STATE SUPER
SAS Trustee Corporation

OCTOBER 2018

superVIEWS

Keeping members super informed

SASS Deferred

State Authorities Superannuation Scheme

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State Super update

Keeping you informed on latest news and updates to State Super

New! Have you had a Super Health Check?

We're always looking for ways to improve our members' understanding of their scheme and how they can maximise their retirement benefits. So we recently introduced our *"Super Health Check"* service in select locations across regional NSW.

This personalised appointment service provides advice on your super, scheme entitlements and choices prior to and leading up to retirement – all conducted by a qualified StatePlus financial planner.

If the service is being offered in your region, State Super will send you a personal invitation to book an appointment. The Super Health check is at no cost or obligation. This one-to-one consultation is a convenient alternative to travelling to attend a State Super seminar in a major centre. You can even bring along a spouse, partner or other family member if you wish.

Super Health Checks are proving popular amongst our members. 74% of members we surveyed, who had recently attended a Super Health check, scored their experience an overall 10 out of 10! Most felt that the service was convenient, that the information was clear and relevant, and advice was personalised to their situation. They even had the opportunity to discuss some additional topics with the planner – such as their spouse's super, salary plans and retirement options.

At your appointment you will receive information on:

- Your scheme entitlements and choices at retirement
- How your choices regarding your personal contributions impact your benefit amount
- Understanding your annual statement

To help you get the most out of your meeting, the StatePlus financial planner will also bring a copy of your annual statement to the appointment to identify scheme topics most relevant to you.

To date, we've provided this service in Tamworth, Wagga Wagga, Port Macquarie and Orange and conducted over 200 appointments. Coming next will be Gosford, Ballina and Canberra.

So register today for your one-on-one Super Health Check appointment, by calling StatePlus on **1800 620 305**.

Visit our Interview Service at Clarence Street Sydney

State Super's free Interview Service is available to all current and deferred benefit members as well as pension members.

Interview Services are available <u>by appointment only</u> from 9.00am to 5.00pm on Fridays.

It has been recently relocated to the Trustee's office, centrally located at **83 Clarence Street** in the city. Customer service staff can meet with you face-to-face to assist with general advice about your scheme, superannuation information, even assist with completing administrative forms or other paperwork.

Need help with English? For members who need help with English, Customer Service can arrange for information to be translated through the Government Interpreter Service.

Call us to make an appointment at Clarence Street and at selected StatePlus locations (Parramatta, Newcastle and Wollongong).

Sydney/Parramatta/Newcastle/Wollongong

1300 130 094

If you don't have time to visit, information is available on our website - details about the rules, benefit entitlements and membership conditions of each of the State Super schemes are provided in a series of fact sheets. For copies, visit **www.statesuper.nsw.gov.au**

Investment market overview

The positive trend in global growth has continued into the first half of this year, although this has tapered slightly in the second quarter.

Recent fiscal stimulus via tax relief in the USA has helped propel markets along, but there are some challenges to be negotiated in the second half of the year, with uncertainty associated with a trade war, the spectre of US inflation creeping up and political turmoil in Europe.

Meanwhile in our own backyard, the effects of the moderation in residential property prices in the major capitals may pose some challenges for the domestic economy while allowing domestic home buyers to breathe a sigh of relief.

Global growth expectations

While global growth may have crested earlier in the year, the fundamentals are still sufficiently positive to maintain reasonably strong GDP and profit growth going forward. The usual tell tales of a downturn do not seem to be present, with inflation still relatively under control, wage pressures only at moderate levels and encouraging jobs growth.

Importantly, although monetary policy settings around the world are tightening, fiscal policies around the world are loosening. As US rates creep up, we are also expecting a policy tightening stance in Europe and China.

US Federal Reserve being tested

The US markets have been setting the lead for the world in recent times, but there are challenges emerging in managing inflationary pressures, fuelled by low unemployment and rising wages. This inflationary pressure is offset by the rapid changes in technology advancement, such as AI and machine learning. This combination presents a test for the Federal Reserve to get its monetary settings right and the pattern of inching up interest rates will likely continue, as they seek to manage the upcoming phase.

Are trade war concerns justified?

A lot of the focus of economic commentary in recent months has been dominated by the threats of a trade war, instigated by Trump as part of his America first manifesto. Fears of an escalating trade war and the debilitating effect this could have on global growth have been brewing. However, it is important not to get ahead of ourselves. We should carefully assess the situation as the scenarios unfold.

China watch

As always, Australia's economic fortunes have a significant dependence on China. Thankfully, conditions there remain reasonably positive, with growth tracking at a robust level similar to recent years and commodity prices remaining stable. The trade war potential and growth in debt are among the key risks.

Eurozone holding its own

Economic growth and profits are still on the positive side as Europe continues its recovery. The accommodative finance conditions will continue to underpin this trajectory, but the shadow of stagnation in Brexit negotiations and the lurch to the far right in Italy are sobering reminders of significant political risks that the region must navigate.

> **"Share markets globally have on the whole been buoyant, which has supported returns for diversified investors and has provided a healthy margin over inflation."**

How will markets fare?

Share markets globally have on the whole been buoyant, which has supported returns for diversified investors and has provided a healthy margin over inflation. Cash and bonds on the other hand have remained stagnant. Economic drivers, such as easy money, encouraging GDP numbers and reasonable share valuations would seem to support a continuation of healthy market returns in the near term, but perhaps slightly more subdued than the previous six months. Possible drags include US rate movements, deteriorations in the tariff situation and political uncertainties.

The ups and downs of investing in property

Everyone has a dream for their retirement. For some it's relaxing on holidays, for others it's enjoying time with family, and for some it's that desire to realise the dream to own an investment property.

If investing in property is something you've always dreamt of, deciding what to do with your retirement savings is critical to ensuring that dream becomes reality. While taking your benefit as a lump sum sounds appealing, you're making a commitment to manage this money yourself. After all, the aim of any investment is to make money, but every investment has costs and it can be an expensive mistake not to fully understand these before you get started.

Invest for the right reasons

How effectively you manage your investment will determine whether it helps you reach your financial goals. Owning an investment property can be a strategy to increase wealth and secure a financial future.

However, if you need to access your money, it takes time and costs money to sell a property, and it usually can't be divided – you can't really sell one bedroom of a three-bedroom house. Selling in a hurry may also mean compromising on price, not allowing you to make the most of your asset. So property is generally suitable for those with a longer-term investment horizon, where it forms part of a balanced portfolio of assets.

Don't let the following influence your decision

1. You want to pay less tax.
2. You think you just missed out on the latest property boom.
3. You're trying to time the market.
4. You want to make a quick return on your investment.
5. You see the rent as a guaranteed income stream.

A smart investment decision

People often assume that, because they have experience in the property market as a homeowner, it will be the same as an investor. Although the fundamentals of choosing a quality home in a solid state of repair and good area still apply, buying to invest requires additional research.

Here are a few things to consider:

1. **Understand the market and the dynamics where you are buying** – what type of properties are in demand?
2. **Income vs growth objectives** – look at both expected rental returns and the potential for capital growth.
3. **Get your finances in order** – will you have a mortgage, and can you benefit from negative gearing?
4. **Choose the right property at the right price** – don't overcapitalise.
5. **Location, location, location** – consider proximity to public transport, schools, cafes.
6. **Know likely sources of tenants in an area** – students, tradespeople, families, young professionals.
7. **Don't overlook cheap strata levies** – low levies could mean poorly-maintained facilities, or finding money for a major expenditure you haven't budgeted for.
8. **Tenancy** – consider the implications if the property is untenanted for any length of time
9. **Make sure emotion doesn't get in the way** – this isn't your home, it's a financial decision.

Balancing the cost of investment

As a landlord, you might be surprised how many costs are your responsibility. While most people understand the upfront costs of purchasing property, there are several ongoing and maintenance costs too.

Upfront

- Stamp duty
- Legal costs
- Lender's mortgage insurance (where applicable)

Ongoing

Likely ongoing costs include:

- Real estate agent costs
- Advertising costs and letting fees
- Insurance
- Maintenance and repairs
- Council rates and strata levies

You should take these into account when calculating the return you expect to receive. If the rent doesn't cover your living costs after you've deducted all your expenses, you will have to cover the shortfall – a risk that increases if you have a long period with no tenants.

Despite the costs, there can be some tax benefits to this type of investment. Tax matters are complex, and your tax situation depends on your personal circumstances, so it's a good idea to seek professional advice before making investment decisions on property.

Borrowing to invest

Rather than using all your lump sum to invest in property, you might also borrow money (gearing) through a

mortgage to help fund the purchase. Although gearing can increase investment returns it can also magnify losses, so it isn't for those without a tolerance for risk.

If you're still earning a salaried income, it can be a tax-effective strategy as you can offset any loss against your income. However, gearing in retirement is rarely tax-effective as most retirees' taxable incomes significantly reduce. In fact, many retirees can end up paying no tax if the majority of their savings are invested in an account-based pension.

Carrying debt into retirement needs extra consideration and might not be an appropriate investment strategy for you.

Not the time to sit back and relax

Once you choose to take your benefit from super, it is difficult to reverse that decision. You accept that you will take charge of managing your money and ensure it lasts for 20-30 years (depending on your age when you retire). Not only must you have strategies in place to generate a regular cash flow, and a disciplined approach to spending, you also need to fully understand the tax implications of your decisions.

If you're thinking about investing in property, it may be a good idea to seek financial advice to see if the decision is right for you.

Member investment choice strategies to 30 June 2018

	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Growth	9.4%	9.2%	7.8%	9.2%	6.9%
Balanced	6.9%	6.9%	6.3%	7.7%	6.6%
Conservative	5.0%	4.7%	4.6%	5.8%	5.7%
Cash	1.7%	1.8%	1.9%	2.1%	3.1%

Past performance is not a reliable indicator of future performance. The crediting rates shown above have been rounded to one decimal point and are shown as an annual rate. Actual crediting rates are declared monthly to four decimal places. The annual rate is the compounded monthly rates.

Beyond Paid Work
Our pensioners share their insights

Earlier this year we conducted a survey to help us better understand more about life after paid work from our pension members. We were thrilled and grateful that nearly 3000 members gave their valuable contributions and insights.

The survey provided an opportunity for our retired members to provide feedback about their experience in retirement, including whether their expectations were being met, commentary on what they would change and advice for future generations.

We used this research to inform a report we have written, *Beyond Paid Work*. The report uncovered that most of our retired members are content and happy, with the benefit of a regular pension immeasurable. Further, a significant 82% of pensioners reported positive feelings about their life in retirement.

The report lifts the lid on what life is really like for our members after paid work; that it is nuanced, with the needs and circumstances of retirees changing throughout their 20 plus years in retirement.

Commenting on the findings State Super CEO John Livanas said, "The good news is the majority of members feel content (59%), relaxed (53%) and happy (52%) about their retirement. Additionally, they are much less likely to feel sad (3%), and feelings of disappointment are equally rare (5%)."

Digging deeper, the key driver of the positive feelings towards retirement was that members had finally found the 'time to do the things they wanted to do' (61%).

These positive emotions are magnified for those more experienced in retirement.

"Our research found that our members become progressively more content throughout their retirement years. Feelings of contentment gradually increase from 42% for those under the age of 60 to an overwhelming 74% for members aged over 80 years", Mr Livanas said.

Content retirees over the age of 80 enjoy a slower pace of life (58%), spend more time with family and friends (36%) and have time for their hobbies (27%).

The strong emotional connection to time and contentment is present regardless of income level prior to retirement. Those who earned less than $59,000 per annum were more likely to feel content, when compared to members on higher salaries prior to retirement (63% versus the average of 59%).

> **"We know the important roles our members played in our community when in the paid workforce. Keeping us safe, teaching our children, caring for people in hospitals, among many other important public sector roles."**

The research also revealed the word retirement no longer reflected the experiences of members today.

"Only 3% of members feel that retirement is an accurate word for life beyond paid work. In contrast, over 50% felt either 'The Next Act', 'Age of Experience' or 'The Golden Age' were better brands".

The survey, one of the largest ever conducted with retirees, also revealed the change in priorities from the ten years leading up to retirement and priorities once in retirement.

"Unsurprisingly, careers and financial aspects are replaced with relationships, spending time with loved ones and giving back to the community," Mr Livanas said.

Other findings included:

- More men ranked relationships as the most important value in retirement (25%) compared to women (14%).
- One in five (21%) respondents were either going to enter the workforce again or were seriously considering it.
- Respondents who were earning more than $100,000 before retirement were most likely to think they will go back into paid employment (41%).
- 30% of retirees said giving back to the community was an important factor in retirement

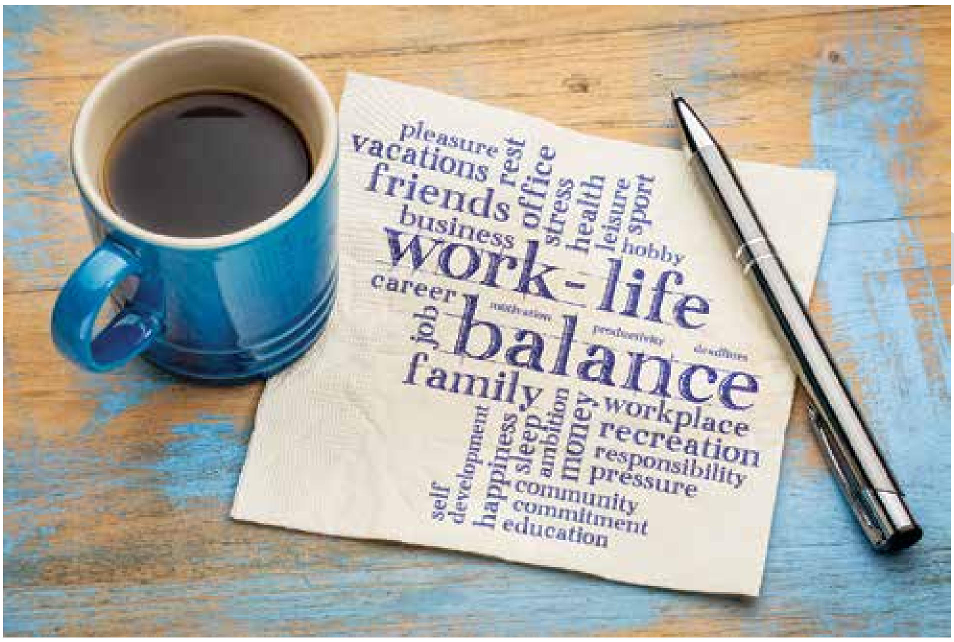
"We conducted the survey and produced *Beyond Paid Work* to better understand our members. We know the important roles our members played in our community when in the paid workforce. Keeping us safe, teaching our children, caring for people in hospitals, among many other important public sector roles. We are grateful for those who shared their thoughts and we look forward to learning more from more of our members" said Mr Livanas.

If you would like to read the report, please visit our website: **www.statesuper.com.au**

Figure 1: Values of retirees pre-retirement and in present day

	10 years before retirement	Present day
1	Having enough money to live and provide for my family	Looking after my health and wellbeing
2	My career	My relationship
3	My relationship	Spending my time with family and friends
4	Looking after my health and wellbeing	Having enough money to live and provide for my family
5	Having enough savings in retirement	Going on regular holidays
6	Spending time with family and friends	Having enough savings
7	Paying off my debts	Being able to provide for my family and loved ones
8	Going on regular holidays	Giving something back to the community
9	Having an active and full social life	Having an active and full social life
10	Giving something back to the community	Hobbies

"30% of retirees said giving back to the community was an important factor in retirement."



Why investing for retirement is different

When planning your retirement, the lifestyle you want should be the starting point for your long-term wealth creation plans.

Your lifestyle depends on the level of income you can generate, and this is based on the amount accumulated during your working life. You may have limited opportunities to 'top up' your capital after you've retired. So it's important to get it right before you retire.

What's important in a retirement portfolio?

Pre-retirees and retirees have different needs compared with younger investors. Retirees have a greater need for certainty and security but need to balance caution with some risks. If you invest too conservatively, inflation will erode the value of your retirement savings and you could run out of money prematurely.

So it's important to get the balance right. A retirement fund's portfolio allocation is generally more defensive than for super funds that have a younger member base. The key factors for a retirement portfolio are:

- Regular, stable income flows
- Balancing income certainty with returns
- Keeping pace with inflation
- Preserving your capital.

Generating an income in retirement

Retirees need to generate a sustainable income, and the most common way to do this is by transferring your super into an account-based pension.

Selling assets through a disciplined approach over time should be a key source of income. It's better to hold a well-diversified portfolio, as investing too heavily in income-producing assets can lead to lower returns and can create concentration risk. A good retirement portfolio will be designed with this in mind.

It's also important to work out how much income you can withdraw from your account-based pension to enjoy a fulfilling lifestyle without risking your long-term financial security. This is not easy, and a financial planner can help you maximise your entitlements and lifestyle while bringing you peace of mind.

What do you want to do in retirement?

Research[1] tells us that those who enjoy retirement the most have a strong sense of purpose. Many retirees say that social activities, volunteering and time spent with family and friends are among the most satisfying aspects of their lives. So to answer the question 'how much do I need in retirement', you'll need to first ask, 'what do I want to do in retirement?'

Managing risk is crucial

We tend to think of investment returns as positive, but returns can also be negative, and all investments have some risk. For retirees, three types of risks stand out:

Longevity risk: The risk that you'll outlive your savings is often overlooked, but people are living longer today than ever before. This means more time to enjoy our retirement, but it also means we periodically need to ask, "how long might I live?" and adjust our investments accordingly. In addition to your longevity, your investment strategy, the returns you achieve and how much income you draw all determine how long your money will last.

Sequencing risk: Large losses have a much greater impact on your ability to fund your lifestyle in retirement if they occur in the years leading up to, or just following, your retirement (when your balance is largest). You still need to take investment risk to earn a return, but a more defensive portfolio during this period can reduce the effect of losses and help sustain your income.

Having a plan and sticking to it is also important as this helps give you the confidence to keep investing during periods of market volatility.

Inflation risk: You'll need your investments to grow faster than inflation to sustain your purchasing power. Retirement portfolios usually have a CPI+ return objective to ensure that inflation doesn't eat up your savings.

Get financial advice early

The wealth that you have when you retire is usually the most money you're going to have, so getting financial advice early is important. A financial planner can help you develop financial goals, optimise your mortgage repayments, maximise your benefits, manage risks and adjust your financial plan over time to ensure you have enough income in retirement.

1. CoreData April 2014. Sample of 2,496 public sector employees.

Ask an expert:

I am on track to retire at age 65 and plan to rollover my SASS benefit to an account based pension. I'd like you to explain how my superannuation and other investments will impact the amount of age (Centrelink) pension I receive.

The first hurdle for assessing your entitlement to an age pension is attaining age pension age. Age pension age is based on your date of birth.

Male and Female Non-Veterans

If your date of birth is on or between:	Then your pension age is:
Before 1 July 1952	65 years
1 July 1952 to 31 December 1953	65 years and 6 months
1 January 1954 to 30 June 1955	66 years
1 July 1955 to 31 December 1956	66 years and 6 months
On or after 1 January 1957	67 years

Source: humanservices.gov.au

The age pension is means tested. Centrelink will apply two means tests, an asset test and an income test. The test that results in the lowest rate of pension is the one that will determine your entitlement.

If you are a single person, your individual situation will be taken into account by Centrelink. If you are a member of a couple, the combined situation will be considered, regardless of whether only one or both of you are eligible to apply for an age pension.

In terms of the assets test, assets such as cash, term deposits, shares and investment properties will be counted toward your total assets. Personal assets such as furniture will generally be valued at garage sale prices. There is a limited list of assets that do not count toward the test such as the family home and funeral bonds.

In relation to Super, the market value of the account based pension will be counted and if you are above age pension age, any super in the accumulation phase will also be included in the value of your total assets.

In relation to the income test, financial assets are assessed based on the income they are deemed to earn, regardless of the actual income you receive. This includes the market value of your account based pension. An exception to deeming rules are investment properties where the actual net rental income is included.

Continued over >>

Ask an expert: continued

The deeming rates that applied from 1 July 2018

Single

Financial Asset Value	Deemed income
Up to $51,200	1.75%
Financial assets above $51,200	3.25%

Source: humanservices.gov.au

In applying the income test, a single person with $110,000 (3.25%) in financial assets is deemed to earn $896 (1.75%) per annum on the first $51,200 and $1,911 on the next $58,800. Which gives a total of $2,807 deemed income that will count toward the income test.

Couple (combined)

Financial Asset Value	Deemed income
Up to $85,000	1.75%
Financial assets above $85,000	3.25%

Source: humanservices.gov.au

In applying the income test, a couple with combined financial assets of $180,000 is deemed to earn $1,487.50 (1.75%) per annum on the first $85,000 and $3,087.50 (3.25%) on the next $95,000. Which gives a total of $4,575 deemed income that will count toward the income test.

A small number of SASS members (transferred from predecessor schemes) also have a pension option for a part of their SASS benefit.

The gross SASS pension, referred to as a defined benefit income stream, will count toward the Income Test less the tax free component of your pension up to a maximum of 10%*. If the tax free component has been assessed as less than 10%, then the actual percentage must be used as the deductible amount.

For example, if you receive an annual gross pension from SASS of $50,000 and your tax free component is 24%, the maximum 10% deductible amount can be applied.

$50,000 (gross pension) less $5,000 (maximum 10% deductible amount) = $45,000 annual gross defined benefit pension to be counted towards the income test.

This will be added to income from all other sources to determine your eligibility under the income test.

As at 1 July 2018, in applying the assets and income tests, a single homeowner assessed as having over $561,250 in assets or more than $51,667 in income is not eligible for any age pension.

A single person below these thresholds is eligible for a sliding scale of payment up to a maximum payment of $907.60 per fortnight ($23,597.60 p.a.).

A couple homeowner assessed as having over $844,000 in Centrelink assets (including assessable non-financial assets) or more than $79,050 in Centrelink income is not eligible for any age pension payments.

A couple below those thresholds is eligible for a sliding scale of payment up to a maximum payment of $684.10 per fortnight each ($17,786.60 p.a. each). A non-homeowner has higher asset limits ($768,250 for a single person and $1,051,000 for a couple) but the same income limits.

*There is no maximum placed on the deductible amount for a recipient of a Department of Veterans Affairs benefit.

Your member benefits

Have your Say

Our annual Member Satisfaction Survey is coming up and we will be contacting members by phone in November to have their say. Thanks to everyone who participated and provided feedback in our last survey, which gave us very positive results in all areas of service delivery when compared to the broader superannuation industry.

This research has become an integral part of our future planning and will continue to identify ways to improve the services we provide to you.

We also welcome your feedback at any time via our online form at **www.statesuper.nsw.gov.au/contact-us**

Complaints, Disputes and Appeals

We are committed to ensuring members of our schemes are treated fairly and consistently. We focus on member satisfaction and aim, to the best of our ability, to resolve all complaints to the satisfaction of all parties.

We have also put in place more streamlined processes and procedures to ensure that any complaints or disputes are resolved in a timely and efficient manner.

If you are dissatisfied with an administrative matter you may lodge a **complaint** with Mercer Administration Services. If you are still not satisfied with the resolution of the matter you can complain directly to the Trustee.

If you feel you have been unfairly treated or are disadvantaged by a decision relating to a benefit, you may lodge a notice of **dispute** with the Trustee within 2 years of being notified in writing of the decision.

You may then be asked to clarify certain details or provide additional supporting evidence. Your dispute is then referred to State Super for consideration and determination and you will be notified in writing of the outcome.

If you are dissatisfied with the decision following the dispute process, you may **appeal** to the Supreme Court of NSW within 6 months

To lodge a complaint with Mercer, please contact Customer Service on the phone number shown below.

To lodge a dispute with State Super, please write to:

Disputes Officer

State Super (SAS Trustee Corporation)
PO Box N259,
Grosvener Place NSW 1220.

Contact us

1300 130 094

State Super, PO Box 1229
Wollongong, NSW 2500

www.statesuper.nsw.gov.au

enquiries@stc.nsw.gov.au

SASSD 1018