

# Member update...

December 2011

## Introduction

The 2011 Member update contains important information and should be read together with the enclosed Statement and the TAL Superannuation and Insurance Fund Annual Report which is located online at [www.arcmt.com.au](http://www.arcmt.com.au)

## A message from the Chairman



Dear Member,

I'm pleased to present to you the Member update for 2011. It's been an eventful year for us with a number of key changes, including our ownership and name change, which are discussed below. It has also been another eventful year for investment markets with dramatic fluctuations in asset values. This edition takes a closer look at the current state of investment markets and the effect on investment returns. I hope you enjoy reading it and find it valuable.

### Our new owner

In May 2011 Dai-ichi Life became our new owner. Dai-ichi Life is Japan's second largest life insurer and one of the world's top ten life insurers.

## Featured in this Member update

A message from the Chairman	1
Our new name	2
Market update	3
Your investment questions answered	3
Market volatility and your superannuation	4
Superannuation strategies	5
Product update	6
Superannuation update	6
Protecting your superannuation	7
ARC Master Trust online	8

Dai-ichi Life's ownership serves to further strengthen our market position as Australia's only major specialist life insurer and the great offering we provide to over 2.5 million Australians for their life insurance and superannuation needs.

### Our name change

In June 2011 TOWER Australia changed its name to TAL. Only our name has changed, who we are and what we do remains the same. We are here for the long term and committed to delivering results through innovation and collaboration. Read more about our name change in this Member update.

## A message from the Chairman (continued)

### Superannuation reform

This year has seen the release of several wide-ranging reports on the financial services and life insurance industries aimed at simplifying the superannuation system and further improving governance. The proposed changes are yet to be made law. We will continue to monitor developments and the introduction of any new legislation and keep members informed of any material changes.

### A bumpy road to recovery

High levels of market volatility have continued throughout 2011 with much focus on activity in overseas markets. In these challenging times it's important to know your superannuation is being managed by investment specialists. TAL's investment manager, Russell Investments (Russell), is world renowned for its depth of research and quality of manager selection, managing over \$152 billion in assets globally<sup>1</sup>.

In this update, Russell answers some questions about current market volatility and the impact on investment returns.

### A solid financial position

TAL has continued to perform well throughout the period and maintain a strong capital position that underpins our ability to pay claims. During the

past year<sup>2</sup> TAL has paid total claims of more than \$560 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.

### Looking ahead

While market conditions remain challenging it's important to remember that market ups and downs are a normal part of the investment cycle. History has shown that sharemarkets have delivered strong returns over the long term and members should remain focused on their long term investment goals. Superannuation may be one of the most important long term assets you hold and remains one of the best ways to save for retirement.

Thank you for investing with us.

Yours sincerely,



**Jim Minto**

Chairman

TAL Superannuation Limited

<sup>1</sup> as at 30 June 2011. Source: Russell Investments

<sup>2</sup> as at 30 September 2011

## Our new name

### Why did we change our name?

In 2006 TOWER Australia separated from TOWER New Zealand. One of the terms of this separation was that we could only use the TOWER name until November 2011 so we needed to change our name.

### Why TAL?

TAL already relates to our brand and business. TAL was the TOWER Australia Group Limited ASX code for more than five years and so it has a close positive association with our strong brand and our performance. TAL is a nod to our heritage and past successes.

### How do you say it?

TAL is no longer used as an acronym, it's pronounced as one word.

### Only our name has changed

While we've changed our name, who we are, what we do and how we do business remains the same. All of our businesses and partnerships, our management team and business strategy remain the same. There are no changes to your superannuation or insurance arrangements.

### Who we are

TAL delivers insurance and superannuation products to over 2.5 million Australians. TAL is Australia's only major specialist life insurer and is consistently recognised by industry experts for its life insurance offering. In 2011 TAL was awarded Life Company of the Year by the Australian Banking and Finance Magazine.

## Market update

Volatility has continued to be the dominant theme throughout 2011, with investment markets having yet another turbulent year. Political unrest, uncertain economic conditions and a series of natural disasters, both in Australia and around the world, has subdued global economic growth and dampened investor confidence. The US credit rating downgrade by Standard & Poor's in August and renewed fears surrounding the European sovereign debt issue sent global sharemarkets sharply lower over the September quarter. Although markets have rebounded somewhat since, it is expected the road to economic recovery will be slow and financial conditions will remain volatile in the near term.

## Asset Class Performance for year ending 30 September 2011

This volatile economic environment resulted in very divergent results from the major asset classes for the year. Investors were very risk averse, and tended to move away from shares and into cash and bonds in the latter part of the year. As a result, both Australian and International bonds performed strongly, returning 9.0% and 7.8% respectively as yields rallied strongly. Cash also performed solidly, returning 5.0%. However, sharemarkets lagged significantly with Australian shares falling 8.7% and international shares falling 5.0%. International property markets also suffered, with the global listed property index falling 5.3%.

## Your investment questions answered

Kathy Cave, CFA, is Portfolio Manager for Australian Shares at Russell Investments. She answers some of the questions investors may have about market volatility.



This means the outlook continues to be solid and not an indicator of a double-dip recession. However, the volatility isn't going away any time soon as investors continue to struggle with the near-term prospects for the US economy, the debt crisis in Europe and a possible slowdown in China.

### What's Russell doing?

Russell is actively assessing the world events as they unfold and taking action we deem appropriate. Our central view remains that developed global economies continue on a path of gradual recovery – even though that recovery is fragile. We do not think that China's growth will slow significantly. We believe market sentiment is fluctuating more dramatically than changes in the underlying economic fundamentals and this provides opportunities.

While market swings have been large, one point to note is that asset class relationships have been broadly behaving the way we expected them to behave. In other words, bond prices are rising when share prices are falling. This reiterates the strong case for portfolio diversification.

At Russell, diversified funds include a variety of asset classes including shares, bonds, cash and alternatives such as infrastructure and commodities. In May of this year we also reduced our exposure to the Australian dollar. We review this as an increased defensive feature that is expected to pay off in the event of heightened risk aversion.

### What's causing the current market volatility? Is this another Global Financial Crisis?

There are a number of significant international economic factors that are currently the focus of our market. These include the debt of countries in Europe (especially Greece), the economic growth and debt in the US and the expected rate of growth in China. As the general sentiment turns more positive on any one of these factors, the market tends to go up, often quite strongly. Conversely, negative news can cause a sharp reversal.

Over the long term, Russell believes that underlying economic fundamentals like economic growth and company earnings will determine outcomes. As a consequence, Russell expects equity markets to recover from current levels. The balance sheets of many companies remain extraordinarily strong, and profits haven't just been good – they've been great, as evidenced by the 18% growth in second quarter earnings in the S&P 500 (US sharemarket index) and mid-teens earnings growth in the recent Australian reporting season.

## Will markets recover?

Our analysis indicates that from a fundamental perspective, most markets are attractively priced and investors should earn good returns. However, we expect sentiment to remain the main driver of short term performance and thus sharemarkets around the world continue to be very volatile.

We have not seen such dramatic swings since the depths of the Global Financial Crisis in 2008. Investors are worried about three things: the prospects for global growth, especially in the US, the continuing government debt crisis in Europe and Chinese growth. Every piece of news or data is being scrutinised and a lot of the time investors overreact pushing sharemarkets sharply lower. We then see a rebound, sometimes just as sharp, once investors get greater certainty about the meaning of new information for their portfolios.

## What should I do if I am worried about my investment strategy?

How you react to this volatility can make a difference to the money you have saved for your future. It's understandable that you may be feeling anxious when the sharemarket is down, but overreacting to the current market climate by moving your money to less volatile investments, could actually cause you to be worse off financially in the long term.

The key is not to panic. Keep your head, stick to your long-term strategic plan, and look through the current noise to keep headlines in perspective. If you're unsure or worried about your strategy talk to your financial adviser so they can work with you to ensure your investment strategy meets your long term needs and timeframes.

Source: Russell Investments 2011

## Who is Russell Investments?

Russell Investments is an independent, global financial services firm that provides strategic advice, investment solutions, implementation services and global performance benchmarks.

Celebrating its 75th anniversary in 2011, and 25 years in Australia, Russell has pioneered innovations that have come to define many of the practices that are standard in the investment world today, and has four decades of experience researching and selecting money managers globally.

## Market volatility and your superannuation

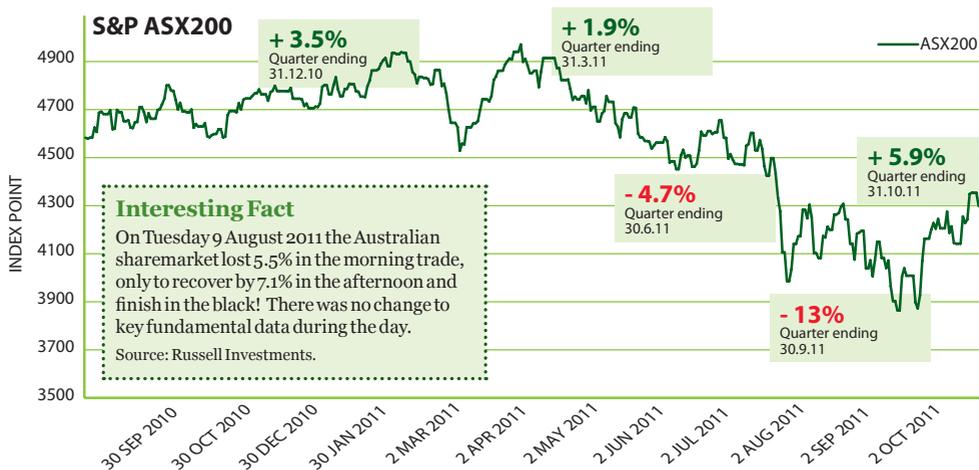
The average superannuation investment will comprise a mix of shares, property, government and corporate bonds, cash and some 'alternative' asset classes such as infrastructure and commodities. This means any volatility in the sharemarkets will be felt to some degree in your superannuation balance, but the effect of the volatility may be offset by portfolio diversification.

If you look at the balance of your superannuation account regularly you will see the value fluctuates. In the current economic climate these fluctuations can be dramatic. The graph on the next page shows the activity of the Australian sharemarket (S&P/ASX200) over 13 months to October 2011.

For most members, the value of their superannuation account on 30 September 2011

reflects the sharp market downturn during the September quarter. On a positive note, the market has made some positive gains through October however it is likely that periods of high market volatility will continue for the near term.

It is important to remember that losses on paper are not real losses until they are crystallised. That is, your superannuation generally has a chance to recover from short-term volatility. However, if you take action and crystallise those losses by switching your investments to cash, this loss will be locked in. Trying to resist the urge to act impulsively is very important. You should carefully consider the impact of making any changes and whether they match your investment needs and objectives and talk to your financial adviser if you have any questions.



- This chart shows the daily movement in the S&P200 index for the period 30.9.2010 to 31.10.11. The percentage returns for each quarter ending 31.12.2010, 31.3.2011, 30.6.11 and 30.9.11 and month to 31.10.11 are rolling quarterly percentage returns of the S&P200 index
- Past sharemarket performance is no guarantee of future performance
- Data source: Bloomberg
- This chart has been prepared by TAL Life Limited and is for illustrative purposes only. It does not represent investment returns for any TAL investment options.

## Superannuation strategies

Superannuation still remains one of the most tax effective ways to save for your retirement and there are a number of strategies you can use to grow your superannuation savings faster. We encourage you to seek advice from your financial adviser to determine if these strategies are right for you.

### Salary sacrifice

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.

### The Government Co-contribution

Do you earn less than \$61,920? If so, 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 annual 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 apply so talk to your financial adviser or contact us for more information.

### Consolidate 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.arent.com.au](http://www.arent.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.

### Lost any superannuation?

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](http://www.ato.gov.au) and search for 'SuperSeeker' to find out more.

## Product update

### A new ARC Master Trust PDS

We've updated our ARC Master Trust (ARC) Product Disclosure Statement (PDS) effective 1 October 2011 to a shorter, easy to read format. The PDS conforms to the new Short-Form PDS legislation which aims to simplify product disclosure. To view the new PDS visit [www.arcmt.com.au](http://www.arcmt.com.au) and select 'PDS/Documents/Forms'.

### We've changed ARC's investment option names

In conjunction with our company name change and the launch of the new ARC PDS, we have re-named the investment options to reference ARC.

No changes have been made to the way the investment options are structured. The table below shows the previous investment option name and the new investment option name, effective from 1 October 2011.

Previous investment option name	New investment option name from 1 October 2011
TOWER Security Focus	ARC Security Focus
TOWER Conservative Balanced	ARC Conservative Balanced
TOWER Balanced Growth	ARC Balanced Growth
TOWER Growth Maximiser	ARC Growth Maximiser
TOWER Capital Assured	ARC Capital Assured
TOWER Cash	ARC Cash
TOWER Australian Fixed Interest	ARC Australian Fixed Interest
TOWER Australian Property	ARC Australian Property
TOWER Australian Shares	ARC Australian Shares
TOWER Ethical Growth	ARC Ethical Growth
TOWER International Shares	ARC International Shares

## Superannuation update

The 2011 Budget included the following announcements about superannuation.

### Excess concessional contributions refund

The Government will provide eligible individuals who breach the concessional contributions cap by up to \$10,000, with the option to have the excess concessional contributions refunded and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax of 31.5%. Fund members will have a once-only opportunity to obtain a refund of excess concessional contributions of up to \$10,000 made in the 2011-12 and later years. There is no relief for excess contributions in previous years. This proposed change is yet to be approved by parliament and is not yet law.

### Government co-contributions

A freeze for a further 12 months of the lower and upper co-contribution income thresholds was announced. They will remain at \$31,920 and \$61,920 respectively until 30 June 2013. The co-contribution matching rate is still at 100% and the maximum co-contribution that is payable on an individual's eligible personal superannuation contribution is \$1,000.

This is still a great opportunity for low-income earners, especially those just starting in the workforce or working part-time, to build their superannuation. See our article on co-contributions in this Member update.

### Superannuation contribution caps – operation of the higher cap for over 50s

The Government has confirmed the operation of new higher concessional superannuation contributions cap for eligible individuals aged 50 and over with total superannuation account balances of less than \$500,000. From 1 July 2012, eligible individuals will be able to contribute an additional \$25,000 above the general concessional cap.

### Superannuation Guarantee contributions

With effect from 1 July 2012, the Government will ensure that employees receive information on their payslips about the amount of superannuation paid into their account. Employees and employers will receive quarterly notifications from their superannuation fund if regular payments cease.

## **Superannuation Guarantee increase**

The Government has announced changes to gradually increase the superannuation guarantee rate from 9% to 12% between the 2013-14 and 2019-20 years. This proposed change is yet to be approved by parliament and is not yet law.

## **Superannuation reform**

This year has seen the release of several wide-ranging reports on the financial services and life insurance industries. Among these are the Stronger Super reforms which are the Government's response to the Cooper Review. The Stronger Super reforms aim to strengthen the governance of the superannuation system by improving trustee decision making and also introduce efficiencies to better manage administration of superannuation funds. These and other proposals are yet to be made law and we will keep members informed of any material changes.

## **Protecting your superannuation**

### **Keep 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 and the Trust Deed the Trustee may have the final say in the payment of your death benefit. If this is the case, the Trustee is required to pay your death benefits to your dependants (which can be your spouse, children or any financial dependants) 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 TAL, which can be found on our website at [www.tal.com.au](http://www.tal.com.au)

### **Do you have an up to date Will?**

It's very important 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.

## **Steps to help you protect your personal information**

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

- Securely store all documents that contain your personal information
- Regularly check all financial statements and correspondence about your finances
- Check your information is correct and up to date, especially if changing name or address
- Keep important information secure, such as policy numbers, bank and credit details, so they can't be used by others
- Securely destroy all financial documents including bills and statements when no longer required
- Watch out for scams and be cautious about disclosing your personal information to other people and organisations.

For more information on TAL's privacy policy visit [www.tal.com.au](http://www.tal.com.au)

## **Governance arrangements**

The TAL Superannuation and Insurance Fund Annual Report provides details of the Trustee and an overview of the governance arrangements it has put in place to protect your superannuation.

## ARC Master Trust online

For up-to-date information about your superannuation visit [www.arcmt.com.au](http://www.arcmt.com.au)

### View your personal superannuation account details:

- account balance
- investment strategy
- insurance cover
- transactions

### View other information:

- up to date investment information including unit prices and performance
- superannuation news
- superannuation education
- forms and brochures

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



## We're here to help

If you have any questions about this Member update please contact our customer service team on 1300 209 088 or send an email to [customerservice@tal.com.au](mailto:customerservice@tal.com.au)

### Disclaimer

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

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