a super start

Super Update

setting up for your future

Welcome to *Super Update*, the newsletter for the Heidelberg Australia Superannuation Fund that keeps you up to date with what's happening with your super. If you have any suggestions for articles in future issues of *Super Update*, please forward them to the Fund Secretary.

Upcoming changes to super

You may have read about the Government's Stronger Super changes. Three of four parts of the Stronger Super legislation have now been passed by Parliament, with the remaining part of the legislation currently being considered. A lot of the changes will happen behind the scenes and are intended to improve the processing and administration of your super benefits.

The Trustee is taking the necessary steps to comply with the Government's changes. As a Company-sponsored superannuation scheme, the Fund is especially designed for Heidelberg employees and former employees. The Trustee has decided to continue the 'choice' nature of the Fund and will not be providing a MySuper offering. Instead, members will need to make a decision to be a member of the Fund and to provide the Trustee with details of their preferred investment choice.

The Trustee intends to write to all members in the coming months with more details.

How your super is performing

The European economic crisis worsened over the March 2013 quarter with the political landscape dominated by events in Cyprus. The first proposal for the Cypriot bailout imposed a levy of up to 10% on all depositors sparking fears that a dangerous precedent had been set, potentially undermining confidence across the European banking sector. The final terms of the bailout spared small deposit holders, relieving many onlookers.

In the midst of economic concerns in Europe, global share markets continued to surge ahead.

Australian shares followed this global trend and also performed strongly over the March quarter. However, in May, Australian shares declined sharply (falling 5%) reflecting lower commodity prices, a slowing economy and concerns that the US Federal Reserve may wind back its spending. Australian shares continued their decline in the first two weeks of June 2013.

The Australian dollar has been relatively stable over the past year, generally trading in the range of 102 to 105 US cents. In May, the Australian dollar depreciated against the US dollar, falling around 8 cents and finishing the month around 96 US cents. The Australian dollar also fell against other major currencies illustrated by Australia's Trade Weighted Index which fell from 78.4 to 74.0 over the month of May 2013.

A weaker Australian dollar is not all bad. While imports become relatively more expensive, a weaker dollar assists the competitiveness of our exporters. And from the Fund's point of view, approximately half of the Fund's international shares are unhedged which results in investment gains when the Australian dollar weakens.

Interest-sensitive parts of the Australian economy continue to show signs of responding to the low rates and the Reserve Bank of Australia (RBA) judged it appropriate to hold rates steady until May. In May, the RBA decided to reduce rates from 3.0% to 2.75% to encourage further sustainable growth in the Australian economy.

Yields from 10-year Australian Government bonds have risen slightly since the start of 2013. Rising yields have the effect of reducing the market price of the bonds. The net effect is that the reduction in the price of bonds offsets the higher yields leaving the total return from the Fund's fixed interest investments relatively flat.

Overall, there has been improved confidence in share markets and a general consensus that global economic prospects are improving. The strength of the share market will produce positive results for Heidelberg's investment options that have a higher exposure to shares.

Investment option	Quarter ended 31 Dec 12	Quarter ended 31 Mar 13	Apr 13	Year-to-date 1 Jul 12 to 30 Apr 13
Diversified Shares	5.0%	8.4%	2.9%	25.9%
Growth	3.7%	5.4%	2.3%	17.8%
Balanced	2.8%	3.6%	2.0%	13.0%
Capital Stable	2.1%	2.7%	1.6%	9.9%
Cash	0.7%	0.6%	0.2%	2.4%

Note: Returns shown in the above table are net of investment fees and taxes.

Please note that past investment performance is not necessarily an indication of future performance.

Proposed super changes

You may be aware of a number of Government announcements about intended changes to super arrangements, including how super is taxed. The Government has also recently confirmed its commitment to the low income earner contribution scheme which commenced from 1 July 2012 as well as the tax increase on the contributions of high income earners which was announced in last year's Budget.

There were no explicit changes to super announced in the Federal Budget on 14 May 2013 that had not already been previously announced. Perhaps the biggest change affecting super will be the flow-on effect of the increase in the Medicare levy from 1.5% to 2.0% from 1 July 2014, which will be used to help fund the National Disability Insurance Scheme – called DisabilityCare Australia. The Medicare levy is added to a number of tax rates that apply to super and these flow on changes are now law.

Low income earners super contribution

If you earn less than $37,000 per year you may receive a boost to your super from the Government. The low income super contribution scheme is designed to help low income earners save for retirement. The scheme works by refunding the 15% contributions tax deducted from your SG contributions. The maximum refund under the scheme is $500 a year. The minimum amount paid is $10.

Tax increase for high income earners

In last year's Budget, the Government proposed to reduce the superannuation contribution tax concession available for individuals with income, including concessional contributions, greater than $300,000. Legislation for this change has recently been introduced to Parliament. When passed, this increased tax on concessional contributions for high income earners will apply to the current 2012/13 financial year.

Tax on pension investment earnings

Currently, income earned from super that is invested in pension products is generally tax free. The proposal is to apply a tax of 15% on the amount of investment earnings greater than $100,000 per year. The Government's intention is to bring the tax on pension earnings that are above this $100,000 threshold in line with tax on other super retirement savings.

For example, if your super pension account were to earn 10% for the year, you would need to have more than $1 million in your pension account before tax would be applied to the earnings.

The Government proposes to index the $100,000 threshold in line with increases in CPI, but in $10,000 steps. This proposal is not yet law.

Other proposed changes

Further proposed changes include:

› Changes to the concessional contribution cap (see to the right), as well as taxing excess concessional contributions at the individual's marginal tax rate rather than the top marginal tax rate.

› Including pension income for the purposes of the age pension income test by extending the 'deeming rules' to income streams from account-based pensions.

› Extending concessional tax treatment to deferred lifetime pensions.

› Further reforms to the arrangements for lost super where the lost super is paid through to the ATO.

Changes to concessional contribution cap

The Government has proposed to change the concessional contribution cap for older employees. This cap limits the amount you can contribute to super at concessional tax rates.

Currently the limit is $25,000 regardless of age. Contributions in excess of the cap are currently taxed at 46.5%. This includes the 15% contributions tax that applies to all concessional contributions and an additional 31.5% (equals 46.5%).

In legislation currently before Parliament, it is proposed that from 1 July 2013 the cap will increase to $35,000 (not indexed) for those who are aged 59 or over at 30 June 2013. From 1 July 2014, the $35,000 cap will be extended and apply if you are aged 49 or over on the last day of the previous financial year. The cap will not be indexed.

Further, it is proposed that individuals (regardless of age) will be able to withdraw any excess concessional contributions made from 1 July 2013. In addition, the Government will tax excess concessional contributions at your marginal tax rate rather than the top marginal tax rate. There will also be an interest charge as this tax is collected later than normal income tax.

You should note that the increase in the Medicare levy from 1 July 2014 will also affect the tax on contributions above the cap – this tax will increase by 0.5%.

There continues to be uncertainty about some of the proposed changes. With a Federal Election scheduled for mid-September 2013, it is unclear whether the announced changes will be implemented. Please note that the information outlined in this newsletter was correct at the time of writing.

Contact information

If you have a query about any of the information provided in this newsletter, or about your super, please contact the Fund Secretary, Ashad Perera, in the first instance on **(03) 9263 3374**. The Trustee directors, Noel Renwick, Guy Williamson and Con Xanthos, can also provide general information about the Fund's management, features and benefits.

Alternatively, you can also contact the Fund Administrator on **1800 127 953**.

Issued by Heidelberg Australia Superannuation Pty Ltd (ABN 94 068 569 193), as Trustee of the Heidelberg Australia Superannuation Fund (ABN 75 071 229 817). June 2013.