

Member

update...



December 2010

A message from the Managing Director

Dear Member,

I'm pleased to present the 2010 Member update.

Signs of market improvement

The economic environment has improved over the last 12 months and most assets returned a positive result for the period which is welcome news for investors.

While the continuing market volatility may be a challenge, it's important to remember that there are always highs and lows in investment market cycles and that superannuation is an investment for the long term.

A year of review

During the past year a number of Government initiated reviews have been performed on the financial services sector. Significantly, the Cooper Review focused on the superannuation system with a view to simplifying the structure and increasing efficiencies and the Henry Review focused on the tax system. We are yet to see which of the many recommendations will be implemented and TOWER will continue to closely monitor developments in this area.

A solid financial position

TOWER continues to make solid progress and its financial performance and capital position remain strong. Through all the market volatility TOWER has continued to perform well,

maintaining its strong capital position that underpins its ability to pay claims. During the past financial year TOWER has paid total claims of more than \$345 million in death, critical illness, total and permanent disability and income protection claims, providing security and dignity for our customers when they need it most.

TOWER's year

TOWER is Australia's third largest life insurer and its commitment to excellence in life insurance has been recognised with our position as Group Life Insurer of the Year for 2009 and 2010, as awarded by Super Review Magazine.

Looking ahead

It is likely that the superannuation environment will face several years of significant change and TOWER will continue to be a leading advocate for superannuation reform in the best interests of fund members.

Thank you for investing with TOWER.

Sincerely,

Jim Minto
Managing Director
TOWER Australia Group Limited

Superannuation Update

The 2010 Budget included the following announcements about superannuation.

Government co-contribution rate confirmed

The co-contribution matching rate has been permanently set at 100% and the maximum co-contribution that is payable on an individual's eligible personal superannuation contribution is \$1,000.

Changes to co-contribution thresholds

The Government announced that it will permanently set the co-contribution matching rate at 100% and the maximum co-contribution that is payable on an individual's eligible personal superannuation contribution is \$1,000. The amending regulations received Royal Assent on 29 June 2010 and are now law.

The Government will freeze for 2010-11 and 2011-12 the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase out. The thresholds will be frozen at \$31,920 and \$61,920 for the next two years.

No change to concessional contribution caps

Concessional contribution caps (ie limits) apply to employer contributions (including Superannuation Guarantee (SG) and salary sacrifice contributions) and personal tax deductible contributions.

- \$25,000 pa for individuals under 50; and
- \$50,000 pa for individuals over 50 until 30 June 2012.

The Government has announced changes that, if passed by Parliament, will permanently increase the concessional contributions cap to \$50,000 for individuals who have total super balances below \$500,000 and are 50 years old or over.

Contributions made over the cap each year are taxed at 46.5% (including 1.5% Medicare Levy).

New Government superannuation contribution tax rebate for low income earners

The contributions tax rebate for low income earners will commence in 2012-13, where the Federal Government will contribute up to \$500 annually to the superannuation accounts of individuals on adjusted taxable incomes of up to \$37,000. This will be paid on top of any existing co-contribution payments (if applicable). Currently all concessional superannuation contributions are taxable in the fund at a flat rate of 15%. As a result, low-income earners receive little or no concession. This measure is intended to rebate a part of the 15% contributions tax deducted on concessional contributions made by or for low-income earners up to a maximum of \$500.

These proposed changes have not received royal assent and are not law.

Superannuation Guarantee (SG) contribution to increase

- The Government has announced that over seven years commencing from 2013-14, there will be a phased increase of the SG rate from 9% to 12% by 2019-20 with increments of 0.25% in the first two years and 0.50% in each year thereafter.
- The maximum age an employee is able to receive Superannuation Guarantee contributions will increase from 70 to 75 with effect from 1 July 2013.

These proposed changes have not received royal assent and are not law.

What is salary sacrificing?

Salary sacrificing means contributing pre-tax income towards your superannuation. This strategy can reduce your assessable income for taxation purposes and increase your retirement savings at the same time. Also, more of your money is invested towards your retirement savings as salary sacrifice contributions are usually taxed at 15% rather than your marginal tax rate which can be significantly higher.

There are limits on how much you can salary sacrifice to superannuation. Check with your employer or contact us to find out more.

We encourage you to seek advice from your financial adviser before deciding to make salary sacrifice contributions.

How the co-contribution can help you save more for retirement

Do you earn less than \$61,920? You may be eligible for a co-contribution of up to \$1,000 if you make contributions to your superannuation from your after-tax income. The co-contribution is a government initiative designed to assist low-income earners save more for their retirement.

A maximum co-contribution of \$1,000 is payable for incomes up to \$31,920 and this reduces by 3.333 cents for every additional dollar of income over \$31,920 until it cuts out completely at \$61,920.

Eligibility criteria applies so talk to your financial adviser or contact us for more information.

Keep control of your superannuation

Consolidating your superannuation into a single account makes it easier to keep track of and may save you fees. It's easy to arrange. Complete a Transfer Authority form, available online at www.arcmt.com.au and send it back to us. We'll contact your other superannuation fund(s) and manage the rollover process for you. When your other superannuation money is received we'll confirm to you in writing. If you wish to seek professional advice before consolidating, talk to your financial adviser.

Lost any super along the way?

If you think you may have lost some superannuation you can search for it online at the Australian Taxation Office website. It's quick and easy and all you need is your name, date of birth and Tax File Number. Visit www.ato.gov.au and search for 'SuperSeeker' to find out more.

Seven reasons why superannuation is a great way to save for retirement

1. Superannuation benefits are tax free when withdrawn after age 60.
2. Investment earnings are concessional tax at 15%, significantly lower than most marginal tax rates.
3. Salary sacrificing some of your pay to superannuation can reduce your taxable income, and build your superannuation faster.
4. If you're self employed you can receive tax deductions on concessional contributions.
5. If you earn less than \$61,920, the Government can help you save more by matching your personal contributions up to a maximum of \$1,000 (see Superannuation Update).
6. A fund may pass the benefit of any tax deductions it receives on to members for example tax deductible insurance premiums or discounts on capital gains tax rate.
7. As saving through superannuation is for the long term, your retirement nest-egg benefits from compound earnings (earnings on reinvested earnings) can make your savings grow at a substantially faster rate.

Market Overview/Update

Australian Economy

The Australian economy continued to recover strongly from the global financial crisis and outperformed many developed economies. Australia's Gross Domestic Product (GDP) grew at the fastest pace in three years during the second quarter of 2010, stoked by China's demand for iron ore and coal.

Global Economy

However, the global economic recovery was uneven with Europe and the US continuing to struggle, while Asia rebounded nicely. European countries were burdened with high budget deficits and debt levels in 2010. The European Union (EU) and the International Monetary Fund (IMF) created a \$1 trillion bailout package, and governments initiated programs to help combat the high levels of debt. Fear of a double-dip recession in the US also slowed the global economic recovery significantly. China, however contributed strongly to global growth despite the monetary tightening policy adopted by the Chinese government to combat the property market bubble.

Asset Class Performance

The road to global economic recovery proved to be bumpy with markets across almost all asset classes experiencing high levels of volatility over the year. Investors moved away from risky assets such as equities and into safer assets such as bonds and cash. As a result, both Australian and international bonds performed strongly, returning 7.3% and 11.0% respectively for the year. On the flip side, equity markets lagged with Australian equities posting a gain of 0.7%, while international equities fell 2.7%. Some of the losses in international equities were due to the appreciation of the \$A during the year which rose from \$0.883 USD to close at \$0.969 USD at the end of the year.

Lessons from the market

TOWER's investments are managed by Russell Investments, one of the world's largest and most innovative fund managers. Below, Russell shares their top five investment lessons from recent market conditions.

Source: Russell Investments 2010

Every market cycle, bull or bear – provides opportunities for us to improve our investment process, and the last few years were no exception. The best thing to do is learn from what happened and apply those lessons to your future investment strategies and circumstances. Here are our top five lessons we've learned from the recent bear market.

Lesson 1: Keep your cool

Through market cycles, it's easy for investors to react emotionally. However, we know the best way to reach your financial goals is to remain cool and consider your long term investment strategies.

Lesson 2: Stay invested

While short-term market falls are hard to ignore, it's essential to say invested. In fact, long-term investment discipline is more important than ever in a market crisis.

We know that markets move in cycles, and that historically each bear market has been followed by a bull market. Therefore, if you remove your investment during a down market, you won't benefit when the market rebounds.

Lesson 3: Diversification still works

Trying to pick the best-performing asset class of the year is very risky, considering that one year's best performing asset class can just as easily end up as the next year's worst performer. For example, over the last five years, Australian real estate investment trusts have been both the top-performing and the worst-performing asset class twice! We believe a sound, well-diversified portfolio with a long-term focus will help reduce volatility and provide steady, consistent returns over the years

Lesson 4: Investing in markets is the primary way to meet retirement and financial goals

The markets can be tough on your nerves yet, despite this, it's important to discount short-term market performance when considering your longer-term financial objectives. Although the Australian sharemarket fell 39% in 2008, it gained 38% in 2009. Investing is still the most prudent approach to beat inflation and help realise your long term financial objectives.

Lesson 5: Markets are cynical

Whatever goes down must come back up again. Following six years of solid growth by the Australian sharemarket, investors were reminded in 2008 that markets do in fact fall. This we know.

Markets follow cycles of up and downs. What we don't know is their timing or duration. The point is that markets have always recovered. Over the medium to long term, despite the ups and downs, the Australian sharemarket has returned positive results.

We've made changes to the ARC Investment Menu

Investment menu review

Following a regular investment manager review, the following investment options were removed from the ARC investment menu effective August 2010.

- > Colonial First State Wholesale Imputation
- > Perennial Wholesale Value Shares
- > Perpetual's Wholesale Industrial
- > Schroder Wholesale Australian Equity
- > Legg Mason Australian Bond Trust
- > Platinum International

Reduction in investment management fee

We've reduced the investment management fee for the TOWER Australian Fixed Interest investment option effective 11 August 2010.

	New Rate	Old Rate
TOWER Australian Fixed Interest investment management fee	0.700% pa (net of tax) 0.824% pa (gross)	0.833% pa (net of tax) 0.908% pa (gross)

For more information on the ARC investment menu visit www.arcmt.com.au

Important information about tax surpluses

The Trustee has advised that it may recover the expenses it incurs as trustee of The TOWER Master Fund, from any tax benefits that may accrue in the fund and are not allocated to members. Any expense recovery will not impact on member superannuation accounts.

Confirmation of transactions – Standing Facility

The Financial Services Reform Act (FSRA) introduced a number of changes in 2002 including what is known as a 'Standing Facility'. A Standing Facility enables you to contact our Call Centre and request confirmation of certain transactions. Currently, we provide you with confirmation of all rollovers, updates to beneficiaries, single contributions over \$10,000, address changes, investment switches and other select transactions. If you require written confirmation for any other transactions, please contact us.

How to protect your personal information

Protecting your personal information is important. You can take the following steps to ensure your financial information is secure.

- > Securely store all documents that contain your personal information
- > Securely destroy bills and statements when no longer required
- > Be cautious about disclosing your personal information to other people and organisations

For more information on privacy policy visit www.toweraustralia.com.au/privacy.asp

Changes to strategic asset allocation

The strategic asset allocation (SAA) is the asset allocation that TOWER has decided is most appropriate to meet each investment option's investment objective. The strategy may specify the types of assets invested in, the benchmarks against which performance may be measured or the investment style to be used.

As part of our ongoing monitoring and commitment to continually improve the investment offerings, the asset allocation of each investment option has been reviewed.

As a result, the SAA of the TOWER Capital Assured investment option has been adjusted to ensure it can continue to efficiently meet the investment objective. These changes were effective in the second half of 2010.

The actual asset allocation will vary from time to time, based on the market movements and investment decisions within the minimum and maximum ranges listed.

Capital Assured Investment Option

Asset Class	Original SAA (%)	New SAA (%)	Ranges Minimum (%)	Ranges Maximum (%)
Australian Fixed Interest	40.0	45.0	30.0	60.0
Australian shares	10.5	8.0	0.0	15.0
Cash and short-term securities	20.0	20.0	15.0	25.0
International fixed interest	20.0	20.0	15.0	25.0
International shares	5.0	4.0	0.0	10.0
Property	4.5	3.0	0.0	10.0

Are your beneficiary details up to date?

Did you know that superannuation death benefits do not automatically form part of your Estate? This is because under superannuation law the Trustee has final say in the payment of your benefit. The Trustee is required to pay your death benefits to your dependants (which can be your spouse, children or any financial dependents) and/or your legal personal representative in amounts determined at its discretion.

Having an up-to-date beneficiary nomination means the Trustee is aware of your intentions. Your annual statement may indicate whether you have a beneficiary nomination in force.

To nominate or update beneficiary details contact us for more information.

For more information on superannuation death benefits, please refer to our article Superannuation Death Benefits at TOWER, which can be found on our website at www.toweraustralia.com.au/assetmgt/superannuation/guiding.asp

Don't forget to update your Will

It's a good idea to have an up-to-date Will just in case the Trustee decides to pay your death benefit to your Estate. This may happen if you have no dependants at the time of death.

Visit the ARC website

For up-to-date information about your superannuation visit our website www.arcmt.com.au

View your personal superannuation account details

- Account balance
- Investment strategy
- Insurance cover
- Transactions

To access your superannuation account online you'll need a member login. Contact us if you need any assistance.

View other information:

- Up to date investment information including unit prices and performance
- Superannuation news
- Superannuation education
- Forms and brochures

We're here to help

If you have any questions please contact our customer service team on **1300 209 088**, send an email to arcmt@toweraustralia.com.au or visit us online at www.arcmt.com.au

BPay® is available

Did you know you can make personal superannuation contributions to your ARC account via BPay? Contact us for more information.

® Registered to BPay Pty Ltd ABN 69 079 137 518

*We've changed our customer service number!
You can now call us on
1300 209 088.*



Disclaimer The information contained in this Member update is general advice only. It does not take into account your individual objectives, financial situation or needs. Because of this, before acting upon that advice, please consult your financial adviser for specific advice. For general information, contact TOWER on 1300 209 088.

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