REI Super Bulletin 2018

From your Industry Super Fund

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Another year of solid growth for REI Super.

Investment markets experienced a degree of volatility during the 2017/18 financial year caused by a range of factors, but in the final analysis, most asset classes ended the financial year showing gains, translating into another solid year of investment returns for REI Super members.

Our Balanced option provided a return of 7.72% to members' accounts for the year, and the longer term return is even stronger. Over the five years to 30 June 2018, the Balanced option has provided an average return to members of 8.59% per annum. These returns are after fees and taxes.

Pleasingly, our results are also in excess of the Balanced option's primary performance objective of providing a net return to members of at least inflation plus 3% per annum.

Delivering another year of consistent returns is a clear demonstration of the benefits of having your super invested in a diversified investment portfolio. Members' funds in our Balanced option are allocated and closely managed across a range of different types of assets, including Australian and overseas shares, listed and unlisted property, fixed interest and cash. This is the ninth straight year of positive returns generated since the GFC, including four years of double digit returns.

Read our investment update on page 4 for more information on the recent investment environment and REI Super's portfolio.

Better value cover in insurance

I'm also pleased to confirm that we have successfully renegotiated members' insurance arrangements with our insurer MetLife. Most members will get the benefit of a 5–6% reduction in premiums (according to their age) from 1 October 2018. This in turn means more money in your account for retirement.

Proposed changes to super in the Federal Budget

This year's Federal Budget contained a number of proposals for changes to super. At the time of writing, they were still making their way through the parliamentary process. One of the proposals is to transfer 'inactive' accounts of $6,000 or less to the ATO. An inactive account would be defined as one that had not received a contribution for 13 months or more. You can keep your account active and avoid the impact of this proposed rule by making a contribution to your REI Super account – even a very small one.

See page 10 to read more on the proposed changes from the Federal Budget.

New 'automatic' investment strategy for our members in retirement

During the year we introduced a new default investment strategy for REI Super Pension members. It provides members' accounts with the potential for longer term growth combined with control of downside risk by investing across both the Balanced and Cash options in different proportions, depending on the member's age. While this will not directly impact accumulation members, it will be a useful option for you when it is time to draw an income stream from your REI Super account.

Yours sincerely,

Mal Smith
Chief Executive Officer

Investment update.

The first six months of the financial year were extraordinarily strong, as investment markets were driven by optimism about stronger global economic growth and the potentially positive impact of President Trump's tax cuts on US company profits. Most global share markets performed extremely well during this period, especially those in emerging market economies and the technology sector.

In the second six months of the year this optimism had waned and markets had become wary of risks related to trade wars, rising interest rates and political events. During this period emerging markets suffered reverses on their earlier gains while developed markets generally strengthened. During this period we saw greater volatility in markets.

REI Super's portfolios performed well under these pressures. Our Australian and international share market exposures provided above-average returns and bond returns were also solid. Our portfolio benefited in particular from our holdings in European shares – especially within the energy sector. Both listed and unlisted property delivered solid gains during the financial year as well.

For the financial year the Fund's Balanced option delivered a net return to members of 7.72%, which again was well in excess of its performance objective of providing an annual net return of at least 3% above inflation.

The graph on the right compares the benefit provided after 15 years on an initial investment of $50,000 – growing in line with the returns of the Balanced option compared to its performance objective of CPI +3% per annum.

Outlook

The reason for constructing a well diversified portfolio across different asset types is of course because the recent peaks and troughs are normal.

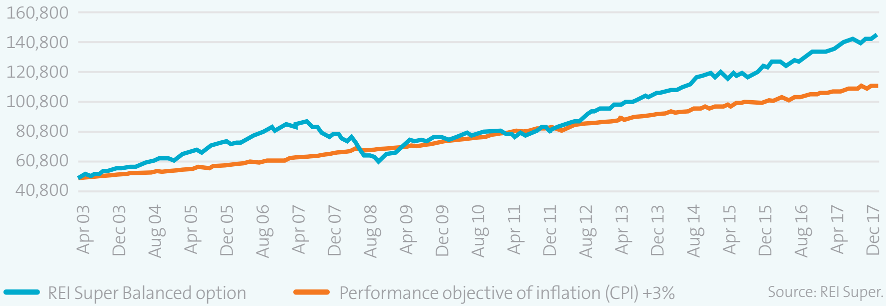
In terms of the future outlook, history suggests that both shares and bonds have produced unusually high returns in recent years, fuelled in part by central banks' running stimulus measures to kick start growth in many economies.

Our assessment is that at the present time, shares, property and bonds all appear expensive relative to past valuation, and therefore caution is warranted when it comes to making new investments.

We expect more short term volatility is ahead, which will create opportunities for the Fund to acquire assets at better prices.

Our strategy is generally to only buy assets when they are well priced and when the market conditions indicate they have good prospects for future growth, with an acceptable level of risk.

How the Balanced option has performed against its objective
(Value of $50,000 over 15 years)



Source: REI Super.

Note: Benefits shown in the graph are net of investment fees and tax and expressed in today's dollars. No contributions paid in and no benefits paid out. Future investment performance can vary from past performance, and you should not base your decision to invest in REI Super simply on past performance. Past earning rates are not an indicator of future earning rates. Investment returns of less than one year should not be relied upon as any guide to future performance. The investment returns of REI Super are not guaranteed, and the value of the investment may rise or fall.

What is a trade war?

When a country places tariffs or quotas on imports with the aim of protecting one or more of its industries, other countries may well react by placing their own tariffs or quotas on imports.

This has the effect of reducing international trade in total, and since it usually drives up prices, it can also increase inflation. While trade wars are often a political response undertaken by governments, history shows that they are ultimately damaging to each economy – effectively usually neither side wins.

Last financial year President Trump announced a 25 per cent tariff on steel imports and a 10 percent tariff on aluminium imports into the US. This announcement triggered falls in stock markets around the world due to the fear of expected retaliation by China and the European Union. As we know, markets react badly to this type of uncertainty.

Why run your own super fund?

'Leave it to the professionals.'

Braden Walters
REI Super Member

Award winning agent Braden Walters has a very simple message for anyone in real estate thinking about going into self-managed super – you wouldn't advise anyone to sell their own property, so why run your own super fund?

And Braden knows from personal experience just why that is good advice. When he started out as a junior working for McGrath Real Estate, he was with a retail super fund – a fund connected to a major financial institution.

It never felt right

And when he went into business with his family, a financial planner talked them into combining all their super accounts in an SMSF in order to make bigger investments. It was a move that never felt right to Braden.

'I was always questionable about locking up my money and leaving it exposed to different things,' Braden said.

'Just like there are doctors or surgeons who specialise in what they do, there are specialists in super funds who handle investments.'

Leave it up to the professionals

Challenging the idea that an SMSF gives you more control over your finances, Braden sees being a member of a regular super fund as having more power over your money.

'I would rather leave my funds in control of someone who knows what they are doing.

'And the older you get, you start to realise exactly how important that money is.' Braden thinks advisers can push people into SMSFs without fully realising the costs involved.

Look at the costs

'The financial planners try to make out as though it's easy, but there's a lot more cost involved in an SMSF. I don't think people realise how much is involved. There are people out there making great money organising people's SMSFs.'

Sometimes, going against what is popular or fashionable is your best bet. And this is how Braden sees being in an industry super fund, such as REI Super.

'I might not be doing the coolest thing by leaving an SMSF, but I'm just not a massive risk taker. With all the red tape and the personal liability involved, it can just seem too scary.

'Just leave it up to a professional who knows more about where to invest their money than a real estate agent.'

Put any spare money you have into super early.

‘32 years in real estate is a long time,’ says Michael. ‘You learn a lot about yourself and your community in that time.’

‘From starting out in the industry to running your own business and then selling and working for the people who bought your business it has been challenging, rewarding and wonderful as well.’

There have been many achievements for Michael along the way and a big commitment to family and the community.

A motivated empty-nester

For almost nine years Michael has been a board member of the REIV and is currently chair of the Goulburn Valley (GV) Division. He’s a Rotarian and sits on the board of the GV Hospice.

More than anything Michael is a proud husband, father and family man and now a motivated empty nester.

‘My wife and I are keen gardeners and lovingly tended an acre property on the fringe of Shepparton for many years. We’ve recently sold and moved into town and taken on a massive renovation. Downsizing our gardening commitments and upsizing our lifestyle.’

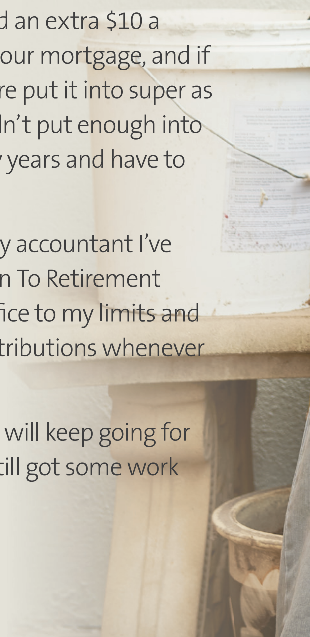
Passionate about investing and getting ahead in life Michael has sought financial advice and gives fatherly advice too (to family).

Put money into super as early as you can

‘I’ve told my girls, find an extra $10 a week and pay it off your mortgage, and if you can find any more put it into super as early as you can. I didn’t put enough into my super in the early years and have to play catch up now.

‘With advice from my accountant I’ve taken out a Transition To Retirement pension, salary sacrifice to my limits and make additional contributions whenever I can.

‘I enjoy my work and will keep going for some time yet. I’ve still got some work to do on my super.’



A little now – a lot later

Adding extra to your super now can make life so much more comfortable once you stop working – whether it's $20 or $50 a week pre-tax via salary sacrifice, or an after-tax lump sum due to downsizing, selling shares or earning commissions. Look at the difference extra contributions can make to your balance at retirement:

Starting age 30...

$20 Extra a week → At age 67* **$54,677 MORE**

$50 Extra a week → At age 67* **$136,693 MORE**

Starting age 50...

$20 Extra a week → At age 67** **$19,862 MORE**

$50 Extra a week → At age 67** **$49,654 MORE**

*Assumptions Age (30 years) assumptions are the same: Current Balance $30k. Annual Salary $70k. Retirement Age 67. Salary Inflation 3.0%. SG Contributions 9.5%. Net Investment Return 6.0%. Annual Inflation Rate 2.5%. Admin Fee (p.a.) $85.80. Tax Rate – Contributions 15.0%. The projected amount is shown in today's dollars. In years with negative returns, there will be no earnings to reinvest.

**Assumptions Age (50 years) assumptions are the same: Current Balance $30k. Annual Salary $70k. Retirement Age 67. Salary Inflation 3.0%. SG Contributions 9.5%. Net Investment Return 6.0%. Annual Inflation Rate 2.5%. Admin Fee (p.a.) $85.80. Tax Rate – Contributions 15.0%. The projected amount is shown in today's dollars. In years with negative returns, there will be no earnings to reinvest.

Federal Budget changes to super.

At the time of writing, Budget changes to super were making their way through parliament. Although they are yet to be set in law, these changes are likely to go ahead.

Don't let the tax office take your super

The Federal Budget included proposals to transfer inactive super accounts with less than $6,000 to the ATO from 1 July 2019. If you have not had a contribution to your super for 13 months or more that could be you. To stay in control of your money make REI Super your fund of choice and roll in any other super you have. If you are not receiving employer contributions – make a personal contribution. Even $1 a year will keep your super invested in REI Super.

Exit fees and insurance changes

The proposed changes include capping of fees (maximum 3%), a banning of exit fees (which means you won't suffer any losses from rolling all your super into one fund) and opt-in insurance for accounts with less than $6,000 and for members under 25 years. Currently all members receive automatic insurance when they join. Under the proposed changes, in future members under 25 or with less than $6,000 in their super would need to choose to have insurance.

Work test changes

For people aged 65-74 with superannuation balances below $300,000, under the proposed changes there would be a limited exemption from the work test. Currently you must work at least 40 hours in 30 consecutive days in a financial year for your super fund to accept contributions. This means more opportunity to build your super balance ahead of retirement.

Members with a high income

Under the proposed changes, high income earners with multiple employers would be able to exclude income from some employers to avoid going over the $25,000 cap for pre-tax ('concessional') contributions.

New investment strategy for REI Super members in retirement.

When you start to draw an income from your super you may well be wondering how you will protect your savings as much as possible, while also maintaining access to solid investment returns.

That's why we created a new default investment strategy for REI Super Pension members. This strategy looks to provide a level of certainty, with a percentage of a member's balance invested in the Cash option and the opportunity for growth with the remainder of the account balance invested in the Balanced option.

Long term growth with acceptable risk

Regular pension payments are then made from the Cash option where possible, giving the Balanced option maximum opportunity to deliver investment growth. The Balanced option is designed to meet long term capital growth needs with an acceptable level of risk.

For members who do not want to actively manage their own investment mix this strategy could be a very good choice in their retirement.

Asset allocation is rebalanced each year to ensure a minimum balance in the Cash option is maintained, with the percentage in the Cash option increasing as you increase in age (see the table opposite).

This investment strategy is being provided automatically to our new Pension members if they don't choose a different investment option or options. Existing Pension members can also select this strategy if they wish.

Age	Cash option	Balanced option
Under 65	8%	92%
65-74	10%	90%
75-79	12%	88%
80-84	14%	86%
85-89	18%	82%
90-94	22%	78%
95+	28%	72%

If you've got questions – we have answers

Call our Helpline 1300 13 44 33

Mon – Fri 8:30am to 7pm AEST

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