Annual Members' Meeting - Questions submitted in advance

Question 1

Why is the pension phase performing worse than the accumulation phase?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

It's all to do with tax and what is deemed to be a capital gain or a loss. An example is Shares and the ASX. Given the market volatility, and especially over the past two months, some shares have been sold at a loss and some have been sold for a gain and other shares that are traded on stock exchanges which we hold are revalued daily, so any losses are recorded immediately. Any loss can be used to offset any gains, thereby reducing capital gains tax payable. This is beneficial where tax is payable, like the 15% tax on earnings for super funds sitting in the accumulation phase.

But a pension account pays no tax on its earnings, therefore, there is no tax benefit when offsetting a loss against a gain. So, we have this paradox where a falling share market means the earnings on the accumulation funds can be higher than the earnings on a pension funds, simply because earnings are taxed on accumulation funds, and we can use a capital loss to offset any capital gain to minimise that tax.

There was also a favourable tax adjustment in July which regarded an over provision of tax accruals.

Question 2

How ethically is First Super investing my Superannuation?

Response from Bill Watson, Chief Executive Officer

First Super's approach to ethical investing is by applying environment, social and governance factors to our investment processes. How we do this is described in our Investment Governance Statement. You can find our approach to ESG on the Fund's website.

https://www.firstsuper.com.au/doc/esg-and-voting-policy/

We apply ESG factors to manage investment risk.

We believe, based on research, that companies with sound ESG risk management outperform companies that don't give ESG priority.

You'll find information on our approach to investing on our website under the Responsible Investing tab.

https://www.firstsuper.com.au/investments/investment-options/responsible-investment/

The way we put this into practice is as follows –

In selecting managers to manage members' retirement savings, we assess potential manager's approach to implement ESG and their track record. Our investment strategy advisor, Frontier Advisors, assesses potential managers approach to ESG using their evaluation framework. Our Board and Investment Committee takes into account Frontier's assessment.

Potential managers are interviewed by the Investment Committee and are tested on their ESG processes.

Once appointed, managers are regularly reviewed with attention paid to Frontier's assessment of their ESG practices. During annual manager reviews the Investment Committee focusses on ESG practices.

In the past we have engaged intensively with managers where we believe their approach to ESG is not adequate.

In the private equity asset class, we have an extensive ESG due diligence process to identify ESG risk as an input into deciding whether to proceed with investments.

We are members of the Australian Council of Superannuation Investors, which engages with companies, financial markets and governments to positively influence and lift ESG performance.

We use ACSI's advice to inform how we vote at company meetings. However, we will not usually support remuneration reports where the CEO increase is above the relevant increase in Australian Weekly Ordinary Times Earnings index calculated by the Australian Bureau of Statistics.

We report on how we vote at those meetings on our website.

https://www.firstsuper.com.au/doc/proxy-voting/

Question 3

How often should I review my super?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

This depends on what is happening in your personal and financial situation. Super is a long-term investment. So, if you have decided on which investment best suits your risk tolerance and return expectations, then let it run its course through the peaks and troughs. It's always best to review as you get closer to retirement, or just before you do retire.

Remember, you will receive an annual statement which includes how your investment choice has performed. And an update halfway during the financial year. You can always check your account online or our website for the latest monthly performance results.

The best time to review your super is when a significant milestone or event happens. This is the time to check whether you should be making any changes to your super to meet the changes in your personal or financial situation.

We offer a Super/ Retirement Health Check on your super, which is a service that provides a projection as to whether your super is on track to provide the required income you and your partner, if applicable, need in retirement. It will consider any eligibility for the age pension. This is available to our members whilst they are working or even if they are retired. We suggest a Super/Retirement Health Check is undertaken every 3-5 years, and without doubt when there is a significant change in your personal or financial situation. And yes, it is always good to randomly check throughout the year to ensure the contributions are being received.

Question 4

Will I save money?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

This is a very broad question and one which needs further clarity on what is meant by 'save money'. But I will try my best to answer the question as to what I think is being asked.

Super is about money being put aside for when you retire. You can't access those savings until you do, which is usually when someone is 60 years old or older. You must meet something called a Condition of Release before you can receive your monies.

But before then, super receives favourable tax treatment on how contributions and earnings are taxed. And when the member does retire, they can withdraw their super tax free, and the earnings may not be taxed.

So, super will save you money when compared to alternative options, especially where tax is concerned.

Question 5

Am I allowed to borrow money from my super if I needed?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

No. There are special rules around how super can be accessed, funds withdrawn. One of the rules is that a person, and the super fund, cannot borrow money from the accumulated balance.

When I mentioned accessing super funds, this depends on the member's preservation age and something called a condition of release or if special consideration of their personal and financial circumstances needs to be made. To find out more about these access options you can visit our webpage accessing your super early.

Question 6

Can you explain how employing 11 CFMMEU personnel at $2.4m for coordinator services is in members best financial interests?

Response from Bill Watson, Chief Executive Officer

The arrangement with the Manufacturing Division of the CFMMEU ceased on 31 March 2023 when First Super took over the employment of the Member and Employer Services Coordinators.

The decision to end the arrangement with the Manufacturing Division was the culmination of a process to create the capability and capacity within the Trustee office to directly manage this important member and employer service.

First Super's member service model is to provide members and employers with high touch personal services. The reason for this is that superannuation is complex, with the majority of our members requiring assistance to get the best out of their superannuation.

First Super was created to give members a dignified retirement. Research tells us that people with access to financial advice and assistance do better saving for and in retirement than others. Our member service model is directed to giving all members every opportunity to attain and maintain a dignified retirement.

Our coordinators go out to where members work and live providing them with a face-to-face service. We have coordinators based in Adelaide, Mt Gambier, Melbourne, Tumut, Sydney and Northern NSW. Our regional coordinators are based in timber communities.

We believe that our member service model and the coordinators are key to delivering the member service model which is in members best financial interests.

In relation to the former commercial arrangements with the Manufacturing Division, the contract for these services was subject to a competitive tender that was overseen by a probity auditor. The final arrangements were subject to an independent value for money assessment.

We have continuously disclosed monies paid to the Manufacturing Division in our annual reports, and notes to the audited accounts.

Monies paid to the Manufacturing Division as well as coordinators' wages included cars, travel, training, digital, office accommodation, office support and management overhead.

Question 7

Why has the Conservative Balanced portfolio not performed as well as the Balanced portfolio?

Response from Bill Watson, Chief Executive Officer

The main reason the Conservative Balanced option has not performed as well as the Balanced option is that it has a lower proportion of growth assets than the Balanced option.

66% of the Balanced option is invested in growth assets. In the case of the Conservative Balanced option, 40% is invested growth assets.

This means that in rising investment markets Balanced will outperform Conservative Balanced as it has a larger exposure to the assets that benefit from rising investment markets.

On the other hand, in falling investment markets, Conservative Balanced should lose less than the Balanced option. For example, in September 2023, Conservative Balanced lost 0.87%, whereas Balanced lost 1.46%.

If you are not sure which investment option is right for you, please give our Contact Centre a ring and they can arrange for one of our financial planners to have a chat. Advice to you as a member of the Fund on investment options has no direct cost.

So please give us a call, so we can help you out.

Question 8

Fees and insurance cover

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

This is another broad question. It does not state what the member is trying to find out about Fees and Insurance cover. Again, I will try to answer the question in the best possible way.

Like many super funds, we offer Death and Total and Permanent Disability (TPD) Insurance as part of the super account offering. This is called default insurance. A member can apply to change the level of cover if they want more or less, depending on their needs. A member also has the option to apply for Income Protection.

Our default insurance has been designed so that the premium does not increase each year with age, like most insurance offered outside super, but in fact remains fixed. That means the same premium is paid by all our members regardless of their age.

What does change, is the amount of cover, the sum insured. This reduces as the member gets older. The reason being, it was designed to represent loss of future income in the event of Death or TPD.

So, there is a higher sum insured for younger members and much lower sum insured for our older members. Remembering, that our older members will most likely have made many more contributions and as a result have a much larger superannuation balance than our younger members, simply by having worked for a longer period of time.

Since the majority of our members perform manual labour, the insurance provider, MetLife, like all other insurance companies, deem manual labour as being a high-risk occupation, and therefore sets the premium accordingly.

However, we have members that do not perform manual tasks, these members can apply for a lower premium rate. You should refer to our publication ‘Insurance Guide’ for more information on this option.

Question 9

Why can't superfunds be more transparent with knowledge, about exactly where the super money is invested?

Response from Bill Watson, Chief Executive Officer

Firstly, I’d like to apologise for making it difficult for you to find out where your super is invested.

This information is available on our website in the “How we invest your super” page. If you click on the investment option that you are investing in, it will expand into a list which details the managers we have appointed to manage money in each asset class. We also provide greater detail on individual securities we hold as investments through some of those managers, which is available by clicking the Portfolio Holdings Disclosure link at the bottom of the list.

https://www.firstsuper.com.au/investments/investment-options/how-we-invest-your-super/

Question 10

How to claim co-contribution from government?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

You do this by noting the additional/ voluntary contribution you made during the financial year when completing your tax return. The ATO will determine whether you are eligible and how much Super Co-contribution you are entitled too, when assessing your tax return. It is based on your assessable income and the total voluntary contribution that you made. The Super Co-contribution is usually sent to super funds in November each year.

Question 11

Projected balance at retirement you supplied, how much I could get each week from government? What is border line for super?

Response from Andrew Jewell, Executive Manager, Financial Advice and Education.

We do provide projections. There are those issued by the Financial Advice team, Super/Retirement Health Check, as previously mentioned. Otherwise, we have links to calculators on our website for those that prefer to do it themselves. Both options include an indication as to whether the Age Pension will be a source of income in your retirement years.

We also provide a projected retirement income on our annual statements, but this does not include the age pension.

So, in answer to the question, the Age Pension is determined by Centrelink under the Asset and Income Test. Without going into too much detail, as it will take too long, Centrelink will consider all financial assets, which includes super, non-financial assets (cars, house contents etc), if the person is a homeowner or not, and whether they are single or a couple.

As you can see, there are many factors which determines how much age pension someone is entitled too. We do have short videos, FIRSTtalk, on our website which explains the Asset and Income Test.

Alternatively, you may prefer to talk to one our Financial Planners who can give advice on how much and ways to maximise your eligibility for the age pension where applicable.

Or, you can contact Centrelink’s Financial Services Information Officer who can answer questions about the age pension eligibility and how much.

Question 12

What is 2024 outlook for First Super in terms of performance?

Response from Bill Watson, Chief Executive Officer

Thanks for a tough question.

At this point in time, it's difficult to have a clear view on the outlook for investment performance but what we do know is that share markets have struggled this year as have other assets.

What we know in mid-November that inflation is persisting, which may see further interest rate increases which, if they have their intended effect, will slow economic growth.

However, what we've seen to date in the US and Australia are remarkably resilient economies, which could lead to further rate hikes.

What this could mean for investment markets and investment returns and therefore investment option performance is muted share market performance. We are already seeing the valuation of property assets and property funds fall in response to increases in interest rates and post Covid demand for office space.

On the other hand, the outlook for credit and cash is strong, which will partially offset poor performance in the share market and other unlisted assets.

But the one thing that I remind myself of as we encounter further volatility, is that we invest for the long run as superannuation is a long-term investment.

What I've seen in the last ten years at First Super is plenty of ups and downs and ups again but also strong, sustained long term performance.

Our Balanced option has returned 7.83% each year for the last ten years and Shares Plus 10.04% each year for the last ten years to 30 June 2023.