Australian Executor Trustees

AET small APRA fund
2016/17 Annual Trustee report

Contents

This report is issued by Australian Executor Trustees Limited (AET) ABN 84 007 869 794 AFSL 240023 RSE Licence No L0002554 as Trustee of your AET small APRA fund (AET SAF). Within the report you will find general information about your fund, including legislative changes for 2016/17 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 Trustee's annual report to investors in the Australian Executor Trustees small APRA fund for the financial year ended 30 June 2017. 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, as well as changes to super that occurred during the financial year and those proposed for the 2017/18 financial year and beyond.

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

Super reforms commence 1 July 2017

New reforms to the tax treatment of superannuation commenced on 1 July 2017. These reforms were originally announced in the 2016 Federal Budget and were passed into law in November 2016.

The key changes are:

1 Transfer balance cap

This is a limit of $1.6 million to the amount of super benefits that can transfer to the tax-free pension phase. The cap applies to the value of existing retirement-phase pensions on 30 June 2017 and any new pensions that commence from 1 July 2017. The amount counted against the cap is reduced by any lump sum withdrawals or rollovers from the pension after 1 July 2017 and any amounts that relate to compensation for personal injury.

Super trustees are required to report to the ATO the 30 June 2017 value of all existing pensions and the commencement value of new pensions, along with any post 1 July 2017 withdrawals from pension accounts and personal injury compensation contributions.

2 Tax on earnings of transition to retirement (TTR) pensions

From 1 July 2017, investment earnings on TTR pensions will be taxed at 15 per cent - the same basis as accumulation super accounts. The value of TTR pensions are not counted under the transfer balance cap or reported to the ATO until age 65 or earlier retirement.

3 $100,000 non-concessional contributions (NCC) cap

The annual NCC cap has reduced to $100,000 from 1 July 2017, or up to $300,000 over 3 years if under age 65. Also this cap will drop to $0 for 2017/18 if the member's total super balance across super and pension accounts on 30 June 2017 is $1.6 million or more. Where balances are between $1.4 million and $1.6 million, the ability to bring forward any future years' cap entitlements will be restricted. This total super balance is assessed 30 June each year to determine the ability to make non-concessional contributions for the following financial year.

The ATO will be provided with the required information to determine the total super balance as part of the tax return for the fund.

4 Tax deductible personal super contributions for employees

From 1 July 2017 employees with assessable income will be able to claim a tax deduction for personal contributions to super. This means many more members will be able to make pre-tax super contributions, without having to enter into salary sacrifice arrangement with their employer.

Before claiming all personal contributions as a tax deduction, members should consider any potential Government co-contribution if no tax deduction was claimed.

5 $25,000 concessional contributions cap

The annual concessional contributions cap has reduced to $25,000 per annum for 2017/18. For the 2018/19 and later years, any unused cap amount can be carried forward and contributed in a later year for up to 5 years, but only capturing unused amounts accruing from 1 July 2018 and only accessible for members with a total super balance less than $500,000.

6 Other tax changes from 1 July 2017

The income threshold for additional tax on concessional contributions for high income earners (Division 293 tax) has reduced to $250,000. Also the spouse income threshold for a tax offset for spouse contributions has increased to $37,000 per annum. However anti-detriment payments for lump sum death benefits are abolished where death is after 30 June 2017 or where the death benefit is paid after 30 June 2019.

Superannuation thresholds for 2017/18

Concessional contributions cap	$25,000
NCC cap	$100,000; or $300,000 over 3 years if under age 65 and less than $1.4 million in super and pension on 30 June 2017; or $200,000 over 2 years if under age 65 with between $1.4 million and $1.5 million in super and pension on 30 June 2017. $0 with $1.6 million or more in super and pension on 30 June 2017.
Superannuation guarantee (SG) rate	9.5%
SG maximum contributions base	$52,760 ordinary time earnings per quarter or $211,040 pa (up from $51,620 per quarter 2016/17) The maximum contributions base cannot generate an annual contribution amount that would exceed the concessional contributions cap.
Preservation age • Benefits can be accessed on retirement • 0% tax on low rate threshold (below)	Age 56 for those who turned age 56 before 1 July 2017 Age 57 for those who turn age 56 after 30 June 2017
Low rate threshold • 0% tax under age 60 for cash lump sums	$200,000 (up from $195,000 for 2016/17)
CGT cap amount • excluded from NCC cap	$1,445,000 (up from $1,415,000 for 2016/17)
Government co-contribution income	Full co-contribution – $36.813 pa or less (up from $36,021 pa 2016/17) No co-contribution – $51,813 pa or more (up from $51,021 pa 2016/17)
Spouse contributions tax offset	Maximum of $540 if annual spouse income less than $37,000 (up from $10,800 2016/17). Offset ceases at $40,000 (up from $13,800 2016/17)
Departing Australia Super Payment tax rate	35% on taxable component (65% for working holiday makers)
Centrelink Age Pension age	Age 65 if you turn age 65 before 1 July 2017 Age 65 and 6 months if you turn age 65 after 30 June 2017 Age pension age increases by 6 months every 18 months from 1 July 2017 until it reaches age 67 by 1 July 2023.

Proposed super reforms to commence 1 July 2018

The Government has proposed further changes to super to commence 1 July 2018. These changes have been introduced to parliament, but are not yet law.

First home saver super scheme

From 1 July 2018, super fund members will be able to request a withdrawal of voluntary contributions (personal contributions and salary sacrifice contributions) made since 1 July 2017 to help purchase a first home. Voluntary contributions of up to $15,000 a year or $30,000 in total plus ATO calculated earnings can be withdrawn. Note that only 85 per cent of voluntary concessional contributions are able to be accessed. Members have 12 to 24 months after the funds are released to enter into a contract to purchase or build their first home.

Downsizer contributions to super

Members and spouses aged 65 or more can contribute up to $300,000 each of the proceeds of the sale of their main residence, where the sale occurs after 1 July 2018. The contributions are not counted under the NCC cap and no maximum age or work test applies. To make downsizer contributions, the individual or their spouse must have owned the property for at least 10 years and made the contribution within 90 days of settlement. This contribution is only able to be triggered once, even if the full $300,000 is not used future sales will not qualify for additional contributions.

Super guarantee to exclude salary sacrifice

Salary sacrifice contributions will no longer count under an employer's obligation to make compulsory Super guarantee contributions. From 1 July 2018 an employer will be required to make contributions of 9.5 per cent of ordinary time earnings before any salary sacrifice contributions are determined.

Fund choice for new enterprise agreements

Enterprise agreements and workplace determinations signed from 1 July 2018 must ensure that employees have full choice of which super fund can receive compulsory employer contributions. Employers will be required to issue new employees with a Standard Choice Form and provide a form to existing members on request. Currently an enterprise agreement can fix which super fund(s) contributions can be made to, and employees are 'deemed' to have made a choice of fund by voting to approve the enterprise agreement.

Other tax changes from 1 July 2017

Small super funds such as self-managed super funds and small APRA funds which are paying a pension can no longer use the segregated method for determining fund tax if they have a member who has a total super balance over $1.6m, meaning an actuary certificate will be required for these funds.

ATO developments

Single Touch Payroll to start 1 July 2018

Single Touch Payroll is where employers report employee payments and PAYG withholding amounts to the ATO at the time they are paid. Payments include salary, wages, bonuses, termination payments. Employers are also required to report super contributions when they are paid. Employees will be able to see payment details and amounts withheld through their myGov account.

Single Touch Payroll reporting is compulsory from 1 July 2018 for employers with 20 or more employees on 1 April 2018, and the Government intends to extend it to smaller employers from 1 July 2019.

As part of Single Touch Payroll, the Government announced it will introduce streamlined processes for providing TFN declarations and choice of super fund forms. New employees can provide their TFN declaration and can make a choice of fund electronically using their new employer's payroll software, payroll provider or through myGov as part of their commencement process.

Regular reporting for small funds

To help administer the transfer balance cap system, self-managed super funds and small APRA funds will be required to provide more regular reporting to the ATO in the form of the transfer balance account report (TBAR). The specific timing requirements are yet to be determined however it is expected that small funds will be required to report events impacting any member's transfer balance account on a quarterly basis, eventually transitioning to a monthly basis.

Centrelink developments

Income Stream Reviews – direct reporting to Department of Human Services

Currently Centrelink receive information from members in relation to their income streams (including TTR income streams). No later than 31 December 2018 income stream providers who are not SMSFs will be required to report directly to Centrelink on a twice yearly basis.

General information

Directors of the Fund

Mr George Venardos
Chairman – Independent Non-Executive
(from 24 November 2016)

Mr Christopher Kelaher
Executive Director

Ms Elizabeth Flynn
Independent Non-Executive Director
(resigned 17 March 2017, reappointed 29 August 2017)

John Selak
Independent Non-Executive Director
(appointed 31 January 2017)

Ms Dawn Oldham
Independent Non-Executive Director
(appointed 31 January 2017)

Mr Geoffrey Martin Walsh
Independent Non-Executive Director
(appointed 31 January 2017)

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 55 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 2017. 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

The SMF Eligible Rollover Fund (SMF ERF or fund) has been designed as a temporary repository, to accept the benefits of members:

- with low account balances
- who are leaving or changing employment
- who have become uncontactable.

You become a member of the fund when your superannuation is transferred from another super fund (such as your previous employer's super facility). Your account balance will consist of the amount transferred to the fund, less any fees and charges which may apply, together with any investment earnings credited to your benefit.

If you are a member of the fund, you have the following options:

1. Transfer your SMF ERF account balance to another super fund
2. Claim cash if your account balance is under $200
3. Claim cash if temporary resident leaving Australia permanently.

If we transfer the benefit to the SMF ERF you will become a member of the SMF ERF. Also in this fund, you can no longer make contributions, or choose your investment strategy.

For more information about the SMF ERF, 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 SMF 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 2016/17 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 and investment guide.

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 in account (%)
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 in account (%)
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 in account (%)
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 in account (%)
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 with a limited provision for interest focussed assets.
- **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 in account (%)
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 investment holdings 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
- 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.

Generally, we do not allow the use of derivatives in the AET SAF for strategic portfolio management. However your fund may be exposed to derivatives by investing in managed funds using derivatives for hedging or risk management purposes.

Contributions

As a consequence of your membership, contributions may be made to your 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 $250,000 per annum or above. Any non-concessional contributions that exceed the relevant NCC cap are taxable at 47 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 and general reference guide 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 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 9am and 5pm (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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