

PRODUCT NEWS AND IMPORTANT INFORMATION

30 June 2018



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INVESTMENT UPDATE

2017/2018 Financial Year in Review

Global news events (Broad market summary)

Global investment markets over the 2017/2018 financial year were reasonably strong, despite various geopolitical events including concerns of a US-China trade war, ongoing issues in the Middle East and the suggestion that the US Federal Reserve will raise interest rates more aggressively than previously expected.

Global Shares and Bonds

Returns on global shares were positive and above long-term averages. Despite the continued geo-political risks, global bond yields traded higher overall. The strong returns for shares and bonds were driven by a variety of factors including increased confidence in global growth, positive earnings data, low US unemployment and US tax reforms.

Gross Domestic Product Growth and Reserve Bank of Australia Cash Rate

In Australia, the economy grew by around three per cent, with the rate of growth higher compared to the 2016/2017 financial year. Despite the strong growth, Australian inflation is still under two per cent. The cash rate remains at a record low of 1.5 per cent and has been on hold since August 2016, which is the longest period the cash rate has ever remained unchanged.

Australian Shares and Bonds

Australian shares performed strongly over the period although underperformed currency unhedged global shares. Bond yields in Australia were relatively volatile throughout the year especially in relation to US bond yields. The 2017/2018 financial year saw the Australian-US government bond yield spread shrink with the cash rate in the US increasing and Australian cash rates being on hold.

Australian dollar and market volatility

The Australian Dollar was down -3.7 per cent over the period versus the US dollar, trading between 73 - 81 cents. Despite a spike in the first quarter of 2018, Australian share market volatility has remained relatively low.

Future Outlook

Going forward and in the medium term, returns are likely to be lower than long-run averages due to the low interest rates and inflation. Also, volatility is likely to increase to levels more in line with long-term averages.

PROPOSED LEGISLATIVE CHANGES

The federal government (Government) announced a number of superannuation changes in the 2018/19 Federal Budget. The following changes are yet to be legislated and may change prior to becoming law.

Work test exemption for recent retirees

The Government has proposed an exemption from the work test for voluntary contributions to superannuation.

This means people aged 65 - 74 whose total superannuation balance is below \$300,000 will be able to make voluntary contributions for 12 months, from the end of the financial year in which they last met the work test. This measure is scheduled to commence from 1 July 2019.

'Protecting Your Super' package

The Government has proposed a number of changes to superannuation under the "Protecting Your Super" package. Scheduled to commence 1 July 2019, these changes include:

- ◆ A cap on administration and investment fees charged on superannuation accounts with balances of \$6,000 or less, at three per cent of the account balance.
- ◆ A ban on exit fees from all superannuation accounts.
- ◆ A requirement on superannuation funds to only offer insurance on an opt in basis in relation to accounts:
 - that have balances below \$6,000;
 - for new members who are under 25 years old; or
 - that have not received a contribution for 13 months or longer.
- ◆ Transfer of all inactive accounts where the balances are below \$6,000 to the ATO. The ATO will expand its data matching processes to proactively reunite superannuation accounts with a member's active account, where possible.

Better integrity over deductions for personal contributions

The Government will provide additional funding to the ATO to improve the integrity of the Notice of Intent (NOI) processes for claiming personal superannuation contribution tax deductions. The additional funding will help the ATO ensure that those claiming deductions have lodged an NOI (and have the contributions tax deducted by their superannuation fund). The ATO will be able to deny deductions to individuals who do not comply with the NOI requirements.

Preventing inadvertent concessional cap breaches by certain employees

The Government proposes to allow individuals whose income exceeds \$263,157, and who have multiple employers, to nominate that their wages from certain employers are not subject to the Superannuation Guarantee (SG). This will allow eligible individuals to avoid unintentionally breaching the concessional contributions cap as a result of compulsory SG contributions being paid from multiple sources.

Measures for older Australians

The Government has proposed increases to the Pension Work Bonus from \$250 to \$300 per fortnight for retirees earning up to \$7,800 each year, whilst also extending the eligibility for this to include people who are self-employed.

The Government also proposed changes to the age pension means test rules, including:

- ◆ 60 per cent of all pooled lifetime product payments will be assessed as income;
- ◆ 60 per cent of the purchase price of pooled lifetime products will be assessed as assets until age 84 (or a minimum of five years) and then 30 per cent for the rest of the person's life; and
- ◆ Pooled lifetime income streams purchased before 1 July 2019 will be grandfathered (i.e. not subject to the new rules).

LEGISLATIVE CHANGES

These changes are legislated and depending on your individual circumstances, may have an impact on you.

Personal Income Tax

In the 2017/18 Federal Budget, the Government introduced a low and middle income tax offset for Australian residents

commencing from the 2018/19 financial year. The Government also introduced a plan to progressively increase the income tax thresholds in the subsequent three financial years to 2024/2025.

These changes received Royal Assent on 21 June 2018 and commenced on 1 July 2018.

Transfer Balance Cap

Commencing 1 July 2017, a \$1.6 million limit was introduced on the total amount of tax exempt superannuation savings that can be used to start a 'retirement phase' income stream. This limit is known as the 'transfer balance cap' and represents the maximum amount that an individual can transfer into retirement phase to support a super pension or annuity.

The balance of an existing retirement phase income stream as at 30 June 2017, along with the initial value of any new retirement phase income stream commenced on or after 1 July 2017, will be measured against an individual's personal transfer balance cap.

Amounts in excess of the cap will need to be rolled back to the accumulation phase or completely removed from the superannuation system.

The ATO will write to individuals holding amounts in excess of the cap seeking their instructions regarding the removal of the excess amount. Where contact is unsuccessful, the ATO will issue a 'commutation authority' to the retirement income stream provider/s, directing them to commute the necessary amount out of the individual's retirement phase income stream.

Transfer of early release of superannuation function from Department of Human Services (DHS) to the Australian Tax Office (ATO)

The ATO will take responsibility from DHS for administering early release of superannuation on compassionate grounds from 1 July 2018. For further details please visit www.ato.gov.au/early-release or contact the ATO on 13 10 20.

Further details on these changes can be found at www.ato.gov.au

PRODUCT NEWS

Investment update

The Colonial Super Retirement Fund investment portfolio includes investment options managed by The Colonial Mutual Life Assurance Society Limited and other investment managers. Investments are periodically reviewed to identify opportunities that may help enhance the investment returns and to respond to market changes. Changes have been made to a number of investment options including for example:

- ◆ replacing or adding investment managers to investment options and underlying asset class strategies
- ◆ updates to the asset allocation ranges, benchmarks, strategies or objectives.

For more information about these and other changes, please visit commbank.com.au/performance-report

Insurance update

Colonial Select Personal Super

We have recently made some improvements to your insurance cover which are detailed in this update.

Effective 1 July 2018, some terms and conditions will change for all members and premium rates will reduce for members who were classified as 'smokers' as at 30 June 2018. These changes are outlined below.

We're also taking this opportunity to remind you to review your insurance cover. Over time our lives change – and that means our insurance needs can too. If you haven't reviewed your insurance cover recently, it might be time to check that your cover still suits your needs and lifestyle.

It is important that you review these changes and your insurance cover. Please contact your financial adviser or call us if you require further details.

Insurance premium reductions for 'smoker' status members as at 30 June 2018

Effective 1 July 2018, the insurance premium rates will change, as follows:

- ◆ For Income Protection insurance cover, the current non-smoker premium rates* will apply to all insured members (regardless of whether or not you smoke), which represents an average 19.1 per cent discount to income protection rates for members currently on smoker premium rates; and
- ◆ For Death and Total and Permanent Disablement (TPD) cover:
 - ◆ the current 'non-smoker' premium rates* will continue to apply to insured members that were recorded as being non-smokers as at 30 June 2018; and
 - ◆ new premium rates* will apply to all other insured members, which are approximately 25 per cent less than current Death and TPD smoker premium rates.

For more information on your insurance premiums, please go to commbank.com.au/super-retiring/forms-and-documents or call us.

*Premium rates are subject to change. If you currently have a premium loading based on your health, occupation or pastimes, the loading will continue to apply.

Changes to Death and TPD terms and conditions

The following changes apply to all members with Death and/or TPD insurance through Colonial Select Personal Super.

Amendment to suicide and self-inflicted injury exclusion

We have amended the exclusion relating to self-harm to remove any consideration as to whether or not the member was sane or insane at the time of the claim event.

In addition, the attempted suicide or intentional self-inflicted injury exclusion on TPD cover will now only apply for the first 12 months of the insured cover commencing, increasing or recommencing. Previously, the exclusion applied for the whole period of the cover.

Removal of pre-existing conditions exclusion

Previously, for certain members, the definitions of 'sickness' and 'injury' in the policy excluded any pre-existing condition that they suffered prior to their cover commencing or increasing. This exclusion has now been removed.

Amendment of loss of sight definition

The reference to 'loss of sight' in the definition of 'Total and Permanent Disablement/Totally and Permanently Disabled' has been changed to 'blindness in both eyes'. Blindness means the permanent loss of sight to the extent that visual acuity is 6/60 or worse, or to the extent that the visual field is reduced to less than 20 degrees in diameter.

Amendment of leave without pay condition

The maximum period for which a member can be on leave without pay and still be assessed under the "any occupation" definition has been extended from a continuous period of three months, to a continuous period of 24 months for automatically insured members. If a member has been on leave without pay for longer than a continuous period of 24 months at the date of injury or sickness, the member will be assessed under an "activities of daily living" (ADL) definition. Previously the member was assessed under an ADL definition after three months of leave without pay.

An 'automatically insured member' is a member provided with insurance cover in Colonial Select Personal on the date of transfer from Select Corporate.

Changes to Income Protection (IP) terms and conditions

The following changes apply to all members with IP insurance through Colonial Select Personal Super.

Amendment to the partial disability benefit

The terms of the IP partial disability benefit have been changed. Under the new terms, a claimant will receive a reduction in their IP benefit payment where they are partially disabled and a medical practitioner considers the claimant is able to work in his or her own occupation in some capacity, but the claimant has not made any reasonable attempt to do so. Previously, the partial disability reduction applied where members attempted to return to work but were unsuccessful.

Removal of pre-existing conditions exclusion

Previously, for certain members, the definitions of 'sickness' and 'injury' in the policy excluded any pre-existing condition that they suffered prior to their cover commencing or increasing. This exclusion has now been removed.

Amendment to suicide and self-inflicted injury exclusion

We have amended the exclusion relating to self-harm to remove any consideration as to whether or not the claimant was sane or insane at the time of the claim event.

Removal of post-natal depression exclusion

Post-natal depression has been removed from the definition of 'normal pregnancy and childbirth' and will no longer be caught by this exclusion.

Please note: This document has been prepared for general information only, not having regard to your investment objectives, financial situation or needs. Because of this, you should consider the appropriateness of the information having regard to your own circumstances. Before making a decision to act on any of the information, financial advice specific to you is recommended. You should seek advice from your taxation adviser in relation to taxation matters.

Taxation considerations are general and based on present tax laws and may be subject to change. The Colonial Mutual Life Assurance Society Limited and Colonial Mutual Superannuation Pty Ltd are not registered tax (financial) advisers under the Tax Agent Services Act 2009 and you should seek tax advice from a registered tax agent or registered tax (financial) adviser if you intend to rely on this information to satisfy the liabilities or obligations or claim entitlements that arise, or could arise, under a taxation law.

Colonial Mutual Superannuation Pty Ltd ABN 56 006 831 983 AFSL 235025 (the Trustee, we) and The Colonial Mutual Life Assurance Society Limited ABN 12 004 021 809 AFSL 235035 (CMLA) are both wholly owned non-guaranteed subsidiaries of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. This update relates to:

- superannuation products issued by the Trustee that form part of Colonial Super Retirement Fund ABN 40 328 908 469 (CSRF, the Fund);
- other superannuation products; and
- ordinary life products issued by CMLA.