Member newsletter

Fire & Emergency Services
Superannuation Fund

Investment Market Report 1 January 2020 to 31 March 2020

- **A tough quarter for equity markets**
- **The Australian Share Market (Top 300 Stocks) returned -23.4%**
- **The International Share Market returned -9.3% in Australian Dollars**
- **The Australian Dollar fell heavily against the US Dollar, finishing at just over 60c**
- **The Fund's Smoothed Option returned -6.95% (after smoothing)**

The 3 months to 31 March 2020 saw the rapid global spread of COVID-19 and the declaration of a Global Pandemic by the World Health Organisation. To contain the spread and "flatten the curve", governments around the world ordered their populations to stay at home. These actions have had an enormous impact on large parts of the global economy and have resulted in substantial increases in unemployment

In addition, central banks and governments have provided unprecedented monetary and fiscal support, which has helped to offset a substantial portion of the economic damage.

The Fund's portfolio benefitted from a falling Australian dollar but was negatively impacted overall, primarily by falling equity markets. Downturns are part of the economic cycle and even though the short-term economic environment is uncertain, the Fund's focus remains on the long-term stewardship of member's assets.

APRIL 2020

The Australian market rose 9.0% over the month as the focus shifted to the reopening and eventual recovery of the economy; and as the number of active COVID-19 cases decreases. The market has fallen 16.5% year to date, incorporating much more severe falls for companies directly affected by the lockdown.

MAY 2020

The Australian market rose 4.6% in May as investors continued to shift focus away from the coronavirus pandemic to the impact of the stimulus measures, and the reopening and eventual recovery of the economy. After an unprecedented amount of new capital raisings in April, the number of deals has slowed significantly in May, but remains a feature of the market. Equity raisings have continued to be well supported.

THE FUTURE

After two strong rebound months in April and May, the focus now moves to the sustainability of the rally and corporate earnings and returns. Looking beyond the current crisis, investors are expected to re-focus on a select group of companies with resilient business models and good secular growth prospects, particularly as long-term interest rates are expected to remain very low by historical standards.

Smoothed Option

In previous years, the Smoothed Option has had its investment returns smoothed using investment reserves.

The smoothing process works by building reserves in years when the investment returns are higher, by paying a reduced investment return to members' accounts. In years of poorer investment returns, the reserves are used to increase the investment return credited to members' accounts.

Due to the poor performance of investment markets recently, and following advice from the Fund' Actuary, the Superannuation Board resolved to distribute 100% of its investment reserves to the Smoothed Option returns for the month of March 2020.

Previously, in order to protect the investment reserves in the Smoothed Option, the Fund's policy was that any monies moved out of the Smoothed Option into any other investment option could not be transferred back into the Smoothed Option at a later time, except on the commencement of an account-based pension.

This restriction on the Smoothed Option has been removed from 1 May 2020.

Therefore, all members have the option of transferring their monies from any other investment option into the Smoothed Option until further notified.

Please contact the Superannuation Office, or access our website at www.fessuper.com.au to download the form.

Member Investment Choice Returns

The crediting rates for the various options to 30 April 2020 are as follows:

Option	3m	6m	1yr	3yr
Australian Shares	-10.69%	-16.02%	-8.26%	2.95%
Cash	0.18%	0.40%	0.93%	1.30%
Fixed Interest	-0.72%	0.27%	2.46%	2.95%
Growth	-5.08%	-6.54%	-0.04%	4.35%
International Shares	-2.25%	-2.93%	8.71%	9.39%
Moderate	-3.52%	-4.26%	0.36%	3.36%
Smoothed	-1.41%	-2.94%	3.90%	5.33%

The median balanced[1] superannuation fund for the one-year period to 31 May 2020 has returned 0.63%. The Smoothed investment option return of 3.90% places the option in the top 2 performing balanced options[2] for the one-year period.

For the financial year to date (1 July 2019 to 31 May 2020) the median balanced[1] superannuation fund has returned -1.52%. The Smoothed investment option return of -0.65% places the option 4th in the balanced options[2] survey for the financial year to date period.

[1] A diversified fund option with a growth assets ratio between 60% and 76%

[2] Based on the SuperRatings Balanced Fund Crediting Rate Survey as at 31 May 2020

Office Update

Given some of the recent evidence on the spread and health consequences of COVID-19, as well as clear government guidelines, we are enacting the following measures:

1. All staff will be returning to work in the superannuation office.

2. Continuing to not hold 'face to face' member and other third-party meetings, unless necessary.

While it is always more effective for face to face discussion, we encourage members to phone or email when contacting the superannuation office.

You are reminded that it is your responsibility to monitor your annual contributions cap.

Other Employer Contributions

Only the Department of Fire and Emergency Services in Western Australia (DFES), the United Firefighters Union of WA and the WA Volunteer Fire and Rescue Services Association (Inc) can make employer contributions to your Fire and Emergency Services (FES) Superannuation Fund account, so if you have a second job, you will need to have these additional (employer) contributions made to another super fund.

You can ask your second employer who the default super fund is or you can choose your own fund. The key features you could consider are:

- What are the fees and charges?
- Does the fund offer life insurance, what insurance cover is provided and how much does it cost?
- Does the fund offer investment options that suit you?
- What other benefits does the fund offer you?
- Does the fund have a proven track record?

Contributions

Contributing to your super is an essential part of growing your super balance so that you may eventually have enough super savings to fund your retirement.

There are two types of super contributions:

- **Concessional contributions:** Also known as 'before-tax' contributions. These are contributions made into your super fund by an employer (such as the 9.5% superannuation guarantee), salary sacrifice payments, or personal contributions. These contributions are taxed at 15% as they enter the fund.
- **Non-concessional contributions:** Also known as 'after-tax' or 'undeducted' contributions, because tax has already been paid or deducted from the money used to make the contribution. Non-concessional contributions can be:
    - **Personal contributions** you make as a super fund member and don't claim as a tax deduction in your income tax return. These are often called 'voluntary' contributions and can be either a large lump sum or small regular amounts from your wages or salary.
    - **Spouse contributions** are made directly into your spouse's super account.This can be a tax-effective way for a couple to save for retirement if one partner is only working part-time or has a low income. They can also help to balance the amount you and your spouse have in super and can equalise your retirement income.

For most members, concessional contributions are the most common type of contributions appearing on your annual super fund statement.

Despite this, many people still don't understand what concessional contributions are, or whether they're eligible to receive them.

To help you learn more about these important super contributions, the following is a guide to concessional contributions.

What is a concessional super contribution?

Concessional contributions are any of the contributions paid into your super account that receive a concessional (or lower) tax rate. They are contributions made into your account from money that has not yet been taxed – so it's before tax. That's why concessional contributions are sometimes referred to as being before-tax contributions.

Concessional super contributions are taxed at the special low rate of 15% (if your income is under $250,000) to help you save for your retirement. For many people, this tax rate is lower than the marginal or top tax rate they pay on their income.

What types of contributions are concessional?

There are several types of concessional (before-tax) contributions, but the most common ones are the contributions made by your employer into your super account and salary-sacrifice contributions.

From 1 July 2017, concessional (before-tax) contributions include:

Superannuation Guarantee (SG) contributions

These are the compulsory contributions made by your employer into your super account as part of your pay. In 2020/21, the SG is 9.5% of your ordinary time earnings (OTE).

Your employer is required to pay SG contributions on your earnings up to an income limit. The maximum super contribution base for 2020/21 is $57,090 per quarter, which is equivalent to $228,360 a year.

If you earn above this quarterly limit, your employer does not have to make contributions for the part of your earnings over the limit.

Salary-sacrifice contributions

You are able to make an agreement with your employer to pay part of your before-tax salary directly into your super account. At the start of the financial year, you decide how much you want your employer to pay into your super account each pay cycle from your before-tax income.

Salary-sacrifice contributions can be made up to age 65, but if you are aged between 65 and 74 you need to pass a work test.

Personal contributions for which you claim a tax deduction

Since 1 July 2017, most people can claim a tax deduction for any personal contributions they make into their super account.

You are free to make a personal contribution at any time during the financial year and claim a tax deduction in that year's tax return.

If you split your concessional (before-tax) contributions and transfer some into your spouse's super account, the contributions are still counted towards your concessional contributions cap.

What are the annual limits for concessional contributions?

As there are tax benefits in holding savings in your super account, the government places a strict annual cap (or limit) on concessional (before-tax) contributions going into super.

The cap applies to the total of all your super accounts across different super funds.

The concessional contributions cap is indexed and any contributions over this limit are subject to extra tax. From 1 July 2020, the cap is $25,000.

Once concessional contributions are in your super account, a 15% contributions tax is applied to the money by your super fund.

It's important not to exceed your annual concessional contributions cap, as you may have to pay extra tax if you do. The actual amount of tax depends on your age and the financial year in which your concessional contributions were made, but it's generally your marginal tax rate plus an interest charge.

What if I don't use all my annual contributions cap?

From 1 July 2017, the super rules were changed to allow you to roll forward any of your unused concessional contributions cap. This means if you don't use the full amount of your contributions cap in a particular year, you can carry forward the unused cap amount and take advantage of it up to five years later.

If you feel like you've missed the boat when it comes to building your retirement savings, it could be time to use an often-overlooked contribution opportunity.

Making a carry-forward contribution can be an easy way to boost the balance of your super account, but it's one many people ignore.

So, what is a carry-forward contribution and are you eligible to make one?

What are carry-forward contributions?

Carry-forward contributions are not a special type of super contribution; they simply apply rules allowing super fund members to use any of their unused concessional contributions cap (or limit) on a rolling basis for five years.

This means if you don't use the full amount of your concessional contribution cap ($25,000 in 2019/20 and 2020/21), you can carry forward the unused amount and take advantage of it up to five years later. After five years, any unused amounts expire.

Who can benefit from carry-forward contributions?

Carry-forward contributions were introduced to make it easier for people with interrupted or non-standard work patterns to save for their retirement and to benefit from the tax concessions available in the super system.

Annual concessional contribution caps make it difficult to build retirement savings for people who take time out from work, work part time, or have 'lumpy' income and periods when they make no or limited super contributions. This includes women who work part time or take time off to care for children or other family members and people who have time out of the workforce for caring responsibilities, further studies, or due to physical or mental illness.

Carry-forward contributions can also be made by people who find they have more disposable income later in life due to reduced household costs, such as mortgage repayments or school fees.

The first financial year in which you could access your unused concessional contributions cap was 2019/20. Only unused concessional contribution cap amounts from 1 July 2018 onwards can be carried forward.

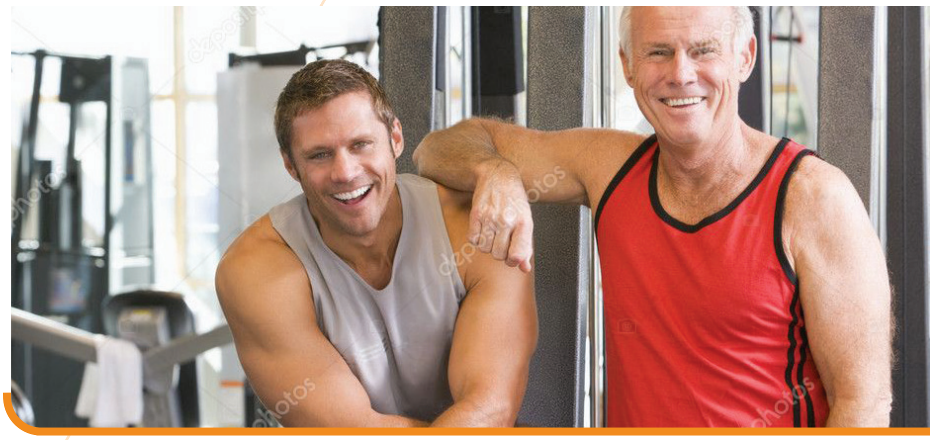
What are the eligibility rules?

To make a carry-forward contribution, your Total Super Balance (TSB) must be under $500,000 at 30 June in the previous financial year. For example, if you want to make a carry-forward concessional contribution in 2020/21, your TSB must have been under $500,000 on 30 June 2020.

Your TSB is calculated by adding together all the amounts you have in the accumulation phase of super, plus the retirement phase value of your super and any rollovers in transit between super funds at 30 June.

If your TSB falls below $500,000 at a later date, you are once again eligible to apply any of your unused concessional contributions cap in a future financial year.

Information on non-concessional contributions will be provided in the next newsletter.



242 Rokeby Road, Subiaco WA 6008
Telephone: (08) 9382 8444
Fax: (08) 9382 8464
admin@fessuper.com.au
PO Box 513, Subiaco WA 6904

fessuper.com.au

Fire & Emergency Services
Superannuation Fund