

Important information about your HESTA Transition to Retirement (TTR) Income Stream

Significant event notice

1 July 2017

In last year’s Federal Budget, a number of reforms to superannuation were proposed, which come into effect on 1 July 2017. We have set out below how they may impact your HESTA TTR Income Stream.

Changes to the way TTR income streams are taxed

Prior to 1 July 2017, investment earnings of TTR income streams were not taxed. From 1 July 2017, this will change so that investment earnings on TTR income streams will be taxed at **up to 15%**.

Investment earnings on a retirement income stream (like the HESTA Retirement Income Stream), will continue to be tax free.

Will this apply to me?

Tax on investment earnings on a TTR income stream will apply to all TTR members regardless of when you opened the TTR account.

What happens to my investment in the HESTA TTR Income Stream from 1 July?

We will need to start deducting tax from investment earnings. Your investment options will continue to have the same asset allocation, investment strategy and indirect investment costs. The only change is that the investment objectives will differ to account for the tax on the investment earnings. The difference in the investment objectives is set out in the table below.

Note that medium term objectives are five years and long term objectives are more than 10 years.

| Investment Option | Current investment objective | Investment objective from 1 July 2017 | Other changes |
|--|--|--|---------------|
| Balanced | Medium term CPI + 2.75% | Medium term CPI + 2.0% | No |
| | Long term CPI + 4.0% | Long term CPI + 3.25% | |
| | Aims to produce a return of 4.0% above CPI over the long term. | Aims to produce a return of 3.25% above CPI over the long term. | |
| Returns may vary substantially from year to year and this option may occasionally produce a negative return. | | | |
| Defensive | Medium term CPI + 1.0% | Medium term CPI + 0.5% | No |
| | Long term CPI + 2.0% | Long term CPI + 1.25% | |
| | Aims to produce a return of 2.0% above CPI over the long term. | Aims to produce a return of 1.25% above CPI over the long term. | |
| Negative returns can occur, but generally occur very infrequently. | | | |

| Investment Option | Current investment objective | Investment objective from 1 July 2017 | Other changes |
|----------------------|---|---|---------------|
| Conservative | Medium term CPI + 1.5% Long term CPI + 2.5% Aims to produce a return of 2.5% above CPI over the long term. | Medium term CPI + 1% Long term CPI + 1.75% Aims to produce a return of 1.75% above CPI over the long term. | No |
| | There may be some year to year variation in returns, with negative returns occurring infrequently. | | |
| Eco | Medium term CPI + 3% Long term CPI + 4.0% Aims to optimise long-term returns while investing in companies that demonstrate best practice sustainability performance within their industry sector, relative to their peers. This option may produce negative returns quite frequently due to its high allocation of listed shares. | Medium term CPI + 2.25% Long term CPI + 3.25% | No |
| Active | Medium term CPI + 4.0% Long term CPI + 4.5% Aims to produce a return of 4.5% above CPI over the long term. | Medium term CPI + 3.25% Long term CPI + 3.75% Aims to produce a return of 3.75% above CPI over the long term. | No |
| | This option may vary substantially year to year and produce a negative return quite frequently. | | |
| Cash | To earn a return before tax and after the Indirect Cost Ratio equivalent to or higher than the Reserve Bank of Australia (RBA) Cash Rate. | To earn a return after tax and after the Indirect Cost Ratio equivalent to or higher than the Reserve Bank of Australia (RBA) Cash Rate. | No |
| | Aims to produce an annual return equivalent to or higher than the RBA Cash Rate. It is the most conservative of the HESTA Income Stream Investment options. | | |
| Term Deposits | To earn a return before tax and after the Indirect Cost Ratio equivalent to or higher than the Bloomberg AusBond Bank Bill Index. | To earn a return after tax and after the Indirect Cost Ratio equivalent to or higher than the Bloomberg AusBond Bank Bill Index. | Yes |
| | Term Deposits aim to produce a return equivalent or higher than the Bloomberg AusBond Bank Bill Index, a benchmark tracking the performance of bank bills of equal face value, each with a maturity seven days apart. Term Deposits are more conservative than most other HESTA Income Stream investment options, with the exception of cash. | | |

| Investment Option | Current investment objective | Investment objective from 1 July 2017 | Other changes |
|-----------------------------|--|--|---------------|
| Property | <p>To earn a return before tax and after the Indirect Cost Ratio equivalent to or higher than CPI + 4.0%.</p> <p>Aims to produce a long-term return of 4.0% above CPI.</p> <p>It is less conservative than Cash or Term Deposits because it has a higher possibility of producing a negative return from time to time.</p> | <p>To earn a return after tax and after the indirect cost ratio equivalent to or higher than CPI + 3.25%.</p> <p>Aims to produce a long-term return of 3.25% above CPI.</p> | No |
| Australian Shares | <p>To earn a return, after adjusting for tax credits and after the Indirect Cost Ratio, which is higher than the return from the combination of:</p> <p>-95% S&P/ASX 300 Accumulation Index</p> <p>-5.0% RBA Cash Rate</p> | <p>To earn a return after tax, after adjusting for the Indirect Cost Ratio, which is higher than the return from the combination of:</p> <p>-95% S&P/ASX 300 Accumulation Index</p> <p>-5.0% RBA Cash Rate</p> | No |
| International Shares | <p>To earn a return before tax, and after the Indirect Cost Ratio, which is higher than the return from the combination of:</p> <p>-47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Unhedged</p> <p>-47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Hedged</p> <p>-5.0% RBA Cash Rate</p> | <p>To earn a return after tax, and after the Indirect Cost Ratio, which is higher than the return from the combination of:</p> <p>-47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Unhedged</p> <p>-47.5% MSCI All Countries World ex Aust Index in \$A Net Dividends Reinvested Hedged</p> <p>-5.0% RBA Cash Rate</p> | No |

Unit prices

The unit price for these investment options will have tax deducted before the unit price is declared.

The unit price for each new TTR investment option will start at \$1. But don't worry, this change in unit price will not affect your balance.

Your TTR Income Stream will change to a Retirement Income Stream automatically in some circumstances

Once you reach age 65 or if you notify us that you have:

- reached preservation age, have ceased employment and do not intend to be employed again; or
- are aged between 60-64, and have ceased an employment arrangement with any employer since turning age 60

then we will *automatically convert* your HESTA TTR Income Stream into the HESTA Retirement Income Stream, where you will benefit from no tax on investment earnings. **You'll no longer be eligible to remain as a TTR Income Stream member.**

Transfer balance cap

From 1 July 2017, the Federal Government limited the amount you can transfer from your super into the retirement phase (an income stream), for example, the HESTA Retirement Income Stream. This limit is known as the 'transfer balance cap' and for the 2017-2018 financial year, this is set at \$1.6 million. This is the maximum combined amount you can have in your HESTA Retirement Income Stream and any other income stream accounts. This will be reassessed annually in \$100,000 increments in line with movements in the consumer price index.

Members who exceed their transfer balance cap may have to pay an excess transfer balance tax and be required to withdraw the excess from their income stream account(s).

The HESTA TTR Income Stream is not in the retirement phase, and will not be counted towards your transfer balance cap. But if it converts to a HESTA Retirement Income Stream (or another retirement income stream), then the balance in that account **will** count towards the transfer balance cap. The balance that remains in your TTR income stream will however be considered for purposes of determining whether you can continue to make after-tax contributions to your super account.

Changes in contributions caps

There are limits on the amount you can contribute to super both before tax (e.g Super Guarantee, salary sacrifice amounts) and after tax.

From 1 July 2017, these limits are changing.

| | Prior to 1 July 2017 | From 1 July 2017 |
|---|--|---|
| Before-tax contributions (ie SG, salary sacrifice) | \$35,000 for individuals 49 and over \$30,000 for individuals 48 and under | \$25,000 for all Able to make catch up contributions from 1 July 2019 if your total super balance is under \$500,000 at 30 June of the previous year. (Members aged 65-74 will need to satisfy a work test.) |
| After-tax contributions | \$180,000 per year. Ability to 'bring forward' 3 years of contributions which is \$540,000 if you are under 65. | If your total super balance is less than \$1.6 million (as at 1 July 2017): \$100,000 per year or 'bring forward' 3 years of contributions which is \$300,000 if you are under 65. |

More information about these changes is available by visiting our website www.hesta.com.au/knowitall

These changes may impact your current HESTA TTR Income Stream strategy. For this reason we strongly encourage you to speak with a HESTA adviser prior to making any decision about your HESTA TTR Income Stream.

You can contact HESTA on 1800 813 327 Monday to Friday, 8am - 8pm AEST

For HESTA Income Stream enquiries call 1300 734 479.

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