

Member newsletter



Fire & Emergency Services
Superannuation Fund

INVESTMENTS

Super funds had a strong October on the back of rallying share markets. The median balanced fund (41% to 60% in growth assets) has returned 2.5% this financial year to 31 October 2022.

The equities rebound continued in November, with Australian Shares (S&P/ASX 300) rising 6.5% and International Shares (in Australian Dollars) rising 2%.

Looking forward, the efforts of central banks to dampen inflation through aggressively increasing interest rates should lead to a slowdown in economic growth, however, the extent of this slowdown remains an area of contention. Volatility is expected to continue

to be a prominent feature of investment markets and the persistence of inflation, the continued need for central bank action, recession risk and geopolitical risks (including Russia/Ukraine but also the emerging potential conflict between China/Taiwan) remain key watching points.

In an environment of volatility and uncertainty, maintaining a focus on long-term goals and objectives and ensuring diversification across and within asset classes remains increasingly important.

The crediting rates for the various options to **31 October 2022** are as follows:

Option	3m	FYTD	6m	1yr	3yr
Australian Shares	1.55%	6.61%	-4.77%	-1.69%	5.34%
Cash	0.48%	0.56%	0.61%	0.67%	0.44%
Fixed Interest	-1.29%	0.22%	-1.13%	-3.80%	-0.95%
International Shares	3.11%	7.13%	3.27%	-5.63%	4.54%
Moderate	0.31%	2.69%	-0.12%	-1.81%	2.21%
Smoothed	1.08%	4.38%	0.23%	-1.29%	4.87%
Median Balanced Fund ¹	-0.87%	2.51%	N/A	-4.15%	4.15%

Past performance is not a guarantee of future results.

¹ Based on the SuperRatings Balanced Fund Crediting Rate Survey as at 31 October 2022.

Funding of The Defined Benefit

The Board uses an index to look at the immediate funding of all benefits payable. This index is the Vested Benefit Index (VBI). Vested benefits are the benefits payable if all members resigned, or if eligible, retired at a certain date. As at 30 June 2022, the VBI was 127% and the Fund remains in a satisfactory financial position.

The Board has in place funding targets and trigger points based on the ratio of vested benefits to assets.

- 120%+ The Board will seek actuarial and investment advice about de-risking options.
- 120% The Board's target is to maintain a funding level at 120%. A buffer of 20% provides a margin against adverse experience, and in particular, investment shocks.
- 105% Is an early warning sign and the Board needs to advise all employers and monitor monthly.
- 100% The Board is required to ensure a funding level of at least 100%. Less than 100% is considered an "unsatisfactory financial position" and action is required with the aim to restore to 110% within a reasonable amount of time.
- 97% The Board's shortfall limit is 97%. If this limit is breached, a restoration plan needs to be put in place to reach 100% within three years.

These funding targets have been set based on the advice of the Board's actuary.

Annual Member Survey

We strongly believe that member feedback helps us improve our service and the products we offer.

One source of feedback is surveys and we have been surveying members each year since 2013 (except 2015). This year, we emailed 1,652 surveys to Active members (their employer makes contributions to FES Super) and 565 Pension and Retained members (members who are either drawing a FES Super pension or whose employer is no longer making contributions into their FES Super account).

394 Active members and 236 Pension and Retained members gave us their feedback on:

- FES Super's performance;
- The service we provide;
- The design of the Defined Benefit fund;
- The frequency of crediting rates applied to Accumulation, Retained and Pension accounts;
- The frequency and type of communications we have with members;
- Binding Beneficiary Nominations; and
- Overall satisfaction with FES Super.

Member satisfaction is an important measure in evaluating the Fund overall.

We aim to help members improve their long-term financial security by providing value-for-money products and services, engaging members with their superannuation and supporting members in making financial decisions relating to their superannuation.

Here's some key statistics on reported levels of member satisfaction with FES Super:

	Active Members	Pension and Retained Members
Extremely or fairly satisfied	60%	88%
Neither satisfied nor dissatisfied	24%	8%
Extremely or fairly dissatisfied	16%	4%

A small number of members reported dissatisfaction about the design of the Defined Benefit fund, the performance of the investment options, using the member digital portal on our website and the frequency that we apply crediting rates to member accounts. Refer to the articles on these topics for more information.

REVIEW OF THE DEFINED BENEFIT FUND DESIGN

In this year's survey, a small number of members provided their feedback about the design of the Defined Benefit fund.

Although the Superannuation Board has no statutory power to make any changes, it facilitated the formation of a Stakeholder Committee to pursue this matter. The Committee included representatives from the Minister's office, the Department of Fire and Emergency Services (DFES), the United Professional Firefighters Union of Western Australia and the Superannuation Board.

The outcome of the first meeting of the Stakeholder Committee held on 17 November 2021 was for the United Professional Firefighters Union of Western Australia (UPFUWA) to discuss the level of employer contributions made for Defined Benefit members with the Department of Premier and Cabinet and report back to the Stakeholder Committee in due course.

The UPFUWA is continuing discussions with DFES and the State Government on this matter.

DISCOUNT FACTOR

Comments in the survey by some members indicate confusion about the discount factor that is applied to defined benefit accounts when a member resigns before they turn 55 years of age.

When the defined benefit fund was established, it was usual for firefighters to remain with the Department of Fire and Emergency Services (DFES) for the length of their career.

The design of the defined benefit fund includes a formula used to calculate the amount payable when a member retires after the age of 55 years, known as the retirement benefit.

The formula used for the retirement benefit calculation assumes the member and DFES will continue making contributions into the defined benefit account until the member retires, that the member's salary will increase until they retire and that FES Super will invest the contributions at least until the member turns 55 years of age.

Back in the 1990's, the Superannuation Board understood that employment practices had changed over time. In 1999, a new rule was introduced into legislation enabling a member who resigns before the age of 55 to immediately transfer their FES Super account to their new superannuation fund into which their new employer could make contributions.

When a defined benefit member resigns before they turn 55 years of age, we need to calculate the present-day value of the retirement benefit. This is because the assumptions of the formula used to calculate the retirement benefit no longer apply i.e. contributions stop, the member misses out on future DFES salary increases and FES Super also misses out on the future investment earnings that help pay for the benefit. Paying a benefit now means we have to recognise that FES Super will not earn the investment earnings that help pay for the benefit.

The resignation benefit calculation assumes the difference is 2% per annum for the number of years remaining to age 55. This is known as the discount factor.

A member's resignation benefit is the present-day value of the future retirement benefit that has accrued so far.

All resignation benefits are checked against the minimum benefit required to be paid under the Superannuation Guarantee legislation and the higher of the two benefits is paid.

WEBSITE PROBLEMS

Our administration team provide the member servicing and administration for FES Super.

This means that our small administration team – Emerald and Sheryl – provide a range of services including being the point of contact for member enquiries, processing contributions and payments, as well as managing insurance requirements and helping members access the member digital portal on the website.

Some members commented about issues with our website in the survey. We acknowledge that the member digital portal has proven difficult for some members.

While we do the administration and member servicing ourselves, access to and information in the member digital portal is provided by a software supplier that specialises in superannuation administration systems.

We continue to work closely with the software supplier to resolve all the issues identified with the member digital portal

HOW CREDITING RATES WORK

In the survey we asked for your views about the frequency that we apply the crediting rate to member accounts. Some members sought information about crediting rates and their relevance to superannuation.

Accumulation, Retained Benefit and Pension accounts earn investment returns at the FES Super declared crediting rate.

There is a separate crediting rate for each investment option.

Investment returns generally don't impact the retirement savings of defined benefit members. However, if a defined benefit member also has an Accumulation account, then the crediting rate for their chosen investment option/s will impact that portion of their total retirement savings.

Our crediting rates are based on the actual returns or performance (which may be positive or negative) of FES Super's underlying investments. FES Super invests with numerous investment managers. The Superannuation Board replaces any investment manager if it is not satisfied with their performance. The investment managers that FES Super invests

with are disclosed to members each year in the Report to Members.

All crediting rates for each investment option are applied to member accounts after expenses and tax (if applicable) have been deducted. Note that earnings, and therefore crediting rates, may be positive or negative, which means that an account balance may increase or decrease depending on market performance.

Factors that impact market performance include interest rates, inflation/deflation, investor sentiment, exchange rates, politics and world events such as terrorist attacks, riots and natural disasters.

It takes several weeks to value assets and then obtain the data needed to calculate the crediting rate. For this reason, the crediting rate, and therefore earnings or losses, are reflected in member accounts on a monthly basis in arrears.

FES Super does not guarantee or promise any specific rate of return.

FREQUENCY OF CREDITING RATES

Over the past couple of years, some members have expressed frustration that we don't update the crediting rates on a 'more regular' basis like other superannuation funds. In the survey we asked for your views about the frequency that we apply the crediting rate to member accounts.

FES Super applies crediting rates to Accumulation, Retained Benefit and Pension accounts on a monthly basis. An investment specialist calculates the crediting rate based on the actual returns or performance (which may be positive or negative) of FES Super's underlying investments. For members who leave FES Super during the month, an interim crediting rate is calculated using an estimated return based on the benchmark asset allocation for each Member Investment Choice option and the index return for each asset class, with an allowance for tax, investment fees and administration fees.

To offer more frequent crediting rates requires the Superannuation Board to appoint a custodian to provide investment administration and master custody services including portfolio valuation, tax records, regulatory reporting and unit pricing.

The FES Super crediting rates are applied to less than 3,000 member accounts.

In Australia, superannuation boards are legally required to act in the best financial interests of their members at all times. Several very large Australian superannuation funds have more than 1 million members enabling such funds to benefit from economies of scale and the capacity to spread costs over a large membership base. FES Super, on the other hand, does not have the membership to achieve such savings. Mindful of costs associated with contracting a custodian and the obligation to always act in members best interest, FES Super is currently reviewing the services available.

BINDING BENEFICIARY NOMINATIONS

Members continue to report frustration at being asked to renew their binding beneficiary nominations every three years.

Superannuation exists to provide members with an income when they finish working. So, if a member dies while still a member of a superannuation fund, their superannuation is paid to their dependants to replace this income.

Unlike personally-owned assets, superannuation accounts are not paid according to a person's Will.

The law requires the board of a superannuation fund to decide how a superannuation account will be paid on the death of a member and who the beneficiary will be, taking into account the member's circumstances and relationships at the time of death.

However, a member can make a binding beneficiary nomination to guide the board on who they would like their beneficiary/ies to be.

The reason that a binding beneficiary nomination is only valid for three years is because people generally aren't consistent at updating their superannuation nominations when their circumstances change, for example, when they separate from a spouse or have a child. This risks superannuation proceeds not being paid in accordance with a member's wishes and relationships at the time of their death.

Board Election

Board Member Representative Elections

The results of the ballot held in August 2022 by the WA Electoral Commission for Member representatives on the Fire and Emergency Services Superannuation Board and changes made to the composition of the Superannuation Board are as follows.

Board Members

Mr Kevin Landwehr was elected by the members of the Fund as a Board Member for the period 19 August 2022 to 18 August 2025. Mr Greg Penney was elected by the members of the Fund as a Board Member for the period 19 August 2022 to 18 August 2023.

Alternate Board Members

Mr Tom Nolan was elected as an Alternate Board Member for the period 19 August 2022 to 18 August 2023.

Chair

The Board's long serving Chair Mr Frank Sciarone retired on 18 August 2022 after 11 years on the Board. The Board thanks Frank for his stewardship and his collegiate approach to chairing meetings during a time of great change within the superannuation industry.

The Board appointed Mr Boyd Winton as the new Chair.

Current Board Members

Mr Boyd Winton (Chair)
 Mr Michael Bailey
 Mr Richard Burnell
 Ms Karen Lamont
 Mr Kevin Landwehr
 Mr Greg Penney

Alternate Board Members

Mr Tom Nolan

Report to Members

The annual Report to Members for the 2021-22 financial year has been issued and is also available for you to read and download from the Fund's website www.fessuper.com.au.

To access the Report to Members on the Fund website you need to first click on the 'Publications' tab at the top right hand corner of the home page, and then click on the sub heading 'Report to Member' which is located under the general heading of 'Forms/Resources'.

You then need to click on the pdf icon for 2022 Report which will open the document for you and enable you to print it if you wish to do this.

Member Statements

Your annual Member Statement for the year ending 30 June 2022 has been issued and is also available in the Member Login area on the Fund's website www.fessuper.com.au.

To access your 2022 annual Member Statement on the website you need to click on the 'Member Login' access button on the home page and enter your secure personal details. Then click on the 'My reports' menu button on the right hand side of the screen. Then select 'My correspondence' and your annual statement will be listed as a portable document format (pdf) document for you to access.

Annual General Meeting

The Minutes of the Annual General Meeting held on 10 November 2022 are available on the Fund's website www.fessuper.com.au.

Office closure

Members are advised that the Superannuation Office will be closed from noon on 22 December 2022 and will re-open on Tuesday 3 January 2023.

The Board and Staff wish you and your family a Merry Christmas and a safe and happy New Year.

For more information on any of these articles, please contact the Superannuation Office.

Changes to Downsizer Contributions from 1 January 2023

The Treasury Laws Amendment Bill 2022, to enable individuals aged 55 and above to make downsizer contributions, received Royal Assent on 12 December 2022.

This means from 1 January 2023, FES Super can accept eligible downsizer contributions from members who are aged 55 years and over. There are no changes to any of the other existing eligibility criteria.

HOW THE DOWNSIZER WORKS?

If you have reached the eligible age, you may be able to contribute up to \$300,000 from the proceeds of the sale (or part sale) of your home into your superannuation fund. From 1 January 2023 the eligible age is 55 years old or older. Prior to this it is 60 years old or older.

HOW WILL YOU KNOW IF YOU ARE ELIGIBLE?

If you can answer yes to all the following:

- You have reached the eligible age at the time you make a downsizer contribution. From 1 January 2023, this is 55 years old or older. Prior to this it was 60 years old or older. There is no maximum age limit.
- Your home was owned by you or your spouse for 10 years or more prior to the sale – the ownership period is generally calculated from the date of settlement of purchase to the date of settlement of sale.

- Your home is in Australia and is not a caravan, houseboat, or other mobile home.
- The proceeds (capital gain or loss) from the sale of the home are either exempt or partially exempt from capital gains tax (CGT) under the main residence exemption, or would be entitled to such an exemption if the home was a CGT rather than a pre-CGT asset (acquired before 20 September 1985).
- You provide your super fund with the Downsizer contribution into super form either before or at the time of making your downsizer contribution.
- You make your downsizer contribution within 90 days of receiving the proceeds of sale, which is usually at the date of settlement.
- You have not previously made a downsizer contribution to your super from the sale of another home or from the part sale of your home.

Note: If your home was only owned by one spouse and was sold, the spouse that did not have an ownership interest may also make a downsizer contribution, or have one made on their behalf, provided they meet all of the other requirements.

You can make a downsizer contribution up to a maximum of \$300,000 (each spouse), but the contribution amount can't be greater than the total proceeds from the sale of your home.

The information contained in this publication is not financial advice and has been prepared for general purposes only. It is not specific to your individual objectives, financial situation or particular needs. The information may be selective and may therefore not be complete for your needs. Before acting on this information you should seek professional advice.

Contact FES Super on (08) 9382 8444 or email at admin@fessuper.com.au for more information.

Issued by the Fire and Emergency Services Superannuation Board (ABN 55 476 454 384) Trustee of the Fire and Emergency Services Superannuation Fund (ABN 43 198 502 058)

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