apss
AUSTRALIA POST SUPER SCHEME

Insight

News from the Australia Post Superannuation Scheme

Quarter ending September 2017

Counting the cost of Cash

INSIDE THIS EDITION

The younger you are, the more time you have on your side. This creates one of the most significant investment opportunities you'll ever have – the opportunity to 'supercharge' your own member savings in super by choosing the right investment option. If you're invested solely in the Cash option, it's likely you could miss important investment growth opportunities. The good news is it's very simple to get back on track, as this issue of *Insight* explains.

Counting the cost of Cash

Background

On 1 July 2017, we introduced a new range of four investment options for the extra money you save in the Australia Post Superannuation Scheme (APSS). Go to **apss.com.au/investmentchoice** to learn more about how these 'member savings' can be invested.

Quite a few members who had not made an 'active' investment choice for their member savings before 1 July 2017 will find that most of their member savings are now in the Cash option. But is that option the most suitable choice? To answer that, you have to think about how well your long-term financial and retirement objectives align with those of the Cash option.

Objectives

The APSS Cash option is currently protected by a capital guarantee, which means that its crediting rates cannot be negative. With a capital guarantee, it's the lowest-risk option and, consequently, also has the lowest cost. This is generally a good thing if investing for a short term period like up to three years, but low risk and low cost also typically mean a lower investment return in the long run. So Cash has the potential to cost you more than you might think, especially if you still have several decades to go before you can even access your super.

As with any investment choice, it's important to understand what it's designed to achieve. Think of it like buying a car. You wouldn't buy a small electric car if your objective is to drive right around Australia because it won't have the range to cover those vast distances! Likewise, the investment 'vehicle' you choose for your member savings in super should be suited to your long-term objective.

The Cash option is essentially designed for 'short trips' – in other words, short-term periods of up to three years. It's designed for members who need to avoid any capital loss and are happy with investment returns that closely track Australia's official cash interest rate, which is expected to be relatively low compared to crediting rates of our other three investment options over longer periods.

For example, this might mean that Cash is suitable for members who are going to need to 'cash out' their super in the next three years, and are able to do so because they've already reached their 'preservation age'. For a 30-year-old today, preservation age is currently age 60.

Counting the cost of Cash

Is Cash for you?

As a result, while everyone's circumstances are of course different, the younger you are, the less suitable the Cash option may be for you. Therefore, if most of your member savings remain invested in the Cash option and you're still in your 20s and 30s, you should be challenging yourself as to why Cash is your chosen option. If you're not sure why, or your answer is something like "I've always been invested in Cash," it's probably time for a rethink.

Perhaps you haven't thought all that much about your super, much less what investment option you're in. You almost certainly have more pressing priorities and interests like education, travel, buying a car, getting married, raising a family or paying off a mortgage. When it comes to super, you may be thinking that it's not worth much of your time and attention because you have relatively little at this stage in your life, and there are just too many years to go until you can access it.

But it's exactly because you have time on your side that you should be thinking about it right now. A decision you make today about how much you save in super, and how you invest those savings, can have 'snowball' effects over time and huge implications for your future.

Need to change your investment choice(s)?

It's a good idea to regularly review how your account is invested and consider whether you've made the best investment choice(s) at this stage of your life.

It's very easy to make a 'switch' – just login to **apss.com.au/MemberAccess** or call *Super*Phone on **1300 360 373**. While you're at it, you may also want to check and confirm that your beneficiaries are up to date.

Understand the risks

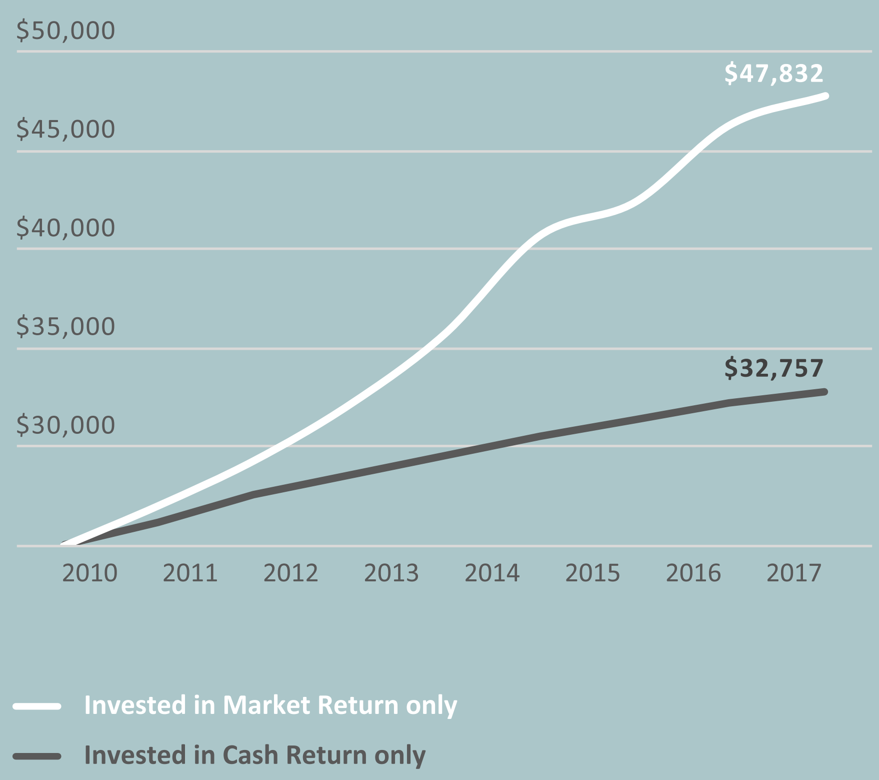
If you do decide that moving your member savings out of the Cash option and into a higher-growth option is best for you, please also understand and always remember the risks. All the higher-growth investment options are more 'volatile' than Cash, which means that they may deliver negative returns from time to time that can reduce the balance of your member savings. Over longer time periods, the positive returns should more than compensate for any negative returns but, of course, this can never be guaranteed. To learn more about investment risk, read our *Investment basics* fact sheet, which can be downloaded at **apss.com.au** in the fact sheets section under the *Publications & Forms* tab.

Counting the cost of Cash

Next steps

1. Start by visiting **apss.com.au/investmentchoice** to get an overview of your investment choices in the APSS.
2. Read more detail in the Product Disclosure Statement (PDS) applicable to your membership category by downloading your PDS from the *Product disclosure* section of **apss.com.au** under the *Publications & Forms* tab. Call *Super*Phone on **1300 360 373** if you would prefer to have your PDS mailed out to you.
3. Access free general advice that can be provided to you when you call *Super*Phone on **1300 360 373**.
4. If you need more than the general advice you can obtain personalised financial advice through a licensed provider of financial planning services. You are free to choose any provider, although you may prefer to talk to one the APSS Trustee has a relationship with because they will already be familiar with APSS benefits and choices. That provider is State Super Financial Services Australia Limited (ABN 86 003 742 756), known as *StatePlus* (StatePlus). To make an obligation-free appointment, please call **1800 620 305**.
5. Login to **apss.com.au/MemberAccess** to validate your choice, and revisit it at regular intervals – perhaps every year when you receive your annual benefit statement.

Suppose that you had $25,000 of member savings on 1 October 2010 and continued saving $1 a day ($14 a fortnight). Had you chosen to invest in the Market Return option, your member savings would have returned 75.69%, growing to $47,832 by 30 September 2017.* If you had chosen to be only in the Cash Return option, your choice would have cost you around $15,000 in returns over the same time frame.** How much more might you miss out on in another 10, 20 or 30 years?



*Assumptions: Invested in the Market Return option for six years and nine months to 30 June 2017, then in the Balanced option (i.e. the new name for Market Return) for the three months to 30 September 2017.

**Return would have been 18.58%, or $32,757, if invested in the Cash Return option for six years and nine months to 30 June 2017, then in the Cash option (i.e. the new name for Cash Return) for the three months to 30 September 2017.

All investments carry risk and may rise and fall. Remember! Past investment returns are not necessarily indicative of future investment returns.

Over the 10 years to 30 June 2017, for example, the gap between the return outcomes in this example actually closes rather than widens on account of the effects of the global financial crisis.

Counting the cost of Cash

Have you got the right investment choice?

The Balanced option is now the 'default' option for all future member savings from 1 July 2017 because it's generally considered an appropriate choice for most members. However, your personal investment choice should be based on your individual needs, risk tolerance and personal situation, so be sure to seek advice to validate your decision. Here's a quick guide to what to consider at different ages:

In your 20s and 30s

Super is probably your lowest financial priority in your 20s - 30s, but the choices you make can really set you up for life. At this stage in life, investment options like Balanced and High Growth are generally going to be more suitable.

In your 40s

This is the stage of life people often look back and perhaps regret not making better financial decisions when they were younger. However, retirement is still some way off in the future so there's still time to get some strong, longer-term investment growth going.

In your 50s

The investment choices you made when younger hopefully mean that you have a significant super balance. You may want to start protecting part of that balance by investing some into lower-risk options, but growth remains important even in your 60s and beyond.

In your 60s and beyond

Cash and Conservative options might seem more suitable the older you get, but you will likely still need some growth. For example, men at the traditional retirement age of 65 can now expect to live another 19.5* years; women a few years longer. So don't completely ignore Balanced or even High Growth!

Download our *Investment basics* fact sheet under *Publications & Forms* at **apss.com.au** for more information on making an investment choice that's right for you.

*Source: Australian Bureau of Statistics, Table 1: Life tables, States, Territories and Australia - 2013-2015 (27 October 2016 release). See: http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3302.0.55.0012013-2015?OpenDocument.

Important note!

The information in this article is of a general nature and does not take into account your personal objectives, financial situation or needs. The APSS Trustee is not licensed to provide financial product advice. Before making a decision about your super, including investment options, please read the relevant PDS that can be downloaded from the 'Product disclosure' section of **apss.com.au** under the *Publications & Forms* tab, or mailed out to you by calling *Super*Phone on **1300 360 373**. The APSS recommends members seek professional financial and tax advice tailored to their circumstances before making any decision about their super. The APSS Trustee has a relationship with State Super Financial Services Australia Limited, trading as 'StatePlus', a licensed provider of financial planning services (ABN 86 003 742 756, AFS Licence No. 238430). If you decide to seek financial advice through StatePlus, please note that neither the APSS Trustee nor the Australian Postal Corporation endorses, recommends or guarantees any services provided by that licensed provider of financial planning services.

Investment round up

Each APSS investment option has its own underlying investment portfolio. Each option's crediting rate is determined by the investment return of its underlying portfolio. With the exception of the Cash option's portfolio, which is always cash (and cash equivalents), each option has a mix of underlying assets, just in different proportions. A portfolio with a higher allocation to 'growth' assets like shares is expected to deliver higher investment returns and therefore higher crediting rates over longer timeframes. However, the higher the allocation to growth assets, the more volatile the portfolio is considered to be. The more volatile, the higher its risk of dropping in value from time to time.

Crediting rates to 30 September 2017

	Cash	Conservative	Balanced	High Growth
Member Savings accounts (including Spouse and Rollover accounts)				
3 months	0.38%	1.34%	2.38%	3.08%
1 year	1.55%	n/a	8.77%	n/a
3 years (p.a)	1.72%		8.04%	
5 years (p.a)	1.94%		8.60%	
Transition to Retirement (TTR)* Pensions				
3 months	0.38%	1.34%	2.38%	3.08%
1 year	1.76%	n/a	9.63%	n/a
3 years (p.a)	2.00%		9.05%	
5 years (p.a)	2.29%		9.56%	
APSS Pensions (Tax free)*				
3 months	0.45%	1.25%	2.72%	3.45%
1 year	1.83%	n/a	10.00%	n/a
3 years (p.a)	2.03%		9.17%	
5 years (p.a)	2.31%		9.63%	

Note: The compound crediting rates shown above are after investment costs and tax (where applicable). Before 1 July 2017, the **Cash** option was called 'Cash Return', and the **Balanced** option was called 'Market Return'. The **Conservative** and **High Growth** options commenced on 1 July 2017, which is why returns for periods longer than 3 months are not currently applicable (n/a).

*From 1 July 2017, APSS Pension investment earnings are not always tax-free. If the APSS Pension is being used as a 'Transition to Retirement' (TTR) account, then investment earnings may be taxed at up to 15%. Refer to our *How super is taxed in 2017-18* fact sheet for more information and use the second table above for the applicable crediting rates where tax applies to an APSS Pension.

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

Investment round up

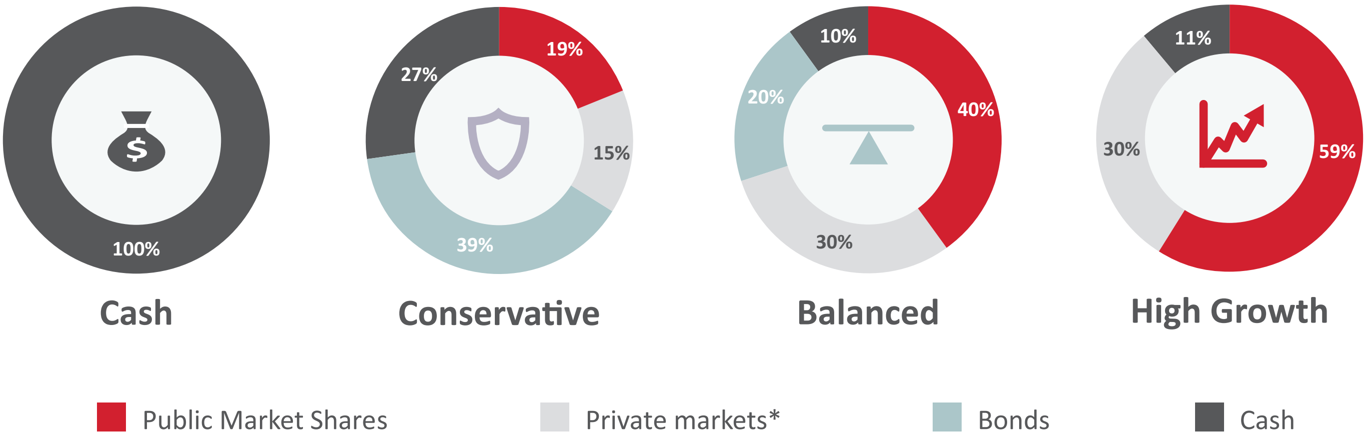
Asset allocations at 30 September 2017

Asset allocation is the mix of different asset classes (and assets within each class) in an investment portfolio.

Strategic Asset Allocation (SAA) refers to the strategy used to achieve a particular investment objective.

Actual asset allocation is a snapshot of the mix of assets at a particular point in time. This might vary from the SAA, but only within allowable ranges that are set as part of the overall investment strategy.

Following are the actual asset allocations for the four investment options we had in place 30 September 2017:



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

Defined Benefit portfolio

There's a fifth investment portfolio with assets that your employer relies upon to pay defined benefits and related costs. At 30 September 2017, this portfolio was invested virtually the same way as the Balanced option's portfolio, with just a very small difference in cash and public market shares. This may change in future. However, the portfolio's investment performance and asset allocation has no effect on what the majority of members* entitled to a defined benefit from the APSS will actually get. This is because that entitlement is determined by a formula based on Final Average Salary (FAS) at the time the defined benefit becomes payable, and years of service. This means that defined benefit members don't rely on investment returns for their super to grow. They also don't carry the investment risk – their employer does.

*Most members do not have an 'other offset account' but if you do, please remember that interest is charged on that account at the same rate as the crediting rate calculated from the investment return of the Defined Benefit portfolio.

Investment round up

Behind the numbers

Global economic conditions were generally positive in the September 2017 quarter, supporting a continued rise in share market and other growth asset values. Meanwhile, low interest rates translated into low returns on cash and bond investments. The combination of rising growth asset values and lower returns on defensive assets helped the new High Growth option deliver the highest crediting rate of 3.1% with progressively lower, but still positive, crediting rates for the Balanced (2.4%), Conservative (1.3%) and Cash (0.4%) options over the quarter. Due to tax-free investment earnings, crediting rates for APSS Pension accounts were slightly higher than the equivalent member savings and Transition to Retirement (TTR) crediting rates.

Among key signs of global economic activity, US and European unemployment rates declined but inflation stayed low, encouraging each region's central banks to keep interest rates low. China's economy maintained its 6% to 7% annual growth trend. Investors seemed unfazed by instability and controversy in the US political environment, the tensions between North Korea and the US, and the narrow German election result. There was relatively little market volatility surrounding these events.

At home, the Reserve Bank of Australia (RBA) kept the official cash interest rate at 1.5% per annum throughout the September quarter. With inflation running at around 2% per annum and stable employment data, the RBA decided that the current cash rate was appropriate to encourage sustainable economic growth. The Australian dollar, meanwhile, rose by almost 2% against the US dollar during the quarter, but fell by about 1% against the Euro, as Europe's economic recovery gained strength.

The public market shares that the APSS invested in earned 3.4% before tax in the September quarter, with gains from Australian and international markets. Our private market investments also benefited from rising confidence in the global economy, gaining 4.2%, also before tax. As these are mostly US-based investments the weaker US dollar detracted a small amount of value. However, our currency risk-management process helped reduce the negative impact. Reflecting the low interest rate environment in Australia and major overseas economies, returns from our bond and cash investments were much lower over the quarter, with returns of 0.2% for bonds and 0.5% for cash (before tax).

How to contact the APSS

Call *Super*Phone on **1300 360 373** between 9am and 5.30pm (Sydney time) 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.