Insight

MEMBER NEWSLETTER **MARCH 2022**

Investment update — How to grow your super

Changes coming to super on 1 July — Russia's cyber war and its effect on Australia

Investment update – March 2022

Overall, the Balanced growth investment option returned -2.17% during the March 2022 quarter in accumulation, and -2.18% in pension.

After strong gains through much of 2021, global equity markets fell moderately during the March quarter. The main factors affecting investments markets were: the Russian invasion of Ukraine; the US Federal Reserve signalling that it needs to raise interest rates at a faster pace than previously communicated; and an outbreak of the extremely infectious Omicron variant of COVID-19 in several key Chinese provinces. Another important development during the quarter was the material underperformance of technology stocks, which were expensive prior to the recent correction.

While most global equity markets fell during the quarter, the Australian share market outperformed and rose moderately, as shown in Chart 1. This reflected factors such as strong increases in commodity prices (particularly iron ore) and the Reserve Bank of Australia communicating that it is reluctant to raise interest rates versus many other central banks.

Russian invasion of Ukraine

Russia invaded Ukraine on 24 February. Prior to the invasion, equity markets had fallen, mainly reflecting concerns about rising interest rates as well as the possibility that Russia might invade Ukraine. NATO allies have avoided direct military confrontation and have instead opted for measures such as significant economic sanctions. These sanctions include preventing the Russian central bank from accessing some of its foreign reserves and banning selected banks from the Swift system. This has made it more difficult for the Russian government and its citizens to transact internationally. In response to these sanctions, Russia has demanded Europe to pay for its natural gas in Roubles.

Although Russia and Ukraine are relatively small economies, they contribute significantly to the energy, food and material markets. Prices of some commodities soared during the March quarter, as shown in Chart 2.

Chart 1: Equity markets

Total return in local currency for the 3 months to 31 March 2022

Source: Bloomberg

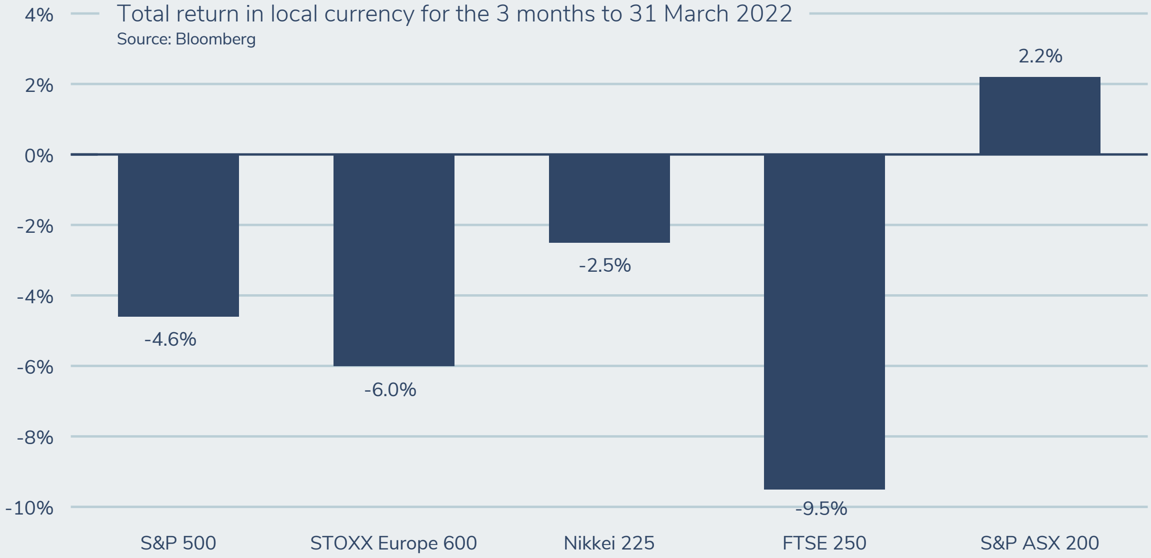
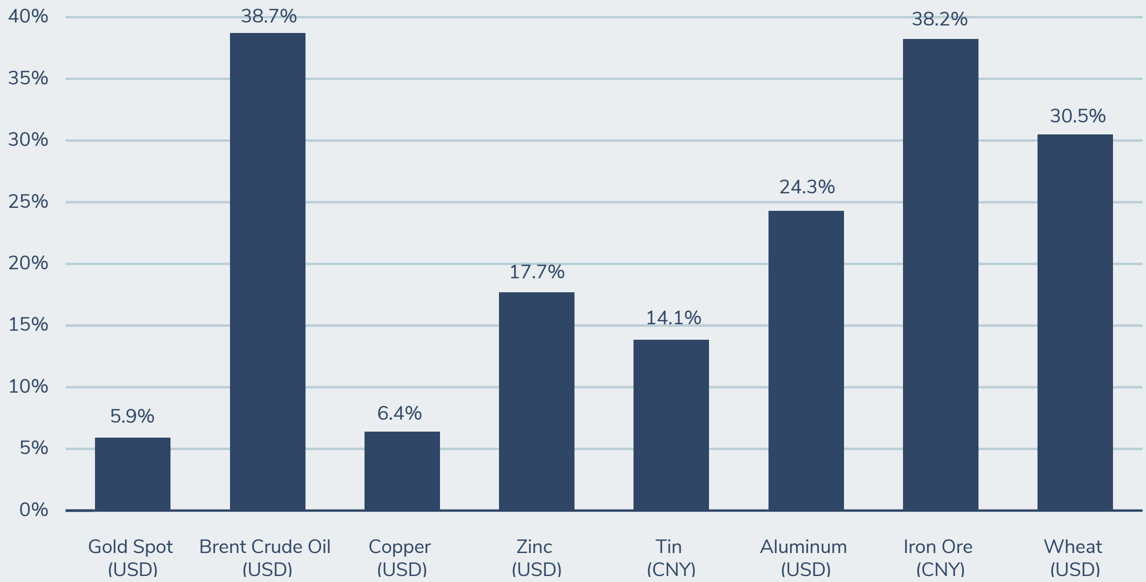


Chart 2: Commodity prices

Price movements for the 3 months to 31 March 2022

Source: Bloomberg



Rising interest rates

The Eurozone's inflation rate is at an historic high, and inflation in the US is at a 40-year high. Despite the uncertainty of economic growth thanks to the Russian invasion of Ukraine, the US has raised its policy rate for the first time since 2018, by 0.25%. Bond yields have recently risen sharply in anticipation of more interest rate hikes. As a result, the Diversified bonds option did not perform well during the quarter.

The increase in yields also triggered a sell-off in technology stocks. The prices of these stocks were in many cases very elevated, and they are also more sensitive to interest rates than most stocks because a larger part of their value is linked to earnings beyond the medium term (reflecting strong expected earnings growth rates). The Innovation & disruption option suffered a material loss during the quarter. This loss followed extraordinarily strong performance over the prior two years.

China lockdown

China was one of the worst-performing major markets in the March quarter. Covid cases have increased in China, and the government has continued to enforce targeted lockdowns. Large cities such as Shanghai and tech-hub Shenzhen have been affected. This is likely to hinder China's economic growth and further constrain global supply chains. Another factor that contributed to the Chinese stock sell-off was regulatory changes in some sectors.

Outlook

For the first time in many decades, most of the developed world is experiencing inflation well above the levels targeted by central banks. This reflects a combination of very stimulatory policy and restricted supply chains as a result of Covid-19.

One of the key concerns for investment markets is the level of US inflation, which has reached its highest level in around 40 years. The US Federal Reserve has been relatively slow in recognising that the US has a material inflation problem and has only recently started to adjust policy. It is aiming to reduce inflation while engineering a "soft landing" in the economy. History shows that this has been difficult to achieve when inflation is high and the unemployment rate is very low, as is the case today. Bond markets are pricing a greater than average probability of the US experiencing a recession in the next two years. While we continue to monitor this risk closely, we also note that the US economy is currently growing at reasonable pace, reflecting factors such as low interest rates and high levels of savings.

* Investment returns are not guaranteed. Past performance is not a reliable indicator of future returns.

How to grow your super

Thinking about how to grow your super? Coming to the end of the financial year, now's a perfect time to get to it.

Hi, my name's Michael Young, I'm the Team Leader of Member Advice here at Vision Super.

The first thing to understand is that there are two key types of contributions you can make to grow your super: concessional and non-concessional contributions.

Concessional contributions, like the Superannuation Guarantee or SG contributions paid by your employer, simply refer to contributions that are taxed inside your super account at the concessional tax rate of 15%, rather than your marginal tax rate.

You can also make other contributions at this concessional tax rate – these might come from salary sacrifice, deductible personal contributions, or other employer contributions. There's a limit to how much you can contribute this way though. For the current financial year the concessional contributions cap is $27,500 per financial year.

You may also be able to make what are called catch-up or carry-forward contributions. This is where you're able to exceed the $27,500 concessional contribution cap in a given financial year by 'carrying-forward' unused concessional contributions from previous years. There are specific criteria you need to meet before making these types of contributions, so you always need to ensure you are eligible.

Another important option to consider are deductible personal contributions. These are contributions you make from your after-tax income, which you then claim a tax deduction on – lowering the overall tax rate on the contribution to the 15% concessional tax rate.

Non-concessional or personal contributions, on the other hand, are just contributions you make out of your after-tax income, and unlike concessional contributions, these aren't taxed inside your super account.

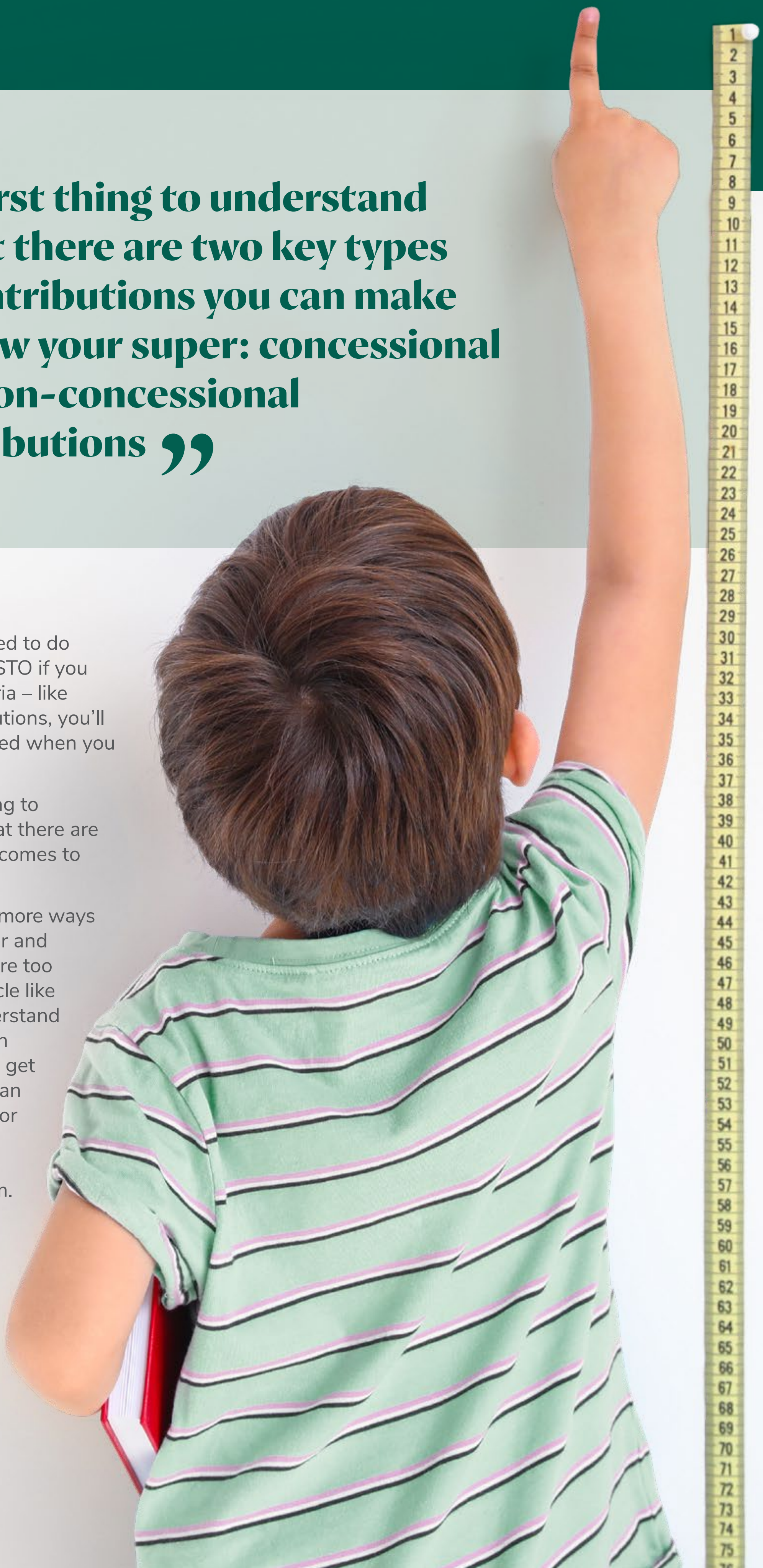
The amount you can contribute this way is much higher too. The current non-concessional contributions cap is $110,000 per financial year. For example, this might come from salary or wages, business or investment income, or even an inheritance. Depending on your circumstances, you could also consider using a bring-forward arrangement. This just means that depending on your age and super balance, you could be granted access to up to 3 years of future non-concessional contribution caps.

Government co-contributions are another great way you can boost your super, up to a maximum of $500. For lower-income earners, if you make a personal contribution within certain criteria, the ATO will automatically assess your eligibility when you lodge your tax return and pay it directly into your super account.

The low-income super tax offset or LISTO could also be a great way to grow your super. If you earn $37,000 a year or less, you may be eligible to receive a LISTO payment. This is usually paid directly into your super fund.

The LISTO is 15% of the concessional (before tax) super contributions you or your employer pays into your super fund, with the maximum payment you can receive for a financial year being $500, and the minimum is $10.

> **“The first thing to understand is that there are two key types of contributions you can make to grow your super: concessional and non-concessional contributions”**



Best of all, you don’t need to do anything to receive a LISTO if you meet the eligibility criteria – like government co-contributions, you’ll be automatically assessed when you submit your tax return.

The most important thing to remember though, is that there are always options when it comes to growing your super.

And while there’s a few more ways you can grow your super and reduce your tax, these are too complex for a short article like this. If you’d like to understand more about how you can give your super a boost, get in contact and consider an advice session with me or my team. Contact us on **1300 300 820** Monday to Friday 8:30am to 5pm.

At Vision Super, we’re always happy to help.

Changes coming to super on 1 July

From 1 July this year, there are a number of changes coming that may affect your super.

The superannuation guarantee (SG) $450 earnings threshold, work test, First Super Saver Scheme and the way downsizer contributions can be made will all be different – so it's important to get ahead of the changes and make sure you're ready for the new financial year.

To start with, every employer, under most circumstances, is obligated to contribute SG to their employees' super. Currently this compulsory contribution is 10% of your ordinary time earnings, scaling up to 12% in 2025. As of 1 July 2022, the rate is expected to go up from 10% to 10.5%, and again to 11% in the following financial year, 2023/24.

$450 threshold scrapped

Currently, if you earn less than $450 in a month, employers aren't obligated to pay super, no matter the rate. This will change in the new financial year, when there will be no earnings threshold and employees will be paid super regardless of the total amount you might earn.

According to the government's Retirement Income Review[1], around 300,000 people will benefit from removing this monthly threshold, and 63% of them are women.

Work test requirements scrapped

Under current rules, if you're aged between 67 and 74 and want to continue contributing to your super, you have to satisfy a 'work test', confirming you've been employed for 40 hours over a consecutive 30-day period.

This requirement will be scrapped in the 2022/23 financial year for non-concessional (after tax) contributions, meaning you can continue contributing to super regardless of the hours you've worked. Caps still apply and individuals aged 67 to 74 will still have to meet the work test to make personal deductible contributions. People under the age of 75 may also be eligible to use bring forward provisions, meaning they may be able to contribute up to $330,000 into their super.

The abolishment of the threshold and work test mean many more people will be able to contribute into their super.

Changes to First Home Super Saver Scheme (FHSSS) and Downsizer contributions

If you're looking at buying your first home, the government increased the amount of voluntary super contributions members can release under FHSSS from $30,000 to $50,000 (with a limit of $15,000 from any one financial year). This means, as long as you have saved that extra money in your super (above the SG contributions your employer makes), more can be released to pay a deposit on a home.

The final major change will be amending the minimum age members can contribute downsizer contributions into super from 65 down to 60. This contribution will not affect your contribution cap and is a payment made into super after selling your home. Eligibility criteria apply.

If you have any questions or want to organise a time with the team here at Vision Super to help get the details you need, don't hesitate to get in contact today. We're always happy to help.

Getting help

Many of these changes that will come into effect 1 July 2022 can make your money work harder for you – but a lot of them are complex. It's always important to seek help to ensure you're getting the most out of your super. If you'd like to have a chat with us about how to best take advantage of any of these changes, call us on **1300 300 820** Monday to Friday 8:30am to 5pm.

[1] Retirement Income Review, Final Report, July 2020 https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

Russia’s cyber war and its effect on Australia

Over the past few weeks, we’ve taken a number of steps to increase our cyber readiness as a result of Russia’s invasion of Ukraine.

There have been warnings from authoritative sources that cyber-attacks may be part of this conflict and, due in part to Australia placing sanctions on Russia, authorities believe Australia may be a target. We don’t believe Vision Super is in any direct danger, but past Russian cyberwarfare has included techniques that can cause general disruption – distributed denial of service attacks (DDoS), hacker attacks, dissemination of disinformation and propaganda, participation of state-sponsored teams in political blogs, persecution of cyber-dissidents and other active measures.

The most common form of attack is to gain initial access into a network through ‘phishing’ and ‘spear phishing’ emails, which can then allow cyber criminals to move around within the network. Many of the cyberattacks specifically directed at Ukraine in the past month have been relatively basic DDoS attacks, which are more effective for short-term disruption.

While organisations in Ukraine continue to be targeted, to date there have been no known exploitations of vulnerabilities in Australia as a result of the war.

The situation is constantly evolving, however, so at Vision Super we continue to regularly assess our ability to identify, mitigate and respond to risks in accordance with known security frameworks.

At the time of writing, Vision Super has not had to navigate any type of attack on our servers or services. We are working with our third-party providers to ensure their data management is safe and secure. This is a process we do regularly, but we have increased our vigilance to ensure your data is always kept safe.

However, there are others out there happy to see this as an opportunity. Whenever there is uncertainty or change in the world there is an increase in scams. If you ever receive an email or SMS from us that doesn’t look right, then give us a call. We will quickly tell you if it’s legitimate. You can reach us on **1300 300 820** between 8:30am and 5pm Monday to Friday.

“We don’t believe Vision Super is in any direct danger”

Your quarterly newsletter

Log in to Vision Online to keep up to date with your account and what's happening at Vision Super

How to put more into super

If you're interested in contributing into your Vision Super account, you can do so in three easy steps.

Scan the QR code and find out how!

Our latest annual outome assessment is in!

We have continued to provide members with strong risk-adjusted returns, while maintaining our commitment to cost consciousness, with MySuper fees remaining below the industry median.

Scan the QR code opposite to find out more.

Have you read our FSG?

A Financial Services Guide describes the financial services offered by, and important information about, a financial services licensee like Vision Super.

Read it by scanning the QR code.

This newsletter includes general information only and does not contain any personal advice because it does not take into account your personal objectives, financial situation or needs or medical situation. It is provided to help you understand Vision Super's products, services, policies and procedures. The information was correct at the time of publication but may have changed since. You should consider whether it is appropriate for you and your personal circumstances before acting on it and, if necessary, you should seek professional financial advice. Before making a decision to invest in any Vision Super product, you should read the appropriate Vision Super Product Disclosure Statement (PDS) and Target Market Determination (TMD). This newsletter is provided by Vision Super Pty Ltd ABN 50 082 924 561 AFSL 225054 RSE licence number L0000239 is the Trustee of the Local Authorities Superannuation Fund ABN: 24 496 637 884.