half of the year, but low wage growth has put some uncertainty around the pace of consumption growth, especially when household debt remains at such high levels. The expectation is that consumption growth will pick up in tandem with income growth in the period ahead.

How will markets be impacted?

The generally bullish share markets worldwide are not likely to be threatened by any potential interest rate rises, thanks to healthier company profits and the generally positive moves in the key OECD economic indicators, such as employment and global trade. The main source of volatility has been market reactions to various political risks and events, but these reactions have been relatively small and markets have demonstrated resilience.

In the US, the market anticipation of corporate tax reform, deregulation and infrastructure spending, coupled with low interest rates, has propelled equity markets.

Emerging market economies have bounced back from their late 2016 drops, reflecting renewed confidence stemming from the improving global economic outlook. The fading spectre of US trade protectionism has also helped their cause.

Australian equity prices have largely followed global developments in recent months with healthy increases since the start of the year. This was supported by a positive reaction to domestic company profit results and the trend appears set to continue into the year ahead, despite the potential obstacles such as the new banking sector taxes and challenging consumer environment. Key fundamentals, such as strong corporate earnings and balance sheets, low interest rates and high dividend yields will underpin positive expectations.

Highlights from the 1 July super changes

On 1 July 2017 a number of changes to the superannuation laws came into effect. The main changes consisted of:

- a restriction on non-concessional contributions if your total super balance is $1.6 million or over
- $1.6 million cap on the total amount you can have in the tax-free pension environment

In this article we look at how these changes might affect you, as well as:

- proposed changes to super in the 2017 Federal budget.

Question 1 – $1.6m transfer balance cap

I've retired and I have a total superannuation balance of more than $1.6 million. How will the transfer balance cap changes affect me?

When you transfer your super into the income phase of super, for example by investing in an account based pension, you pay 0% tax on any amount you subsequently earn from that underlying investment. The transfer balance cap was designed to limit this generous concession by restricting the amount you can transfer into tax-free pensions.

This means that as of 1 July 2017, the maximum amount you're allowed to transfer into the tax-free pension environment is $1.6 million.

What types of income stream count towards the cap?

Income streams that count towards the cap include:

- all pensions, whether account-based, defined-benefit or market-linked
- lifetime and term annuities
- death benefit superannuation income streams.

Transition-to-retirement income streams don't count towards the cap.

What happens if I exceed the cap?

If you transfer more than $1.6 million into pensions, the ATO will require that you withdraw the excess from the tax-free environment and invest it elsewhere.

Defined benefit pensions also count toward the transfer balance cap based on a formula. Put simply, this is the gross annual pension amount multiplied by 16. If you have a SSS or PSS defined benefit pension that exceeds the $1.6 million cap (i.e. the annual pension is more than $100,000 per annum), you can leave it in there, but 50% of the annual pension over $100,000 will be added to your assessable income.

What do I need to do?

If your total balance across all of your income streams is more than $1.6 million, and it's not all in defined-benefit pensions, you'll need to look at how best to move the excess out of the pension and into some other form of investment. This could mean putting it back into a superannuation accumulation account—where you'll pay 15% tax on the earnings—or investing it outside super entirely.

If you leave the excess in the pension environment, the ATO will require you to remove the excess and the associated notional earnings will be taxed at 15%. For second and subsequent breaches of the cap after 1 July 2018 the notional earnings on the excess are taxed at 30%.

Whatever your arrangements, if you have more than $1.6 million in pensions the cap introduces some potentially complex tax issues that you need to be aware of.

Question 2 – Proposal to unlock wealth in the family home

I am 67 and retired on a defined benefit pension. Are there any changes to Superannuation in the 2017 Federal budget that may impact me?

Whilst not as substantial as the changes to Super in the 2016 Federal budget, the changes announced will nonetheless have an impact.

The most significant for those in retirement will be the ability to unlock wealth they hold in their family home, and contribute more into Super under the new downsizing cap.

Under the changes proposed, if you are aged 65 or over, have owned your home for more than 10 years and sell it after 1 July 2018, the government will allow you to make additional after tax contributions up to $300,000 from the proceeds of sale of the home, provided the contribution is made within 90 days of settlement.

The consultation draft provides that you would be able to make a downsizer contribution after selling your home even if you don't purchase another home. You can move into any living situation suitable for you, including into retirement communities, aged care, smaller properties, homes not close to schools or away from major employment centres, or into your adult children's homes.

For a couple this means they could contribute up to a combined $600,000 into super under this measure provided of course that the home sold for more than $600,000. If the home sold for $500,000 the contribution would be limited to $500,000.

The real benefit is that existing voluntary contribution rules for people aged 65 and older (work test for 65-74-year-olds, no contributions for those aged 75 and over) and restrictions on non-concessional contributions for people with balances above $1.6 million, will not apply to contributions made under the new downsizing cap.

So if you are planning to downsize your home, it could potentially represent a great opportunity to transfer money into the concessionally taxed Super environment, even in retirement.

Whether it's the right strategy for you will depend on the other income that you have outside of your super, the total value that counts towards your total transfer balance cap and any estate planning considerations relating to nominating a beneficiary within Super.

It's important to note that these are still proposals at the time of writing and may be subject to further changes before they become law.

Need advice?

StatePlus, formerly known as State Super Financial Services provides a wide range of financial planning advice to current and former public sector employees and their families.

To book an obligation free appointment, call **1800 620 305** or visit **www.stateplus.com.au**

For future updates to the legislative changes to Superannuation, visit the State Super website at **www.statesuper.nsw.gov.au**

We recommend seeking professional financial advice about your options and what impact these measures may have on your retirement.

Estate planning – your questions answered

In this edition of the Pension Newsletter, we'll explore two aspects of estate planning that StatePlus financial planners are often asked about. Firstly, we'll look at how your pension benefit is paid when you die. And secondly, we'll consider the different powers you can give to others to make decisions for you if you're unable to do so.

Your pension death benefit

The pension you are drawing from a super fund is considered differently to your other assets such as cash in the bank, shares or your home. It's considered to be a 'non-estate asset', so wishes expressed in your Will about how your other assets are paid when you die may not apply to your superannuation assets. It's important to keep this in mind when either writing or reviewing your Will. It's also important that any professional helping you write your Will is aware of any rules that affect how your pension will be paid.

How your pension benefit is paid

The pension you receive is unlike most pensions offered through retail and industry super funds. For example, your pension benefit is paid according to a defined formula, and the fund rules are largely set out in specific New South Wales legislation. This includes rules about how your death benefit is paid.

In short, your pension death benefit will generally be paid to either your 'eligible' spouse or de facto partner*. This may include same-sex partners. If you don't have either an eligible spouse or de facto partner at the time of death, your benefit will normally be paid to the personal representatives of your estate.

IMPORTANT NOTE: State Super Scheme legislation does not allow for binding or non-binding nominations of a beneficiary.

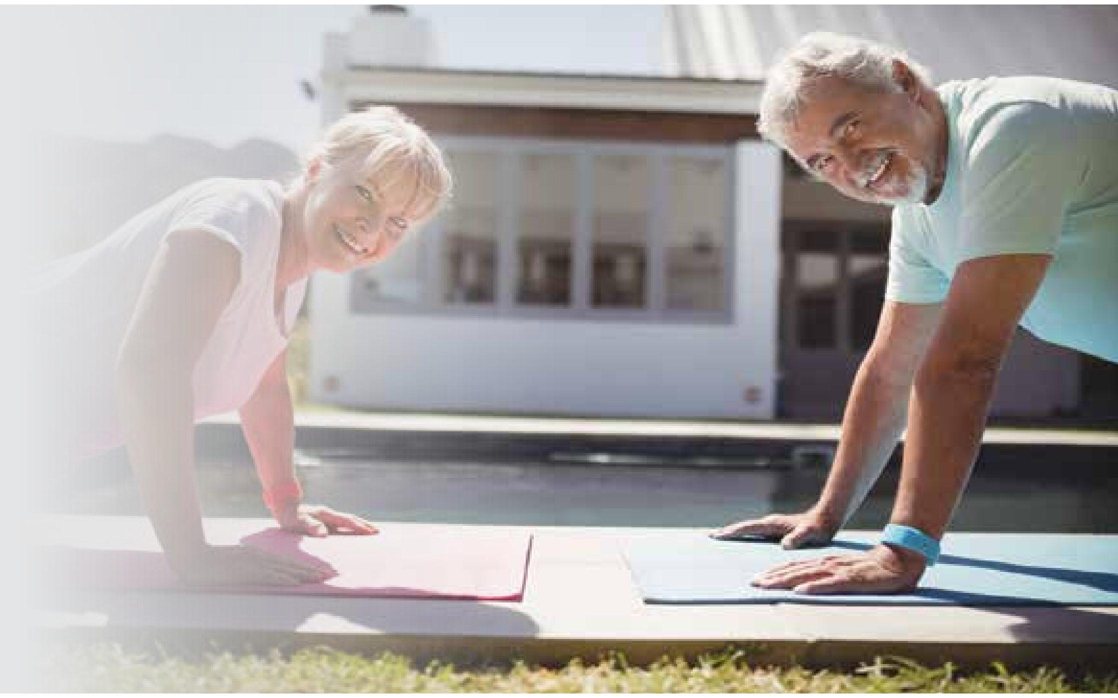
What about other super funds?

Many of our members also have investments in other super funds. These funds may allow you to nominate beneficiaries. The most common nominations you can make are a binding death benefit nomination and a non-binding death benefit nomination.

If a fund allows you to make a binding death benefit nomination, and it is valid upon your death, its trustee must comply with the nomination. In the case of a non-binding nomination, the decision about how your superannuation is paid when you die is made by the fund's trustee. The trustee may use your non-binding nomination or your Will to guide its decision making, but it's not bound by it. This may have unintended consequences, as your benefit may not be paid as you may have wished.

* Where claims are made by more than one person, the Trustee will decide the most appropriate distribution of benefits amongst the claimants. For example, if you were legally married to a person and in a de facto relationship with another person at the time of your pension commencement and this continued to be the situation at the time of your death, both your marital spouse and de facto partner may be entitled to a spouse pension benefit. The Trustee has a statutory discretion to determine to whom and in what proportion the pension benefit entitlement is payable. Please note that the total amount of the pension benefit payable to all eligible applicants shall not exceed the amount of a single pension benefit entitlement.

> The person you appoint must be capable, willing and, most importantly, someone you trust.



Keeping your nomination up to date

A binding death benefit nomination must be renewed at least every three years. Some funds do however allow members to make a non-lapsing death benefit nomination. It's important to check with your super fund what death benefit nominations are permitted under the Trust Deed.

Power of Attorney and Power of Guardianship – deciding who can decide for you

Estate planning includes making plans for someone to look after your affairs if you're unable to do so. In New South Wales, there are three 'powers' that you can 'donate' – a General Power of Attorney, an Enduring Power of Attorney and an Enduring Power of Guardianship.

Power of Attorney

Unlike a Will or death benefit nomination, a Power of Attorney is a signed document that sets out who can manage your assets while you're alive rather than who will receive them when you die. A Power of Attorney allows your attorney to make financial and legal decisions for you. For example, they can sign documents on your behalf or make decisions to buy or sell assets.

A General Power of Attorney might be used in specific circumstances, such as if you're away on holidays and would otherwise be unable to pay bills. It may set specific dates for when it applies, and ceases if you lose the capacity to make decisions for yourself.

An Enduring Power of Attorney may start either at the time you appoint an attorney or later. This might be if or when a doctor considers that you are unable to manage your financial and legal affairs. Therefore, unlike a Gener al Power of Attorney, an Enduring Power of Attorney continues if you lose the capacity to make decisions for yourself.

Enduring Power of Guardianship

An Enduring Power of Guardianship is a signed document that allows your guardian to make personal, lifestyle and medical decisions for you. For example, where you live and what medical treatment you consent to or refuse. A guardian cannot be someone who is involved in your medical treatment in any way.

Choosing a guardian or attorney

The person you appoint must be capable, willing and, most importantly, someone you trust. You may choose the same person to be both your guardian and attorney, you can choose more than one guardian and attorney, and you can revoke a Power of Attorney and Power of Guardianship at any time as long as you have the capacity to do so.

Because of the legal effect of an Enduring Power of Attorney and Enduring Power of Guardianship, it's important to receive advice from a solicitor before signing such a document.

A final word about estate planning

We encourage you to see estate planning as a natural part of the financial planning process. It's an opportunity to give yourself the peace of mind that someone you trust will make decisions in your best interests if you're unable to do so yourself. It's also an opportunity to make sure that the assets you've worked hard for will be distributed as you wish.

Will a retirement village be right for you?

Retirement villages have had some bad press recently, but they still hold appeal for many and continue to grow in popularity. So what makes them such an appealing option and how do you decide if they are right for you?

It seems Australian retirees have embraced the retirement village lifestyle with over 2,200 villages in operation around the country. There are currently around 184,000 Australians living in retirement villages, which represents 5.7% of the over 65 population and this is expected to increase to 7.5 per cent by 2025[1].

So what is the appeal?

The attraction of retirement villages can largely be put down to the security, community and worry-free lifestyle that they can offer. Many who are approaching or have reached retirement are keen to downsize from the large family home in order to achieve a more manageable living situation with less upkeep responsibilities. There is also the appeal of freeing up some capital to help boost retirement income.

The security of living in a close-knit village atmosphere with communal facilities on your doorstep is an enticing option for many people who may be increasingly uncomfortable with the relative isolation of living in a suburban home. Retirement villages also provide opportunities for social interaction and stimulation, through amenities such as dining rooms, organised activities and recreational facilities.

Catering for health concerns

For those who are concerned about health issues arising as they age, retirement village accommodation is usually well suited to those with reduced mobility and vision. Many villages also offer onsite emergency assistance and some are now providing in-home services that can prolong the ability of the resident to remain in their own unit instead of moving to higher care accommodation.

What about the shortcomings?

While all these advantages may make retirement villages sound like a nirvana for retirees, this must be balanced against the costs involved. The recent media focus over the way the retirement village financial arrangements are structured has put this issue in the spotlight. Regardless of whether those concerns are valid or not, it is vital that those considering a retirement village take the time to fully understand how the financial aspects work.

First things first

The fundamental principle to recognise is that moving into a retirement village should be a decision based on your lifestyle needs and desires and not your investment position. In today's society we are conditioned into thinking that all property is an investment, but any expectation that financial gains can be made from entering a retirement village would be misplaced. Your first consideration needs to be whether a retirement village is going to suit the way you want to live. If it does, you then need to weigh the advantages up against the financial sacrifices that are involved.

> "The attraction of retirement villages can largely be put down to the security, community and worry-free lifestyle that they can offer."

How are costs structured?

Every retirement village will have its own variations on the way they structure costs, but generally speaking the costs fall into three areas:

- Entry fees
- Service/maintenance fees
- Exit fees

The contract offered by the village operator will detail how these costs are structured and whether the contract is for freehold title (similar to a traditional residential property), a company title, a rental agreement, or a lease or licence. Lease or licence arrangements are the most commonly selected option.

Entry fees

The entry fees can vary considerably between different villages and will depend on the quality and location of the unit and the facilities offered by the village. Typically the entry fee will be lower than what you would pay for a comparable home in a similar location. This is designed to make entry to the village more attractive and affordable, but this attraction will generally be offset by the exit fee provisions of the contract.

Service or Maintenance Fees

One of the advantages of retirement villages is that the operator will generally take care of the cost and organisation of all ongoing maintenance issues, such as building insurance, water and council rates, upkeep of facilities, gardens and general maintenance. The residents then simply pay a regular fee to the operator to cover these costs. Details and rules around this fee and how it may change over time will be covered within the contract terms.

“…the operator will generally take care of the cost and organisation of all ongoing maintenance issues…”

Exit Fees

The exit fee is generally the most complex aspect of the contract and not surprisingly it is the area with the greatest potential for confusion to arise. The general purpose of the exit fee is to compensate the village owner for the cost of building the village. Having this applied at time of exit allows the resident to part-pay for this at the end of their residency rather than the start.

The level of exit fee will often be dependent on the length of time you have been in the village and will usually involve a sharing of capital gains between the resident and the village operator when the unit is sold. The calculation method for exit fees varies between different village operators and may even vary within a village, as the operator may offer different payment options when you enter the village.

Professional help is essential

The complexities surrounding the contractual and cost obligations of becoming a retirement village resident makes it essential to seek legal and financial advice to ensure you fully understand how the arrangement will work. Many of the grievances that have emerged in the media are due to contracts that are poorly explained and poorly understood, so get professional advice and don't hesitate to question the village operator over any issues of concern before you commit to anything.

1. Property Council of Australia: National overview of the retirement village sector

New PAYG withholding obligation for some pensioners

Prior to 1 July 2017 no tax was withheld from our members' pensions once they reached age 60. This has now changed for some of our members where their pension is more than $100,000 per annum. From 1 July 2017 tax is liable to be withheld on 50% of the amount of any pension that exceeds $100,000, although the amount of tax withheld will depend on how each member completed their tax file number declaration form.

In a related change, from 1 July 2018 PAYG (Pay as you go) payment summaries will now be sent to all STC pensioners regardless of age (previously only those under 60 would receive this).

A PAYG payment summary confirms the amount of pension a pension member has received in that financial year and the amount of taxation deducted. A pension member will be required to lodge an income tax return if the gross taxable amount shown on their PAYG payment summary plus any other taxable income is higher than the thresholds set by the Australian Taxation Office (ATO) or if the pension member has had tax deducted from their pension.

Update your contact details

Do we have your current contact details including email?

So we can communicate important information regarding your benefit and keep you abreast of any changes that could affect you, it is important that we have your current contact details.

Many of our members now also prefer to receive information via email. Make sure we have your up-to-date email address so we can keep in touch online.

How to update your contact details:

- **Complete** STC Form 207 (available on our website) and mail it to us
- **Log in** to your online member account via our website
- **Call** State Super Customer Service on 1300 652 113

"Are you taking advantage of all your pension entitlements? A StatePlus planner can ensure you don't miss out."

It can be difficult to understand just what Centrelink or Department of Veteran Affairs entitlements you are eligible for – especially when the government makes changes. At StatePlus, our financial planners can work closely with you to ensure you don't miss out, and you are also taking advantage of any other benefits, like health care and concession cards that you may be entitled to.

At StatePlus, we'll take the time to help you maximise your retirement savings, so you can enjoy the retirement you've earned and continue doing the things you love to do.

Call us on **1800 841 633** today or visit Stateplus.com.au to ensure you get the most of your superannuation.

StatePlus

Formerly State Super Financial Services

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Your member benefits

STATE SUPER
SAS Trustee Corporation

Keeping members super informed

Thanks for your website feedback

Our new look website launched in early 2017, and we would like to thank all the members who provided comments and suggestions via the online survey. This will help us ensure the State Super website continues to develop and meet your needs.

Take some time to look at the online features including:

- **Forms and Factsheets** – all the publications needed after you commence your pension as well as quick links to useful information.
- **Retirement milestones** – to help you prepare for retirement and access your State Super benefits we've included information on where you're at on your journey. It also guides you to information when unexpected detours (for example redundancy or divorce) occur along the way.
- **Pay Day calendar** – check throughout the year for official pension pay dates

All the information that you're used to seeing including fact sheets, forms, information about the financial planning services available to you and the latest news from State Super is available at **www.statesuper.nsw.gov.au**

Contact us

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