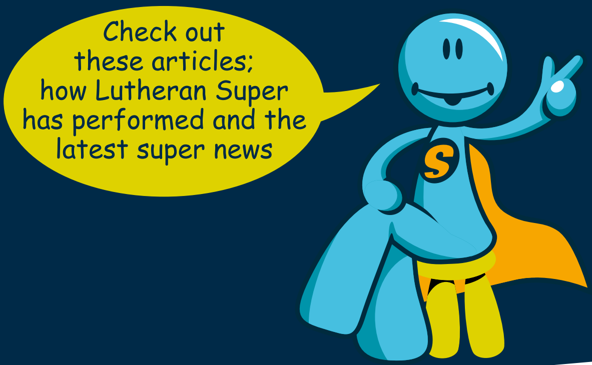



Lutheran Super
You're valued

# Your 2018 super update

## Ah, the volatility. It's all about confidence

**After six months of relative calm, share markets hit a rough patch in early October 2018. Global shares[1] fell 6.5% in less than two weeks. Australian shares[2] fared slightly better, only falling 5.2% in the same period.**

The high-flying technology sector (which has seen massive gains since the financial crisis) was hit particularly badly. The tech-heavy NASDAQ index dropped nearly 9% in the first 12 days of October.

Four days later, Wall Street surged more than 2%, its biggest one-day gain since March. In the weeks following, equity prices have recovered some of these losses[3] (Global Equities +0.8%; Australian +1.7%; NASDAQ +1.6%)… Ah, the volatility.

As always, it's almost impossible to pinpoint one reason for the sell-off; instead a range of factors combined to make investors nervous – among them are ongoing trade tensions between the US and China, rising oil prices and more contractionary monetary policy in the US.

One thing seems apparent – the historically low levels of volatility witnessed in equity markets over 2016/17 could soon be a thing of the past and investors could experience more volatility in stock prices over the coming years.

**The financial system is based on confidence, not numbers**

There hasn't been a lot of volatility in markets over recent years, largely as a result of the actions of policymakers who rushed to restore confidence in the financial system following the 2008 Global Financial Crisis.

Politicians sought to rebuild confidence by stating that they would do "whatever it took" to ensure the survival of the system in roughly its current form. And it worked.

A rapid move to record low interest rates, the injection of huge amounts of cash into the banking system and a massive program of asset purchases helped avoid a deep global recession; Australia managed to avoid recession altogether.

## Inside you'll find:



These policies, known as quantitative easing, were untried and untested. No-one really knew what the results would be. In fact, their full long-term effect remains unclear.

What we can say is that central bank intervention – and the increased confidence they would do whatever it took – helped fuel an exceptional boom in asset prices and kick-started a near 10-year bull market.

It also led to a decade-long build-up of public and private sector debt. Current debt levels are similar to those seen in the pre-crash period of 2007-08 which brings the glaring prospect of another global financial crisis.

**The end of an era**

The era of extraordinary monetary policies is coming to an end. Major central banks are planning to gradually remove their support from the financial system, scaling back or ceasing asset purchases.

Interest rates in the US will likely continue to rise for the foreseeable future while other central banks – namely the Bank of England and the European Central Bank – have committed to a gentle tightening of monetary policy.

Brexit negotiations in the UK and potential political issues in Greece, Italy and Spain mean European regulators are treading a much more delicate path than those in the US, especially considering European economies are not performing as strongly as the US.

There are also some significant political risks, such as growing trade frictions, increasing populism in mainstream politics and simmering tensions in a number of geopolitical hotspots, not to mention falling house prices here at home.

**Don't panic**

There are sensible actions investors can take based on sound, long-term principles: keeping a cool head and embracing diversification are chief among them.

Do not make "knee jerk" decisions that might damage your longer-term objectives.

Most superannuation investors are exposed to equity markets to some degree so will be affected by these market movements, but super is a long-term investment and that means there's usually time to make up any losses from volatility events.

If you're heading towards retirement, now is a good time to get some advice on your investments. If you have any immediate concerns about your investments, call the Lutheran Super Helpline on **1800 635 796** to speak to a licensed financial adviser over the phone at no extra cost.

[1] Measured using the MSCI World Index
[2] Measured using the MSCI Australia Index
[3] All returns as at Friday 19th October 2018

*Source: Mercer*

# Home prices fall for the first time in six years

**From 1 July 2017, the income threshold to qualify for the National house prices have dropped, putting further pressure on Australian households already squeezed by record high debt and stagnant wage growth**.

Sydney's housing market suffered its biggest annual price fall in more than two decades, driving down national average house prices for the first time in six years.

Home values in Sydney fell by -4.5% in the year to 30 June 2018, a massive turnaround compared to the 16.4% growth experienced just a year earlier, according to Core Logic data. All Australian capital cities combined fell 1.6% and overall national home values were down -0.8%, the largest dip in prices since 2011-12.

Core Logic analyst Cameron Kusher says this financial year was one of only four over the past two decades in which capital city values have fallen[1].

"Unlike previous downturns, the slowing of value growth was not precipitated through movements in the cash rate," Kusher says. "Increases to the cost of borrowing, particularly for investors, tighter credit conditions and a lack of real wage growth are some of the main drivers of weakening housing conditions."

**Fewer new mortgages but demand remains high**

According to Deloitte's annual Mortgage Report[2] the slowdown is likely to continue into the new financial year, with lending volumes dropping as much as 5%.

Deloitte financial services partner James Hickey says, "the strong lending growth of the 2013 to 2016 period was never going to be sustainable" and uncertainty around possible new rules following the Royal Commission into misconduct in banking will likely drive the number of new mortgages even lower.

But Deloitte Access Economics director Michael Thomas said Australia's residential market was still on solid ground.

"For both NSW and Victoria, growth in housing construction has slowed but remains at high levels," Thomas says. "Underlying demand remains solid with strong population growth expected to continue into 2020 and jobs growth has also been strong, especially in Victoria."

**RBA keeping a close eye on prices**

Alexandra Heath, head of economic analysis for the Reserve Bank of Australia (RBA), agrees that demand for housing remains strong and expects investment to remain at "high levels" over the next couple of years[3].

But the RBA is keeping a close eye on home prices due to the potential impact on household budgets.

"Dwelling investment growth has eased off [and] is not likely to contribute much to growth over the next couple of years," Heath says. "Given that housing accounts for around 55% of total household assets, we are paying close attention to these developments."

**No single housing market**

Heath says it's "helpful to recognise that there isn't a single national housing market" and that there are distinct differences between states, as well as capital cities and regional areas.

Melbourne values rose just 1.0%, the smallest rise in the past six years and well down on the 13% increase in 2016-17.

Home values in Brisbane and Adelaide rose by 1.1% over the year, while those in Perth fell by -2.1% and Darwin experienced its biggest drop in five years at -7.7%.

Values in Hobart meanwhile have increased for five consecutive financial years including 12.7% in 2017-18 and 12.8% in 2016-17.

Combined regional values increased by 2.2% over the financial year with regional Victoria a standout with growth accelerating 4.8% in 2016-17 to 5.0% in 2017-18.

[1] https://www.corelogic.com.au/news/2017-18-financial-year-review
[2] https://www2.deloitte.com/au/en/pages/media-releases/articles/mortgages-2018-customer-control-future-050718.html
[3] https://www.rba.gov.au/speeches/2018/sp-so-2018-07-05.html

*Source: Mercer*


# Mojo rising: 6 tips for gaining resilience

**Life is stressful. Anything from losing a loved one to moving house or dealing with a new boss can bring us undone; but some seem to deal better than others with whatever life throws at them.**

The secret, experts say, is resilience; the ability to recover emotionally and physically from difficulties and setbacks.

Dr Chris Horan, a Melbourne-based clinical psychologist and founder of Changebud[1] says we're not born with it; resilience is a skill we need to develop.

"Life today requires a lot more self-management than ever before," Horan says. You don't have to look too far to see we're all being pushed to do more with less and access to support is decreasing because we're all so busy we're not helping each other."

Stuart Taylor, founder of the Resilience Institute Australia[2] says with rates of depression and anxiety on the rise, psychological resilience is a vital skill for anyone who wants to cope, grow and flourish.

### Here are six ways to overcome unexpected setbacks.

**1. Cultivate strong lifestyle practices**

Basic things like regular exercise, healthy eating habits and smart choices around sleep can boost your resilience.

If you're not getting seven to nine hours each night your energy levels and immune system will be impacted negatively. Locking in a consistent bedtime and wake-up time seven days a week and avoiding caffeine after 3pm can help ensure you get enough shut-eye.

**2. Make time for mindfulness and meditation**

Take five to 15 minutes a day to sit still, steady your breathing and rest your mind. Aim to turn mindfulness practice into a daily habit and pay close attention to the details of every task you set yourself, rather than looking for distractions.

**3. Learn to say no when you're busy**

Whether with family and friends or in the workplace, it's vital to set healthy limits for yourself. Create an environment in which it's OK to say no, and give yourself permission to say it politely and firmly – practice in the mirror if you need to.

**4. Build connections with others.**

Cultivating strong, positive relationships with people who are emotionally available will help you maintain perspective during those tough times when you need support.

**5. Find your purpose.**

What do you love doing? What are your strengths? How do these fit into your work and financial situation? Getting this combination into place allows you to feel you're heading in the right direction and have a reason for getting out of bed each day.

**6. If you feel stuck, get professional help.**

One of the most important aspects of resilience is asking for help when you need it – especially if you're dealing with depression and anxiety. A professional counsellor can help you cope with a difficult time and develop strategies to get through it.

[1] https://www.facebook.com/ChangeBud
[2] https://resiliencei.com/home-au/

*Source: Mercer*

# Consolidate your super and save on fees

**Managing your super becomes super easy if it's all in one account. Yet many people put off consolidating their accounts, which could mean they are paying more in fees and insurance premiums than they need.**

Consolidating other accounts into Lutheran Super just takes a few clicks through your online account, provided we hold your tax file number. Remember to check the impact on any insurance cover you have in the other fund or exit fees before submitting your request.

If you know your other account details, all you need to do is to sign into your Lutheran Super account. Go to **Your super**, and hit **Start an online rollover request** in the **Related links** list on the right.

Then follow these four easy steps:

**1:** Search for the name of your other fund, click on it from the search list and hit **Next**.

**2:** Enter your membership number for the other account and how much you want to consolidate; either the full balance or specify an amount.

**3:** Confirm your request.

**4:** You'll receive a receipt number for your request.

If all your details match those held by your other fund, your other super will be rolled over into your Lutheran Super account. If you need help, call the Helpline on **1800 635 796.**

# The names of our investment options have changed

On 3 October 2018, the names of the Lutheran Super investment options changed.

The new names better reflect each option's underlying assets and investment strategy. All other features of the options remained and the way your super is invested hasn't changed.

This table shows the new and previous investment option names.

| Investment option names | |
|---|---|
| **New names from 3 October 2018** | **Previous names** |
| High Growth – All International Shares | International Shares |
| High Growth – All Australian Shares Socially Responsible Investment (SRI) | Growth – SRI Australian Shares |
| High Growth – All Australian Shares | Growth – Australian Shares |
| High Growth | Growth |
| Balanced Growth Socially Responsible Investment (SRI) | Balanced SRI |
| Balanced Growth – My Super | Balanced option – MySuper compliant |
| Conservative Growth | Capital Stable |
| Cash and Term Deposits | Capital Secure |

### More information

For more information about the investment options, read the relevant *Membership guide* and the *Member Information Booklet* (for super members) and the *Product Disclosure Statement for Pension Members*, available on the website, **www.lutheranSuper.com.au >Forms & publications >Product disclosure statements** or call the Helpline **1800 635 796**.

You can change your investment options at any time through your online account or by calling the Helpline. If you need any help with your investment choice, you can also call the Helpline to speak to a financial adviser over the phone at no extra cost.

# Investment market round up

### Down and up again for global markets

The final months of 2018 were testing times for investors as volatility surged and global share markets fell. Familiar themes continued to make markets nervous – ongoing trade tensions, slowing global growth, US interest rates and falling oil prices.

But news the US Federal Reserve would put its three-year interest rate rise campaign on hold, propelled world stocks to their best January on record; the MSCI world index, which tracks 47 countries, was up more than 7% for the month, its best January performance since the index began in 1990.

### Testing times ahead

Despite a strong start to the year, you don't have to look hard for political tensions that could spook markets in the year ahead.

In the US alone, tense negotiations over border security – which has already led to the longest government shutdown in US history with threats of further shutdowns if president Trump fails to get funding for his border wall – as well as ongoing global trade negotiations, could spark turmoil on Wall Street.

In the UK, Brexit continues to loom as an issue for European markets; and at home, a federal election and falling property prices are cause for concern.

### 2018 by the numbers

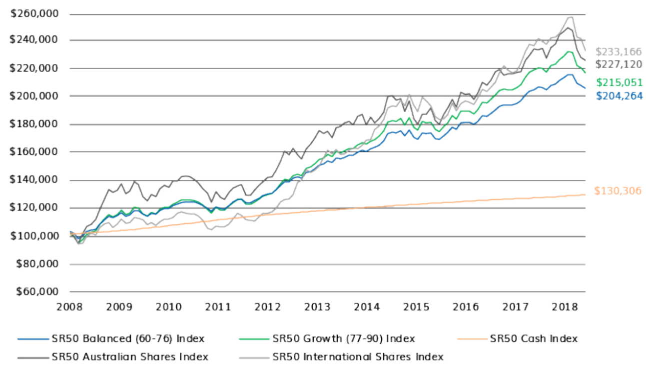
Global equities fell by more than 13% over the final three months of 2018, including an 8% drop in December. US benchmark indices the S&P 500 fell 7% for the year and the Australian sharemarket recorded its worst yearly performance since 2011 with the S&P/ASX 200 falling almost 7%.

The latest data from superannuation research house SuperRatings, reveals major fund categories all suffered declines in December 2018[1].

SuperRatings Executive Director Kirby Rappell says returns for "Balanced" options – with exposure to growth assets of between 60% and 76% – fell nearly 5% in the final three months of 2018.

"Volatility is likely to be a feature of markets over the coming months and members can expect ongoing fluctuation in returns," Rappell says. "However, it's important to keep a long-term perspective and recognise that super returns have been overwhelmingly positive over the last decade."

He says despite the declines, super members remain well ahead over a ten-year period, with $100,000 invested in the median Balanced option in December 2008 now worth $204,264.




*Source: SuperRatings*

### Global economy to grow

The International Monetary Fund expects the global economy to grow by 3.5% in 2019 and 3.6% in 2020, a touch below its October estimate of 3.7% for both years[2].

In its latest World Economic Outlook, the IMF warns risks to global growth include tightening interest rates, trade tensions between the United States and China, a possible "no deal" exit by the UK from the European Union and a deeper than expected slowdown in China.

### Don't panic is good advice

With so many political hotspots, dramatic headlines and short-term market volatility are inevitable, but these should not prompt "knee jerk" decisions that might damage your longer-term objectives.

While it's not easy to hold your nerve as you watch share markets plunge there are sensible actions investors can take based on sound, long-term principles: keeping a cool head and embracing diversification are chief among them.

[1] https://www.superratings.com.au/2019/01/22/volatility-the-new-normal-as-super-returns-take-a-hit/

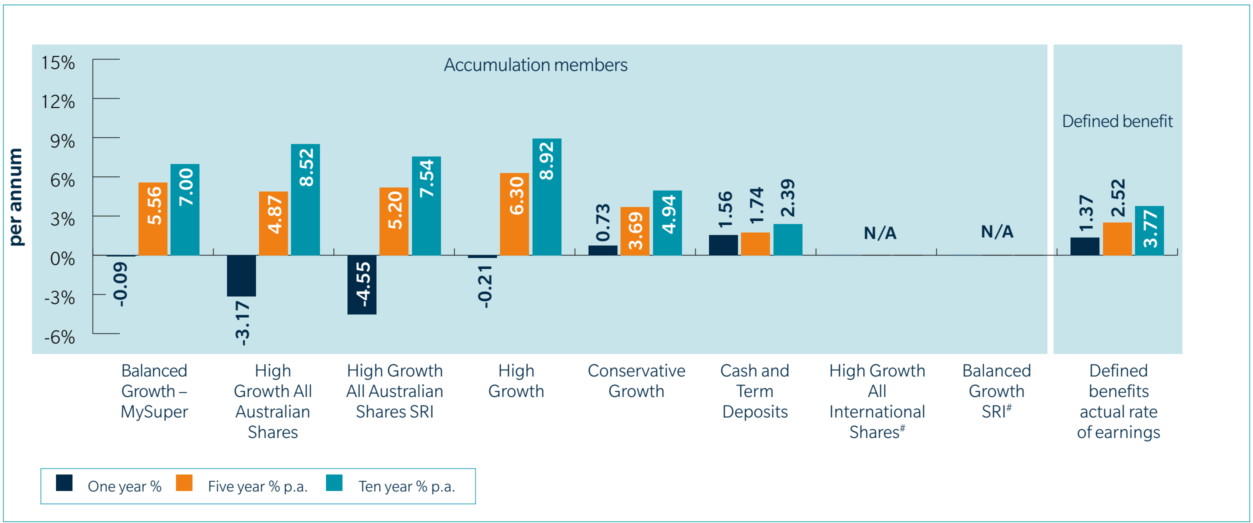
[2] https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019

*Source: Mercer*

# Lutheran Super performance to 31 December 2018

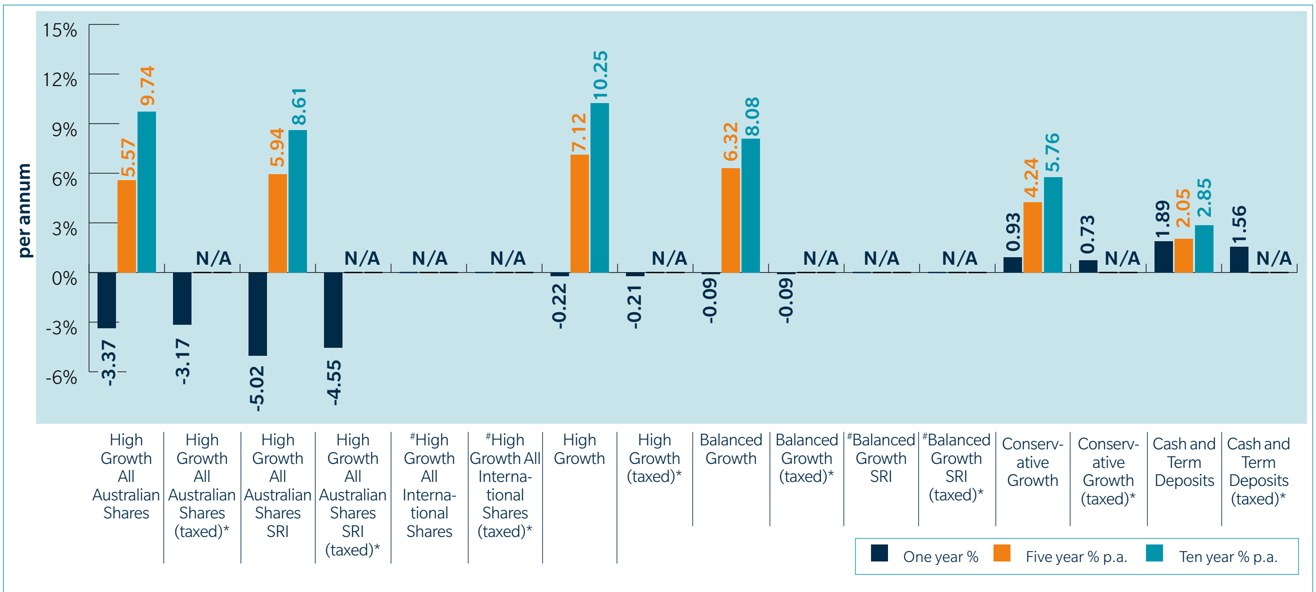
The following graphs show the investment performance, after tax and fees, for all the Lutheran Super investment options for one, five and ten years to 31 December 2018. Market volatility in the closing months of 2018 has resulted in negative returns returns being posted for the year for four of the investment options which have higher exposure to share markets. However, all returns remain sound over the longer term. Graph 1 shows returns for members with superannuation accounts and Graph 2 shows the returns for account-based pension accounts. You can find the latest investment returns on the **Forms and publications** page of the website and an investment market overview in the **Latest news** on the home page.

**Graph 1: Investment returns to 31 December 2018 for superannuation members**



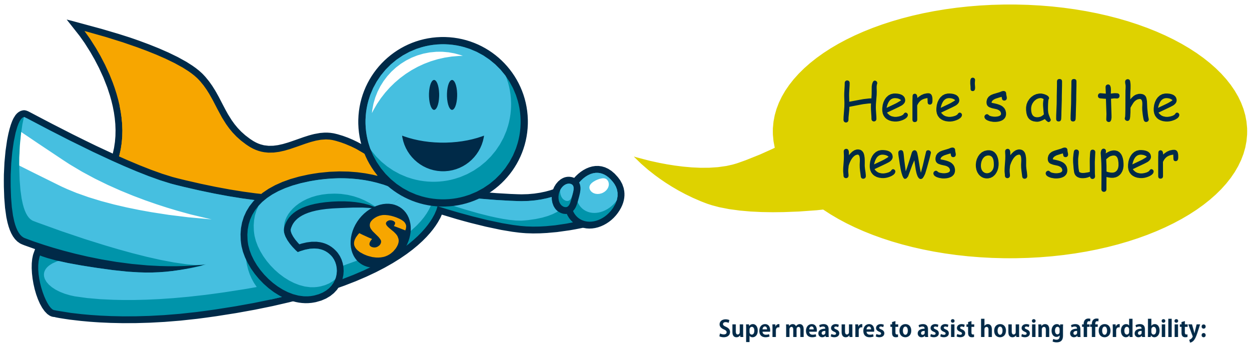

# The High Growth All International Shares option and the Balanced Growth SRI option both commenced effective 1 March 2018.

**Graph 2: Investment returns to 31 December 2018 for pension members**




* From 1 July 2017, transition to retirement accounts are no longer tax exempt for members who are under 65 and have not satisfied a condition of release. The longer term returns for these TTR options has not been shown due to the impact of tax over these periods.

# The High Growth All International Shares option and the Balanced Growth SRI option both commenced effective 1 March 2018.




## What's happening in super?

Set out below is a summary of some of the key legislated or proposed changes in super since last year's Annual Report.

### Recent and upcoming changes under current legislation

**Concessional contributions limit for 2018-19**

The standard concessional (before-tax) contribution limit for 2018-19 is $25,000 for all ages (the same as for 2017-18). Concessional contributions include employer and salary sacrifice contributions.

From 1 July 2019 you may be entitled to contribute more than the standard concessional contribution limit if:

- you have not fully used your annual cap on concessional contributions in the previous five years (but not counting years before 1 July 2018), and
- the combined balance of all your superannuation accounts is less than $500,000 on 30 June of the previous financial year.

For example, if your total concessional contributions in 2018-19 were $20,000 (i.e. $5,000 less than the limit) and the standard limit remains at $25,000 in 2019-20, your concessional contributions limit in 2019-20 would be $30,000 (i.e. $5,000 more than the standard limit) – provided your total super balance at 30 June 2019 was less than $500,000.

**Non-concessional contributions limit for 2018-19**

The annual non-concessional (post-tax) contribution limit for 2018-19 is:

- $100,000 if the combined balance of all your superannuation accounts as at 30 June 2018 was less than $1.6 million and you did not trigger the 'bring forward' rule (see below) in 2016-17 or 2017-18, or
- a special calculation if the combined balance of all your superannuation accounts as at 30 June 2018 was less than $1.6 million and you did trigger the 'bring forward' rule (see below) in 2016-17 or 2017-18, or
- nil if the combined balance of all your superannuation accounts as at 30 June 2018 was $1.6 million or more.

The "bring forward" rule allows eligible members under age 65 at the start of a financial year to bring forward one or two years of non-concessional contributions and make non-concessional contributions of up to three times the annual limit in that year.

For further details of the operation and eligibility conditions of the "bring forward" rule go to **www.ato.gov.au**.

**Super measures to assist housing affordability:**

- First-home buyers can now save for a deposit inside their superannuation account under the new First Home Super Saver Scheme (FHSSS). Savers can contribute up to $30,000 (up to $15,000 a year within existing caps), and be able to withdraw the contributions (less tax) along with deemed earnings in order to help fund a deposit on their first home. Concessional tax treatment applies. Releases are permitted from 1 July 2018, with voluntary contributions made from 1 July 2017 eligible. Conditions to access super under the FHSSS include that a member must be aged 18 or more, not have used the FHSSS before, and never owned real property in Australia (an exception may apply on financial hardship). The FHSSS is administered by the Australian Taxation Office (ATO).
- Qualifying Australians aged over 65 are now able to make an exempt contribution to their superannuation after downsizing their family home. The aim of this measure is to help free up the stock of larger houses for young families, by allowing older Australians to sell their houses and contribute up to $300,000 of the proceeds into superannuation. Existing voluntary contribution rules and restrictions do not apply to Downsizer contributions. This measure applies from 1 July 2018.

For further details of these measures go to **www.ato.gov.au**.

**"Protecting your superannuation" package**

The Government introduced proposed legislation to implement "Protecting Your Super" package announced in the 2018-19 Budget. Following further amendments made by the Senate, the revised Bill was passed with changes from 1 July 2019 as follows:

- fees capped at 3% on accounts with balances less than $6,000
- prohibiting superfunds from charging exit fees
- new ATO-based consolidation process requiring superfunds to transfer to the ATO all inactive accounts (no contributions for at least 16 months) and balances below $6,000, and
- requires ATO to transfer matched accounts to active accounts where the total exceeds $6000.

**Recent retirees work test exemption**

From 1 July 2019, contributions for eligible recent retirees aged over 65 can be accepted without requiring them to meet the minimum working hours test (work test). To be eligible the retiree must have had a total super balance of less than $300,000 at the prior 30 June and met the work test in the prior financial year. The exemption can only be used in one year.

### Superannuation complaints body

The Government has established a new "one-stop shop" external dispute resolution (EDR) body – the Australian Financial Complaints Authority (AFCA) – that will deal with all financial disputes, including superannuation disputes from 1 November 2018. AFCA is replacing the three existing EDR bodies in the financial system (the Financial Ombudsman Service (FOS), the Credit and Investments Ombudsman (CIO) and the Superannuation Complaints Tribunal (SCT)) and operates under an ombudsman model. The SCT will continue for a period to deal with complaints lodged with it up to 31 October 2018. All new complaints from 1 November 2018 will be dealt with by AFCA.

### Transition-to-retirement pensions

Currently a reversionary pension is only permitted to be paid from a transition-to-retirement pension where, at the time of death, the reversionary beneficiary has reached age 65 or has advised the trustee they have satisfied another relevant condition of release. The Government has introduced amendments to the law to ensure a reversionary transition-to-retirement pension will always be allowed automatically transfer to eligible dependants upon the death of the primary recipient. The necessary changes have recently been passed.

### Income stream reporting to Centrelink

Super funds will be required to begin electronic reporting of account-based and lifetime pension information to Centrelink from January 2019, replacing current reporting by recipients.

### Streamlining of super release authority processes

In the past there has been a confusing mix of different rules (e.g. the time period for members to make elections and who to send the election to) for dealing with releases of excess contributions and Division 293 tax (high income earners contributions tax). These rules have largely been aligned with effect from 1 July 2018.

### Mandatory personal data breach reporting

Super funds and other organisations covered by the *Privacy Act* are now required to notify any individuals likely to be at risk of serious harm as a result of a data breach. The Privacy Commissioner must also be notified when such a breach occurs.

### Early release of superannuation benefits on compassionate grounds

Responsibility for assessing applications and authorising releases has moved from the Department of Human Services (DHS) to the ATO.

### Enhanced super contribution reporting to ATO

Employers and funds are implementing more timely and detailed contribution reporting to the ATO over 2018 and 2019. This will facilitate the ATO monitoring Superannuation Guarantee (SG) payments more effectively and allow the ATO to show more up to date contribution information on individuals' myGov records.

## Proposed changes yet to be legislated

### "Putting members' interests first"

The Government subsequently introduced a new Bill with the following proposed changes:

- requiring super funds to prohibit default insurance on accounts with balances less than $6,000 or for members under 25 years on or after 1 October 2019
- trustee's obligation to notify members with existing insurance prior to 1 October 2019 of potential changes to their insurance cover, to provide them with an opportunity to elect for their insurance to continue.

These changes await further consideration in Parliament and may not progress before the next Federal election due in May 2019.

### Superannuation Guarantee (SG) opt-out for high income earners with multiple employers

The 2018-19 Budget proposed that, from 1 July 2018, people whose income exceeds $263,157 and have multiple employers will be able to nominate that their wages from certain employers are not subject to the SG. This aims to allow eligible individuals to avoid breaching the $25,000 annual concessional contributions cap as a result of multiple compulsory SG contributions (the current SG rate of 9.5% x $263,157 = $25,000).

### Amending the SG to exclude salary sacrifice contributions

The Government has introduced proposed legislation to amend the SG legislation, to:

- prevent contributions made under salary sacrifice arrangements from satisfying an employer's SG obligations; and
- to specifically include salary or wages sacrificed to superannuation in the earnings base for calculating an employer's SG obligations.

## Addressing SG non-compliance

The Government has also proposed further changes to the SG legislation to help address non-payment or under-payment by employers. The proposed package includes:

- enabling the ATO to issue directions to non-compliant employers to pay unpaid SG and undertake SG education courses, with criminal penalties for failure to comply with a direction to payallowing the ATO to disclose more information about SG non-compliance to affected employees
- requiring employers to report salary sacrificed superannuation contributions amounts to the ATO
- requiring super funds to report contributions received more regularly to the ATO and split by employer, to help the ATO monitor employers' SG payments
- 12-month SG amnesty to encourage employers to voluntarily remedy any underpayments prior to 1 April 2018.

## New means test treatment for lifetime pension products

The Government has announced that a new means test treatment will apply for qualifying lifetime retirement income streams purchased from 1 July 2019. Under the yet to be legislated changes, generally 60% of the purchase price would be counted for the assets test up to age 84 (and then 30%) and 60% of payments would count against the income test.

## Governance

The Government proposes to require at least one-third independent directors (including an independent chair) on trustee boards for both public offer and non-public offer super funds.  However, these changes are currently stalled in Federal Parliament.

## Choice of Fund

The Government proposes to remove the current exemption from Choice of Fund requirements for employees covered by enterprise agreements and workplace determinations. Again the change is stalled in Federal Parliament.

For more details and current status, go to **ato.gov.au**

## 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.