apss
AUSTRALIA POST SUPER SCHEME

Insight

News from the Australia Post Superannuation Scheme
Quarter ending December 2016

Make it a super year!

INSIDE THIS EDITION

- Investment update for the quarter ending 31 December 2016
- Analysis of the quarterly investment returns
- Super tax changes coming
- *Make 2017 a 'super' year:* Use your NY resolutions to become healthier and wealthier

Did you make any New Year's resolutions this year? If so, are you still on track?

If your resolution is to be healthier, for example, by giving up smoking, you might want to think about making another one – using the money you save to boost your savings in super. That way, you can be getting wealthier as you get healthier. You could have tens of thousands more in your super depending on how much you save and how long until you retire. This first issue of *Insight* for 2017 explains how.

Cover story - Make it a super year!

Get healthy and 'super' wealthy

Losing weight always makes it on to the top 10 list of resolutions every year. Aside from exercising more, losing weight is all about making healthier diet choices by cutting out or at least reducing your intake of certain food and drink. It helps save you money too. Suppose you cut a packet of sweet biscuits ($3.50) and a bottle of soft drink ($2) from your weekly groceries. Or suppose you choose to skip those extra two drinks at the pub ($16) each week. Just putting those small savings into your super can have a really big effect over time, potentially building up an extra $26,221 in super in 20 years' time – that's in today's dollars.
Even if you only did this over the next 12 months and saved nothing more after that, you could still have an extra $1,564 (in today's dollars) in 20 years' time.^

^ See page 3 footnote.

Cut out (per week)	Fortnightly Saving	Yearly Saving
 x 1 packet of biscuits per week	$7	$182
 x 1 bottle of soft drink per week	$4	$104
 x 2 alcoholic drinks per week	$32	$832
Total savings	$43	$1,118

Contribute it to your APSS Member Savings instead

Assume a 5% investment return per year (compounding)

Have an extra $26,221 in super in 20 years' time^ just by cutting out some things each week that will make you healthier to boot!

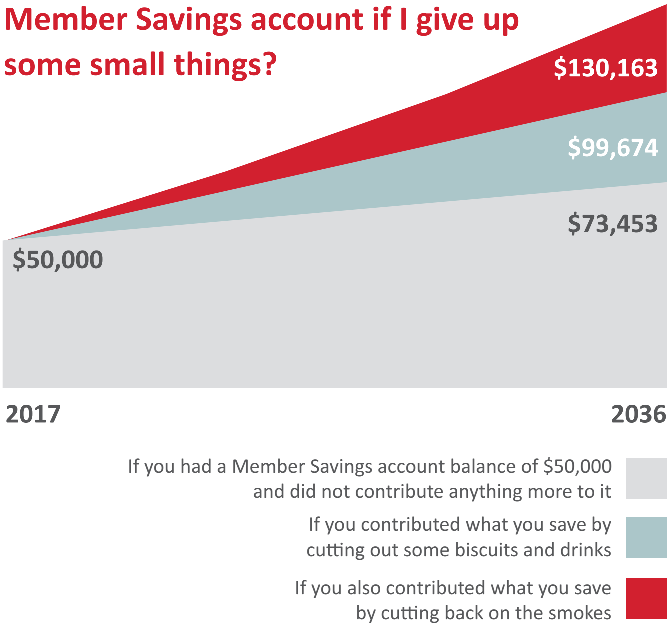
Remember

These are just a couple of simple ways to give your retirement lifestyle a real boost just by making some small savings and directing those to super. You might have other ideas. The main thing is to think about little things you can save money on that you can put to better use to secure a stronger financial future for yourself and your loved ones.

Cover story

Giving up just one pack a week could mean an extra $30,489^ if you contributed what you save to your Member Savings.

How much extra might I have in my Member Savings account if I give up some small things?



^ All projections in this article are expressed in today's dollars and assume return of 5% per annum and inflation of 3% per annum. The value of investments can go up and down. These projections do not represent a guarantee of what you would actually get if you invested the example amounts in the APSS as Member Savings. Projections ignore any other transactions such as contributions and withdrawals on your account.

Less smoke, more super

If you're a smoker, resolving to cut down on the smokes or giving up altogether has the dual benefit of potentially extending your life while also saving you $25 per week (or more) if you cut down by one packet a week. Giving up one packet of smokes a week and investing that into super could mean an extra $30,489^ added to your super balance after 20 years based on the previous example!

Note

This information is of a general nature and does not take into account your personal objectives, financial situation or needs. The APSS is not licensed to provide financial product advice. The APSS recommends members seek professional financial advice tailored to their circumstances before making any decision about their super.

An important reminder about contributions

Carefully monitor the annual contributions made to your super (both after-tax and before-tax contributions), especially if you make personal contributions to your APSS account – the APSS doesn't do this for you! Refer to the *Super tax changes coming* article on page 4-5, and the current *Superannuation taxes* fact sheet (download at **apss.com.au** under the *Publications & Forms* menu) regarding the contribution limits. Exceeding either limit may mean you pay significant additional tax on your excess contributions. To check your contributions, login at **apss.com.au**, or call *Super*Phone on **1300 360 373**, Monday – Friday, 9.00am – 5.30pm (AEST).

Super tax changes coming

The Federal Coalition government announced a number of major changes to super in its May 2016 budget. At the end of last November, the government passed legislation to implement these changes, which generally apply from 1 July 2017. This article provides a summary of the laws and how they might affect APSS members. You may wish to refer to this for your super and tax planning this year.

Are you…	If so, then…
Contributing to super on behalf of your spouse? (e.g. contributing to an APSS Spouse Account)	In general, you could **claim the tax offset if your spouse earns less than $40,000 a year** and is either under age 65, or aged 65 to 70 and meets the work test.* For example, to claim the maximum $540 tax offset, you would need to contribute $3,000 on behalf of your spouse in the financial year, and your spouse's income would need to be no more than $37,000 in that financial year. Also, be aware that no tax offset can be claimed if your spouse has more than $1.6 million^ in super, or has made contributions in excess of the $100,000 after-tax contribution cap (see *Making personal after-tax contributions to your super?* below).
Making personal before-tax contributions to your super? (e.g. contributing to any APSS Member Savings account)	• **You can't contribute more than $25,000** a year at the 15% tax rate, including employer contributions.** If you have a defined benefit, the 'notional taxed contributions' that are deemed to be paid into the APSS on your behalf by your employer are also counted. • You may be able to make before-tax contributions by claiming a tax deduction for after-tax contributions. Before 1 July 2017, this is something only self-employed people can do. From 1 July 2017, the tax deduction is generally available to individuals under 65 (and those between 65 and 74 who meet a work test*). Note that such contributions will be included in the $25,000 a year cap described in the previous bullet point.
Making personal after-tax contributions to your super? (e.g. contributing to any APSS Member Savings account)	• **You can't contribute more than $100,000** a year at a nil tax rate**, which is $80,000 less than the pre-1 July 2017 annual limit. • **You can't contribute at all at a nil tax rate if your 'super account balance' was $1.6 million^ or more at the last 30th of June.** This limit includes the withdrawal value of any defined benefit you're entitled to.

* This is a test to prove that a person has worked for a set period of time in the financial year.

** This contribution limit is indexed to Average Weekly Ordinary Time Earnings (AWOTE). You may be able to bring forward up to three years of the after-tax annual limit to make up to $300,000 in one year.

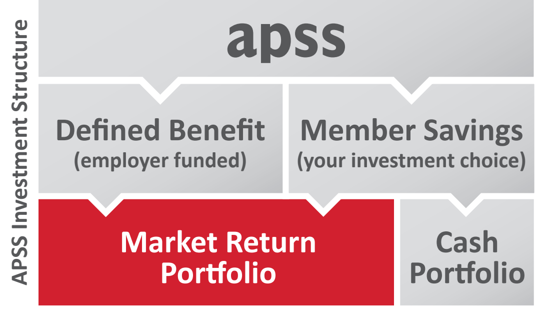
^ $1.6 million is indexed to inflation (i.e. CPI).

Super tax changes coming (continued)

Are you…	If so, then…
Transitioning to retirement? (e.g. with an APSS Pension Account)	**Up to 15% tax** on the investment earnings of your Member Savings will start to apply because the tax exemption on earnings of all 'Transition to Retirement' (TTR) pensions will be removed.
Eligible for the Government Age Pension?	**From 1 January 2017, there are some changes to the assets test**, but the limits on how much income you can earn to qualify for the Government's Age Pension haven't changed. For details, go to: www.humanservices.gov.au/customer/services/centrelink/age-pension Or phone **Centrelink** between 8am and 5pm (AEST), Monday to Friday on: • **132 300** for Age Pension enquiries, or • **131 202** to speak to someone in a language other than English.
Earning no more than $37,000 a year?	**The 'Low Income Super Contribution' of up to $500 continues to offset the 15% super contributions tax**, but it will simply be renamed the 'Low Income Super Tax Offset' (LISTO). The ATO determines if you're eligible for the LISTO, and will advise the APSS annually if you are.
Earning 'total adjusted income' of $250,000 or more?	**A new 'total adjusted income' limit of $250,000 may trigger an additional 15% tax called the 'Division 293 tax'.** This new limit is $50,000 lower than the pre-1 July 2017 annual limit. In other words, you could earn up to $50,000 more in the 2016/17 financial year without triggering Division 293 tax. The Division 293 tax applies to concessional contributions, including your before-tax personal contributions and the 'notional taxed contributions' that are deemed to be paid into the APSS on your behalf by your employer to provide your defined benefit. This increases the tax on such contributions from 15% to 30%. The Division 293 tax generally applies only to concessional contributions up to the $25,000 limit described on the previous page (see 'Making personal before-tax contributions to your super?'). However notional taxed contributions above this limit may also be subject to the Division 293 tax.
Entitled to a super benefit of more than $1.6 million?	**Any amount in excess of your $1.6 million 'lifetime pension transfer cap' cannot be transferred into a tax-free retirement account** (e.g. an APSS Pension Account) from 1 July 2017 (or, if already in there, will need to be transferred out). **Investment earnings on any amount exceeding $1.6 million will incur 15% tax** if left invested in an accumulation account (e.g. APSS Rollover Account).

The Market Return Portfolio

The crediting rates for Market Return Member Savings are determined by the investment returns of the Market Return Portfolio. The APSS Market Return Portfolio invests in a broad range of shares, real estate and bonds comprising both listed (public) and unlisted (private) global assets. The Market Return option has a higher relative risk and volatility than the Cash Return investment option with an expectation of higher returns over the long term. The APSS adopts strategies aimed at reducing the impact of volatility on its portfolio.

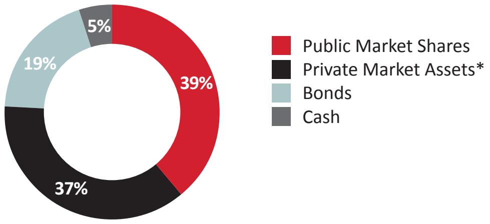


Market Return Member Savings Crediting Rates to 31 December 2016

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	1.82%	4.72%	7.95%	7.68%
APSS Rollover	1.82%	4.72%	7.95%	7.68%
APSS Pension	2.04%	5.00%	8.99%	8.63%

The compound crediting rates shown above are after investment costs and tax (where applicable). Pension members do not incur tax on investment earnings of their APSS Pension Accounts.

Actual asset allocation for the quarter ending 31 December 2016



* Private Market Assets include private equity, property, infrastructure and private debt. Remember, the Trustee is progressively scaling down the Private Markets Assets in the Market Return Portfolio towards the target allocation.

Important reminder: Past investment returns are not necessarily indicative of future investment returns.

Behind the numbers

The Market Return Crediting Rate was 1.8% over the December quarter, bringing it to 3.9% over the first half of the financial year. The crediting rates for APSS Pension Accounts are slightly higher because the investment earnings of these accounts are tax-free.

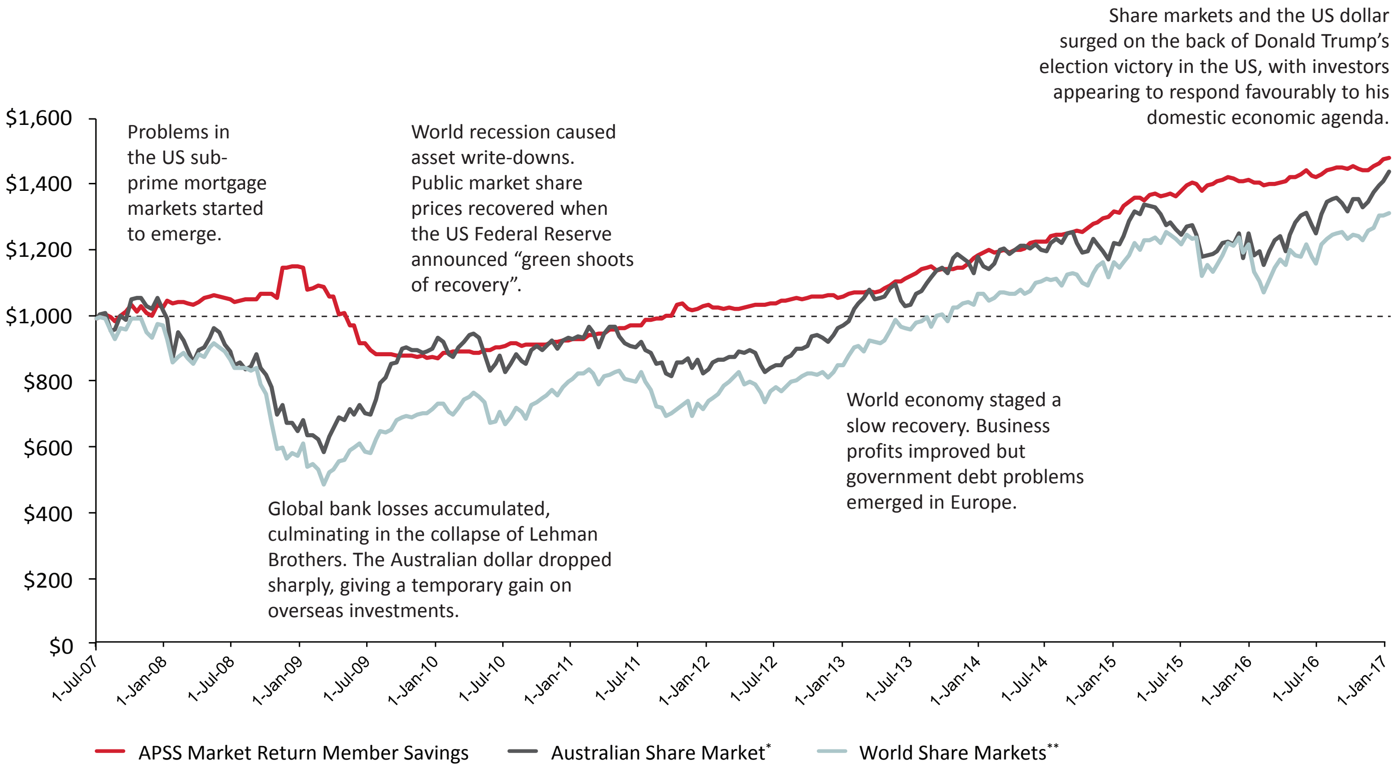
The United States presidential election result on 8 November overshadowed all other news in the final quarter on 2016. The market reaction was almost immediately positive, investors appearing to respond favourably to the then President-elect Trump's domestic economic agenda, revolving around tax cuts and infrastructure spending, while seeming less worried about the risks of a trade war with China or the implications for U.S. government debt. The U.S. central bank – the Federal Reserve – followed the election result with a 0.25% increase to its official interest rate in December and signalled three further rate hikes during 2017. The investment 'winners' from these developments in the U.S. included the share market, especially sectors like energy and banks, while government bonds lost value with the prospect of higher interest rates. The U.S. dollar also surged, adding value to U.S. based investments. Markets in major developed economies followed similar patterns but developing country markets were more subdued.

The APSS's investments reflected the global market shifts over the December quarter. Public market shares gained 1.4% and private market investments gained 4.4%, helped by the rising U.S dollar, while the bond investments declined by 0.5% in value.

The Market Return Portfolio

How we compare

How $1,000 invested in APSS Market Return Member Savings would have changed in value since 1 July 2007 compared to the same amount invested in publicly-traded Australian and overseas shares.



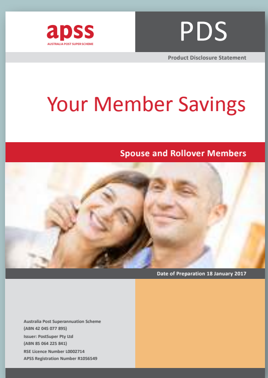
**The Australia Share Market line reflects returns from Russell Investments' Australian Shares for period prior to 30 September 2014 and Russell Investments' After-Tax Australian Shares Unit (for Superannuation Investors) thereafter.*

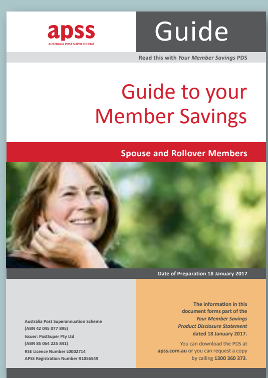
***The World Share Markets line reflects returns from Russell Investments' International Shares (Hedged) Pooled Superannuation Trust (PST) sector funds.*

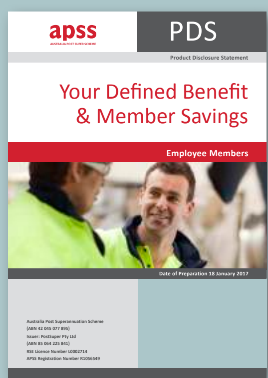
Important reminder: Past investment returns are not necessarily indicative of future investment returns.

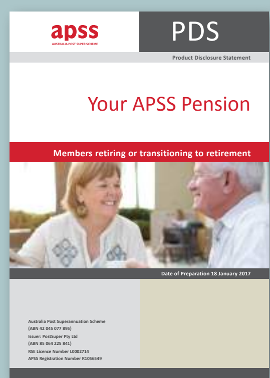
Product Disclosure Statement update

Our Product Disclosure Statements were updated in January 2017. Member Savings disclosures for Employee Members is now included in a single PDS that also explains how the APSS Defined Benefit works. The *Your Member Savings* PDS and Guide are now exclusively for Spouse and Rollover Members. Go to **apss.com.au** and download your copy by clicking on *Product disclosure* under *Publications & Forms.*



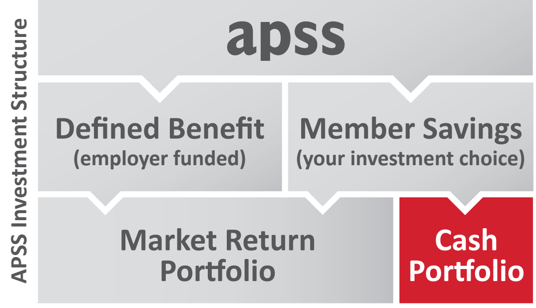






The Cash Portfolio

The crediting rates for Cash Return Member Savings are determined by the investment returns of the Cash Portfolio. The APSS Cash Portfolio invests in high quality cash deposits or bills and short-term interest bearing securities. The Cash Return option is therefore relatively low risk, with a capital guarantee currently provided by Australia Post that means crediting rates will not be negative, but with an expectation of lower relative returns in the long term.



Cash Return Member Savings Crediting Rates to 31 December 2016

	3 mths	12 mths	3 yrs (p.a.)	5 yrs (p.a.)
Employee and Spouse Member Savings	0.36 %	1.50%	1.87%	2.20%
APSS Rollover	0.36%	1.50%	1.87%	2.20%
APSS Pension	0.43%	1.75%	2.19%	2.63%

The compound crediting rates shown above are after investment costs and tax (where applicable). Pension members do not incur tax on investment earnings of their APSS Pension Accounts.

Actual asset allocation for the quarter: Cash 100%

Important reminder: Past investment returns are not necessarily indicative of future investment returns.

Behind the numbers

The Cash Return Crediting Rate is normally expected to track the official cash interest rate set by the Reserve Bank of Australia (RBA), after adjusting for the impact of tax. The RBA kept the official cash rate steady at 1.5% per annum through the December quarter. In electing to keep the cash rate low, the RBA referred to the significant risks to global economic activity and uncertainty about the momentum of economic growth and employment growth in Australia – in other words, 'let's wait and see what happens in 2017!' Over the December 2016 quarter, the Cash Return Crediting Rate was 0.4%.

Remember

When comparing the official cash interest rate to the APSS Cash Return Crediting Rates, keep in mind that, with the exception of the APSS Pension Accounts, the crediting rates are shown after tax is paid on investment earnings.

How to contact the APSS

Call *Super*Phone on **1300 360 373** between 9am and 5.30pm (AEST) Monday to Friday or visit us online at **apss.com.au**. Write to APSS, Locked Bag A5005, Sydney South NSW 1235 or Fax (02) 9372 6288.