



Welcome to the May 2008 "Post-Budget" edition of IntheKnow – Combined Fund's newsletter that keeps you 'in the know' on superannuation matters and how to make the most of your superannuation benefits.

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IF YOU WERE EVER GOING TO CONTRIBUTE TO SUPER, NOW IS THE TIME TO DO IT!

- The downturn in investment markets means that your super contributions have more buying power.
- From 1 July, the Government is offering you a way to increase your contributions without reducing your take-home pay.
- This may be the last year that you can qualify for a Government Co-contribution.

MY ACCOUNT HAS GONE BACKWARDS! SHOULD I PANIC?

For most of the working population, superannuation account balances are lower now than they were at the end of December.

This is because most members of Australian super funds have their retirement savings invested in a Balanced investment option. Generally, about 60% of the money held in Balanced options is invested in Australian and International shares.

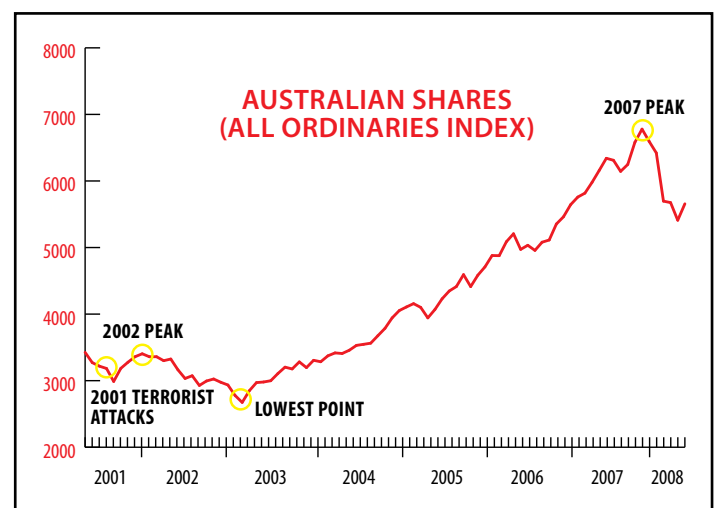
Accordingly, if sharemarkets drop by, say, 10%, a Balanced investment option will drop by about 6-7%.

The Australian sharemarket peaked on 1 November 2007 and, by 31 March 2008, had dropped by 21% (All Ordinaries Index). Combined Fund's Australian Share Option (after deducting tax and expenses) was down only 16.4% for the same period. International sharemarkets were down 12.2% from 1 November 2007 to 31 March 2008 (MSC World Index excluding Australia). Our International Shares option (after deducting tax and expenses) was down 13.5% for that period.

Our Balanced option was down 8.6%.

So – should you panic and switch your investments into a more conservative investment spread? That was a common reaction during the last market downturn.

Remember the last sharemarket downturn? It lasted from March 2002 until March 2003 and most super funds had two financial years of negative returns. From its peak of 3440 on 7 March 2002, the All Ordinaries Index dropped by 22.3% to reach a low of 2673 on 13 March 2003. It then rocketed up by 156% over the next 4½ years to reach a new high of 6854 by 1 November 2007.





And what happened during that last downturn? A lot of people panicked and switched into conservative investments. A lot of people also decided to stop making super contributions. After all – why would they continue putting good money after bad?

In fact, in the March quarter of 2003 (when the sharemarket reached its low point before beginning its huge recovery) Australian financial institutions saw the biggest ever outflow of money from managed funds into cash. In that same quarter, member voluntary contributions to superannuation funds fell by 12.3% compared to the previous quarter.

In other words, the people who switched to cash converted what had been only a loss on paper into an actual loss of capital and then compounded that loss by missing out on the massive recovery which followed.

The people who stopped contributing during that downturn missed a great opportunity to boost their retirement savings at sale prices (more on this below).

WHY WOULD I CONTRIBUTE MORE WHEN MY ACCOUNT IS GOING BACKWARDS?

Every contribution or rollover which is credited to your Account is used to purchase units in the investment option(s) you have chosen.

Your Account Balance in the Fund at any time is simply the number of units you have in your chosen investment option(s) multiplied by the unit prices for those options at that time.

Therefore, your aim should be to amass as many units as you can in your chosen investment option(s).

Unit prices move up and down as a result of changes in the market value of investments and with investment income (interest, dividends, rents etc). Tax and Fund expenses are also taken into account in determining unit prices.

The movement in unit prices from 1 January to 31 December each year determines the annual return for each investment option in Combined Fund.

Accordingly, the amount held in your Fund Account at the start of each year will be credited (or debited) at the end of that year with the return for the full year. For example, the unit price for the Australian Shares Option at 1 January 2007 was \$2.84266. At 31 December 2007, the unit price was \$3.32112 ie a return for the Fund year of 16.83%.

Subsequent contributions and rollovers will each have different returns based upon the applicable unit price at the time that they were received by the Fund.

Thus, whilst none of us likes to see downturns in investment markets, any contributions or rollovers you make during such downturns can produce better returns because they are purchasing units for you at a time when unit prices have dropped ie you can purchase more units during periods of downturn than you can when the investment markets are performing better.

Your contributions have more buying power during market downturns when the units are, effectively, on sale.

For example, if the unit price for a chosen investment option at 1 January is \$1.46 and, by the end of the year, it has grown to \$1.58 (an increase of 8.2%), then the money you had in your Account at 1 January has returned 8.2% for the year. However, if during that year, there had been a downturn in the investment markets and the unit price for the investment option dropped to \$1.36, a contribution paid into your Account at that time would achieve a return of 16.2% (based on the 16.2% growth in the unit price from \$1.36 during the downturn up to \$1.58 by the end of that year).

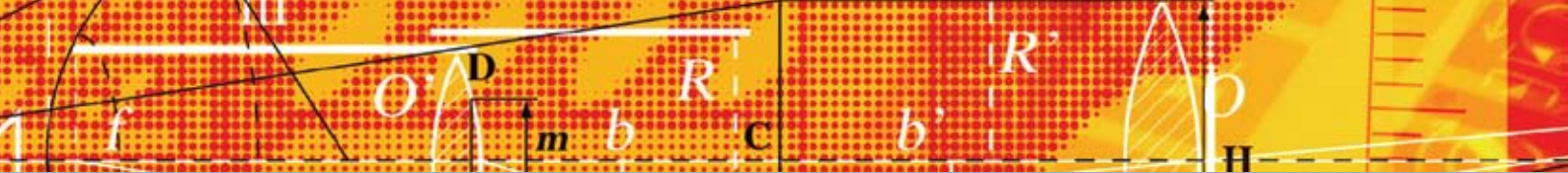
Thus – if contributions are paid to your Account each month, you will have one return for the whole year on your Account Balance at 1 January and 12 different returns for each monthly contribution paid during that year depending upon the applicable unit price at the time each contribution is received.

Contributions and transfers from other funds which are received during a month will purchase units in your chosen investment option(s) at the unit price for the previous month. For example, a contribution received in April will purchase units based on the March unit prices.

Contributions paid for you in April 2008 (in the midst of the sharemarket doom and gloom) had more buying power than contributions paid for you in December 2007 (after the Australian sharemarket reached its record high).

For example, a contribution of \$1000 paid to our Balanced Option in November 2007 purchased 497.17 units (at a unit price of \$2.01137 for October 2007).

A contribution of \$1000 paid to our Balanced Option in April 2008 purchased 543.91 units (at a unit price of \$1.83855 for March 2008).



In other words, you were building your retirement savings at sale prices.

Remember, the aim is to amass as many units as you can. Downturns in investment markets can provide a great opportunity to build your unit holding in the Fund

1 JULY 2008 TAX CUTS

There were no significant changes to superannuation in the recent Federal Budget announcements. However, the tax cuts which apply from 1 July 2008 can be used very effectively to boost your retirement savings.

How do the tax cuts work?

Table 1 below shows the personal tax rates that apply now and those that will apply from 1 July 2008. Note that, currently, there is no tax on the first \$6,000 you earn and the income you earn between \$6,001 pa and \$30,000 is taxed at 15% plus 1.5% Medicare Levy. The income you earn between \$30,001 and \$75,000 is taxed at 30% plus 1.5% Medicare Levy and so on.

From 1 July 2008, the 30%, 40% and 45% tax rates do not take effect until income exceeds \$34,000, \$80,000 and \$180,000 respectively.

PERSONAL TAX RATES: TABLE 1

Current Rates		New Rates from 1 July 2008	
\$	%	\$	%
0-6,000	0	0-6,000	0
6,001-30,000	15	6001-34,000	15
30,001-75,000	30	34,001-80,000	30
75,001-150,000	40	80,001-180,000	40
150,001+	45	180,001+	45

It's also worth noting that, for low income earners, a Low Income Tax Offset of \$1200 applies from July 2008 so, in many cases, no tax is payable until income exceeds \$14,000 pa. We have not allowed for this in this Newsletter.

DON'T TAKE THE TAX CUT AS A PAY INCREASE

If you forego some salary in favour of employer super contributions (Salary Sacrifice), you don't receive that part of your salary as income – so it can't be taxed as income at the rates shown in Table 1.

Instead, Salary Sacrifice contributions paid by an employer on your behalf are taxed by the Government at a rate of only 15% – regardless of how much income you earn. That tax is paid to the Tax Office by the superannuation fund on your behalf and is deducted from the Salary Sacrifice contributions paid to your account in the fund.

If you earn \$30,000 a year or less, there is generally little to be gained by making Salary Sacrifice contributions because those contributions will be taxed at the same rate as your salary ie at 15%.

However, if after 1 July 2008, you will earn between \$34,000 and \$80,000 a year, any contributions you make by Salary Sacrifice will be taxed at a rate which is at least half the rate which applies to the income you earn (ie 15% instead of 30%).

For example, let's say Jenny, whose salary is \$60,000 a year, has a pay rise of \$2,000. If the pay rise is taken as salary, Jenny would be left with only \$1,370 in extra annual take home pay (after tax and the Medicare Levy totalling 31.5% (\$630) has been deducted).

If, instead, Jenny decides to contribute that \$2,000 to super by Salary Sacrifice, then after allowing for tax of 15% on that contribution (\$300), she has added \$1,700 a year to her retirement savings.

Jenny has saved herself \$330 in tax by contributing the pay rise to super rather than taking it as extra salary.

USE THE TAX CUT TO BOOST YOUR RETIREMENT SAVINGS

A tax cut is like a pay rise. So – if, from 1 July 2008, you are earning more than \$30,000 a year, the tax cut will give you more take home pay. However, as we have said, an alternative is to take the tax cut as extra Salary Sacrifice contributions. This would mean that, instead of increasing your take-home pay from 1 July, you could increase the contributions being made to your super account from 1 July and still finish up with the same take-home pay that you have now.

See Table 2. The column headed "Extra Pay" shows the additional annual take-home pay coming out of the July 2008 tax cut. The column headed "Extra Super" shows the amount of new or extra annual Salary Sacrifice contributions you could make after 1 July and still have the same take-home pay that you have now.



TABLE 2

Annual Taxable Income	Annual Tax Before 1/7/08	From 1/7/08		
		New Annual Tax	Extra Annual Pay	Extra Annual Super
\$	\$	\$	\$	\$
30,000	3,960	3,960	Nil	Nil
34,000	5,220	4,620	600	720
40,000	7,110	6,510	600	875
50,000	10,260	9,660	600	875
60,000	13,410	12,810	600	875
70,000	16,560	15,960	600	875
75,000	18,135	17,535	600	875
80,000	20,210	19,110	1,100	1,605
90,000	24,360	23,260	1,100	1,880
100,000	28,510	27,410	1,100	1,880
110,000	32,660	31,560	1,100	1,880
120,000	36,810	35,710	1,100	1,880
130,000	40,960	39,860	1,100	1,880
150,000	49,260	48,160	1,100	1,880
160,000	53,910	52,310	1,600	2,735
170,000	58,560	56,460	2,100	3,600
180,000	63,210	60,610	2,600	4,450
190,000	67,860	65,260	2,600	4,860
200,000	72,510	69,910	2,600	4,860

Watch those Super Savings Grow

If you are already managing on your current take-home pay, an extra \$11.54 a week (\$600 pa) in take-home pay could soon disappear and you'll have little to show for it.

However, an extra \$16.83 a week (\$875 a year) in Salary Sacrifice contributions could make a significant difference to your retirement savings.

Look at how it would grow at rates of return of, say, 8% and 10% pa over the period remaining to retirement:

TABLE 3

	8%	10%
10 Years	\$11,284	\$12,722
20 Years	\$36,487	\$47,052
30 Years	\$92,424	\$140,075
35 Years	\$142,241	\$235,256

These figures are based upon Salary Sacrifice contributions of \$16.83 a week (\$875 a year) being contributed on a monthly basis over the periods shown. Tax of 15% has been deducted from the contributions.

The resulting benefits would be payable **tax-free** upon retirement at or after age 60 whether paid to you as a lump sum or as a pension.

For those on incomes above \$80,000 pa, even greater benefits are available from July 2008 (see Table 2).

How do I arrange to contribute the tax cut by Salary Sacrifice?

If your total income after 1 July 2008 will exceed \$30,000, talk to your pay office now about starting Salary Sacrifice contributions (or making additional Salary Sacrifice contributions) at the relevant amount shown on Table 2 from 1 July.

When Combined Fund receives the contributions each month, we will credit them to your Fund account with the normal 9% compulsory employer contributions and any other contributions already being paid for you.

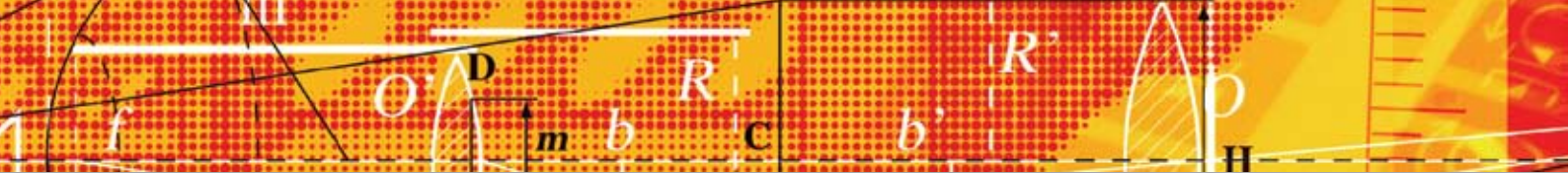
What if I earn less than \$34,000 a year after 1 July?

As already mentioned, the 15% tax rate will apply to all income you earn between \$6,001 and \$34,000 for the year commencing 1 July 2008.

Accordingly, there is little to be gained by making salary sacrifice contributions if you earn less than \$34,000 a year because those contributions are also taxed by the Government at 15%.

However, contributions you make from **after-tax** salary will count towards a Government Co-contribution if you earn 10% or more of your income from employment.

For example, if your assessable (gross) income for the year commencing 1 July 2008 (including reportable fringe benefits), will be \$28,980 or less, any contributions you make up to \$1,000 a year from your salary **after tax has been deducted** would make you eligible for a Government Co-contribution of 1.5 times that contribution up to a maximum Co-contribution of \$1500.



That's a Government-guaranteed 150% return on your contribution with no contributions tax payable! See below for more details.

In that situation, there has been an argument for using Salary Sacrifice contributions to reduce your income to below \$34,000 (but not below \$28,980) and then making a personal contribution of \$1,000 to get the \$1,500 gift from the Government.

Unfortunately, **from 1 July 2009**, salary sacrifice contributions will be included in the definition of income for Co-contributions so you have only one more year of being able to use this strategy.

GOVERNMENT CO-CONTRIBUTION

If your assessable income is less than \$58,980 for the year commencing 1 July 2008, you will be eligible for a Government Co-contribution if you can find a little extra to contribute from **after-tax** salary (or from other savings you already have). These are known as personal contributions.

For eligible employees who contribute personally to the Fund, the Government will contribute up to \$1,500 for a financial year.

An eligible employee is a person:

- Whose assessable (gross) income including reportable fringe benefits is less than \$58,980 for the financial year commencing 1 July 2008 and ending 30 June 2009;
- Who is less than 71 years old;
- Who is an Australian resident; and
- Who earns 10% or more of their income from employment.

Table 4 shows the personal contribution you need to make to receive the maximum Co-contribution from the Government.

You don't even have to claim the Co-contribution. The Fund Administrator reports your after-tax contribution to the Tax Office and the Tax Office calculates your assessable income from your next tax return. It then determines the amount of Co-contribution payable and sends the payment to the Fund for crediting to your account. You will be advised by the Tax Office when the payment has been made.

TABLE 4

Your Assessable Income \$	Your Contribution \$	Maximum Government Co-Contribution \$
Up to 28,980	1,000	1,500
29,000	999	1,499
30,000	966	1,449
31,000	933	1,399
32,000	899	1,349
33,000	866	1,299
34,000	833	1,249
35,000	799	1,199
36,000	766	1,149
37,000	733	1,099
38,000	699	1,049
39,000	666	999
40,000	633	949
41,000	599	899
42,000	566	849
43,000	533	799
44,000	499	749
45,000	466	699
46,000	433	649
47,000	399	599
48,000	366	549
49,000	333	499
50,000	299	449
51,000	266	399
52,000	233	349
53,000	199	299
54,000	166	249
55,000	133	199
56,000	99	149
57,000	66	99
58,000	33	49
58,980	Nil	Nil



For example, let's say you currently earn \$50,000 a year in total assessable income. If you make personal after-tax contributions to the Fund totalling \$299, you will be eligible for a Government Co-contribution of \$449.

However, if you also make Salary Sacrifice contributions, you can increase the Co-contribution. Salary Sacrifice contributions are not currently included in the definition of income for a range of Government benefits, including the Co-contribution.

Using our example of the assessable income of \$50,000 a year, let's say you decide to make salary sacrifice contributions of \$2,000 a year from 1 July 2008. Your assessable income for the new financial year will now be \$48,000 (\$50,000 less the \$2,000 salary sacrifice contribution).

If you also make personal contributions totalling \$366, the Government Co-contribution will be \$549 (see Table 4).

Obviously, if you can reduce your total income to \$28,980 by using salary sacrifice, you will be eligible for the maximum Co-contribution of \$1,500 for a personal contribution of \$1,000.

As already mentioned, the Government intends to change the definition of assessable income to include salary sacrifice contributions from 1 July 2009. **So – if you have been using salary sacrifice to reduce your income for Co-contribution purposes, this is the last year that you'll be able to do it.**

THE VALUE OF STARTING EARLY

The most common complaint from members nearing retirement is that they regret not having started saving earlier and not saving more. One of the "golden rules" in planning for a comfortable retirement is to start contributing as early as possible and to contribute as much as you can.

Unfortunately, most of us concentrate upon paying off debt instead rather than paying off our retirement.

The best way to illustrate the value of an early start on saving for retirement is to look at the difference that 10 years makes. Table 5 below shows Brenda who starts contributing \$2000 a year (\$38.50 a week) by salary sacrifice at age 25 and Andrew who starts contributing ten years later at age 35.

Whilst the difference in total amounts contributed by age 65 is only \$20,000, Brenda has accumulated more than twice the amount accumulated by Andrew.

TABLE 5

Andrew – contributes \$2000 each year from age 35 to age 65, Brenda – contributes \$2000 each year from age 25 to age 65, Chris – contributes \$2000 each year from age 25 to age 35 then makes no further contributions:

	Andrew	Brenda	Chris
Yearly investment	\$2,000	\$2,000	\$2,000
Investment period	30 years	40 years	40 years
Total savings	\$60,000	\$80,000	\$20,000
Earning Rate (Net of fees & charges)	8% p.a.	8% p.a.	8% p.a.
Value at Age 65	\$207,988	\$475,628	\$267,640

However, to further illustrate the value of an early start, look at Chris who starts contributing \$2000 a year at age 25 but stops at age 35 (when Andrew is just starting) and never contributes again.

Despite having only contributed for 10 years at a third of the amount contributed over 30 years by Andrew, Chris is still better off than Andrew at age 65 by almost \$60,000.

IT'S NEVER TOO LATE

Table 6 shows the differences between a person who starts contributing at age 35 compared to a person who puts off their voluntary contributions until age 45.

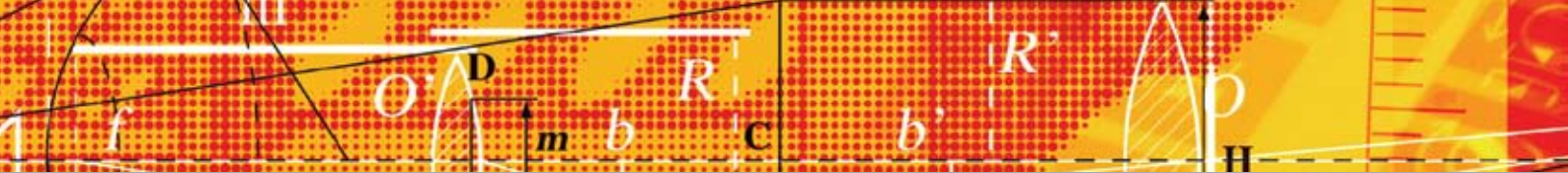
As with Table 5, Chris's early contributions for only 10 years (from age 35 to 45 in this case) still produce a better result than Andrew's contributions over 20 years from 45 to 65.

TABLE 6

Andrew – contributes \$2000 each year from age 45 to age 65, Brenda – contributes \$2000 each year from age 35 to age 65, Chris – contributes \$2000 each year from age 35 to age 45 then makes no further contributions:

	Andrew	Brenda	Chris
Yearly investment	\$2,000	\$2,000	\$2,000
Investment period	20 years	30 years	30 years
Total savings	\$40,000	\$60,000	\$20,000
Earning Rate (Net of fees & charges)	8% p.a.	8% p.a.	8% p.a.
Value at Age 65	\$89,019	\$207,988	\$123,969

NB: All projected benefits allow for tax of 15% on the contributions paid.



PUTTING THINGS INTO CONTEXT

All super funds have good years and not so good years. It largely depends upon each fund's overall investment approach and how that approach is rewarded or penalised by changing conditions in investment markets.

For the year ended 31 December 2007, the Selecting Super Survey of 210 of Australia's top super funds showed that Balanced Option investment returns for those funds varied considerably from the best result of 14.1% to the worst result of -0.1%. The median (average) fund return was 5.5% for the year.

Combined Fund's return of 4.9% to 31 December was just below that median fund return (even after allowing for the write down of value of the Basis Capital investments during the year).

With Fund Choice, it can be tempting to transfer your money to a fund which appears to have been performing well.

However, such a decision should not be based upon short term performance because market conditions can change very quickly and a fund which has been rewarded by its approach during a boom market may be heavily penalised during a downturn.

Even longer term results can still be misleading. Consider two super funds which were in the top 10 for investment returns for the five years to 31 December 2007. Market conditions have changed dramatically since 31 December and the fund which ranked No. 1 out of 155 funds for the 5 years to 31 December 2007 was ranked 155 out of the 198 funds in the survey for the year ended 31 March 2008.

The fund which was ranked 7th best out of 155 funds for the 5 years was ranked 170 out of the 198 surveyed funds to 31 March 2008.

Past performance is not an indicator of future returns – not even longer term past performance.

Some time ago, a range of investment strategies was introduced into our Balanced Option which was intended to limit the downside for members during market downturns.

Thus, whilst Combined Fund's Balanced Option is unlikely to be a top performer during boom periods, we expect that, during market downturns, the Fund will perform better than average and will produce competitive results over the long term.

2007 saw the end of four years of boom conditions in investment markets. Super funds which were heavily invested in the Australian sharemarket and listed property trusts during that period would be expected to have outperformed during that period.

However, given the dramatic downturn in global sharemarkets since December 2007 and in listed property trusts since October 2007, it will be interesting to see how some of those high performers manage in the run-up to 30 June 2008.

A good example of this is Combined Fund's Property Option. Invested conservatively, our Property Option underperformed many other super funds during the property boom but has shown itself to be a solid long term performer since the listed property market collapsed.

For the year ended 31 December 2007, Combined Fund's Property Option return was 20.4% against the average super fund property return of negative 5.2%. For the 3 years ended 31 December 2007 (ie including the boom years for listed property trusts), Combined Fund's Property Option return was 14.46% compared to the average fund return of 9.9%.

Look's pretty good doesn't it? And yet, only a year ago, our Property Option return of 14.52% was well below the average fund's property return of 25.7% (year ended 31 December 2006 – Selecting Super Survey).

Market conditions can turn around quickly and the investment approach of a particular super fund can be rewarded or penalised in the short term. Members should focus on the longer term when comparing one fund against another but, even then, a decision to move may not provide the results you are expecting.

MEMBER INVESTMENT OPTIONS – UNIT PRICES

The following are the respective Unit Prices and returns for each Investment Option as at 31 March 2008.

Investment Option	Unit Prices at 31/03/08 \$	Returns – Increase (decrease)	
		Year to 31/03/08 %	5 years to 31/03/08 %
Australian Shares	2.88385	(5.67)	16.17
International Shares	1.01248	(12.61)	6.38
Property	2.56927	18.41	12.10
Growth (80/20) Option (available since 1 July 2005)	1.27246	(4.14)	N/A
Balanced (70/30)	1.83855	(6.17)	9.48
Conservative (30/70)	0.98337	See below	See below
SRI Balanced* (74/26)	1.75455	(5.07)	11.46
Interest	1.02052	See below	See below

Investment Option	Unit Prices at 30/04/08 \$	Returns – Increase (decrease)	
		Year to 30/04/08 %	5 years to 30/04/08 %
Australian Shares	2.98310	(5.01)	16.08
International Shares	1.05005	(11.18)	6.32
Property	2.58312	18.57	12.12
Growth (80/20) Option (available since 1 July 2005)	1.29954	(3.98)	N/A
Balanced (70/30)	1.88269	(5.49)	9.45
Conservative (30/70)	0.99467	See below	See below
SRI Balanced* (74/26)	1.80108	(3.99)	11.10
Interest	1.02598	See below	See below

The new Conservative and Interest Options were established on 1 December 2007 and replaced the Capital Stable and Cash Options respectively. See the latest Annual Report for more details.

*The Sustainable Responsible Investment (SRI) option follows a balanced approach to investment and, with effect from 1 April 2006, replaced the former Ethical Shares option which had operated on a 100% allocation to shares.

The unit prices for Combined Fund Allocated pensions will be different to those shown above due to the more preferential tax treatment of pension investments.

See our website www.combinedfund.com.au for more details.

INDEX COMPETITION

The winner of our last "Pick the Index" competition was Robyn Nash from Christ Church Grammar School. Robyn's prediction of 5581 was closest to the S&P/ASX300 Index of 5579.6 as at 29 February 2008.

Predictions varied from a low of 4985.6 up to a high of 6742.0.

What do you think will happen to the Australian sharemarket between now and 31 July 2008?

To predict the index as at 31 July 2008, complete the details below and fax this page by 30 June 2008 to the Fund Administrator on (03) 9640 0787.

Combined Fund S&P/ASX300 Index Competition

Name: _____

Employer: _____

Phone: _____

My estimate of the S&P/ASX 300 Index as at 31 July 2008 is:

The winner will receive a voucher for "Dinner for Two" at a 5 star Restaurant of their choice and a one-year subscription to the Australian Financial Review's "Smart Investor" magazine.

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