

Report to Members 2015-16

This report is a snapshot of the investment performance and main Northern Territory Government and Public Authorities' Superannuation Scheme (NTGPASS) activities during the year.

Year in Review

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Investment Overview

Investment conditions were extremely challenging for growth assets such as equities in 2015-16. Global uncertainty, declining oil prices, decreasing economic growth in China and the Brexit, all contributed to weak returns in the year. Australian equities, as measured by the ASX 300 index, decreased 4.8 per cent during the year and global equities, represented by the MSCI All Country World Index decreased 6.8 per cent. Interest rates remained at historically low levels around the globe for much of the year, with Australia's official cash rate finishing the year at 1.75 per cent.

Investment Returns – Superannuation

All NTGPASS investment options ended the financial year with a positive, though modest, return, despite some options experiencing negative returns during the year. The NTGPASS superannuation account growth option returned 1.66 per cent, which is below the median return for options with a similar asset allocation (as reported by Morningstar) of 2.0 per cent in 2015-16.

Five-year average returns to 30 June 2016 are calculated for all superannuation options. The growth option remains the only option that has been available for the full 10 years, with a return of 5.23 per cent per annum over 10 years and 8.34 per cent per annum since inception.

Table 1 details the 2015-16 investment returns for the NTGPASS fund's investment options, the five-year average return, as well as the average annual return since each investment option commenced operation. The average returns reflect the compound average effective rate of net earnings, as required for reporting of long-term returns under Corporations Regulations for regulated superannuation funds.

Table 1: Investment Returns

	2015-16	5-year average	Since inception
	%	%	%
Managed Cash ¹	1.76	2.51	2.63
Conservative ²	2.31	5.77	4.33
Cautious ²	2.51	7.14	4.63
Growth ³	1.66	8.42	8.34
Assertive ²	1.07	8.89	4.14
Aggressive ²	0.08	9.37	3.74

Commencement dates: (1) March 2009; (2) July 2007; (3) 1986.

Risk and Return Objectives

The investment options have risk and return objectives measured annually to monitor their performance against targets.

The return objective is the net return expected to be achieved above the rate of inflation, calculated as a simple average over five-year rolling periods. Table 2 details actual returns versus the return objectives.

Table 2: Return Objectives

Investment Option	Return Objective	5-Year Average ¹	Objective Met
Managed Cash	CPI + 0.5% = 2.32% pa	2.51%	Yes
Conservative	CPI + 2.0% = 3.82% pa	5.79%	Yes
Cautious	CPI + 2.5% = 4.32% pa	7.19%	Yes
Growth (default)	CPI + 3.0% = 4.82% pa	8.59%	Yes
Assertive	CPI + 3.5% = 5.32% pa	9.13%	Yes
Aggressive	CPI + 4.0% = 5.82% pa	9.74%	Yes

CPI = consumer price index; pa = per annum
1 Actual rate of return on investment option.

The five-year average CPI is 1.82 per cent per annum. Returns exceed the target for all options, therefore the return objective has been met for all options.

The risk objective is expressed as an average number of years before the option is expected to have a negative return. The probability varies by investment option, with the most aggressive investment choice bearing the higher risk of a negative return. The risk of a negative return decreases with more conservative investment choices. In line with best practice, from 2015-16 a standard risk measure (SRM) objective is also being reported. The SRM of an investment option is expressed as an average number of years out of 20 where the option is expected to have a negative return. Table 3 details the actual performance of the investment options against both their original risk objective and their SRM risk objective.

Table 3: Risk Objectives

Investment Option	Previous Risk Objective	Result	Objective Met	SRM Objective	SRM Result	Objective Met
Managed Cash	Low probability	0	Yes	0.0 in 20 years	0.0 in 20 years	Yes
Conservative	1 in 7 years	1 in 9 years	Yes	1.5 in 20 years	2.2 in 20 years	No
Cautious	1 in 4.5 years	2 in 9 years	Yes	2.7 in 20 years	4.4 in 20 years	No
Growth (default)	1 in 4 years	3 in 30 years	Yes	4.2 in 20 years	2.2 in 20 years	Yes
Assertive	1 in 3.5 years	2 in 9 years	Yes	4.6 in 20 years	4.4 in 20 years	Yes
Aggressive	1 in 3 years	3 in 9 years	Yes	5.2 in 20 years	6.6 in 20 years	No

In November 2015, the NTGPASS trustees resolved to present the fund's risk objectives on a comparable basis to the Australian Prudential Regulation Authority (APRA) - regulated superannuation entities. The investment risk objectives for the different investment options in the fund are presented in both the former format and using the SRM.

The previous risk objective has been met by all of the investment options, however, the SRM objective has not been met by the conservative, cautious or aggressive options, as negative returns were experienced more frequently than the SRM objective for those options.

Investment consultant

JANA Investment Advisers Pty Ltd (JANA) is the implemented consultant for the management of NTGPASS member funds. As part of its role, JANA advises the Superannuation Trustee Board (STB), which is responsible for investing members' money held in their accumulation accounts, for setting investment objectives and strategies, as well as for risk and asset allocation. JANA selects and monitors investment managers who manage the funds. JANA reports to the STB on these matters, as well as investment performance, quarterly.

In May 2016, following advice from JANA, NTGPASS' investments transitioned from investing through life policies to investing via a trust structure. Greater detail on the transition is in the Superannuation Office News section of this report.

Contribution Cap Summary

Current caps

For 2016-17, the concessional contributions cap is \$30 000 for everyone under age 50 and \$35 000 for people aged 50 and over.

Concessional contributions, such as salary sacrifice and employer contributions, are made from before tax income and are concessionally taxed at 15 per cent. From 1 July 2013, contributions that exceed the cap are taxed at an individual's marginal tax rate, plus an interest charge. When a person's annual income plus taxable superannuation contributions exceed \$300 000, an additional 15 per cent tax is applied to the contributions over the \$300 000 threshold.

As an untaxed defined benefit scheme, NTGPASS currently reports only salary sacrifice contributions to the Australian taxation Office, and does not report any amount for employer contributions.

The annual non-concessional contribution cap is \$180 000, or \$540 000 over three years for those aged under 65. Non-concessional contributions are contributions made from after-tax income, such as NTGPASS compulsory member contributions and Commonwealth co-contributions.

Proposed changes

As part of the 2016-17 budget, the Commonwealth have proposed a number of changes to contribution caps. The following changes are proposed to take effect from 1 July 2017:

- a reduction of the concessional contribution cap for all employees to \$25 000, irrespective of their age;
- a requirement for untaxed defined benefit schemes, like NTGPASS, to commence reporting an amount for employer contributions (known as a 'notional taxed contribution') that will go towards a member's concessional contribution cap. Members will need to take into account the notional taxed contribution to ensure their salary sacrifice contributions do not exceed the concessional cap; and
- a reduction of the non-concessional contribution cap to \$100 000, or \$300 000 over three years, for those aged under 65.

It is also proposed that from 1 July 2018, people will be able to 'catch-up' their superannuation contributions by allowing individuals with account balances of \$500 000 or less to rollover their unused concessional caps (for up to 5 years) to use if they have the capacity and choose to do so. This will mean that where a member has not contributed up to the full \$25 000 concessional cap in a year they will be able to add the unused part of the cap to a subsequent year's cap, increasing the amount they can salary sacrifice.

Please note that no legislation has been passed for these proposed changes. The Superannuation Office will update its website to include greater detail once the changes become law.

Superannuation Office News

Successor fund transfer of NTGPASS retained accounts

As was advised to members in May 2015, Government approved a successor fund transfer for NTGPASS retained accounts (that is, those belonging to former NTPS employees and spouses/ex-spouses of NTGPASS members). Following a competitive review

process, Sunsuper was chosen as the successor fund. The transfer of retained accounts to Sunsuper occurred on 15 February 2016.

Sunsuper is a growing profit for members fund with over 1 million members and \$33 billion of funds under management. It was established in 1987 as a multi-industry superannuation fund to cater for a wide range of workers. Sunsuper is the largest superannuation fund by membership in Queensland and is one of the top 10 in Australia. Over 94 000 employers pay money into Sunsuper funds. Sunsuper has very competitive fees, insurance offerings, online services and lifecycle investment strategies. In 2016 Sunsuper won two Chant West awards – Best Fund: Integrity and Corporate Solutions Fund of the Year. Sunsuper also won the Chantwest Member Services award for 2013, 2014 and 2015. The transfer was deemed to be in the best interest of members by both the Commissioner of Superannuation and the Superannuation Trustee Board. Sunsuper's website address is www.sunsuper.com.au.

Transition of investments to a trust structure

In November 2015, JANA advised the STB of some changes being made by their parent company (National Australia Bank) that would impact the superannuation investment environment. NAB had agreed to sell its life insurance division to Nippon Life. This was of significance to NAB's superannuation clients, as life policies had been the vehicle used by many of these clients (including the NTGPASS fund) to access investments. The sale required superannuation schemes to extract funds out of NAB's life policy vehicle and transition into a trust structure. This process was undertaken by the Superannuation Office for the NTGPASS fund, between February and May 2016, with all investments transitioned into the new trust structure by 12 May 2016. This transition to a trust structure also required the Superannuation Office to engage a fund Custodian, being NAB Asset Servicing (NAS), to provide the weekly unit prices required to generate the investment option crediting rates. The additional cost to the fund of the Custodian has been offset by JANA charging lower investment management fees.

Appointment of an eligible rollover fund

As part of the law changes needed to authorise a successor fund transfer of retained accounts, amendments were also made by the Legislative Assembly to allow inactive, lost and unclaimed accounts to be transferred to an eligible rollover fund (ERF). The primary reason for engaging an ERF is to provide a solution to the large number of unclaimed/lost NTGPASS and Northern Territory Supplementary Superannuation Scheme (NTSSS) accounts. Some of these accounts were established in the 1980's, though many were established in the 1990's. Many of these unclaimed accounts are the result of short-term employment in the Northern Territory by members who never maintained contact and for whom the Superannuation Office has no current contact details. ERFs are specialist superannuation funds whose mandate and core business is to reunite individuals with their lost superannuation. AUSfund was selected, from a competitive process, as the ERF for lost and

unclaimed NTGPASS and NTSSS accounts. AUSfund is the default ERF for industry funds such as AustralianSuper and Sunsuper. AUSfund has a very transparent and low fee regime, reports openly on a range of activities designed to reunite members with lost superannuation, as well as how many member accounts have been transferred to the ATO. AUSfund also reports among the highest rates of investment return of the eight ERFs.

Seminars

During the year a total of seven information seminars were held in Darwin, Katherine and Alice Springs, attended by over 530 members. Information was presented by staff of the Superannuation Office and JANA. A copy of the presentation is available on the Superannuation Office website under the Seminars tab.

Fee introduced

To cover a larger portion of scheme administration costs, a \$35 fee for benefit quotes was introduced from 7 September 2015. All NTGPASS members will continue to receive a free estimate of their benefit as at 30 June each year, in the form of a Member Information Statement. More information on fees is contained in the NTGPASS Fees fact sheet, which is available on our website.

Your NTGPASS Benefit

NTGPASS is a 'split benefit' lump sum scheme and your final NTGPASS benefit may comprise one or all of the following components.

- Your member **accumulation account** balance (your contributions and rollovers accumulated with investment earnings). This component is included in all NTGPASS benefits.
- An accrued **employer component**.
- A **prospective employer component** is payable (subject to eligibility) under the age of 60 if you die while an active member and are survived by a dependent, or if you retire on invalidity grounds. It is generally equal to 17.5 per cent of your benefit salary for each year of forgone service between the date of ceasing employment and age 65.

Accumulation Account

Each NTGPASS member has an accumulation account. Funds that can be credited to your accumulation account include salary sacrifice amounts, compulsory NTGPASS member contributions, personal or voluntary (after tax) contributions and the Commonwealth co-contribution. When members resign or retire, they must either claim their NTGPASS employer component by rolling it to another superannuation fund (if below their preservation age) or by having their benefit paid to them (if at or above their preservation age). Of note is that if you fail to claim or roll over your NTGPASS benefits to another fund when you cease scheme membership, your benefits may be transferred to AUSfund.

Employer component

All active members of NTGPASS (contributing between 2 and 6 per cent of salary) have an employer-financed defined benefit. The benefit is calculated using the following formula:

$$2.5\% \times \text{total benefit points accrued during membership} \times \text{benefit salary}$$

Each 1 per cent of compulsory contributions made for a full year entitles a member to one benefit point. Apart from resignation benefits within the first 10 years of membership, each benefit point accrued during membership is worth 2.5 per cent of your benefit salary when a member leaves the scheme.

As an active member, you can maximise the final employer component of your benefit by contributing at the higher contribution rates. The more benefit points you accrue, the greater your final benefit. As the NTGPASS salary is based on a formula that includes your benefit salary, a reduction in your benefit salary prior to you ceasing employment will affect your final employer component.

Your benefit salary is the average of your last three contribution salaries. Part-time salaries are converted to full-time equivalent salaries when a benefit salary is calculated. To bring your benefit salary up to current values, it is indexed in accordance with the movements in average weekly earnings (AWE). Because this movement fluctuates, your benefit salary may go up or down depending on the prevailing AWE factor at the time you cease employment.

CHANGES IN NET ASSETS in the financial year ending 30 June

	2016	2015
	\$000	\$000
NET ASSETS ON 1 JULY	929 864	988 244
Revenue		
Member contributions	26 956	27 667
Territory contributions	74 185	74 193
Transfers and rollovers	42 472	80 061
Investment revenue	-32 416	97 232
Distributions and interest	30 757	109
TOTAL REVENUE	141 954	279 262
Expenditure		
Benefits paid	542 205	331 188
Income tax expense	-232	5 577
Contributions surcharge	30	45
Other expenses	583	832
TOTAL EXPENDITURE	542 586	337 642
NET ASSETS ON 30 JUNE	529 232	929 864

Superannuation Trustee Board

STB is a nine-member board representing three schemes: NTGPASS; Legislative Assembly Members' Superannuation Scheme; and Northern Territory Police Supplementary Benefit Scheme. Members during 2015-16: Kathleen Robinson (Chairperson); Marianne McAdie (Deputy Chairperson); Jodie Ryan (Member, Under Treasurer); Michael Martin (Member, nominated by Unions NT); Alex Pollon (Member, nominated by the Under Treasurer); Vicky Coleman (Member, nominated by the Under Treasurer); Mark McAdie (Member, nominated by Commissioner of Police); Naomi Porrovecchio (Member, nominated by Unions NT – resigned October 2015); Sarah Burchett (Member, nominated by Unions NT – commenced December 2015) and Gowan Carter (Member, nominated by Northern Territory Police Association – resigned March 2016 and not replaced until after 1 July 2016).

The STB is responsible for investing members' money held in their accumulation accounts. It met on four occasions during the year. STB associated costs are attributed to the three funds administered according to the value of funds under management. STB expenses totalled \$65 092, of which \$57 945 was attributed to NTGPASS.

Financial Information

A summary of the 2015-16 financial statements is provided below. The statements are audited by the Auditor-General and her opinion is published in the NTGPASS Annual Report, which is tabled in Parliament.

STATEMENT OF NET ASSETS as at 30 June

	2016	2015
	\$000	\$000
Assets		
Units in life policies	0	947 297
Super Loans Trust	0	635
Units in trusts	545 439	0
Cash at bank	1 843	368
Receivables	21 981	15 221
Deferred tax assets	5 045	1
TOTAL ASSETS	574 308	963 522
Liabilities		
Benefits payable	39 674	28 780
Taxation	3 845	3 222
Other liabilities	1 577	1 656
TOTAL LIABILITIES	45 076	33 658
NET ASSETS OF THE FUND	529 232	929 864

Please note that the 2016 abridged financial information provided on this page has been extracted from the audited financial statements. The full 2016 financial statements are included in the NTGPASS Annual Report, available on the Superannuation Office website.

Review of decisions

If you are dissatisfied with a decision regarding your scheme membership or superannuation entitlement, you can ask the Commissioner of Superannuation to reconsider the decision. If dissatisfied with the outcome, you can lodge an appeal with the Civil and Administrative Tribunal.

More information

Further information about the scheme is available in the NTGPASS Annual Report. Forms, fact sheets and other publications can be obtained by visiting our website. You can contact our staff by phone or email.

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