



# 2016

Annual Report 2016

# Contents

|                                  |    |
|----------------------------------|----|
| Note from the Chair and CEO      | 1  |
| Our ratings and awards           | 4  |
| How we invest our members' money | 6  |
| The team behind your super       | 17 |
| Taxes, fees and charges          | 27 |
| Financial Statements             | 33 |
| More information about the fund  | 38 |
| Important Changes                | 43 |

## Note from the Chair and the CEO



**Craig Peate**  
Chair

**Peter Lambert**  
Chief Executive Officer

“We’ve stepped up our support with record numbers of local government employees attending our group information sessions at councils over the last 12 months.”

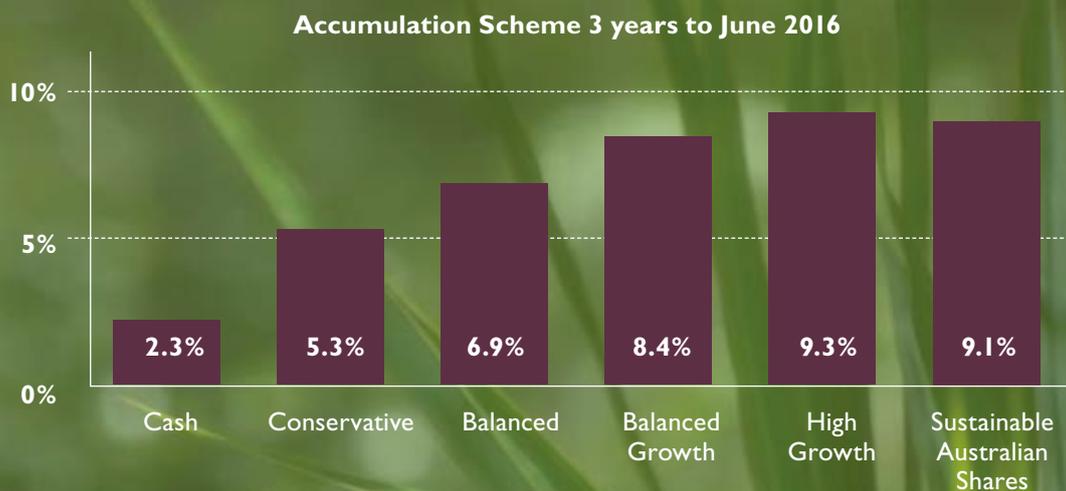
## A volatile year for super investment

Last financial year was an uncertain time for the global economy with subdued economic growth, falling commodity prices and historically low inflation fuelling a high level of volatility on markets in Australia and overseas.

This volatility had an impact on our returns, particularly on our investment options which have a greater exposure to the share market such as our High Growth and Balanced Growth options.

However it's important to note that with the annual rise in the Consumer Price Index falling to just 1% in June<sup>1</sup>, most of our members still received a real return over and above the rate of inflation of up to 3.7% on their super investment, despite the market volatility.

And looking back further, our annual compound returns have held up well over the three years to June 2016:



## Looking after our members

Last financial year was also an uncertain time for many of our members with the amalgamation of a number of councils across New South Wales, while other councils in the state awaited the outcome of legal challenges to their amalgamation.

In response, we've stepped up our support with record numbers of local government employees attending our group information sessions at councils over the last 12 months.

And with the Federal Government implementing even more changes to super, we anticipate that we'll need to provide members with even more support over the coming years.



That's why we've been working to expand and improve our entire advice model to make sure we offer our members professional and affordable advice when they need it.

## Providing outstanding value for money

An increasingly competitive environment means we need to continually be more innovative, more efficient and provide our members with high quality products and services.

We also need to continue to provide our members with genuine value for money and this means reducing our costs and making sure our fees and charges are very competitive.

Over the 2015/16 financial year, we undertook a number of projects which enabled us to reduce our administrative costs, in particular our non-investment management expenses and our ongoing IT costs.

At the same time, we expanded our DIY investment option and launched two new guaranteed income products, offering our members more choice and more certainty about their income in retirement.

And it was pleasing to be recognised for all our hard work.

Local Government Super was named the Fund of the Year in the mid-sized category of the 2016 Conexus Financial Superannuation Awards, as well as taking out the SuperRatings Rising Star award in recognition of the way we have improved the value we offer our members.



## The year ahead

Unfortunately, the general outlook for the next financial year is for more of the same; low global economic growth and volatile investment markets.

And this means more of the same for us too. We'll continue to focus on our service, our products, our costs, and providing our members with outstanding value for money in a challenging environment.

Our mission is to enhance the retirement income of our members and we'll be working hard to do just that over the next 12 months.

Regards

A handwritten signature in black ink, appearing to read "Craig Peate".

Craig Peate  
Chair

A handwritten signature in black ink, appearing to read "Peter Lambert".

Peter Lambert  
Chief Executive Officer

# Our ratings and awards

## Our hard work is paying off for our members

Local Government Super has been working hard over the last few years to continually improve the products, the service and ultimately, the value we offer our members.

We believe this is the best way for us to look after the long-term financial needs of our members and enhance their retirement incomes.

And over the 2015/2016 financial year, a lot of that hard work really paid off with recognition from our peers and a number of industry awards.

## Offering genuine value for money

Offering outstanding value for money is not about being the cheapest on the market, it's about knowing what our members need, what they expect from us, and providing them with high quality products and services in the most cost-effective way.

In September 2015, our Accumulation Scheme was awarded CANSTAR's highest rating for outstanding value, and in May 2016 our Account-Based Pension Plan received the five-star rating for the third year in a row.

We were recognised for our value for money with two prestigious awards. Firstly we received SuperRatings Rising Star award and then in March we were named the Super Fund of the Year in the medium-sized category of the 2016 Conexus Financial Superannuation Awards.

And one reason why we can offer such great value for money is due to the fact that we work hard to manage our costs.

An area of focus for us over the last financial year was our Information Technology (IT) operating model. The aim was to reduce our costs, and create a flexible and scalable IT environment for the future.

As a result of this work and our Information Technology Strategy took out the Australian Institute of Superannuation Trustees (AIST) award for the Best Internal Project.



## Genuine responsible and sustainable investment

Local Government Super has had a long-standing commitment to genuine responsible and sustainable investment and this year we were one of a select group of super funds to be officially certified as a responsible super fund by the Responsible Investment Association of Australasia.



The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that LGSS Pty Limited (Local Government Super) has adopted strict disclosure and education practices required under the Responsible Investment Certification Program for the category of Superannuation Fund. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and LGSS Pty Limited (Local Government Super) methodology and performance can be found at [www.responsibleinvestment.org](http://www.responsibleinvestment.org), together with details about other responsible investment products certified by RIAA.<sup>1</sup>



We were also ranked number one in Australia and number two globally by the 2016 Asset Owners Disclosure Project for the way we manage the risks and opportunities of climate change.



In June 2015 we won the SuperRatings Infinity award for the fourth time, taking out the prestigious award in recognition of our leadership in sustainable and responsible investment.



In fact, we now have over \$700 million in funds in low-carbon investments across a range of asset classes and these include investments in renewable energy generation and clean technology development, waste and recycling processing, energy efficiency and sustainable agriculture.

This has been good for members with the Sustainable Australian Shares investment option in our Accumulation Scheme returning an average of more than 9% per annum over the last three financial years.



And that's just another reason why we were named the Best Green Super Fund for the fourth time in *Money* magazine's Best of the Best Awards 2016.

For more detailed information about performance results and our 2015/16 financial year in review, visit [lgsuper.com.au](http://lgsuper.com.au)

### Average Compound returns for 3 years to June 2016

|                               |                    |
|-------------------------------|--------------------|
| Sustainable Australian Shares | 9.06%              |
| ASX 200 Accumulation Index    | 8.03% <sup>2</sup> |

1. The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

2. Source: JP Morgan

# How we invest our members' money

## **This section of the Annual Report provides information on each of our investment options as well as details of performance, asset allocations and definitions.**

Please note that the net earnings allocated to a member's account during the 2015/16 financial year are calculated daily, based upon the applicable unit prices of the underlying investment options the member is invested in. These unit prices are derived from the market value of the investments in the underlying investment option after adjustments for taxes, fees and expenses.

Any direct fees, contributions tax or expenses, such as insurance premiums, are deducted directly from the member's account and are not taken into account when deriving applicable unit prices.

Please also note that the tables on the following pages show returns for past net earning rates and these figures are not an indicator of future net earning rates. Member benefits which are invested in any particular investment option are not guaranteed and the value of their investment may fall.

## **Derivatives**

Derivatives are used to adjust the weightings of the various portfolios in line with the overall investment strategy. Various derivatives may be applied, such as futures and options.

Strict investment guidelines detail all limits approved on the use of derivatives that are in place. Currency hedging activities are also carried out in relation to all international assets in the portfolio, within strictly defined parameters.

Derivatives can also be used to protect against possible adverse movements in the markets, to implement tactical asset allocations, or to enter or exit the market at a defined price level. Under no circumstances can they be used to gear the investment portfolio or be used for speculative trading.

Except when the investment manager specifically confirms in writing that derivatives will not be used, each investment manager must supply either a detailed Part B Derivative Risk Statement or an adequate controls framework, consistent with Superannuation Law. It must outline the policies and role of derivatives products (such as futures and options) used by the investment manager.

The Trustee requires that all derivative positions are fully cash covered, offset to existing assets, or used to alter the exposures in underlying asset classes.





## Our investment portfolio

### Top 10 Australian share holdings as at 30 June 2016

| Rank | Australian shares top 10 holdings | % of portfolio holding | % of index <sup>1</sup> |
|------|-----------------------------------|------------------------|-------------------------|
| 1    | Commonwealth Bank of Australia    | 8.98                   | 9.07                    |
| 2    | Westpac                           | 7.40                   | 6.97                    |
| 3    | Australia and New Zealand Bank    | 5.92                   | 5.01                    |
| 4    | National Australia Bank           | 4.58                   | 4.78                    |
| 5    | Telstra                           | 4.57                   | 4.83                    |
| 6    | CSL Limited                       | 3.47                   | 3.65                    |
| 7    | BHP Billiton                      | 3.33                   | 4.26                    |
| 8    | Wesfarmers                        | 2.37                   | 3.21                    |
| 9    | Macquarie Group                   | 2.32                   | 1.67                    |
| 10   | Origin Energy                     | 1.85                   | 0.71                    |

1. This measure shows how much of that share is held by the overall market. For Australia the index used is the ASX 300. So even though we may hold enough of a share for it to be in our top ten, we may still hold less than its share of the overall market.

### Top 10 International share holdings as at 30 June 2016

| Rank | International shares top 10 holdings | % of portfolio holding | % of index <sup>2</sup> |
|------|--------------------------------------|------------------------|-------------------------|
| 1    | Accenture                            | 1.35                   | 0.20                    |
| 2    | Thermo Fisher Scientific             | 1.20                   | 0.17                    |
| 3    | Time Warner                          | 1.20                   | 0.17                    |
| 4    | Zimmer Biomet                        | 1.18                   | 0.07                    |
| 5    | Oracle Corp                          | 1.09                   | 0.36                    |
| 6    | Pfizer                               | 0.98                   | 0.63                    |
| 7    | Nestlé                               | 0.96                   | 0.70                    |
| 8    | Walt Disney                          | 0.84                   | 0.41                    |
| 9    | Reckitt Benckiser Group              | 0.80                   | 0.17                    |
| 10   | Visa                                 | 0.80                   | 0.42                    |

2. This measure shows how much of that share is held by the overall market. For international shares the index is the MSCI which consists of the vast majority of all the listed shares on major global markets. So even though we may hold enough of a share for it to be in our top ten, we may still hold less than its share of the overall market.



## Our investment options

The following descriptions reflect the objectives and the asset allocations as at 30 June 2016. You should refer to the relevant Product Disclosure Statement (PDS) for the current details of our investment options.

For more detailed and up-to-date performance figures for all our investment options, visit our website at [lgsuper.com.au/investments/performance](http://lgsuper.com.au/investments/performance)

### High Growth

**Definition** – For high investment growth above the Consumer Price Index (CPI) over the longer term. The High Growth option generally invests a very high proportion of its funds in growth assets, such as Australian and international shares and property. This combination aims to earn high real investment growth above CPI over a seven-year period. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call ‘short-term volatility’ in this option. In other words, the value of the investment may fluctuate over the short term.

**Objective** – 4.5% net investment return per annum above CPI, measured over a rolling seven-year period.

**Risk profile** – Risk Band 5 (Medium to High). Estimate of 3.5 negative annual returns in any 20-year period.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 25%–42%                 | 32.7%                    | 29.5%                    |
| International Shares                                      | 25%–42%                 | 35.5%                    | 39.7%                    |
| International Listed Property                             | 0%–6%                   | 2.3%                     | 2.1%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–10%                  | 5.1%                     | 4.9%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 5%–25%                  | 13.4%                    | 12.7%                    |
| Commodities   | 0%–3%                   | 0.8%                     | 0.7%                     |
| Australian Fixed Interest                                 | 0%–8%                   | 0.0%                     | 0.0%                     |
| Australian Inflation-Linked Bonds                         | 0%–3%                   | 0.0%                     | 0.0%                     |
| International Fixed Interest                              | 0%–5%                   | 0.0%                     | 0.0%                     |
| Absolute Return Funds                                     | 0%–13%                  | 6.2%                     | 5.9%                     |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 3.0%                     | 2.6%                     |
| Cash  | 0%–10%                  | 1.0%                     | 1.9%                     |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

#### Investment returns for Pool A as at 30 June 2016

|   | 1 year | 3 years | 5 years |
|---|--------|---------|---------|
| Accumulation Fund (Division A)          | 2.00%  | 9.33%   | 8.03%   |
| Account-Based Pension Plan (Division F) | 2.75%  | 10.32%  | 9.12%   |

## Balanced Growth

**Definition** – For real investment growth above the CPI over the medium to longer term. For investors who want a high exposure to Australian and international shares and property and are prepared to accept more risk. The emphasis is on growth so investors should be prepared for some potential short-term volatility. In other words the value of the investment may fluctuate over the short term.

**Objective** – 3.5% net investment return per annum above the CPI, measured over a rolling five-year period.

**Risk profile** – Risk Band 5 (Medium to High). Estimate of three negative annual returns in any 20-year period.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 18%–31%                 | 24.6%                    | 22.3%                    |
| International Shares                                      | 18%–30%                 | 25.2%                    | 28.6%                    |
| International Listed Property                             | 0%–6%                   | 2.2%                     | 2.1%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–10%                  | 5.0%                     | 4.9%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 1%–21%                  | 10.8%                    | 10.8%                    |
| Commodities   | 0%–3%                   | 0.8%                     | 0.8%                     |
| Australian Fixed Interest                                 | 0%–15%                  | 6.4%                     | 5.5%                     |
| Australian Inflation-Linked Bonds                         | 0%–8%                   | 1.8%                     | 2.0%                     |
| International Fixed Interest                              | 0%–10%                  | 4.6%                     | 4.6%                     |
| Absolute Return Funds                                     | 0%–16%                  | 10.2%                    | 11.5%                    |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 4.1%                     | 3.5%                     |
| Cash  | 0%–10%                  | 4.4%                     | 3.4%                     |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

### Investment returns for Pool A as at 30 June 2016

|   | 1 year | 3 years | 5 years |
|---|--------|---------|---------|
| Accumulation Scheme (Division A)        | 3.42%  | 8.42%   | 7.53%   |
| Account-Based Pension Plan (Division F) | 4.10%  | 9.09%   | 8.44%   |



## Balanced

**Definition** – For real investment growth above CPI over the medium term. The Balanced option generally invests a proportion of its funds in growth assets such as Australian and international shares and property, semi liquids and private equity and the balance in income-producing assets, such as interest-bearing securities. This combination aims to earn real investment growth above CPI over a three-year period. There are more assets that produce income which makes the option more stable than the High Growth and Balanced Growth options.

**Objective** – 2.5% net investment return per annum above the CPI, measured over a rolling three-year period.

**Risk profile** – Risk Band 4 (Medium). Estimate of 2.3 negative annual returns in any 20-year period.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 9%–21%                  | 14.6%                    | 13.6%                    |
| International Shares                                      | 9%–20%                  | 15.5%                    | 17.7%                    |
| International Listed Property                             | 0%–6%                   | 2.3%                     | 2.1%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–10%                  | 5.0%                     | 4.9%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 1%–21%                  | 10.5%                    | 10.6%                    |
| Commodities   | 0%–3%                   | 0.8%                     | 0.8%                     |
| Australian Fixed Interest                                 | 11%–22%                 | 15.4%                    | 14.7%                    |
| Australian Inflation-Linked Bonds                         | 0%–12%                  | 4.8%                     | 4.6%                     |
| International Fixed Interest                              | 6%–16%                  | 10.5%                    | 10.6%                    |
| Absolute Return Funds                                     | 0%–17%                  | 12.5%                    | 13.5%                    |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 4.1%                     | 3.8%                     |
| Cash  | 0%–10%                  | 4.1%                     | 3.2%                     |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

### Investment returns for Pool A as at 30 June 2016

|   | 1 year | 3 years | 5 years |
|---|--------|---------|---------|
| Accumulation Scheme (Division A)        | 4.66%  | 6.88%   | 6.55%   |
| Account-Based Pension Plan (Division F) | 5.23%  | 7.79%   | 7.59%   |

## Conservative

**Definition** – For shorter term investing with good security and some potential for growth. The Conservative option generally invests a small proportion in growth assets and the balance in income-producing assets such as interest-bearing securities. This combination aims to earn real investment growth above CPI over a two-year period. Although it is relatively more stable than the High Growth, Balanced Growth and Balanced options, the returns and the value of the investment can still fluctuate.

**Objective** – 2% net investment return per annum above the CPI, measured over a rolling two-year period.

**Risk profile** – Risk Band 3 (Low to Medium). Estimate of 1.6 negative annual returns in any 20-year period.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 1%–11%                  | 5.9%                     | 6.1%                     |
| International Shares                                      | 1%–11%                  | 6.8%                     | 7.7%                     |
| International Listed Property                             | 0%–6%                   | 1.6%                     | 1.8%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–8%                   | 4.0%                     | 3.9%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 5%–21%                  | 9.2%                     | 9.5%                     |
| Commodities   | 0%–3%                   | 0.8%                     | 0.7%                     |
| Australian Fixed Interest                                 | 14%–25%                 | 17.4%                    | 18.7%                    |
| Australian Inflation-Linked Bonds                         | 1%–12%                  | 4.9%                     | 5.8%                     |
| International Fixed Interest                              | 8%–18%                  | 11.4%                    | 11.5%                    |
| Absolute Return Funds                                     | 0%–21%                  | 17.1%                    | 17.6%                    |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 4.6%                     | 3.1%                     |
| Cash  | 5%–20%                  | 16.5%                    | 13.6%                    |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

### Investment returns for Pool A as at 30 June 2016

|   | 1 year | 3 years | 5 years |
|---|--------|---------|---------|
| Accumulation Scheme (Division A)        | 4.70%  | 5.31%   | 5.53%   |
| Account-Based Pension Plan (Division F) | 5.25%  | 5.93%   | 6.34%   |

## Cash

**Definition** – For investors who want exposure to investments in money market securities with a very low risk of capital loss. The Cash investment option invests predominantly in short-term Australian money market assets. In addition, a small proportion of the assets (up to 15%) is invested in global interest type assets having a longer maximum term. This gives this option greater exposure to higher returns than by just investing in short-term domestic assets, with only a small increase in the overall volatility of the returns. This option offers investments for short-term investors or those seeking less volatile returns.

**Objective** – 0.25% net investment return per annum above the cash<sup>1</sup> rate, measured over a rolling two-year period.

**Risk profile** – Risk Band I (Very Low). Based on an estimate of there being no negative returns in any 20-year period.

### Asset allocation at 30 June 2016

Cash and income producing assets

### Actual

100%

### Investment returns for Pool A as at 30 June 2016

|   | 1 year | 3 years | 5 years |
|---|--------|---------|---------|
| Accumulation Scheme (Division A)        | 2.21%  | 2.25%   | 2.73%   |
| Account-Based Pension Plan (Division F) | 2.35%  | 2.59%   | 3.17%   |



## Sustainable Australian Shares

**Definition** – Sustainable Australian Shares aims to provide for high long-term investment growth above the CPI by investing in Australian shares according to the Sustainability Criteria. However because the emphasis is on growth, it is likely that this option will from time to time produce a negative return.

The performance of Sustainable Australian Shares is measured against the S&P/ASX 200 Accumulation Index benchmark.

**Objective** – 4.5% net investment return per annum above the CPI, measured over a rolling seven-year period.

**Risk profile** – Risk Band 6 (High). Estimate of five negative annual returns in any 20-year period.

| <b>Asset allocation at 30 June 2016</b> | <b>Actual</b> |  |  |
|---|---------------|--|--|
| Sustainable Australian Shares           | 100%          |  |  |

| <b>Investment returns for Pool A as at 30 June 2016</b> | <b>1 year</b> | <b>3 years</b> | <b>5 years</b> |
|---|---------------|----------------|----------------|
| Accumulation Scheme (Division A)                        | -0.15%        | 9.06%          | N/A            |
| Account-Based Pension Plan (Division F)                 | 0.54%         | 10.16%         | N/A            |

## Growth - Retirement Scheme (Pool B)

**Definition** – For real investment growth above the CPI over the medium to long term. For investors who want a high exposure to Australian and international shares and property and are prepared to accept more risk. The emphasis is on growth so investors should be prepared for some potential short-term volatility. In other words the value of the investment may fluctuate over the short term.

The volatility for the Growth option should not be as great as it is in the High Growth option.

**Objective** – 3.5% net investment return per annum above the CPI, measured over a five-year period.

**Risk profile** – High/Medium. There is potential for the value of the investment to decrease in the short term. The chance of a negative return in any year is one in four.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 18%–31%                 | 24.6%                    | 22.4%                    |
| International Shares                                      | 18%–30%                 | 25.6%                    | 28.7%                    |
| International Listed Property                             | 0%–6%                   | 2.3%                     | 2.1%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–10%                  | 4.8%                     | 5.1%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 1%–21%                  | 13.5%                    | 13.4%                    |
| Commodities   | 0%–3%                   | 0.8%                     | 0.7%                     |
| Australian Fixed Interest                                 | 0%–15%                  | 6.2%                     | 5.2%                     |
| Australian Inflation-Linked Bonds                         | 0%–8%                   | 1.7%                     | 1.6%                     |
| International Fixed Interest                              | 0%–10%                  | 4.6%                     | 4.5%                     |
| Absolute Return Funds                                     | 0%–16%                  | 10.4%                    | 11.3%                    |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 4.1%                     | 3.8%                     |
| Cash  | 0%–10%                  | 1.5%                     | 1.3%                     |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

### Investment returns for Pool A as at 30 June 2016

|  | 1 year | 3 years | 5 years |
|--|--------|---------|---------|
| Retirement Scheme (Pool B) Contributory        | 3.90%  | 8.77%   | 7.62%   |
| Retirement Scheme (Pool B) Other Contributions | 3.50%  | 8.50%   | 6.99%   |
| Retirement Scheme (Pool B) Deferred            | 3.62%  | 8.38%   | 7.36%   |

## Member investment choice

### Retirement Scheme members only (Division B)

In addition to the Growth investment option, Retirement Scheme members have access to member investment choice. Members can choose one of five investment options: High Growth, Balanced Growth, Balanced, Conservative or Cash.

Members can elect an investment option for the following benefit components:

### For contributory members

- ▶ Your Contributor Financed Benefit
- ▶ Other Contributions account.

### For deferred members

- ▶ Your total account balance.

The following tables show the returns for one, three and five years for each of the investment options as at 30 June 2016.

### Retirement Scheme (Pool B) – Contributory members

Returns as at 30 June 2016

|                 | 1 year | 3 years | 5 years |
|-----------------|--------|---------|---------|
| High Growth     | 2.38%  | 9.68%   | 8.23%   |
| Balanced Growth | 3.73%  | 8.61%   | 7.56%   |
| Balanced        | 4.96%  | 7.41%   | 7.01%   |
| Conservative    | 5.01%  | 5.78%   | 6.03%   |
| Cash            | 2.57%  | 2.71%   | 3.18%   |

### Retirement Scheme (Pool B) – Other contributions

Returns as at 30 June 2016

|                 | 1 year | 3 years | 5 years |
|-----------------|--------|---------|---------|
| High Growth     | 2.31%  | 9.35%   | 7.92%   |
| Balanced Growth | 3.66%  | 8.40%   | 6.42%   |
| Balanced        | 4.85%  | 7.21%   | 6.32%   |
| Conservative    | 4.88%  | 5.45%   | 5.32%   |
| Cash            | 2.39%  | 2.35%   | 2.64%   |

### Retirement Scheme (Pool B) – Deferred members

Returns as at 30 June 2016

|                 | 1 year | 3 years | 5 years |
|-----------------|--------|---------|---------|
| High Growth     | 2.37%  | 9.36%   | 8.31%   |
| Balanced Growth | 3.69%  | 8.36%   | 7.60%   |
| Balanced        | 4.74%  | 7.05%   | 6.70%   |
| Conservative    | 4.84%  | 5.37%   | 5.52%   |
| Cash            | 2.28%  | 2.26%   | 2.71%   |

## Defined Benefit Strategy (Pool B)

**Definition** – The Defined Benefit Strategy generally invests a high proportion of its funds in growth assets, such as Australian and international shares and property. The balance is invested in income producing assets. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call ‘short-term volatility’ in this strategy. In other words, the value of the investment may fluctuate over the short-term.

**Objective** – 7% net investment return per annum over an eight-year period.

**Risk profile** – High/Medium. As this is a defined benefit scheme any downside risk is effectively underwritten by the employers.

| Asset classes   | Asset allocation ranges | Actual 2016 <sup>1</sup> | Actual 2015 <sup>1</sup> |
|---|-------------------------|--------------------------|--------------------------|
| Australian Shares   | 16%–30%                 | 22.7%                    | 20.9%                    |
| International Shares                                      | 16%–30%                 | 24.5%                    | 27.9%                    |
| International Listed Property                             | 0%–6%                   | 1.3%                     | 1.3%                     |
| Australian Direct Property <sup>2</sup>                   | 0%–15%                  | 9.8%                     | 9.8%                     |
| Semi-Liquids <sup>2</sup> and Private Equity <sup>2</sup> | 1%–16%                  | 7.3%                     | 6.8%                     |
| Commodities   | 0%–3%                   | 0.8%                     | 0.7%                     |
| Australian Fixed Interest                                 | 0%–10%                  | 2.3%                     | 2.3%                     |
| Australian Inflation-Linked Bonds                         | 0%–5%                   | 0.5%                     | 0.5%                     |
| International Fixed Interest                              | 0%–10%                  | 2.6%                     | 2.8%                     |
| Absolute Return Funds                                     | 0%–18%                  | 14.8%                    | 14.6%                    |
| Defensive Illiquids <sup>2</sup>                          | 0%–8%                   | 1.1%                     | 1.1%                     |
| Cash  | 0%–15%                  | 12.4%                    | 11.4%                    |

1. As at 30 June.

2. Combined investments in these asset classes do not exceed 25% of the portfolio.

### Investment returns for Pool A as at 30 June 2016

|                                   | 1 year | 3 years | 5 years |
|-----------------------------------|--------|---------|---------|
| Defined Benefit Strategy (Pool B) | 3.73%  | 7.78%   | 6.98%   |
| Contributory                      |        |         |         |

# The team behind your super

## About the Trustee

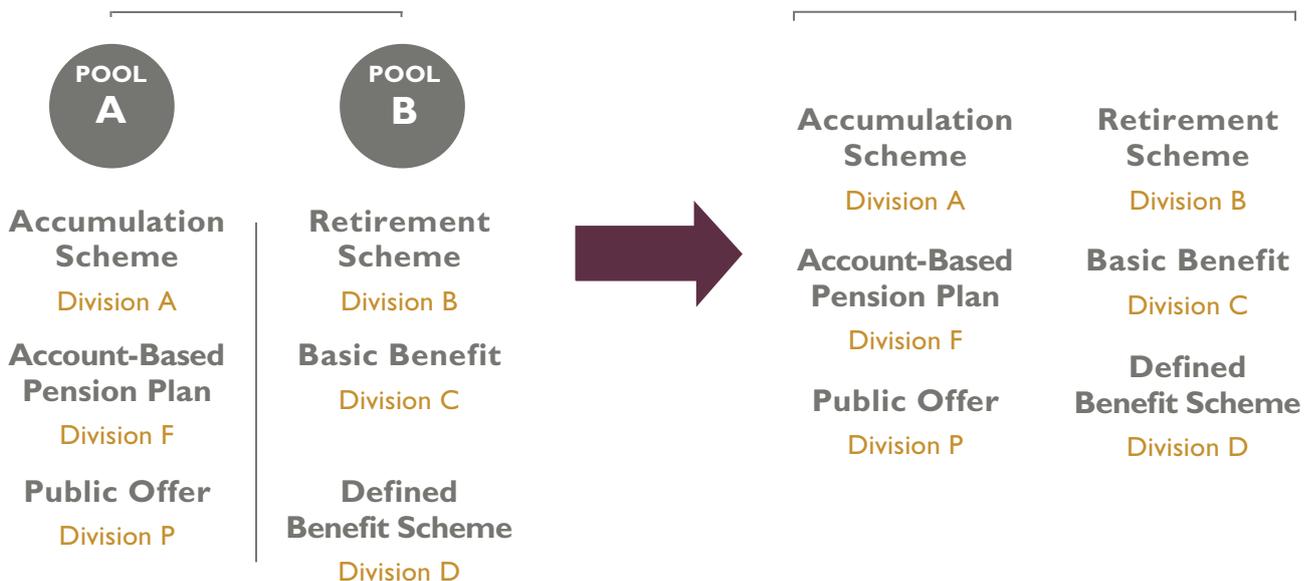
Local Government Super was established on 30 June 1997 specifically for employees of NSW Local Government entities.

Up until 30 June 2016, Local Government Super was divided into two pools (Pool A and Pool B) with LGSS Pty Limited (ABN 68 078 003 497) as the Trustee of Pool A (ABN 74 925 979 278) and Pool B (ABN 28 901 371 321). Both pools were complying superannuation funds and subject to concessional taxation treatment.

As of 30 June 2016, the Trustee merged Pool A into Pool B, transferring the Pool A members, assets and liabilities to Pool B, under a Successor Fund Transfer Deed, with Pool B now known as Local Government Super (ABN 28 901 3781 321).

The Trustee is a non-profit company solely engaged in the management and control of Local Government Super's assets for the benefit of its members. This means that profits go back to members.

'The Board is responsible for setting the overall strategy and ensuring Local Government Super is operating in the best interest of members.'





## Industry regulators

The Trustee holds a Registrable Superannuation Entity (RSE) licence (L0001243) which is regulated by the Australian Prudential Regulation Authority (APRA). Local Government Super is an RSE under the Superannuation Industry Supervision (SIS) legislation.

The Trustee also holds an Australian Financial Services Licence (AFSL) (383558) to cover the services provided by its financial planners and client relationship managers. This licence is regulated by the Australian Securities and Investments Commission (ASIC).

## Indemnity insurance

The Trustee and its directors and officers are covered by professional indemnity insurance which helps protect Local Government Super in the event of a claim against its assets.

## Governance

The Board is ultimately responsible for managing Local Government Super which includes the safekeeping of assets and ensuring it operates in accordance with the Trust Deed, the Corporations Act 2001 (Cth), the Superannuation Industry (Supervision) Act 1993 (Cth) (SIS) and other relevant superannuation legislation, regulations and prudential standards (Superannuation Laws).

Superannuation is constantly evolving with increasing competition and legislative changes so the Board is supported by an in-house Governance team which provides expert risk, legal and compliance advice on a day-to-day basis. The Trustee's role is to ensure our super fund is safe, secure and is meeting the expectations and the long-term financial needs of our members.

## Role of the Board

The Board is responsible for setting the overall strategy and ensuring Local Government Super is operating in the best interest of members in accordance with the Trust Deed and the Superannuation laws.

There are eight directors on the Board of the Trustee Company. To comply with the equal representation requirements of SIS, four of the directors are appointed by employer associations and four are appointed by unions. We also have an aspirational goal for our Board to have a 40% representation of female directors.

The Board meets regularly and receives and reviews reports from management and its service providers. When necessary, the Board calls upon advice from specialists such as lawyers, accountants and actuaries.

## Board committees

The Board has created five committees to provide specific direction and resources to the business that fall within their delegated responsibility:

- ▶ Investment Committee
- ▶ Audit and Compliance Committee
- ▶ Governance and Remuneration Committee
- ▶ Risk Committee
- ▶ Member Services Committee.



These committees allow the Board to oversee the operations in greater detail. All committees are reflective of the equal representation requirements of SIS.

As at 30 June 2016, the Investment Committee was made up of Martin O'Connell (Chair), Katherine O'Regan, Bruce Miller and Craig Peate and generally meets twice a quarter. Also, two additional committee members have been appointed to the Investment Committee as independent experts who bring specific knowledge and expertise to assist with our overall investment strategy.

The main function of the Investment Committee is to monitor the performance of the investment managers, oversee the work of the internal investment team and the external asset consultant, and to provide updates to the Board.

The role of the Audit and Compliance Committee, which as of 30 June 2016 was made up of Sam Byrne (Chair), Jim Montague, Jeffrey Morris and Michelle Blicavs, is to monitor the Trustee's compliance with its various licences and the effectiveness of the Trustee's financial reporting and compliance framework.

Currently, there is one additional member appointment to the Committee. The Audit and Compliance Committee meetings are also attended by Local Government Super's external auditor. This committee generally meets quarterly.

As of 30 June 2016, the Risk Committee was made up of Michelle Blicavs (Chair), Jim Montague, Jeffrey Morris and Sam Byrne. The committee's responsibilities are to assist the Board by providing an objective non-executive review of the effectiveness of the Trustee's risk management framework.

Currently, there is one additional member appointed to the committee. The Risk Committee meetings may also be attended by the Trustee's internal auditor. This committee generally meets twice a quarter.

The role of the Member Services Committee, which as of 30 June 2016 was made up of Michelle Blicavs (Chair), Jim Montague,

Jeffrey Morris and Sam Byrne, is to monitor the delivery of member services to ensure that it meets agreed standards, is consistent with the Board's expectations, and is aligned to strategic objectives. This committee also considers disputed claims for invalidity and death benefits.

Currently, there is one additional member sitting on the committee. This committee meets quarterly or as required.

The role of the Governance and Remuneration Committee, which as of 30 June 2016 was made up of Bruce Miller (Chair), Craig Peate, Katherine O'Regan and Martin O'Connell, is to assist the Board to fulfil its responsibilities in relation to APRA prudential standard SPS 510 as it relates to governance and remuneration.

The committee's functions include reviewing the performance of the Chief Executive Officer and the Chief Investment Officer, the remuneration of senior management, and the budgeted salary increase for the remaining employees. This committee meets as required.

Following Martin O'Connell's resignation, these changes to the committees have taken place, effective 8 September 2016:

- ▶ Jim Montague is the Chair of the Investment Committee and sits on the Governance and Remuneration Committee
- ▶ Gordon Brock has replaced Jim Montague on the Audit and Compliance, Risk and Member Services Committees.



## Your Board



**Michelle Blicavs**  
**GAICD**

Appointed by Local Government NSW (formerly through the Local Government Association of NSW)

Councillor – Wollongong City Council (since September 2011)

Chairperson – Top Blokes Foundation (since January 2012)

Qualifications: GAICD, Diploma of Theology, Master of Management, Foundations in Trustee Governance – AIST

Chair of the Risk Committee and Member Services Committee

Appointed to the Board on 3 April 2013

Director – Unique Leaders Network Pty Ltd



**Bruce Miller**  
**MAICD (Deputy Chair)**

Appointed by Local Government NSW (formerly through the Shires Association of NSW)

Councillor and former Mayor – Cowra Shire Council (since September 1991)

Director – StateCover Mutual since 2004 (including Board Chair from 2009 to 2011)

Member of Australian Institute of Company Directors (AICD) (8 years)

Qualifications: MAICD, Licensed Builder. Numerous short courses undertaken through the AICD, AIST and ASFA relating to director responsibilities.

Chair of the Governance and Remuneration Committee

Appointed to the Board on 1 July 2011



**James (Jim) Montague PSM**

Appointed by the United Services Union

Former General Manager, Canterbury Council (1982 – 2016)

Awarded the Public Service Medal in 2006

Qualifications: AIST Director training

Chair of the Investment Committee (as of 8 September 2016)

Appointed to the Board on 9 October 2013



**Martin O'Connell**  
**FAICD**

Appointed by the Local Government Engineers' Association (LGEA)

Former Director of the LGEA (NSW Branch) (from 1992 to 2013)

National Manager, Students and Young Professionals Program – Professionals Australia (since July 2013)

Former Director – Association of Professional Engineers, Scientists and Managers, Australia (APESMA) (from 1990 to 2013)

Former Executive Member (APESMA representative) – Unions NSW (from 1994 to 2013)

Qualifications: FAICD. Numerous short courses undertaken through the AICD, AIST and ASFA relating to director responsibilities.

Chair of the Investment Committee (up until 8 September 2016)

Appointed to the Board on 18 October 1999, and resigned on 31 August 2016



**Craig Peate**  
**GAICD, GAIST (Adv.) (Chair)**

Appointed by the United Services Union

Local Government employee with Tweed Shire Council since 1978 and currently holds the position of Co-ordinator of Revenue & Recovery

Qualifications: GAICD, GAIST (Adv.), Associate Diploma in Local Government, Certificate III and IV in Financial Services, Certificate in Management and Leadership

Director – Dunnara Debt Services Pty Ltd

Appointed to the Board on 25 October 2012

## Your Board



**Sam Byrne**  
**GAIST (Adv.)**

Appointed by the Development and Environmental Professionals' Association (depa) on 5 November 2014

Member - The Greens

Secretary/Director – Co-operative Federation of NSW

Qualifications: Company Directors Course Diploma - Australian Institute of Company Directors, Certificates of Trustee Governance and Practice - Australian Institute of Superannuation Trustees, Masters of Management - University of Technology, Sydney

Chair of the Audit and Compliance Committee

Appointed to the Board effective 5 November 2014



**Katherine O'Regan**  
**GAIST**

Appointed by Local Government NSW

Councillor and former Deputy Mayor - Woollahra Municipal Council (since 2012)

Director - KTO Pty Ltd, Sydney Institute, Holdsworth Communities, Future Cities Collaborative, Kennedy Foundation and Sport NSW

Qualifications: Masters of US Studies, Masters of Business Administration (AGSM), Bachelor of Applied Science, Investor Relations Diploma

Appointed to the Board effective 1 April 2015



**Jeff Morris**

Appointed by Local Government NSW

Councillor - North Sydney Council (since 2012)

Committee Member/Deputy Chair/Chair - Waverton Precinct (since 1988)

Qualifications: Bachelor of Economics and Law, Advanced Diploma of Financial Services, Certified Financial Planner

Appointed to the Board effective 1 April 2015



## In memoriam

**John Beacroft 1951 to 2016**

John Beacroft, known to many as Beaky, was born in Blacktown in 1951, the youngest of five boys. He began his local government career at the Queen Victoria Building offices of the County Council in Sydney and went on to work at Blacktown, Condobolin, Tumut and Lismore City Councils.

A life member of the United Services Union, John had a particular passion for superannuation reform and joined the Board of Local Government Super in 2008, serving as the Chair for two years from April 2011. He worked tirelessly in the interests of members and made an enormous contribution to our super fund.

John is survived by his wife of more than 40 years, Sue, their three children and five grandchildren.

## 2015/16 meetings attendance by Directors

The attendance by Directors at meetings of the Board and its Committees from 1 July 2015 to 30 June 2016 was as follows:

### Board

| Director           | Meetings held during tenure | Number of meetings attended |
|--------------------|-----------------------------|-----------------------------|
| Blicavs, Michelle  | 12                          | 12                          |
| Miller, Bruce      | 12                          | 11                          |
| Montague, James    | 12                          | 11                          |
| O'Connell, Martin  | 12                          | 12                          |
| Peate, Craig       | 12                          | 12                          |
| Byrne, Sam         | 12                          | 12                          |
| O'Regan, Katherine | 12                          | 9                           |
| Morris, Jeff       | 12                          | 9                           |



### Audit and Compliance Committee

| Director          | Meetings held during tenure | Number of meetings attended |
|-------------------|-----------------------------|-----------------------------|
| Blicavs, Michelle | 5                           | 5                           |
| Montague, James   | 5                           | 5                           |
| Byrne, Sam        | 5                           | 5                           |
| Morris, Jeff      | 5                           | 5                           |

### Investment Committee

| Director           | Meetings held during tenure | Number of meetings attended |
|--------------------|-----------------------------|-----------------------------|
| Miller, Bruce      | 8                           | 8                           |
| O'Connell, Martin  | 8                           | 8                           |
| Peate, Craig       | 8                           | 8                           |
| O'Regan, Katherine | 8                           | 7                           |

### Governance and Remuneration Committee

| Director           | Meetings held during tenure | Number of meetings attended |
|--------------------|-----------------------------|-----------------------------|
| Miller, Bruce      | 5                           | 5                           |
| O'Connell, Martin  | 5                           | 5                           |
| Peate, Craig       | 5                           | 5                           |
| O'Regan, Katherine | 5                           | 5                           |

### Member Services Committee

| Director          | Meetings held during tenure | Number of meetings attended |
|-------------------|-----------------------------|-----------------------------|
| Blicavs, Michelle | 6                           | 6                           |
| Montague, James   | 6                           | 6                           |
| Byrne, Sam        | 6                           | 6                           |
| Morris, Jeff      | 6                           | 6                           |

### Risk Committee

| Director          | Meetings held during tenure | Number of meetings attended |
|-------------------|-----------------------------|-----------------------------|
| Blicavs, Michelle | 6                           | 6                           |
| Montague, James   | 6                           | 6                           |
| Byrne, Sam        | 6                           | 6                           |
| Morris, Jeff      | 6                           | 6                           |

## Directors Remuneration

| Total remuneration bands as at 30 June 2016 (\$000) | No. of Directors |
|---|------------------|
| 20 - 40   | 0                |
| 40 - 60   | 3                |
| 60 - 80   | 4                |
| 80 - 100  | 0                |
| 100 - 120   | 1                |

The annual Directors' fees are payable either to the individual Director or to their appointing shareholder.

## Executives' Responsible Officers Remuneration

| Total remuneration bands as at 30 June 2016 (\$000) | No. of Executives |
|---|-------------------|
| 0 - 100   | 1                 |
| 100 - 200   | 0                 |
| 200 - 300   | 2                 |
| 300 - 400   | 1                 |
| 400 - 500   | 1                 |
| 500 - 600   | 1                 |

## Executive Team

The Executive Team has been provided by the Board with a delegated authority to determine and execute the strategic objectives of Local Government Super.

Current Executive personnel include:

- ▶ Peter Lambert, Chief Executive Officer
- ▶ Craig Turnbull, Chief Investment Officer
- ▶ Donna Heffernan, Chief Governance Officer and Company Secretary
- ▶ Tony Griffin, Chief Operating Officer
- ▶ Michelle Hopwood, Chief Marketing Officer



## Our service providers

The Trustee engages external experts such as investment advisers and investment managers, administrators, custodians, an actuary, accountants, lawyers and auditors to assist with its obligations towards Local Government Super members. All external service providers have been appointed on the basis of quality and cost effectiveness. The Trustee reviews its service providers regularly and may from time to time make changes.

### Administrator

Australian Administration Services Pty Limited

### Actuary

Mercer Consulting (Australia) Pty Limited

### Asset Consultant

JANA Investment Advisers Pty Ltd  
Cambridge Associates Limited, LLC

### External Auditor

NSW Auditor General  
Ernst & Young Australia

### Internal Auditor

Price Waterhouse Coopers Australia

### Custodians

J.P. Morgan Nominees Australia Ltd  
Pacific Custodians Pty Ltd

### Group Life Insurer

TAL Life Limited

### Professional Indemnity Insurer

Zurich Financial Services Australia

### Investment managers at 30 June 2016

AMP Capital Investors Ltd  
AQR Capital Management LLC  
Ardea Investment Manager  
Attunga Capital Pty Ltd  
BAIN Capital  
Brandywine Global Investment Management, LLC

BT Investment Management Ltd  
Centaur Property Funds Management  
Cerberus Capital Management  
Colonial First State Investments Ltd  
Delaware Investments  
GAM International Management Limited  
GPT Group  
Hastings Funds Management Limited  
Hawkesbridge Capital Pty Limited  
HealthCare Royalty Partners  
Henderson Global Investors  
Hermes Investment Management  
IFM Investors  
Impax Asset Management Ltd  
Intrinsic Investment Management Pty Ltd  
Investa Property Group  
JP Morgan Chase  
Kapstream Capital  
Longview Partners (Guernsey) Limited  
LSV Asset Management  
Macquarie Investment Management  
MFS Institutional Advisors  
Mutual Limited  
National Australia Bank Limited  
Omega Global Investors  
PAG Investment Management  
PIMCO Australia Pty Ltd  
QIC Ltd  
Quadrant Private Equity  
Quentin Ayers Pty Limited  
Resolution Capital  
SouthPeak Investment Management Pty Limited  
Stafford Private Equity  
State Street Global Advisors, Australia Ltd  
The Growth Fund  
Ubique Asset Management Pty Ltd  
Vanguard Investment Management  
Wellington International Management Company Pty Ltd  
Wilshire Australia Pty Ltd  
Winton Capital Management

**Legal advisor**  
DLA Piper

# Taxes, fees and charges

## General tax information

Local Government Super is required to pay tax of up to 15% on all employer contributions<sup>1</sup> received (including contributions made via salary sacrifice). Any tax payable in respect of these contributions is deducted from the member's account at the time the contributions are made. Personal contributions made on an after-tax basis are generally not subject to tax, provided contributions do not exceed the non-concessional contributions cap.

## Low Income Superannuation Contribution (LISC)

Under the LISC rules, members with an annual income of less than \$37,000 per annum receive a payment of up to \$500 directly into their superannuation accounts.

The LISC was dependent on revenue generated from the Minerals Resource Rent Tax (MRRT). The repeal of the MRRT means that the LISC will only be paid up to and including the 2016/17 financial year.

However, the 2016 Budget announcement contained a proposal for the LISC to be replaced with a similar Low Income Superannuation Tax Offset (LISTO), effective 1 July 2017.

## Concessional contributions

Concessional contributions are before tax contributions and include the compulsory employer Superannuation Guarantee plus any salary sacrifice arrangements.

For the 2015/16 financial year, a concessional cap of \$35,000 applies to individuals who are 49 years and over, and the standard concessional cap for all other individuals is \$30,000 per annum.

If someone breaches the concessional contributions limits, they now have the option of receiving a refund of any excess contributions and including it in their annual

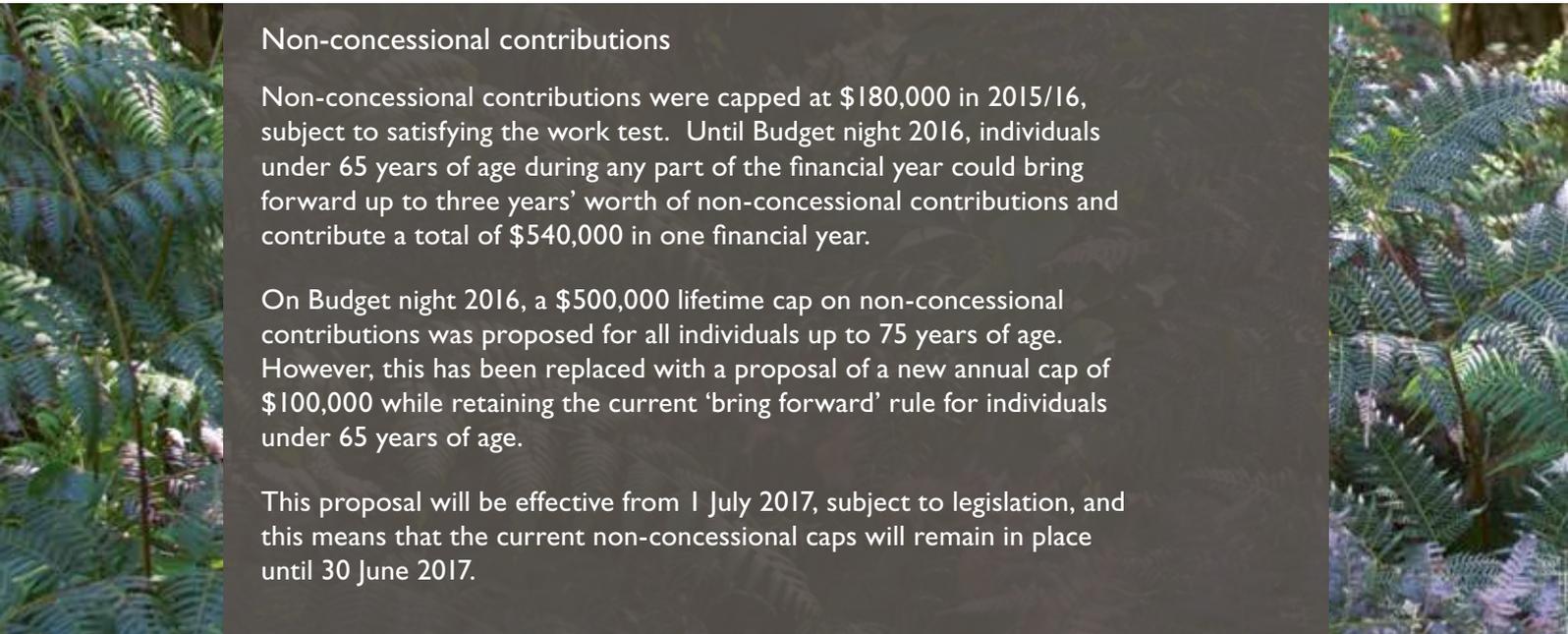


tax return to be taxed at their marginal rate. Alternatively they can retain it within their superannuation account where it will be counted towards the non-concessional cap and taxed at their marginal rate.

If someone chooses to retain these contributions within their superannuation account, these funds become non-concessional contributions; they will need to take note of any other non-concessional contributions they make in the relevant financial year.

From 1 July 2012, any person earning more than \$300,000 per annum has had some or all of their contributions taxed at 30%. When a person exceeds the income level due to the inclusion of their concessional contributions, the 30% contributions tax is then levied on the income in excess of \$300,000.

<sup>1</sup> Contributions are taxed at 30% for an individual earning an income of more than \$300,000 per annum.



## Non-concessional contributions

Non-concessional contributions were capped at \$180,000 in 2015/16, subject to satisfying the work test. Until Budget night 2016, individuals under 65 years of age during any part of the financial year could bring forward up to three years' worth of non-concessional contributions and contribute a total of \$540,000 in one financial year.

On Budget night 2016, a \$500,000 lifetime cap on non-concessional contributions was proposed for all individuals up to 75 years of age. However, this has been replaced with a proposal of a new annual cap of \$100,000 while retaining the current 'bring forward' rule for individuals under 65 years of age.

This proposal will be effective from 1 July 2017, subject to legislation, and this means that the current non-concessional caps will remain in place until 30 June 2017.

## Anti-detriment payments

An anti-detriment payment is a lump sum amount which is paid in addition to the account balance of a deceased member. It is payable to the Trustee of the deceased estate (for the benefit of the spouse, former spouse or child) or to a spouse, former spouse or child of the deceased member.

The anti-detriment payment represents a refund of the 15% contributions tax levied against the deceased member's superannuation entitlements during their lifetime. It is only payable when the benefit is paid as a lump sum.

In the 2016 Budget, the Federal Government proposed to cease these payments from 1 July 2017 however, the legislation has now been passed by parliament, and will become law once Royal Assent is received.

## Tax on investment earnings

Earnings on investments are generally taxed at a maximum of 15%. The effective rate may be reduced below 15% due to the effect of various tax credits and rebates. The earnings tax is deducted from the investment return prior to crediting to a member's account.

However, for individuals aged 60 and over, any payments from super are tax-free.

For members of the Account-Based Pension Plan, there is no tax levied on investment earnings generated within the pension plan.

## Medicare levy

From 1 July 2014, the Medicare levy increased from 1.5% to 2.0%. This also impacts on certain benefit payments where tax is payable such as excess non-concessional contributions tax, and on lump sum payments to members who have not quoted their tax file number (TFN).



## Fees and other costs

During the 2015/16 financial year, Local Government Super charged a number of fees and these included:

### Indirect costs ratio

These are the fees and costs associated with investing the assets and managing Local Government Super.

Charges for the indirect cost ratio are not debited directly to the member's account. These charges are applied daily on the market value of the assets in each particular investment option and are deducted prior to the declaration of the relevant unit price.

Further information about the indirect cost ratio can be found in the relevant Product Disclosure Statement (PDS), available at [lgsuper.com.au/PDS](http://lgsuper.com.au/PDS) or from Member Services.

### Administration fee

The Trustee sets the administration fee at the level needed to recover the cost of administering a member's account.

All fees charged to members' accounts during the 2015/16 financial year are detailed in the following tables:

## Administration fees, other fees and insurance premiums charged in Pool A

| For the year ended<br>30 June 2016 | Accumulation<br>Scheme  | Account-Based<br>Pension Plan          |
|------------------------------------|---|--|
| Direct Administration fee          | \$67.60 per annum<br>(\$1.30 per week)                                  | \$67.60 per annum<br>(\$1.30 per week) |
| Basic Death and<br>TPD cover       | \$7.23 per unit<br>per month <sup>1</sup>                               | N/A                                    |
| Exit fee                           | \$25.00   | \$25.00                                |
| Product Switching fee              | \$25.00   | \$25.00                                |
| Investment Switching fee           | \$25.00 per switch  | \$25.00 per switch                     |
| Voluntary insurance                | The cost will vary<br>depending on the sum<br>insured and other factors | N/A                                    |

1. Effective 1 December 2015, the cost of Basic Death & TPD cover increased from \$7.09 to \$7.23 per unit per month.

## Indirect costs ratio charged in Pool A

### Indirect costs ratio charged for the Accumulation Scheme for the year ended 30 June 2016

| Months          | Sustainable Australian Shares | High Growth | Balanced Growth | Balanced | Conservative | Cash  |
|-----------------|-------------------------------|-------------|-----------------|----------|--------------|-------|
| 1 Jul – 9 Aug   | 0.57%                         | 0.60%       | 0.56%           | 0.52%    | 0.47%        | 0.42% |
| 10 Aug – 30 Nov | 0.54%                         | 0.57%       | 0.53%           | 0.49%    | 0.44%        | 0.39% |
| 1 Dec – 30 Jun  | 0.54%                         | 0.58%       | 0.54%           | 0.50%    | 0.45%        | 0.37% |

### Indirect costs ratio charged for the Account-Based Pension Plan for the year ended 30 June 2016

| Months          | Sustainable Australian Shares | High Growth | Balanced Growth | Balanced | Conservative | Cash  |
|-----------------|-------------------------------|-------------|-----------------|----------|--------------|-------|
| 1 Jul – 9 Aug   | 0.57%                         | 0.60%       | 0.56%           | 0.52%    | 0.47%        | 0.42% |
| 10 Aug – 30 Nov | 0.54%                         | 0.57%       | 0.53%           | 0.49%    | 0.44%        | 0.39% |
| 1 Dec – 30 Jun  | 0.54%                         | 0.58%       | 0.54%           | 0.50%    | 0.45%        | 0.37% |

### Administration fees charged in Pool B

| For the year ended 30 June 2016 | Retirement Scheme                   | Defined Benefit Scheme |
|---------------------------------|-------------------------------------|------------------------|
| Direct Administration fee       | \$67.60 per annum (\$1.30 per week) | N/A                    |
| Exit fee                        | \$25.00                             | N/A                    |
| Investment Switching fee        | \$25.00 per switch                  | N/A                    |

## Indirect costs ratio charged in the Retirement Scheme (accumulation accounts only)

### Indirect costs ratio charged in the Retirement Scheme to contributory members (excluding any Other Contributions account) for the year ended 30 June 2016

Please note that a maximum of 1.00% fee applies to all investment options.

| Months                      | High Growth | Growth | Balanced Growth | Balanced | Conservative | Cash  |
|-----------------------------|-------------|--------|-----------------|----------|--------------|-------|
| 1 Jul – 9 Aug               | 0.29%       | 0.24%  | 0.25%           | 0.21%    | 0.16%        | 0.11% |
| 10 Aug – 30 Nov             | 0.57%       | 0.52%  | 0.53%           | 0.49%    | 0.44%        | 0.39% |
| 1 Dec – 30 Jun <sup>1</sup> | 0.58%       | 0.53%  | 0.54%           | 0.50%    | 0.45%        | 0.37% |

### Indirect costs ratio charged in the Retirement Scheme to contributory members for the Other Contributions account for the year ended 30 June 2016

| Months          | High Growth | Growth | Balanced Growth | Balanced | Conservative | Cash  |
|-----------------|-------------|--------|-----------------|----------|--------------|-------|
| 1 Jul – 9 Aug   | 0.59%       | 0.54%  | 0.55%           | 0.51%    | 0.46%        | 0.41% |
| 10 Aug – 30 Nov | 0.57%       | 0.52%  | 0.53%           | 0.49%    | 0.44%        | 0.39% |
| 1 Dec – 30 Jun  | 0.58%       | 0.53%  | 0.54%           | 0.50%    | 0.45%        | 0.37% |

### Indirect costs ratio charged in the Retirement Scheme to deferred members for the year ended 30 June 2016

| Months          | High Growth | Growth | Balanced Growth | Balanced | Conservative | Cash  |
|-----------------|-------------|--------|-----------------|----------|--------------|-------|
| 1 Jul – 9 Aug   | 0.59%       | 0.54%  | 0.55%           | 0.51%    | 0.46%        | 0.41% |
| 10 Aug – 30 Nov | 0.57%       | 0.52%  | 0.53%           | 0.49%    | 0.44%        | 0.39% |
| 1 Dec – 30 Jun  | 0.58%       | 0.53%  | 0.54%           | 0.50%    | 0.45%        | 0.37% |

1. Effective 1 October 2015, indirect costs of 0.28% were re-instated.

### Financial planning fee

Local Government Super charges a direct fee for some financial planning services. Not all financial advice incurs a fee and in many cases there is no charge. Whether or not a fee applies depends on the scope of the financial advice that is required.

Our financial planners discuss any fee payable when meeting with members and clients, and if a fee is applicable, we advise of the cost before the member or the client decides whether or not to proceed with obtaining the advice.

### Family Law fees

From 1 July 2015, the following fees were payable for the provision of Family Law information and for the actual 'splitting of the benefit':

## Accumulation Scheme and Account-Based Pension Plan (includes GST)

|                                      |       |
|--------------------------------------|-------|
| Request for information <sup>1</sup> | \$110 |
| Benefit split fee                    | \$88  |

## Retirement Scheme and Defined Benefit Scheme (includes GST)

|                                      |       |
|--------------------------------------|-------|
| Request for information <sup>1</sup> |       |
| - Current members                    | \$275 |
| - Deferred members                   | \$110 |
| - Pensioners                         | \$110 |
| Benefit split fee <sup>2</sup>       | \$88  |

Further details of fees and charges are provided in our member statements and also in the applicable PDS, available at [lgsuper.com.au/PDS](http://lgsuper.com.au/PDS) or from Member Services.

1. This fee is payable by the person requesting the information.

2. This fee is generally payable by the member and non-member spouse in equal parts (\$44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. The member's share of the fee is deducted from the member's account and the non-member spouse's share is deducted from the non-member spouse's splittable payment prior to the transfer of the payment out of the Fund.

# Financial Statements

## Local Government Superannuation Scheme Pool A

Operating statement for the financial year ended 30 June 2016

|   | 2016<br>\$'000  | 2015<br>\$'000   |
|---|-----------------|------------------|
| <b>Investment Revenue</b>   |                 |                  |
| Interest Revenue  | 1,090           | 1,384            |
| Trust Distributions   | 1,391,320       | 167,815          |
| Other Investment Revenue  | 197             | 41               |
| Changes in Net Market Value of Investments                          | (1,156,443)     | 243,456          |
| <b>Total Investment Revenue</b>                                     | <b>236,164</b>  | <b>412,696</b>   |
| <b>Contributions Revenue</b>  |                 |                  |
| Employer Contributions  | 320,902         | 312,915          |
| Member Contributions  | 99,053          | 92,148           |
| Transfers From Other Funds  | 290,942         | 321,461          |
| <b>Total Contributions Revenue</b>                                  | <b>710,897</b>  | <b>726,524</b>   |
| <b>Other Revenue</b>  |                 |                  |
| Proceeds of Insurance Claims  | 15,041          | 15,966           |
| Other Revenue   | 4               | 39               |
| <b>Total Other Revenue</b>  | <b>15,045</b>   | <b>16,005</b>    |
| <b>Total Revenue</b>  | <b>962,106</b>  | <b>1,155,225</b> |
| <b>Expenses</b>   |                 |                  |
| Group Life Insurance Premiums                                       | (19,171)        | (17,568)         |
| Fund Administration Expenses  | (20,746)        | (19,992)         |
| <b>Total Expenses</b>   | <b>(39,917)</b> | <b>(37,560)</b>  |
| <b>Benefits Accrued as a Result of Operations before Income Tax</b> | <b>922,189</b>  | <b>1,117,665</b> |
| Income Tax Expense  | (42,325)        | (60,804)         |
| <b>Benefits Accrued as a Result of Operations after Income Tax</b>  | <b>879,864</b>  | <b>1,056,861</b> |

## Local Government Superannuation Scheme Pool A

Statement Of Financial Position As At 30 June 2016

|   | 2016<br>\$'000 | 2015<br>\$'000   |
|---|----------------|------------------|
| <b>Investments</b>                                    |                |                  |
| Unlisted Australian Unit Trusts                       | -              | 5,557,792        |
| DIY Investment Option (Macquarie DIO)                 | -              | 7,448            |
| <b>Total Investments</b>                              | <u>-</u>       | <u>5,565,240</u> |
| <b>Other Assets</b>                                   |                |                  |
| Cash and Cash Equivalents                             | -              | 51,191           |
| Receivables   | -              | 13,555           |
| Deferred Tax Asset                                    | -              | -                |
| <b>Total Other Assets</b>                             | <u>-</u>       | <u>64,746</u>    |
| <b>Total Assets</b>                                   | <u>-</u>       | <u>5,629,986</u> |
| <b>Less: Liabilities</b>                              |                |                  |
| Benefits Payable                                      | -              | 2,125            |
| Payables  | -              | 5,507            |
| Current Tax Liability                                 | -              | 12,047           |
| Deferred Tax Liability                                | -              | 12,921           |
| <b>Total Liabilities</b>                              | <u>-</u>       | <u>32,600</u>    |
| <b>Net Assets Available to Pay Benefits</b>           | <u>-</u>       | <u>5,597,386</u> |
| Represented by:                                       |                |                  |
| <b>Liability for Accrued Benefits</b>                 |                |                  |
| Funds Allocated to Members' Accounts                  | -              | 5,572,589        |
| Funds Not Yet Allocated to Members' Accounts          | -              | 6,807            |
| Administration Reserve                                | -              | 223              |
| Insurance Reserve                                     | -              | 1,771            |
| Operational Risk Financial Requirement (ORFR) Reserve | -              | 15,996           |
| <b>Total Liability for Accrued Benefits</b>           | <u>-</u>       | <u>5,597,386</u> |



## Large investments

Local Investment Fund (LIF) is a wholesale investment trust. The majority of the assets of Local Government Super are invested through LIF. The investment pool of LIF is allocated to a range of investment managers, either in a client specific mandate or through a pooled investment. Investment managers (and/or their weightings) are changed at appropriate times.

Other than investments made through LIF, during the financial year there were no individual investments that exceeded 5% of Pool A assets or 5% in a single enterprise. Only one other investment, other than investments made through LIF, exceeded 5% of Pool B assets or 5% in a single enterprise. This was the Local Government Property Fund.

To access a copy of the complete Financial Statements, including the Auditor's Report for Pool A and Pool B, go to the Forms & Resources and Annual Reports section of our website at [lgsuper.com.au](http://lgsuper.com.au)



## Local Government Super (formerly Local Government Superannuation Scheme Pool B)

Statement Of Changes In Net Assets For The Financial Year Ended 30 June 2016

|   | 2016<br>\$'000   | 2015<br>\$'000   |
|---|------------------|------------------|
| <b>Investment Revenue</b>   |                  |                  |
| Interest Revenue  | 721              | 1,058            |
| Trust Distributions   | 861,549          | 99,951           |
| Dividend Income   | -                | 12,009           |
| Changes in Net Market Value of Investments                                  | (735,948)        | 183,174          |
| <b>Total Investment Revenue</b>   | <b>126,322</b>   | <b>296,192</b>   |
| <b>Contributions Revenue</b>  |                  |                  |
| Employer Contributions  | 149,848          | 159,648          |
| Member Contributions  | 14,353           | 15,510           |
| Transfers From Other Funds  | 10,217           | 6,396            |
| <b>Total Contributions Revenue</b>  | <b>174,418</b>   | <b>181,554</b>   |
| Other Revenue   | 6                | 6                |
| <b>Total Revenue</b>  | <b>300,746</b>   | <b>477,752</b>   |
| <b>Benefits Paid and Expenses</b>   |                  |                  |
| Benefits Paid   | (297,468)        | (325,001)        |
| Administration Expenses   | (9,223)          | (11,005)         |
| <b>Total Benefits Paid and Expenses</b>                                     | <b>(306,691)</b> | <b>(336,006)</b> |
| (Decrease)/Increase in Net Assets for the Year Before Income Tax            | (5,945)          | 141,746          |
| Income Tax Expense  | (22,731)         | (37,269)         |
| (Decrease)/Increase in Net Assets for the Year                              | <b>(28,676)</b>  | <b>104,477</b>   |
| Transfer in from Local Government Super Superannuation Scheme Pool A        | 6,090,571        | -                |
| Net Assets Available to Pay Benefits at the Beginning of the Financial Year | 3,334,651        | 3,230,174        |
| Net Assets Available to Pay Benefits at the End of the Financial Year       | <b>9,396,546</b> | <b>3,334,651</b> |

## Local Government Super (formerly Local Government Superannuation Scheme Pool B)

Statement Of Net Assets As At 30 June 2016

|  | 2016<br>\$'000   | 2015<br>\$'000   |
|--|------------------|------------------|
| <b>Investments</b>                             |                  |                  |
| Unlisted Australian Securities and Unit Trusts | 9,313,750        | 3,282,871        |
| DIY Investment Option (Macquarie DIO)          | 8,720            | -                |
| <b>Total Investments</b>                       | <b>9,322,470</b> | <b>3,282,871</b> |
| <b>Other Assets</b>                            |                  |                  |
| Cash and Cash Equivalents                      | 101,824          | 36,898           |
| Receivables                                    | 18,287           | 9,268            |
| Deferred Tax Asset                             | 15,828           | 12,718           |
| <b>Total Other Assets</b>                      | <b>135,939</b>   | <b>58,884</b>    |
| <b>Total Assets</b>                            | <b>9,458,409</b> | <b>3,341,755</b> |
| <b>Less: Liabilities</b>                       |                  |                  |
| Benefits Payable                               | 6,182            | 212              |
| Payables                                       | 4,364            | 91               |
| Current Tax Liability                          | 44,403           | 5,826            |
| Deferred Tax Liability                         | 6,914            | 975              |
| <b>Total Liabilities</b>                       | <b>61,863</b>    | <b>7,104</b>     |
| <b>Net Assets Available to Pay Benefits</b>    | <b>9,396,546</b> | <b>3,334,651</b> |

# More information about the fund

## Complaints

We aim to maintain a consistently high level of service and transparency by ensuring that any enquiries or complaints are handled courteously and promptly.

If a member is dissatisfied with the service they are receiving, they may lodge a formal complaint. All complaints are to be made to the Complaints Resolution Manager by:

- ▶ calling 1300 LGSUPER (1300 547 873) and making the complaint to a member services officer; or
- ▶ mailing the written complaint with 'Notice of Complaint' marked on the envelope.

We prefer complaints in writing marked as such, as it helps us to deal with the complaint in an efficient manner.

Send written complaints to:

Complaints Resolution Manager  
Local Government Super  
PO Box H290  
Australia Square NSW 1215

By law, the Trustee is required to have arrangements in place to properly consider and deal with complaints within 90 days of receipt. The Complaints Resolution Manager ensures that any complaint is considered appropriately and provides a response as soon as possible.

If the Trustee has not made a decision within 90 days of receipt of the complaint, a member can write to the Trustee and request written reasons for the failure to make a decision within that period. Written reasons for not making a decision within 90 days of a complaint must be given within 28 days of receipt of the request.

The Trustee will promptly notify the member of the decision on the complaint once it is made. In the case of decisions on complaints concerning the payment of death benefits, the Trustee must give written reasons for the decisions.

In the case of decisions on other complaints, a member may request written reasons for the decisions. The Trustee must provide a member with the reasons within 28 days of receipt of the request.

If a member is not satisfied with the response or their complaint has not been resolved within 90 days, they do have the option of referring their complaint to the Superannuation Complaints Tribunal (SCT).

The SCT is an independent body established by the Commonwealth Government to review and settle certain disputes between members and their superannuation funds. The SCT can only be involved after the Trustee's efforts to reach a solution have failed (i.e. a member must first use the Trustee's dispute procedures).

The SCT does not charge members for its service and can be contacted as follows:

**Superannuation Complaints Tribunal**

Locked Bag 3060  
Melbourne VIC 3001  
P: 1300 884 114  
W: [sct.gov.au](http://sct.gov.au)



## Trustee's reserves

By law, the Trustee is responsible for the overall management of its reserves. The Trustee maintains separate reserves for Pool A and Pool B.

### Pool A reserves

#### Operational Risk Financial Requirement (ORFR)

The Superannuation legislation and Prudential Standards require the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect LGS within its business operations.

The ORFR is the target amount of financial resources that the Trustee determines is necessary to respond to these losses, should they arise. The ORFR reserve holds at least 0.25% of LGS's assets.

The Trustee reached 0.25% of LGS's Pool A Funds Under Management (net assets available to pay members' benefits) within the ORFR reserve on 6 February 2015 with the target being funded from a component of the Indirect Administration Fee which is charged to members' account. This funding ceased on 10 August 2015.

As at 30 June 2016, the Pool A ORFR was 0.28% of Pool A funds under management.

#### Administration Reserve

This reserve comprises deductions which are made from members' accounts to cover the cost of all administration related expenses of the Fund.

In addition, a specific amount of \$100,000 was maintained in the Administration Reserve at all times to satisfy one of the requirements of the Trustee's public offer licence.

Effective 1 October 2015, APRA confirmed that the Trustee did not have to adhere to this licence requirement as a result of meeting the Pool A and Pool B ORFR target levels.

### Tax Reserves

As with the Administration Reserve, a provision is made from the Fund's investment earnings for the estimated income tax payable. In addition, the Tax Reserve contains monies deducted from members' accounts for any contributions tax due. These monies (in total) are held until such time as they are required to be remitted to the Australian Taxation Office.

### Self Insurance Reserve

The Self Insurance Reserve is to meet death/invalidity claims within Pool A that were related to the period prior to 1 March 2009 and the commencement of the external insurance arrangements.

### Pool B reserves

#### ORFR

The ORFR ensures that the Trustee has adequate financial resources to address losses arising from operational risks that may affect LGS within its business operations.

As at 30 June 2016, the Pool B ORFR was 0.30% of Pool B funds under management.

The Trustee is required to maintain the reserve in conjunction with the ORFR policy.

### Defined Benefits Reserve

The Defined Benefits Reserve represents the value of assets that are assessed by the actuary on an annual basis to ensure that employers have sufficient assets to cover future liabilities.

### Administration Reserve

This reserve comprises deductions which are made from members' accounts to contribute towards the cost of administration related expenses of the Fund.

### Tax Reserve

As with the Administration Reserve, a provision is made from the Fund's investment earnings for the estimated income tax payable. In addition, the Tax Reserve contains monies deducted from members' accounts and the Employer Reserve for any contributions tax due. These monies (in total) are held until such time as they are required to be remitted to the Australian Taxation Office.

### Additional Benefit Reserve

The Additional Benefit Reserve represents an amount held by the Fund to pay out any death and invalidity insurance claims.

## Reserve Data

Below are the closing balances of these reserves as at 30 June for the last five years for Pool A and Pool B:

### Pool A

| Year | Admin<br>(\$'000) | Tax<br>(\$'000) | ORFR<br>(\$'000) | Self<br>Insurance<br>(\$'000) |
|------|-------------------|-----------------|------------------|-------------------------------|
| 2012 | 660               | 37              | 4,980            | -                             |
| 2013 | 306               | -               | 3,918            | 2,000                         |
| 2014 | 407               | 15,333          | 8,931            | 1,953                         |
| 2015 | 223               | 18,799          | 15,996           | 1,771                         |
| 2016 | 351               | 22,808          | 17,082           | 1,771                         |

### Pool B

| Year | Defined<br>Benefit<br>(\$'000) | ORFR<br>(\$'000) | Additional<br>Benefit<br>(\$'000) | Admin<br>(\$'000) | Tax<br>(\$'000) |
|------|--------------------------------|------------------|-----------------------------------|-------------------|-----------------|
| 2012 | 1,383,174                      | -                | 8,040                             | -                 | -               |
| 2013 | 1,533,168                      | 7,790            | 7,796                             | -                 | -               |
| 2014 | 1,648,825                      | 8,406            | 7,273                             | -                 | 14,187          |
| 2015 | 1,721,531                      | 9,240            | 6,895                             | -                 | 12,246          |
| 2016 | 1,723,258                      | 9,865            | 6,660                             | -                 | 13,185          |

Movement during the financial year for each of the abovementioned reserve accounts as at 30 June for the last five years is as follows:

### Pool A

| Year | Admin<br>(\$'000) | Tax<br>(\$'000) | ORFR<br>(\$'000) | Self<br>Insurance<br>(\$'000) |
|------|-------------------|-----------------|------------------|-------------------------------|
| 2012 | 160               | (331)           | (352)            | -                             |
| 2013 | (354)             | (37)            | (1,062)          | 2,000                         |
| 2014 | 101               | 15,333          | 5,013            | (44)                          |
| 2015 | (184)             | 3,466           | 7,065            | (182)                         |
| 2016 | 128               | 4,009           | 1,086            | (60)                          |

### Pool B

| Year | Defined<br>Benefit<br>(\$'000) | ORFR<br>(\$'000) | Additional<br>Benefit<br>(\$'000) | Admin<br>(\$'000) | Tax<br>(\$'000) |
|------|--------------------------------|------------------|-----------------------------------|-------------------|-----------------|
| 2012 | (92,406)                       | -                | 369                               | -                 | -               |
| 2013 | 149,994                        | 7,790            | 244                               | -                 | -               |
| 2014 | 115,658                        | 616              | (523)                             | -                 | 14,187          |
| 2015 | 72,706                         | 834              | (378)                             | -                 | (1,941)         |
| 2016 | 1,727                          | 625              | (235)                             | -                 | 939             |



## How are the Reserves invested?

With the exception of the Defined Benefits Reserve that is invested in a Growth style investment strategy, the assets which support these reserves are held effectively in cash, either in an 'at call' bank account or in a short-term notice account. All Reserves are quarantined from the Fund's investments.

## Eligible Rollover Fund

An Eligible Rollover Fund (ERF) is a fund which is established for the purpose of accepting and protecting benefits in respect of the 'lost' members of other superannuation funds. If transferred to an ERF, a member ceases to have any rights which he or she previously had against the transferring fund.

The Trustee has nominated Australia's Unclaimed Super Fund (AUSfund)<sup>1</sup> as the ERF to which such members' benefits may be paid.

Contact details are as follows:

AUSfund Administration  
PO Box 2468  
Kent Town SA 5071  
P: 1300 361 798  
F: 1300 366 233

For members of Pool B, the Trustee can transfer a benefit to the nominated ERF in circumstances when a benefit is split under family law and alternate rollover instructions have not been provided. A benefit may also be transferred to that ERF for inactive accounts (if no superannuation contributions are being made) in accordance with the Superannuation Laws.

# Important Changes

## Changes in the 2015/2016 financial year

Below is a summary of the most important changes in the 2015/16 financial year affecting Local Government Super and its members.

### Entity restructure

During the 2015/16 financial year, Local Government Super undertook a project to simplify and streamline the fund's current investment framework.

The merging of Pool A and Pool B funds into one superannuation entity, 'Local Government Super' will lower a range of ongoing costs, provide a more competitive structure and reduce operational risk.

The final phase of this project is due for completion by the end of 2016 with the transfer of investment assets from managed investment trust, Local Investment Fund (LIF) to the new 'Local Government Super' entity.

### DIY investment option in specie transfers

From 14 September 2015, Accumulation Scheme members were able to apply for an in specie transfer of their DIY investment option to the Account-Based Pension Plan without selling their existing DIY investments.

### New Exchange Traded Funds (ETFs) for DIY investment option

From 1 February 2016, Accumulation Scheme and Account-Based Pension Plan members were able to access an additional 15 ETFs in the DIY investment option.

## Changes to our insurance

In recent years, there have been changes to regulatory requirements and a significant increase in claims paid by insurance companies, which has resulted in rising costs across the superannuation industry.

From 1 December 2015, there were changes to the insurance cover for Accumulation Scheme members.

The insurance premiums increased for all members with basic cover and/or lump sum voluntary cover:

- ▶ The monthly premium for basic Death and Total and Permanent Disablement (TPD) cover increased from \$7.09 per unit to \$7.23 per unit.
- ▶ The monthly premium for basic Death Only cover increased from \$4.35 per unit to \$4.44 per unit.
- ▶ The voluntary Death Only and Death and TPD cover increased by 2%, however premiums for voluntary Salary Continuance cover remained unchanged.

Other changes included an update to existing definitions and the introduction of new terms and conditions. More information on these changes can be found at [lgsuper.com.au](http://lgsuper.com.au)

## Trust Deed changes

During the financial year a number of amendments were made to the Fund's Trust Deed and Rules. Below is a summary of these amendments and the dates they were approved by the Trustee:

**4 May 2016** – General update and amendments to the Trust Deed and Schedules in relation to the successor fund transfer between Pool A and Pool B, and the My Super Product being offered from Pool B (to be known as Local Government Super). The Trust Deed has also been amended to incorporate changes allowing LGS to offer a non-account based pension product.

**1 June 2016** – Amendment to exclude the cashing out of the certain long service leave and sick leave entitlements from the calculations of Salary for the defined benefit divisions.

## Legislative changes

### Superannuation government co-contributions

For the 2015/16 financial year, the maximum entitlement was \$500 with the lower income threshold at \$35,454 and the higher income threshold at \$50,454.

The Australian Taxation Office has announced that new thresholds will apply for the 2016/17 financial year; the lower and higher income thresholds will increase to \$36,021 and \$51,021 respectively.

### Superannuation benefit caps

The low rate cap for 2015/16 is \$195,000. The untaxed plan cap amount for 2015/2016 is \$1,395,000.

### Employment termination payments (ETP)

The ETP cap amount for life benefit termination payments and death benefit termination payments for 2015/16 is \$195,000.

### Superannuation guarantee

The maximum super contribution base for 2015/16 is \$50,810 per quarter.



## **Terminal illness**

From 1 July 2015, people with a terminal medical condition can access their super based on a diagnosis that they have 24 months or less to live. Previously it was based on a diagnosis that a member had 12 months or less to live.

## **Increase in the threshold for inactive accounts**

Currently, inactive super accounts with balances of less than \$4,000 are transferred to the ATO. From December 2016, the threshold increased to \$6,000.

## **Proposed legislative changes**

There are some additional changes which the government proposed in the 2016/2017 Federal Budget. These changes have been passed by parliament and will become law once Royal Assent is received.

## **Introduction of the Low Income Superannuation Tax Offset (LISTO)**

Currently, the Australian Government contributes up to \$500 into the super accounts of Australian workers earning less than \$37,000 a year under the Low Income Superannuation Contribution (LISC) scheme.

The government will introduce a Low Income Superannuation Tax Offset (LISTO) to replace the LISC from 1 July 2017. The Minister's office has confirmed the offset is designed to be no different to the LISC.



## **Personal contributions to be tax deductible for all**

From 1 July 2017, anyone under 75 years of age can claim an income tax deduction for personal superannuation contributions to an eligible fund, up to the new \$25,000 concessional contribution cap.

Previously, many self-employed people were unable to claim a deduction on their personal superannuation contributions, and not everyone has access to salary sacrificing arrangements.

This change will make the system fairer and also allow retirees who continue to build their retirement savings to benefit from tax deductions on super contributions. These amounts will count towards the individual's concessional contributions cap, and be subject to 15 per cent contributions tax.



### **Extension of the spouse tax offset**

From 1 July 2017, the government will extend the eligibility rules for people claiming the tax offset for superannuation contributions they make to their low-income spouses.

The current 18 per cent tax offset of up to \$540 will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to \$37,000. This is an increase from the current \$10,800. As is currently the case, the offset is gradually reduced for income above this level and completely phases out at income above \$40,000.

Individuals will be able to make contributions on behalf of their spouse who is under age 75.

### **\$1.6 million cap on funds individuals can put into retirement phase**

From 1 July 2017, the government will introduce a \$1.6 million cap on the total amount of superannuation savings that can be transferred from a concessional tax-accumulation account to a tax-free retirement account.

Superannuation savings accumulated in excess of the cap can remain in an accumulation superannuation account, where the earnings will be taxed at 15 per cent.

Those individuals already in retirement as at 1 July 2017 with balances in excess of \$1.6 million will need to either transfer the excess back into an accumulation superannuation account or withdraw the excess amount from their superannuation.

### **Concessional contribution caps reduced to \$25,000**

From 1 July 2017, the government will lower the annual concessional contributions cap from \$30,000 for those aged under 50 years of age, or \$35,000 for those 50 years and over, to \$25,000 for all individuals. The cap will be indexed in line with wages growth.

### **Non-concessional contribution caps reduced**

From 1 July 2017, the government will lower the annual non-concessional cap to \$100,000, and the maximum amount an individual can bring forward is reduced to \$300,000. In addition, individual with balances of more than \$1.6 million will not be able to make non-concessional contributions.

### **Catch up concessional contributions**

From 1 July 2018, people with superannuation balances of \$500,000 or less can roll over their unused concessional cap amounts for a period of five years. This measure has been especially designed to assist women returning to the workforce.





### **Enhancing choice in retirement income products**

From 1 July 2017, the government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products. These products seek to provide individuals with income throughout their retirement regardless of how long they live.

This change will allow super funds to offer a wider range of retirement income products providing more flexibility and choice for Australian retirees. The products will also help them to better manage consumption and risk in retirement, particularly longevity risk, where people may outlive their savings.

### **Super tax concessions reduced for high income earners (Division 293)**

From 1 July 2017, individuals with incomes over \$250,000 will now be required to pay an additional 15% tax on their super contributions.

The threshold was previously \$300,000. To be liable for a total of 30 per cent tax, a person would need to have at least \$250,000 in combined income and concessional superannuation contributions. This change will also be reflected in defined benefit schemes.

### **Changes to Transition to Retirement (TTR) arrangements**

From 1 July 2017, the government will remove the tax exempt status of income from assets supporting transition to retirement income streams, meaning that earnings tax in TTR pensions will be 15%.

This change will apply irrespective of when the transition to retirement income stream commenced. Individuals will no longer be allowed to treat certain superannuation income stream payments as lump sums for tax minimisation purposes.



### **Anti-detriment payments**

From 1 July 2017, the government will not allow anti-detriment payments, meaning that refunds of contributions tax into a deceased person's estate will no longer be permitted. Use of these payments has been discretionary for super funds.

## **Legislative changes to come into effect during the 2016/17 financial year**

### **Changes to the assets test for the Age Pension**

Starting 1 January 2017, the government has changed the thresholds for the Age Pension assets test.

Currently a home-owning couple with assets totalling approximately \$1.15 million (not including the family home) can still qualify for a part Age Pension. This threshold will reduce to \$816,000 and will continue to include amounts within an Account Based Pension. For singles, the threshold will reduce from \$775,000 to \$542,000.

The taper rate, which is the rate at which the Age Pension decreases for every \$1,000 of assets over the threshold (\$250,000 for singles, and \$375,000 for couples), will increase from \$1.50 to \$3.00.

To offset the loss of pension income, these retirees will now qualify for the Commonwealth Seniors Health Card which provides holders with access to cheaper medicine, health services and subsidised electricity bills.

At the other end of the scale, less wealthy retirees will now qualify for the full Age Pension or an increase in the part Age Pension.

A single person who owns their own home will be able to have \$250,000 in other assets, a rise of \$48,000, while for a home-owning couple the new threshold will be \$375,000 in other assets, up from the current level of \$286,000.





## Contact us

|       |  |
|-------|--|
| Phone | 1300 LGSUPER (1300 547 873)                        |
| Web   | <a href="http://lgsuper.com.au">lgsuper.com.au</a> |
| Mail  | PO Box N835 Grosvenor Place NSW 1220               |

### Offices

|            |                             |
|------------|-----------------------------|
| Sydney     | 28 Margaret St              |
| Newcastle  | Suite 2/76 Park Ave, Kotara |
| Wollongong | Shop 2/60 Burelli St        |

Office hours 8.30am – 5.00pm, Monday – Friday

Offices in Lismore, Orange, Parramatta, Tamworth and Wagga Wagga are available on an appointment only basis.

Bookings are essential.

Phone 1300 LGSUPER (1300 547 873) to make an appointment.



@socialLGS



Local Government Super