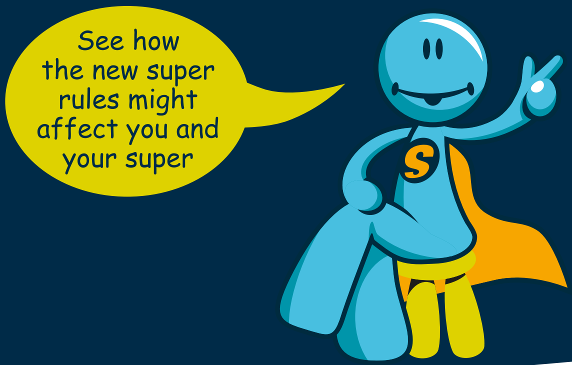


Lutheran Super
You're valued

Your 2016 super update

Super rules will change from 1 July 2017

From a superannuation change viewpoint, the major event of last year was the May 2016 Federal Budget, with the Government announcing an extensive package of reforms aimed at making the superannuation system fairer, more flexible and more sustainable.

The following section outlines the super rule changes that will take effect from 1 July 2017 and some things you may wish to consider before the new rules come into play.

All contribution limits will reduce

Concessional (before-tax) contribution limit

From 1 July 2017, the annual concessional contribution limit for all ages will reduce to $25,000 (indexed).

The concessional contribution limit for 2016/17 is $35,000 for those aged 50 or over as at 30 June 2017. The limit is $30,000 for individuals aged 49 and younger. Concessional contributions include employer and salary sacrifice contributions.

Catch-up concessional contributions allowed

From 1 July 2018, individuals with an account balance of under $500,000 will be able to utilise unused concessional contribution amounts for up to five years. This means that from 2019/20, eligible individuals who have not reached their concessional contribution limit in 2018/19 or later years can make 'catch up' contributions of any unused amounts accrued over the five previous years (not counting years prior to 2018/19).

This measure is designed to help those who take time out of work, whose income varies considerably from one year to the next, or whose circumstances have changed and are in a position to increase their contributions.

If you're not in a position to make concessional contributions of up to $25,000 a year, you may be able to take advantage of the carryover rules when your income is higher. However, it is recommended that you speak to a financial adviser before changing your contribution strategy.

Inside you'll find:

Non-concessional (after-tax) contribution limits

From 1 July 2017, the annual non-concessional contribution limit will drop to $100,000 for all ages, reducing from the 2016/17 limit of $180,000 (the same as for 2015/16). For those aged under 65, the three-year 'bring-forward' amount will also reduce from $540,000 to $300,000 unless they have brought forward contributions in 2015/16 or 2016/17 whereupon transitional arrangements will apply. The 'bring-forward' provision will automatically be triggered if non-concessional contributions exceed the limit in any year.

From 1 July 2017, individuals with a super balance of $1.6 million (indexed) or more will not be able to make non-concessional contributions.

Government co-contributions

While there has been no change to the Government co-contribution, eligible members who earn up to $51,021 a year can take advantage of this scheme by making after-tax contributions to super to potentially qualify for a co-contribution of up to $500. Table 1 shows the respective co-contribution amounts based on income and annual after-tax contributions.

Table 1: Annual income, after-tax contributions and co-contribution payments

Income	Personal annual after-tax contribution			
	$1,000	$800	$500	$200
	Co-contribution amount			
$36,021 or less	$500	$400	$250	$100
$39,021	$400	$400	$250	$100
$42,021	$300	$300	$250	$100
$45,021	$200	$200	$200	$100
$48,021	$100	$100	$100	$100
$51,021 or more	$0	$0	$0	$0

There is a window until 30 July 2017 to take advantage of the higher limits, but you may want to speak to your financial adviser before changing your contribution approach. You can speak to an adviser over the phone at no cost by calling the Lutheran Super Helpline on **1800 635 796**.

More information about making before-tax (concessional) contributions can also be found later in this update.

Spouse contributions tax offset

From 1 July 2017, the income threshold to qualify for the maximum spouse contributions tax offset will increase from $10,800 to $37,000 and the cut off income level for a partial offset will increase from $13,800 to $40,000. To make eligible contributions, your spouse must be under age 70, and if they are aged between 65 and 69, they must meet a work test.

Low income superannuation tax offset

From 1 July 2017, there will be a low income superannuation tax offset of up to $500 to offset tax on concessional contributions for members with incomes up to $37,000. This is to replace the existing low income superannuation contribution which applies for contributions made up to 30 June 2017.

Key changes to pension rules from 1 July 2017

Transition to retirement pensions

From 1 July 2017, the tax exemption on earnings from assets supporting Transition to Retirement Pensions (TRAP) will be removed. This means that investment earnings on these accounts will be taxed at up to 15% from 1 July 2017. In light of these changes, Individuals with a TRAP may want to review their current strategy with the assistance of a financial adviser to determine whether any changes to their strategy are needed.

Pension accounts

From 1 July 2017, a $1.6 million cap (indexed) will apply on the amount that individuals can transfer into superannuation pension accounts that have tax-exempt investment earnings. Those with pension accounts above $1.6 million at 1 July 2017 will need to transfer the excess to a taxed superannuation account or withdraw it from super. Special rules apply to some defined benefit pensions and annuity arrangements.

If you have questions around how these changes will impact you, call the Lutheran Super Helpline on **1800 635 796** or visit **www.lutheransuper.com.au** for more information. For advice about how these changes may affect you, you can call the Helpline to speak to an adviser over the phone at no cost.

Top up your super and save on income tax

Contributing some of your salary into super through 'salary sacrificing' is a simple and effective way to boost your retirement nest egg. It also comes with attractive tax advantages that help to reduce your income tax (bearing in mind the annual contribution limits). By contributing small amounts today, you can make a difference to your savings tomorrow.

What is salary sacrifice?

Salary sacrifice is an arrangement between you and your employer whereby some of your income is paid directly into your super account before income tax is taken out, instead of being paid to you as salary or wages.

Tax benefits

By putting some of your before-tax salary into super, the sacrificed amount is generally taxed at a rate of 15% instead of being taxed at your marginal tax rate. Your marginal tax rate is the highest amount of tax you pay on your income before you receive it.

For example, if you earn between $37,001 and $87,000 a year, you pay a marginal tax rate of 32.5%[1]. However if you were to contribute before-tax money into your super account, you would only pay a contribution tax rate of 15% on that amount. Salary sacrificing makes sense from a tax perspective if your marginal tax rate is higher than 15%. (See Table 1 below for your marginal tax rate).

1. You also pay a 2% Medicare levy, which applies to most tax payers and a temporary budget repair levy of 2% applies for taxable incomes over $180,000 a year.

Which tax bracket do you fall under?

How much you earn will determine how much you pay in tax. Table 1 shows the marginal tax rates applying from 1 July 2016.

Table 1: Marginal tax rates

Income	Marginal tax rate[2]	Tax on this income[2]
0 – $18,200	0%	Nil
$18,201 – $37,000	19%	19c for each $1 over $18,200
$37,001 – $87,000	32.5%	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	37%	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	47%	$54,232 plus 45c for each $1 over $180,000

2. The above rates do not include the:
   - Medicare levy of 2%
   - 2% temporary budget repair levy; payable for taxable incomes over $180,000.

How much to salary sacrifice?

There are annual limits on how much you can contribute to your super on a before-tax (concessional) basis.

Until 30 June 2017, the concessional contributions limits are:

- $30,000 per year if you were 49 or younger on 30 June 2017
- $35,000 per year if you are 50 or over on 30 June 2017.

From 1 July 2017, the concessional contribution limit will reduce to $25,000 (indexed) for everyone, regardless of age.

Your total concessional contributions in a financial year include all employer contributions and before-tax contributions paid into **any** super account on your behalf. If you make salary sacrifice contributions to your super, it's your responsibility to track your total contributions to ensure you remain under the annual contribution limit that applies for you. You can track this through your online account on the Lutheran Super website.

If you exceed the concessional limit, you will pay extra tax and costs on the excess contributions. For more information about contributions limits and tax payable on excess contributions, read the *Super contributions* factsheet on the ATO website, **www.ato.gov.au**.

The reduced contribution limit up to **$25,000 for everyone**, will apply from 1 July 2017. There's still time to make extra contributions to your super before the lower contribution limit comes into effect.

You can use the *Salary sacrifice calculator* on the **Planning tools** page on the Lutheran Super website to see how much tax you might save by making before-tax contributions to your super. You can also call the Helpline to speak with a financial adviser about your contributions over the phone at no cost.

Speak to your employer if you want to make or change salary sacrifice contributions.

Saving tax and boosting your retirement savings

How much you might like to contribute to your super depends on your personal situation and how much you can afford to give up, bearing in mind the annual contribution limits. But even small amounts can make a difference over the long term.

Table 2 shows what the tax savings and additional super contributions could look like over 20 years for someone aged 45 and earning $60,000, assuming retirement at age 65.

Table 2: Weekly contributions, tax savings and retirement outcomes

Salary sacrifice/ week	Equivalent cash in hand amount diverted to salary sacrifice	Income tax savings at retirement[3]	Estimated additional super savings at retirement[3]
$38	$25	$7,706	$59,256
$76	$50	$15,413	$118,513
$115	$75	$23,327	$179,328
$153	$100	$31,034	$238,585

Assumptions

3. Assuming a marginal tax rate of 34.5% on personal income (that is, 32.5% plus 2% Medicare levy). The amounts shown in Table 2 are not predictions of actual outcomes as returns are likely to vary over time. Actual dollar values are used with no adjustment for the effect of inflation. The projected outcomes apply the following assumptions over 20 years: before-tax contributions per week as shown, investment return of 5.61% per annum (after-tax) paid in arrears. Starting age 45 and retirement age 65. Differences in returns (which may be positive or negative), and fees will alter the outcome. This example also assumes concessional contribution limits have not been exceeded. Current at 1 March 2017. The example shown may not apply to your own situation, so we recommend that you consider your options carefully and seek financial advice about salary sacrifice. Salary sacrifice arrangements are subject to employer approval.

Seeking help and advice

There are a lot of things to consider when making a decision about salary sacrificing into super and in some cases it may not be the most appropriate strategy for you.

The *Salary sacrifice/Co-contributions calculator* in the **Planning tools** section of the Lutheran Super website lets you compare the benefits of making before-tax contributions (and the tax savings) and after-tax contributions and, if you qualify, the potential Government co-contribution payment.

If you are not sure about how to proceed or you would like more information about making extra contributions to your super, call the Helpline on **1800 635 796** to speak to a licensed financial adviser over the phone at no cost. You can also find more information on the ATO website **www.ato.gov.au**.

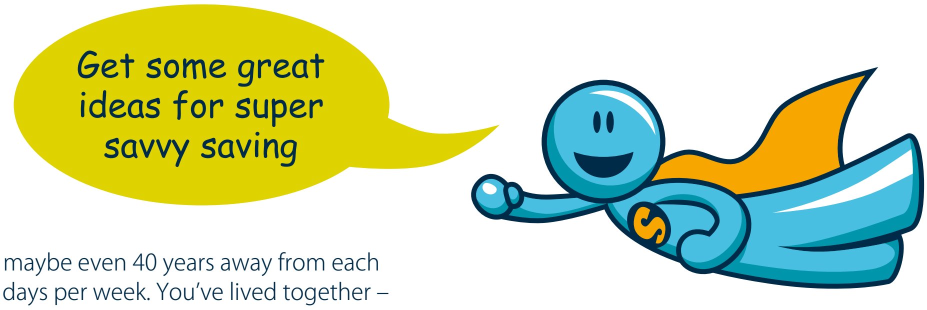
Life is more than just $$$

Financial experts get into the nitty gritty of retirement and discover there really is more to it than you initially think.

Getting your finances right is an important part of retirement planning; it lets you know what you can afford and how you'll pay for it. But a healthy asset base and regular income is only part of the picture; the rest is how you intend to live your life day-to-day and manage your relationships now that you'll be spending a lot more time at home. For some people, it's the elephant in the retirement room: what am I going to do each day and where am I going to hide?

Your purpose

For most, if not all, work does more than provide an income. It is a social outlet and offers a sense of purpose, which may not be easily replicated at home. According to a national survey[1] of older workers, more than 70 per cent of Australians are willing to work beyond 60, many for non-financial reasons such as personal enjoyment, a sense of accomplishment, freedom and independence. If you're leaving work behind, you need to know how you'll replace the positives.



Your marriage

You've spent the past 20, 30, maybe even 40 years away from each other 9-10 hours per day 5-6 days per week. You've lived together – and happily so – but you haven't lived together all the time. That's going to take some getting used to and having a plan in place – from just talking through your individual expectations to organising formal post-retirement counselling – will make it that much easier. A strategy for living through a typical day post-work is important for you as an individual and as part of a couple.

Your kids

They are now 30ish, educated and living their own life but your work as a parent is probably far from over, particularly if they have children of their own. According to the Australian Bureau of Statistics[2], grandparents provide child care for almost one-third of children with two working parents. Is providing childcare part of your retirement plan? If not, you might want to deal with those expectations before they catch you napping in your easy chair.

The conclusion

The non-financials of retirement need as much planning and forward thinking as the financial side and, ironically, it can be even more difficult to think about while you're still working. But if you're really ready to pull the pin, you'll lay the groundwork for your new life before packing up your desk for the final time.

1. *FSC CBA Older workers report*, Financial Services Council and Commonwealth Bank, 2015
2. *Grandparents are the main providers of informal care for children of working parents*, Australian Bureau of Statistics, media release 28 April 2015

Read more about managing the lifestyle change after retirement by visiting the 'Life events & you' banner tab on the Money Smart website, **www.moneysmart.gov.au**

Super ideas to save

Finding the time to devote to saving should be front of mind and not a chore, say financial experts.

If your calendar is like most, it's pretty full; juggling work, family and friends, maintaining a home, paying the bills. One in five women say 'lack of time' keeps them from sorting their super; and it's having a huge impact on women's retirement savings.

According to Association of Superannuation Funds of Australia[1] about 90 per cent of women will retire with inadequate savings to fund their retirement and one in three women will retire with no super at all.

Financial experts believe it is paramount to all people, regardless of age, to understand and manage their own finances in preparation for their future needs. And, it all starts with budgeting and knowing the value of a dollar.

Here are some useful tips to get you started:

- Set yourself a budget and don't splurge; you need to have surplus income to start saving. Recreational spending is OK but things like travel, cars, clothing and dining out should be kept in check.
- Salary sacrifice small amounts of your pay to help you build your retirement savings. Start salary sacrificing $1,000 a year – about $20 a week – and build this slowly over time. (See the earlier article, *Top up your super and save on income tax* for more information about salary sacrificing to super.)
- Before buying a home always consult experts for the best financial deal and be disciplined in saving for the deposit and paying off the mortgage. Consider a flatmate to help repay the mortgage sooner.
- If you are negotiating a property settlement in a divorce, seek financial advice. Financial experts agree that women are often inclined to take the lifestyle assets, such as the home or car and maintenance payments, rather than the investment assets of super, shares and investment properties.
- Financial professionals agree that too many women accept lower pay relative to their male counterparts. The key is to be assertive and request pay commensurate with your position.

Put time aside each week to engage with and understand your finances; educate yourself about tax, super and investments. It's not hard to take responsibility for your own finances, but it does require a bit of your time.

1. *Help ASFA close the $92,000 superannuation gender gap this Women's Day*, Association of Superannuation Funds of Australia (ASFA), media release 27 February 2015

Call the Helpline on **1800 635 796** if you'd like more information and advice about saving for your future. The *Budget planner* in the **Planning tools** section of the Lutheran Super website, **www.lutheransuper.com.au**, will also help get you started.

2016 investment update: the year in review

The volatility that surrounded 2015 for investors continued into the early stages of 2016. The list of major global political surprises lengthened later in 2016, with the unexpected referendum outcome of Britain to leave the European Union in June and the election of Donald Trump in November. Both of these major events triggered cautionary market activity and may signal a possible retreat from globalisation.

A near perfect storm of renewed fears of a Chinese slowdown, disappointing United States (US) economic data, the introduction of negative interest rates in Japan, and falling oil prices resulted in the worst start to a calendar year ever.

This, in turn made share markets highly volatile and making investors very nervous that the run of positive financial years may have come to an end.

The US Federal Reserve (the Fed) moved to calm the market over prospective interest rate rises while Japanese, Chinese and European Central banks moved again to ease monetary conditions. In Australia, the Reserve Bank (RBA) continued to leave the door open to further policy easing, noting the prospect of inflation remaining low for a prolonged period of time.

This all helped ward off concerns of a global recession but markets remained dubious about the potential for strong economic growth. However recovery did begin in March and market returns generally maintained a positive trajectory throughout April, May and June.

Market reactions following the UK's Brexit vote to leave the European Union (EU) on 23 June 2016 were immediate and significant; the UK market fell 7%, Europe dropped 8.6% and Japan was down 8.4%. The initial shock saw the Pound Sterling take a deep dive–dropping to 30-year lows the day of the referendum count.

But by the end of June, markets had started to settle and, in some cases, partly reverse the post-Brexit losses, with the direct economic impact largely confined to the UK and only limited spill over into the EU, and even less to the rest of the world. Uncertainty following the 'Brexit' is expected to continue as the world waits for the UK to invoke article 50 to officially begin the process of separating from the EU.

Markets were more subdued in August continuing into September and October as weaker Chinese economic data fuelled concerns that stimulus was wearing off and US economic data also came in below expectations.

Despite the negative movement following the Brexit vote, Australian equities remained strong across the market spectrum from June through the remainder of the year.

Markets rallied over November and December to deliver a strong overall performance in Q4. Much of the quarter revolved around the US presidential election and expectations for a Fed rate hike. The election result proved a surprise for markets, with the Republicans taking out a clean sweep of the senate, house and presidency. Following a brief plunge post-election, markets rebounded over November and expanded over December under the expectation of 'business friendly' policies under Donald Trump.

In Europe, interventions by the European Central Bank (ECB) were extended to December 2017 on a reduced scale. The Chinese economy also showed signs of picking up, with both the government and private indicators reaching two year highs in November and the private sector further increasing by 1% in December, the largest gain since January 2013.

The impact of the new administration in Washington DC added a new layer of uncertainty at the year's close. In contrast, global bond markets weakened over the quarter as growth and inflation expectations rose. Experts predict that global growth will pick up modestly in 2017, led by the emerging markets.

At home in Australia

The theme of political uncertainty continued closer to home as speculation was rife over the 2016 Australian election. Increasing likelihood of a minority government and further difficulty in navigating a hostile senate led to speculation that Australia's AAA sovereign bond rating could be at risk as the budget deficit trend looked likely to continue.

A significant change in the June quarter was the rate cut by the RBA to a record low in May. This level was maintained through June as the RBA attempted to direct the Australian economy transition following the mining boom, with continued growth despite a large decline in business investment. Inflation remained quite low and is expected to for some time, given subdued growth in labour costs and very low cost pressures elsewhere in the world.

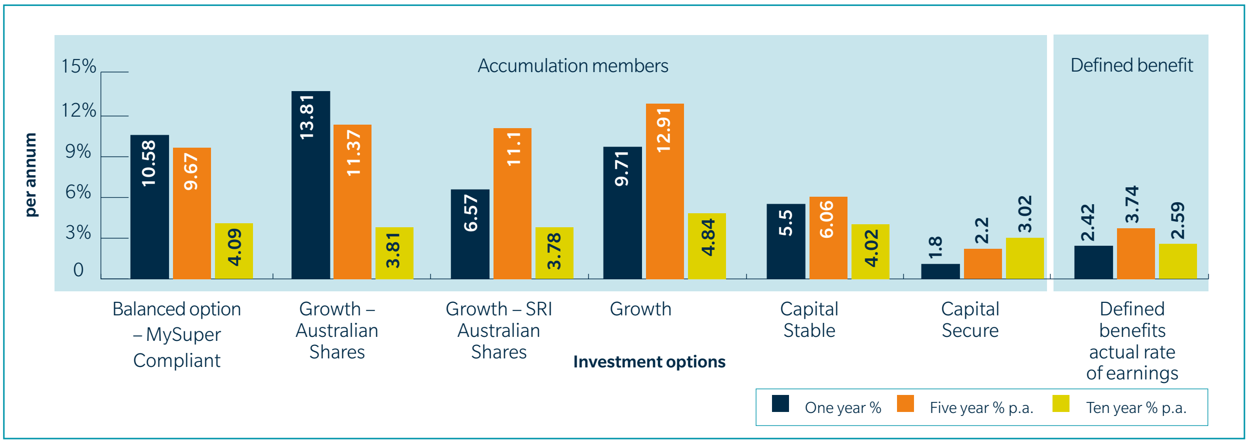
Employment levels rose throughout 2016 while the unemployment rate remained largely unchanged and in line with market expectations. Domestic growth for the June quarter was 0.5%, down from the 1.1% seen over the March quarter. Annual GDP growth for the 2015/2016 financial year was 3.3%, marking 25 consecutive years of growth in the domestic economy. Unseasonably wet weather in much of Australia contributed to the decline in Q3, delaying construction activity and certain consumer purchases. The RBA cut the cash rate again in August by 0.25% to a new all-time low of 1.50%.

* Source: Mercer Investment, December 2016

Lutheran Super performance to 31 December 2016

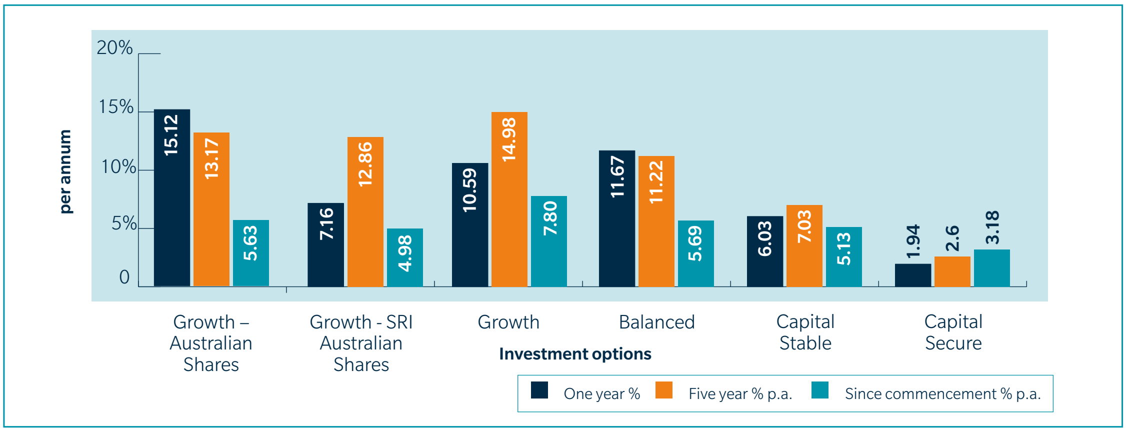
The following graphs show the investment performance, after tax and fees, for all the Lutheran Super investment options for one, five and ten years to 31 December 2016. Graph 1 shows returns for members with superannuation accounts and Graph 2 shows the returns for account-based pensions.

Graph 1: Lutheran Super investment returns to 31 December 2016 for superannuation members



Graph 2: Lutheran Super investment returns to 31 December 2016 for pension members

Lutheran Super pension investment options became available from 1 July 2008, so the ten year average returns are not available. The average annual returns for one, five years and since commencement are shown.



Have a question?

If you need assistance with your super or would like to speak to a financial adviser for limited personal advice, call the Lutheran Super Helpline on **1800 635 796**. Or visit the website, **www.lutheransuper.com.au** for latest news, information and investment updates.

You can also send a query online by visiting the website, clicking the 'Contact us' tab and completing the online enquiry form.