Australian Executor Trustees

AET small APRA fund

2015/16 Annual Trustee report

Contents

Important information

This report is issued by Australian Executor Trustees Limited (AET) ABN 84 007 869 794 AFSL 240023 as Trustee of your AET small APRA Fund (Fund or AET SAF).

Within the report you will find general information about your Fund, including legislative changes for 2015/16 and later years, as well as financial information about your Fund. Together, the annual Trustee report and your annual member statement make up your annual fund package.

The information in this report is general information only and does not take into account your financial circumstances, needs and objectives. The information is given in good faith and is believed to be accurate and reliable at the time of publication.

Message from the Trustee

I am pleased to present the following Trustee's annual report to investors in the Australian Executor Trustees small APRA fund (Fund or AET SAF) for the financial year ended 30 June 2016. This report has been prepared by Australian Executor Trustees Limited (AET) as Trustee of the AET SAF.

Within the report you will find general information about the AET SAF, including changes and developments in superannuation that occurred during the financial year and those proposed for the 2016/17 financial year and later years.

On behalf of the board of Trustee Directors, thank you for your ongoing support.

Yours sincerely

Christopher Kelaher
Managing Director
Australian Executor Trustees Limited
as Trustee of the AET small APRA fund

Government reforms in superannuation

Changes and developments in superannuation

Superannuation reforms announced in the 2016 Federal Budget

The Government has announced a number of important reforms to superannuation will start on 1 July 2017. The package of reforms were first announced in the 2016 Budget, with some further modifications announced in September 2016. These changes have been passed by Parliament.

The key reforms are:

- The concessional contribution cap will reduce to $25,000 pa. However, starting 1 July 2018, members with less than $500,000 in super will be able to carry forward and contribute unused cap amounts for up to 5 years.
- Personal superannuation contributions will be fully tax deductible. This means that employees will be able to claim tax deductions for personal contributions. Currently only those with less than 10% of total income from employment as an employee can claim tax deductions for personal super contributions. Members will continue to be required to meet a work test to make voluntary contributions between ages 65 and 75.
- The spouse income threshold for the 18% tax offset for spouse contributions will increase from $10,800 to $37,000 pa. Spouse contributions will continue to be accepted up to age 70.
- The annual non-concessional contributions cap will reduce to $100,000 pa with the ability to contribute $300,000 over 3 years. Also when super savings reach $1.6 million no further non-concessional contributions can be made. Originally the Government had intended to introduce a life time non-concessional cap of $500,000, however this was rejected in favour of a simple reduction to the non-concessional cap.
- The amount of super that can transfer to pension (tax exempt) phase will be restricted to $1.6 million. Current pensioners will have until 1 July 2017 to bring pension accounts under this threshold, and any excess will be held in accumulation super where investment earnings are taxed at 15%.
- Investment earnings on transition to retirement (TTR) income streams will be no longer be tax-exempt and instead taxed at 15%. However payments will continue to be taxed as ordinary pension payments.
- The Low Income Super Contribution (now called the Low Income Super Offset) will continue to be paid. This is a refund of tax up to $500 on contributions for those on low incomes up to $37,000 pa. This refund was originally scheduled to cease on 1 July 2017.
- The income threshold for additional tax on concessional contributions for high income earners (Division 293 tax) will reduce from $300,000 pa to $250,000 pa. These high income earners pay tax at 30% on concessional contributions, rather than the standard 15% tax.
- Anti-detriment payments will be abolished. These are increased amounts payable of death of a member as compensation for 15% fund tax previously paid.
- New types of income streams will be encouraged. These include guaranteed income streams with deferred start dates to provide income after age 75.

The new changes to contributions caps can be compared with the current caps set out in the superannuation thresholds table for 2016/17 below.

Superannuation thresholds for 2016/17

Concessional contributions cap	$30,000 or $35,000 if aged 49 or more on 30/6/2016
Non-concessional contributions (NCC) cap	$180,000 or $540,000 over 3 years if under age 65
Superannuation guarantee (SG) rate	9.5%
SG maximum contributions base	$51,620 salary per quarter or $206,480 pa (up from $50,810 per quarter 2015/16)
Preservation age • Benefits can be accessed on retirement • 0% tax on low rate threshold (below)	Age 56 for those who turn age 56 in 2016/17 Age 57 for those who turn age 55 in 2016/17
Low rate threshold • 0% tax under age 60	$195,000 (no change from 2015/16)
CGT cap amount • excluded from NCC cap	$1,415,000 (up from $1,395,000 2015/16)
Government co-contribution income	Full co-contribution – $36,021 pa or less (up from $35,454 2015/16) No co-contribution – $51,021 pa or more (up from $50,454 2015/16)
Threshold for unclaimed monies to be paid to the ATO. Applies to: • accounts inactive for 5 years • lost or uncontactable member accounts	$6,000 from 31 December 2016 (up from $4,000 from 31 December 2015)

ATO developments: Start date for Superstream for small employers delayed

Under the super stream rules, employers are required to make super contributions and provide data on a uniform electronic basis. Employers with 20 or more employees are already meeting these standards. However the ATO has extended the start date for smaller employers to comply with Superstream to 28 October 2016. This extension recognises that super guarantee contributions for the first quarter of the 2016/17 financial year are due on 28 October 2016. After this date the ATO expects all employers to make contributions in a Superstream compliant manner.

Single Touch Payroll

Legislation introducing "Single Touch Payroll" (STP) has now been passed by Parliament. Single Touch Payroll provides for standardised reporting to the ATO of PAYG withholding tax and super contributions at the time the payments or contributions are made. The legislation also includes streamlining the provision of TFN declarations and Choice of Fund forms for new employees. New employees will be able to provide electronic TFN Declarations using the employer's payroll software or through their personal myGov account. Employees will also be able to submit choice of super fund forms via myGov.

Compliance with STP reporting will be on a voluntary basis with from 1 July 2017 and on a compulsory basis for large employers from 1 July 2018. The streamlined process for providing TFN declarations and Choice of fund forms via the ATO is optional and will be available from 1 January 2017.

Changes to the Centrelink assets test from 1 January 2017

From 1 January 2017 the Centrelink assets test will change affecting some members who also receiving the part Age Pension. Full age pensioners are largely be unaffected, as the assets test free threshold will increase to $250,000 for homeowners ($375,000 for a couple) and $450,000 for non-homeowners ($575,000 for a couple). Part pensioners, however, may have their pensions reduced or extinguished, as the rate of reduction of the full Age Pension for assets over the free threshold will double (to $3.00per $1,000 of assets over the threshold). Members who lose the Age Pension from 1 January 2017 will automatically be issued with a Commonwealth Seniors Health Card.

Account balances in both super and account based pensions are counted under the assets test for the Age Pension.

More Government reviews into superannuation

In May 2016 the Government released a report into Retirement Income Streams. The report recommended that:

- the current account based pension draw down rates should continue; and
- superannuation funds should be able to offer deferred income streams aimed at meeting income needs in later retirement.

These recommendations will be implemented as part of the 2016 Budget super reforms.

The Government is also undergoing a review of the objectives of superannuation with the intention of introducing a clear purpose for superannuation into legislation. The Productivity Commission is also undergoing a review of the efficiency and competitiveness of the super system, including the process of selecting default super funds. The Productivity Commission released a draft report in August 2016 and the final report (with recommendations) is due mid-2017.

General information

Directors of the Fund

Dr Roger Sexton
Chairman – Independent Non-Executive Director

Mr Christopher Kelaher
Managing Director

Ms Elizabeth Flynn
Independent Non-Executive Director

Mr Allan Griffiths
Independent Non-Executive Director

Ms Jane Harvey
Independent Non-Executive Director

Mr George Venardos
Independent Non-Executive Director

Trustee indemnity

As Trustee, we have taken out a policy of Trustee indemnity insurance.

Generally, as the Trustee, we are entitled to be indemnified from the assets of your Fund against any personal liability for loss or damage incurred by your Fund, except where we have failed to act honestly or failed to exercise the degree of care and diligence that we are required to exercise.

Trustee penalties

No penalties were imposed on us, as Trustee, during the reporting period.

Types of benefits

The types of benefits available through your Fund include:

- retirement benefits at normal retirement age (age 65)
- any early retirement benefits (currently from age 56 and increasing to age 60 progressively until 1 July 2024)
- any total and permanent disablement benefits
- any temporary disability benefits
- any leaving service benefits (resignation or termination of employment)
- any death benefits.

The benefits specified above will generally be the sum of your accumulation account. In the event of death or disability, an additional amount representing the proceeds of insurance (if any) may be included.

Payment of the benefits listed above depends on compliance with relevant legislation as well as the required condition of release being satisfied.

The benefit amounts in your annual member statement are shown as at 30 June 2016. The benefit amount may change. Upon request, we will give you any information you reasonably require to understand your benefit entitlements.

Death cover continuation option

Your Fund allows you to enter into personal insurance policies. If you have insurance coverage within your Fund, and you leave your current employment or close your Fund, you may be able to continue your insurance cover under a personal policy without the need for further medical examination.

Your elected insurer may provide an option to continue cover with automatic acceptance or limited underwriting requirements. You will need to contact your insurer about any continuation option.

Eligible rollover fund

We may transfer your benefit to an eligible rollover fund (ERF) without your consent if:

- we are required to pay your benefit but we are unable to pay it to you or at your direction, or
- we lose contact with you.

During the reporting period, the ERF for the Fund was the SMF Eligible Rollover Fund.

If we transfer your benefit to the ERF:

- your Fund membership and your insurance cover under the Fund (if any) will cease
- you will become a member of the ERF
- you will need to apply directly to the ERF for your benefits
- you will not be able to make contributions to the ERF
- you will not be able to choose your investment strategy.

For more information about the SMF Eligible Rollover Fund, including a copy of the product disclosure statement, please call SMF ERF directly on 1800 677 306, visit their website at www.smf.com.au or write to:

Fund Administrator
SMF Eligible Rollover Fund
GPO Box 529
Hobart TAS 7001

In accordance with superannuation law, we may pass on any relevant personal information required by the ERF to establish your account.

Nominating beneficiaries

The beneficiary nominations you make do not expire and the Trustee will pay the benefit in accordance with your nomination, unless a nominated beneficiary is not a dependant at the time of your death. If you would like to make or amend a nomination, please complete the 'Change of nominated beneficiary form' available from our website at www.aetmyportfolio.com.au and forward it to us.

In the event of your death, where you do not have a nomination, or your nomination is ineffective for any reason, your benefits will be paid to your legal personal representative.

Non-residents

Unlike self-managed superannuation funds, it may be possible to include non-Australian resident members in your Fund without affecting its complying status. If you or any member of your Fund becomes a non-Australian resident you must inform the Trustee immediately.

Minimum cash balance requirements

The minimum cash balance requirements are as follows:

- For member accounts under $1 million, a minimum cash balance of $5,000 is required.
- For member accounts over $1 million, a minimum cash balance of 0.5 per cent of the value of the account is required.

Operational risk financial reserve (ORFR)

Under legislative requirements effective from 1 July 2013, trustees are required to maintain adequate financial resources to address losses arising from operational risk. Trustees must determine the target amount to be set aside for these purposes based on guidelines provided by APRA. The target amount must be achieved by the end of a three year period. AET reached the target amount by transferring existing reserves held by AET to the ORFR and no levy was imposed on AET SAF members for the 2015/16 financial year. Should an operational risk event occur, deductions against each member's balance may be required to restore the ORFR back to the target amount.

Investment objectives

The investment objective for any superannuation fund is to maximise each member's benefits for retirement purposes, within acceptable parameters of risk and diversity.

Our minimum objective for every Fund is to achieve an average annual growth in each member's benefits, for the life of their Fund, which exceeds the increase in the consumer price index for that period.

Investment strategies

It is a legal requirement for us to formulate, and give effect to, an effective investment strategy for your Fund.

To give you the flexibility to help you achieve your investment goals, we provide five model investment strategies for you to choose. When formulating these strategies, we take into account:

- the expected risk and return of each investment
- the existing assets of the Fund
- diversification of investments
- liquidity and cash flow requirements
- current and future liabilities.

Benchmark asset allocation and investment guidelines apply to each investment strategy. The benchmark asset allocation and investment guidelines for each of the five model investment strategies are outlined on the following pages. If you would like a copy, please refer to the AET SAF Product Disclosure Statement.

Once an investment strategy has been selected, we monitor your Fund to ensure that it stays within your selected investment strategy. In the event your Fund remains out of strategy for more than 180 days, we will select another investment strategy that is more appropriate to the assets held within your Fund and notify you of such change.

Strategy 1: Conservative

- **Risk** – Low
- **Time horizon** – one year
- **Objective** – To achieve stable growth by accumulating and re-investing the interest income
- **Performance benchmark** – Consumer price index +1%
- **Suitability** – This strategy is designed to suit the more conservative investor. It can be appropriate where high liquidity is required or where the Fund will have a short life span. There will generally be little or no capital appreciation.

Investment strategy	
Asset class	Allowable range (%)
Income investments	80-100
Growth investments	0-20

Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	5
Cautious	10
Non-speculative	25
Property	0

Investment allocation in account (%)	Maximum allocation
Speculative investments	5

Strategy 2: Moderately conservative

- **Risk** – Low to medium
- **Time horizon** – More than two years
- **Objective** – To achieve steady growth by accumulating and re-investing the interest income
- **Performance benchmark** – Consumer price index +2%
- **Suitability** – This strategy is less conservative than the 'conservative' strategy (strategy 1) but the potential for capital appreciation is still relatively low. Any growth will come mainly from the accumulation of income.

Investment strategy	
Asset class	Allowable range (%)
Income investments	55-85
Growth investments	15-45

Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	5
Cautious	10
Non-speculative	25
Property	0

Investment allocation in account (%)	Maximum allocation
Speculative investments	5

Strategy 3: Balanced

- **Risk** – Medium
- **Time horizon** – More than three years
- **Objective** – To achieve a moderate level of income accumulation and medium capital growth over the longer term with moderate liquidity
- **Performance benchmark** – Consumer price index +3%
- **Suitability** – This strategy is designed to produce a moderate level of income accumulation and medium capital growth over the longer term and should also provide moderate liquidity.

Investment strategy	
Asset class	Allowable range (%)
Income investments	35-65
Growth investments	35-65

Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	5
Cautious	10
Non-speculative	25
Property	0

Investment allocation in account (%)	Maximum allocation
Speculative investments	15

Strategy 4: Balanced to moderate growth

- **Risk** – Medium to high
- **Time horizon** – five years
- **Objective** – To achieve stronger capital growth over the long term with provision for some liquidity and income accumulation
- **Performance benchmark** – Consumer price index +4%
- **Suitability** – This strategy is designed to achieve stronger capital growth over the long term. There is still provision for some liquidity and an income accumulation capability to enable the account to meet its ongoing commitments.

Investment strategy	
Asset class	Allowable range (%)
Income investments	15-45
Growth investments	55-85
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	10
Cautious	10
Non-speculative	25
Property	0
Investment allocation in account (%)	Maximum allocation
Speculative investments	25

Strategy 5: Growth

- **Risk** – High
- **Time horizon** – More than five years
- **Objective** – To achieve capital growth over the medium to long term
- **Performance benchmark** – Consumer price index +5%
- **Suitability** – The strategy has a greater focus on share securities (listed and unlisted) as well as property and investors should be aware there are greater risks involved as considerable volatility may be experienced over the short term.

Investment strategy	
Asset class	Allowable range (%)
Income investments	1-25
Growth investments	75-99
Investment guidelines	
Investment rating	Maximum in any one investment (%)
Highly speculative	0
Speculative	10
Cautious	10
Non-speculative	25
Property	70
Investment allocation in account (%)	Maximum allocation
Speculative investments	25

Financial information about your Fund

Allocation of Fund earnings

Any earnings from your chosen investments are paid to your Fund and reflected in your account balance. All Fund assets are held in trust and separate accounts are maintained for each member. Our administration services will collect all Fund income and record capital gains.

The member benefit statement which is included in your annual fund package shows the annual net effective earning rates for your account for the last five and ten years (or for the period of your membership if that is shorter).

Asset allocation

The 'Investment Holdings Comparison report' (included in your annual fund package) shows the asset allocation of your Fund at the beginning of the reporting period and at the end of the reporting period.

The values shown at the beginning of the reporting period in your report are carried forward from the previous year end audited financial statements.

Illiquid investments

Illiquid investments are investments that have low liquidity, which means they cannot be easily bought or sold or quickly converted into cash. Examples of illiquid investments may include:

- capital guaranteed funds
- certain property funds
- hedge funds
- private equity
- structured funds
- unlisted unit trusts
- direct property.

Generally, when we receive instructions to transfer your superannuation benefits we have 30 days to implement your request. An illiquid investment within your Fund may prevent us from processing your transfer request within the 30 day timeframe due to delays in receiving the sale proceeds from these investments.

Derivative securities

A derivative is a financial contract, the value of which depends on, or is derived from, assets, liabilities or indices (the underlying assets). Derivatives include a wide assortment of instruments, such as:

- forwards
- futures
- options
- swaps
- warrants.

Your Fund may invest in derivatives that we have rated and approved for Fund use.

The derivatives charge ratio is the market value of the assets of your Fund (other than cash) that are subject to a charge as security for the derivatives investments within your Fund, and is expressed as a percentage of the total market value of all of the assets of your Fund. If the derivatives charge ratio of your Fund exceeded five per cent at any time during the reporting period we have included a derivatives charge ratio notice in your annual fund package that:

- states the derivatives charge ratio at the end of the reporting period
- states the highest derivatives charge ratio attained during the reporting period
- provides an explanation of why the derivatives charge ratio exceeded five per cent, and
- provides an explanation of the meaning of derivatives charge ratio.

Contributions

As a consequence of your membership, contributions may be made to the Fund by you, your employer, your spouse, the Government or the Australian Taxation Office if so allowed under superannuation legislation.

Your employer may be required to make contributions to the Fund, to satisfy the requirements of the superannuation guarantee, Federal or State Awards, or employment agreements such as salary sacrifice arrangements you have made with your employer and voluntary contributions withheld from your salary or wages at your request.

There is currently no minimum limit on the amount of contributions that can be made. However, maximum limits do apply to the amount of contributions that you or your employer may claim as a tax deduction, or that will be eligible for other tax concessions.

Taxation of superannuation contributions

Generally, your concessional contributions will be taxed up to 15 per cent, however, the amount of tax may be more if you receive concessional contributions to your Fund in excess of the relevant concessional contribution cap, or if your income is $300,000 per annum or above. Any non-concessional contributions that exceed the relevant non-concessional contribution cap are taxable at 49 per cent.

Taxation of superannuation benefits

Different taxation treatment applies depending on whether you take your superannuation benefits as a lump sum or pension as well as your age. If you receive a pension, the pension income may itself be subject to tax if you are under age 60. If you are aged 60 or over, any lump sum or income stream from your pension will be paid to you tax-free.

Please refer to the AET SAF Product Disclosure Statement for further general information. For information on how the taxation of superannuation benefits affects you, please speak to your financial adviser.

Management of earnings reserves

We do not maintain earnings reserves on behalf of your Fund.

Audited financial statements

Superannuation legislation requires us to produce certain minimum accounting statements for your Fund each year and have these statements audited by a qualified auditor.

The auditor's report is now available on request and the abridged financial statements are included in your annual fund package.

Enquiries and complaints

As Trustee of your Fund, we are obliged to provide you with any information that you reasonably require to understand your benefit entitlement.

If you have any questions or a complaint, please:

- call us on 1800 254 180, or
- write to us at:

  Australian Executor Trustees Limited
  Complaints Officer
  GPO Box 546
  Adelaide SA 5001

We will acknowledge receipt of your complaint within five business days and will normally respond in more detail within 28 days. Some complaints however, can be more complex than others and may take longer to resolve. If that is the case we will keep you informed of our progress. If, however, you have complained to us and your complaint has not been resolved to your satisfaction within 90 days, you have the option of contacting the Superannuation Complaints Tribunal (SCT), an independent complaints handling body.

The SCT may be able to help you to resolve your complaint, but only after you have made use of our dispute resolution procedures.

The SCT will first attempt to resolve the matter through conciliation, which involves assisting both parties to come to a mutual agreement. If the matter cannot be resolved by conciliation, the SCT has the power to either overturn or confirm the Trustee's decision.

To find out whether the SCT can handle your complaint, and the type of information you need to provide, you can call the SCT from anywhere in Australia on 1300 884 114 between 9:00am and 5:00pm (Eastern Standard Time) or write to:

Superannuation Complaints Tribunal
Locked Bag 3060
Melbourne VIC 3001
Email: info@sct.gov.au

Contact us

If you have any questions or require any further information, please contact the:

Trustee

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