

YOUR

FUTURE



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Financial year ending June 2010

The markets and you



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Investments
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May 2010 was a particularly bad month for shares with stocks around the world losing value. This has caused many people to think whether it's time to get out of shares or hang on, particularly if they are

close to retirement or scared of further losses.

There are many investment myths. For example, there is an old adage in the share market which says "sell in May and go away". It is based on the idea that May to November (roughly the European and American summer) is not a good time for shares. However, this saying has no basis in fact as the May to November period is neither particularly good nor particularly bad for shares.

But there are some facts that we can rely on and they have been a good guide for a very long time.

The way that I like to look at it is that shares have for centuries followed a fairly stable upwards trend and for the most part it makes sense to have some in your portfolio and hold for them for the long term. This trend is evident in the attached diagram showing Australian share prices from 1980 to 2010.

If we look back (admittedly it's always easier with hindsight) it shows us that shares were above their long-term trend in 1987 and for those who could, it may have made sense to take a little risk off the table and reduce exposure to shares.

Similarly in 2007 the graph shows that shares were a very long way above their long-term trend and greatly overvalued. Like 1987 the lead-up to 2007 was a good time to sell and a bad time to buy.

After the so-called global financial crisis in 2007 share prices fell below their long-term trend suggesting it was a good time to add to your shareholdings.

So where are we now?

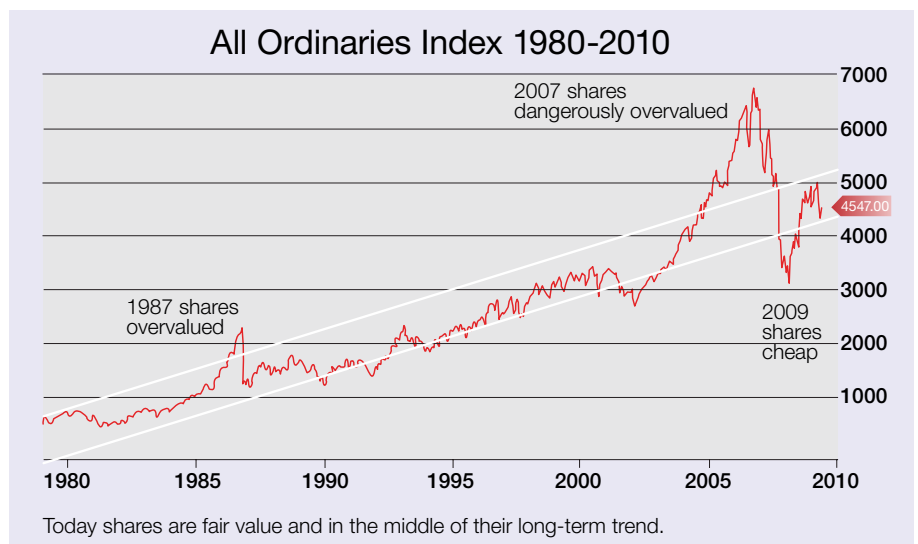
Right now, share prices are within their long-term trend indicating that holding shares should result in an acceptable return over the long term.

A general rule of investing is that you buy when prices are low and sell when prices are high. If we accept this advice, now is a time to do nothing and just hold your long-term allocation in shares. This is because shares are not cheap enough to suggest adding to portfolios and only just above their average long-term price which does not indicate the sort of danger that would make one run away from the markets.

Of course, this trend is a long-term trend and does not suggest that we won't see some more volatility in the next little while with so much uncertainty in the world.

I must emphasise this is general advice from a funds management perspective only and does not constitute personal advice as it does not take into account your personal objectives, financial situation or needs. Prior to making any investment decision you should consult your financial planner.

If you would like to discuss any of the topics raised by Michael Block with a financial planner please call 1800 067 059.



How do you know if you've got enough super?



It's a shocking fact, but very few Australians are likely to retire with a comfortable amount of money. Many believe their superannuation contributions will be enough but Census data shows that many of us will have a much lower standard of living than we expect. Have you ever sat down and considered how much money you'll really need to fund your retirement?

Working out how much money you will need in retirement depends on your personal situation, of course. Not only does the amount of money you need depend on your lifestyle choices, but you may have some other income options in retirement (such as part-time work or payments from other investments) which will supplement your super.

But you need to think about how much you'll need early enough to do something about it.

The Association of Superannuation Funds of Australia believes a single person needs an annual income of \$39,159* and a couple needs \$53,565* to live comfortably in retirement. They define "comfortable" as having an income that permits the retiree to pursue a range of leisure and recreational activities and supports

a good standard of living through the purchase of things like: household goods, a decent car, good clothes, private health insurance and occasional domestic or international travel.

So how do you get there?

This will depend on what savings you start off with, how long it is until your retirement, and what level of retirement income you are seeking.

The table below roughly sets out what an individual might have to save, in terms of percentage of their income, in order to meet certain retirement income targets.

It is widely considered that a target of between 60% and 70% of annual pre-retirement income is needed in retirement. As the table below shows, unless you're a long way off retirement, reaching this target will involve more than the 9% compulsory contributions (SG) for most people.

Percentage of income over and above the 9% Superannuation Guarantee required to be saved to achieve 60% of pre-retirement income¹

Final income (Retirement income sought)			
Years to retirement	\$35,000 (\$21,000)	\$50,000 (\$30,000)	\$75,000 (\$45,000)
10	37%	51%	59%
15	19%	29%	35%
20	10%	17%	22%
25	5%	10%	14%
30	2%	6%	10%
35	0%	3%	6%
40	0%	1%	3%

¹ Projections based on fund net (after tax and fees) earning rate of 7% nominal and growth in average earnings of 3.75% with contributions being made by the employer and subject to 15% tax. **Source:** ASFA

How can you make up lost ground?

The easy answer is to increase your contributions to super. There are several approaches you can take once you've decided to start making additional contributions:

Salary sacrifice:

Salary sacrifice is an arrangement where you "sacrifice" a proportion of your pre-tax income and put into your super. This can be a tax effective way to save for retirement on two levels. First, because you are making the super contribution from your before-tax income, it is taxed at the super contributions rate of 15%, rather than your normal rate of tax. Secondly, because you have effectively reduced your income (by the amount of your salary sacrificed super contribution), your income is lower and therefore the tax you pay on that remaining income will be lower too.

After-tax contributions:

You can also make additional contributions to your super from your after-tax income. Again, this will help grow your super plus it may even entitle you to take advantage of the Government Co-contribution scheme.

Government Co-contribution scheme:

If your before-tax income is \$61,920 or less, you may qualify for the Government Co-contribution scheme. This is where the

Government could match your after-tax additional contributions to your super dollar for dollar, up to \$1,000 per annum.

Spouse rebate:

If you are not working, or are on a low income, another way to help boost your super is to have your spouse make a contribution on your behalf. To qualify for this, your income cannot exceed \$13,800 per annum. Your spouse, in turn will benefit from an 18% income tax rebate on any contributions made to your super up to the value of \$3,000. Please note, however, that any contributions in excess of \$3,000 will not be eligible for the rebate.

Get some advice:

If you have any concerns about your super, or want to start planning for your retirement, then it's a good idea to get some professional advice from a qualified financial planner.

Just call **1800 067 059** for more information.

*Source: Association of Superannuation Funds of Australia Westpac ASFA Retirement Living Standard, 'How much do you need to spend to have a comfortable standard of living in retirement' March 2010.

2010 Federal Budget update

These proposed measures were announced in the May 2010 Federal Budget

Co-contributions – Matching level frozen at \$1,000

Measures announced in the federal budget 2009/10 reduced the maximum Co-contribution payable on eligible Non-Concessional contributions to \$1,000 from the previous maximum of \$1,500 and the maximum was going to revert to \$1,500 in 2014/15. However, the Government has decided to make the current maximum level of \$1,000 permanent.

Furthermore, the Government has indicated it will freeze, for the next two financial years, indexation of the income levels at which Co-contribution payments start to reduce (\$31,920) and where it cuts out completely (\$61,920). In other words, the rules that applied in the last financial year (2009/10) will apply for the next two financial years (2010/11 and 2011/2012).

New Government contributions for low income earners

While the Government has reduced the benefits available to low income earners under the Co-contribution scheme it has introduced a new scheme which will refund the 15% contributions tax levied on employer contributions up to a limit of \$500.

The new contribution is equal to the contributions tax payable for someone who is earning \$37,000 per year. The maximum payment will be \$500 and the first payment will occur in 2013/14 based on contributions made in the 2012/13 financial year.

The contribution for those who earn less than \$37,000 per year will be pro rated. For example, if a member earns \$24,000 per year, the employer would normally pay \$2,160 in SG which would attract contributions tax (15%) of \$324. This member would therefore receive a refund of \$324, assuming that they were otherwise eligible.

Eligibility is determined when the member completes their tax return and the Fund reports contributions to the ATO.

Superannuation Guarantee (SG) increasing to 12%

Commencing on 1 July 2013, the SG will gradually increase from its current level of 9%, reaching 12% on 1 July 2019. The table below shows the scheduled increases:

Date	New SG amount
Today	9.00%
1 July 2013	9.25%
1 July 2014	9.50%
1 July 2015	10.00%
1 July 2016	10.50%
1 July 2017	11.00%
1 July 2018	11.50%
1 July 2019	12.00%

Super Guarantee extended for people aged 70 to 75

Australians who continue working between the age of 70 and 75 will be eligible for the compulsory Superannuation Guarantee contributions (currently 9%) for the first time. At the moment people in this age bracket are limited to voluntary salary sacrifice contributions and/or personal post-tax contributions. This measure will take effect from 1 July 2013 and is aimed at providing an incentive for older people to remain in the workforce.

Higher Concessional contributions cap for those aged 50 and over

Currently, members can only add before-tax (Concessional) contributions into their super of up to \$25,000 per annum. A temporary measure allowing those aged 50 and over to make before-tax contributions of up to \$50,000 (not indexed) was due to expire on 1 July 2012. However, this is now a permanent change for people aged 50 and over, but will only apply to those with super balances below \$500,000. The cap of \$50,000 will also be indexed.

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If you're thinking of upgrading your house or buying an investment property, it's important to be sure you have the most competitive home loan possible. There's no point paying more than you need to.

So, why not take advantage of the 5 Star Chifley Home Loan? The Chifley Home Loan is rated 5 Star by CANNEX, the independent financial services monitoring agency. A 5 Star

rating means our mortgage loan offers "superior value" placing Chifley within the top 5% of home loan products, a pretty super endorsement when you consider there are over 2,000 products in the mortgage category.

There are no mortgage application fees and no monthly account keeping fees. You can make extra and lump sum repayments without any restrictions which allows you to use any extra funds to reduce interest and pay out your loan faster*.

For more information on these or any of our competitive loans, either call us on **1800 800 002** or visit our website **www.chifley.com**.

*Limitations apply to Fixed Rate products. Terms and conditions apply. The credit provider is Select Credit Union Ltd. Fees, charges and all loan details will be disclosed in the loan contract. Some charges such as valuation fees and costs charged by the lender's solicitors are payable. These charges are non-refundable should they be incurred and the loan is not proceeded with. An early repayment fee may be payable. Chifley Financial Services Limited (ABN 75 053 704 706, AFSL 231148) provides services through an agreement with Select Credit Union Ltd (ABN 20 058 538 140, AFSL 238257). Chifley Financial Services does not guarantee the obligations of Select Credit Union Ltd.

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Help us reduce our carbon footprint by viewing our annual report online.

Like last year you'll be able to see the report online at our website www.futureplussuper.com.au when it is released in December.

If you would prefer a printed copy, please call us on **1800 067 059**.

Seminars



Would you like to have a better understanding of how to manage your money, increase your savings, improve your investment portfolio or ensure you have enough on which to retire?

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Investment performance

Financial year ending June 2010

Managed Portfolio Program

Strategy	%
High Growth	9.6
Diversified	9.1
Balanced	8.5
Capital Guarded	8.0
Cash	4.5

Member Choice Program

Investment pool	%
Australian Equities	10.8
International Equities	7.9
Listed Property	16.1
Aust Fixed Interest	6.5
Int Fixed Interest	7.6
Capital Guaranteed*	0.7
Cash	4.5

LifeCycle Objective Management Program

Number of years to retirement	%
Over 25 years	9.6
25-14 years	9.1
13-5 years	8.5
4-2 years	8.0
1-0 years	4.5

All returns are shown to one decimal place.

* Closed to new members

Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.

Sometimes it pays to have all your eggs in one basket

Conventional wisdom suggests that when it comes to investing, it's wise not to have all your eggs in one basket. But when it comes to superannuation funds, the opposite is the case. Of course, the diversification of investments within your super account is still recommended.

Why? Because if you've changed jobs over the years, you probably have super scattered around in different superannuation schemes or funds which have been set up by your various employers. The problem with this is that you're eroding your retirement savings because you're paying fees and charges in each of those funds. And those fees can really add up.

In general, consolidating your super is a good idea but you do have to check a few things first. There may be exit fees applied by some of your old funds or you may have insurance or other benefits with them which may not be available at the destination fund. To check on this, you should contact your old fund or seek advice from one of our financial planners.

To consolidate your super with FuturePlus Super today simply download the "Transfer-in Authority" form from www.futureplussuper.com.au or call us on **1800 067 059** for more information.



Frequently asked questions – What is hedging?



The best way to understand hedging is to think of it as insurance. When people decide to hedge, they are insuring themselves against something negative that may happen in the future. This doesn't prevent a negative event from happening, but if it does and you're properly hedged, the impact of the event is reduced. It's just like insuring your house against theft, fire or damage. If any of these things happen, at least you're covered.

People investing in financial markets use hedging techniques to reduce exposure to potential risks, but it's more complicated than simply paying a premium to an insurance company. Hedging against investment risk means using financial instruments, such as forward contracts (an agreement to buy or sell at an agreed price on a fixed date), to minimise the risk of sudden downward or

upward movements in the value of the investment. In other words, investors hedge one investment by making another.

However, hedging can't help us escape the harsh reality of the trade-off between risk and return. A reduction in risk will always mean a reduction in potential profits, so hedging is not so much a technique designed to make you money, but rather reduce potential losses. If the investment you are hedging against makes money, you will most likely have made less than you may have without hedging. However, if the investment loses money, your hedge, if successful, will reduce that loss.

The most common type of hedging we engage in is currency hedging. The reason for that is to reduce volatility. For example, if you invest in something like International Equities (or shares) which is a volatile asset class in the first place, and you add the uncertainty of currency movements, it can become an extremely volatile investment. Hedging moderates the ups and downs that a currency might go through and makes the investment more stable.

Hedging, of course, comes at a price and investment managers will always consider whether the potential benefits justify the expense. The thing to remember is that hedging is not about making money, it's about protecting against potential losses in more volatile investment options.

Regional office details

Lismore

81- 83 Molesworth St

Newcastle

161 King St

Orange

187 Summer St

Parramatta

Suite 3, Ground floor,
10-14 Smith St

Sydney

28 Margaret St

Wagga Wagga

Shop 2/209 Baylis St

Wollongong

Shop 2/60 Burelli St

Albury*

621 Dean St

Office hours 8.30am - 5.00pm
Monday - Friday

*Bookings are essential. Phone 1800 067 059 to make an appointment.

How have investment markets performed?

EUS	0.85	0.855	0.85	3HT
HLD	6.40	6.55	6.50	16T
NG LNS	0.25	0.255	0.255	7HT
RTECH	0.61	0.62	0.63	0
TION	1.44	1.55	1.43	0
LTD	0.05	0.052	0.05	2HT

The 2009/10 financial year was a year of two halves. After a fantastic first six months where the Australian share market was up over 25%, the next six months saw it retreat back 10% to finish the year with a positive return just over 13%. Coming off the back of one of the worst financial years in history, at first glance a 13% return would appear to be reassuring, but there are underlying problems that need to be resolved if markets are going to advance from here.

Australia emerged from the global financial crisis (GFC) better than any developed nation. The Reserve Bank of Australia started to raise interest rates from as early as last October (bearing in mind that the US, UK and Europe still haven't begun). Consecutive rate rises followed with the overnight cash rate reaching 4.50% by June 2010. Further to this, unemployment continued to fall; going from a level of 5.8% in July 2009 to 5.2% in June 2010. Add to this an annual inflation rate of 2.9% and annual GDP growth at 2.7% and it is easy to see why Australia has been the envy of the world in an economic sense.

The Australian Dollar (AUD) was closely watched by traders throughout the year and displayed its capacity for volatility by peaking at around 94 US cents and falling to 81 US cents within

the space of two months as investors lost confidence and became concerned about the supposedly risky nature of the AUD preferring the seemingly 'safer' US Dollar.

The US economy still looks shaky and didn't really achieve any real stability throughout the year. US unemployment rose in the first half of the year, peaking at a rate of 10.1% before dropping down to 9.7% by June 2010. This left the Federal Reserve (the US central bank) with very little choice but to leave cash rates at close to zero for the entire year, and it indicated that this is likely to be the case for an extended period of time. Despite this stimulus, there was little in the way of inflation indicating that consumers are just not willing to spend while unemployment remains a real threat.

Like Australia, it was a financial year of two halves for world markets. The first half started where the last one left off with significant positive monthly returns for five of the first six months. Investors responded to the sell-down of the previous 18 months during the GFC, which saw shares trading at valuations that were too cheap to ignore. From January onwards, though, it was a different story as broader economic factors, such as unemployment, inflation and growth forecasts, drove markets down.

As the recovery began to falter, concerns emerged that some European nations would be unable to repay their debt obligations and might require bail-outs from the European Central Bank and the International Monetary Fund. This sparked a lot of fear in financial markets as investors were concerned about the effects that this would have on the European banking system and corporate access to credit. These fears dampened returns in the last quarter of the financial year and until they are addressed may continue to weigh on investor confidence.

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