

Challenger Retirement Fund Annual Report

Fund Information
Statement for
the year ended
30 June 2017

Issuer

Challenger Retirement and Investment Services Limited
(ABN 80 115 534 453) (AFSL 295642)
(RSE Licence Number L0001304)

Challenger Retirement Fund

(ABN 87 883 998 803)
(RSE Registration Number R1055863)

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About the Fund

The Challenger Retirement Fund (**Fund**) is a regulated superannuation fund and Registrable Superannuation Entity (R1055863) as defined in the Superannuation Industry (Supervision) Act 1993 (**SIS**). The trustee, Challenger Retirement and Investment Services Limited (**Trustee**) is an RSE Licensee (L0001304) in accordance with SIS.

When you invest you become a member of the Fund. The Fund is governed by a trust deed dated 2 September 1993, as amended from time to time (**Trust Deed**).

It is the intention of the Trustee to manage the Fund in compliance with the Trust Deed, SIS, the Corporations Act 2001 (**Corporations Act**) and guidelines administered by the Australian Prudential Regulation Authority (**APRA**) and the Australian Securities and Investments Commission (**ASIC**). The Trustee has not been subject to any penalties under SIS, and the Fund is operating in accordance with the SIS regulations.

Each year the Trustee must lodge a return with APRA. An APRA return for the year to 30 June 2017 **has** been lodged in accordance with this requirement.

The assets of the Fund are invested in life insurance policies issued by Challenger Life Company Limited (ABN 44 072 486 938) (AFSL No. 234670) (**Challenger Life**) to the Trustee. Consequently, the Trustee is not required to include details of the Fund accounts, the auditor's report and information on each investment with a value of more than 5% of the total assets of the Fund or a statement of Fund assets in this Annual Report. Copies of APRA returns, audited accounts, any auditors' reports and the Trust Deed are available to members on request.

Challenger Term Life (under Super) insurance cover is provided to some members through a life insurance policy issued by MetLife Insurance Limited (ABN 75 004 274 882) (AFSL No. 238096) to the Trustee.

The Trustee

The Trustee of the Fund is Challenger Retirement and Investment Services Limited (ABN 80 115 534 453) (also referred to as 'we', 'us' and 'our').

The Trustee must comply with its duties under the Trust Deed and general law, which includes holding the assets of the Fund and protecting the rights and interests of Fund members. Under the Trust Deed, the Trustee has extensive powers in respect of the Fund; however, it must exercise its powers in compliance with superannuation legislation and the general law. The Trustee's responsibilities include managing and administering the Fund and arranging for payment of benefits. The Trustee may use delegates to assist in carrying out its duties.

The Trustee is required to exercise its discretions using the standard of care expected of a superannuation fund trustee. The Trustee is indemnified by Fund assets in respect of any loss that is not caused by the Trustee's dishonesty or, intentional or reckless failure to exercise a reasonable degree of care and diligence. Additionally, the Trustee has indemnity insurance cover in place.

You can contact the Trustee for additional information about the Fund by calling our Investor Services team on 13 35 66.

How we invest your money

The investment objective of the Fund is to provide members with a guaranteed rate of return or a guaranteed income stream so that members can plan for their retirement with certainty.

The Fund's investment objective is achieved by investing the assets of the Fund in life insurance policies issued by Challenger Life (through its Statutory Fund No.2).

Through the life insurance policies, Challenger Life contractually undertakes and guarantees to make the payment of the interest and capital amount to the Fund.

Challenger Life allocates the money invested by the Trustee to a fund with money from other investors who have also bought a life policy issued by Challenger Life. Challenger Life adds to this fund from its own money. This is known as a statutory fund and is regulated under the Life Insurance Act 1995 (Cth) (**the Act**) and prudential standards made under that Act and enforced by APRA. Challenger Life is required to keep the fund at a minimum level needed to meet its guarantees to all investors, including the Trustee. If it falls below the required level, Challenger Life can be required to top up the fund with its own money. APRA actively supervises this requirement and has extensive powers to intervene that are designed to ensure that Challenger Life can meet its guarantees even during volatile or adverse movements in the broader financial markets.

Challenger Guaranteed Allocated Pension, Challenger Guaranteed Personal Superannuation and Challenger Guaranteed Term Allocated Pension

Important information about your investment. Please read this carefully.

In the longer term the rate of return for guaranteed investments is likely to be less than the return on investments that have a risk of providing a negative return from time to time e.g. investment options with a higher growth profile, such as shares. This may have the effect of providing you with a lower benefit in the longer term.

You may wish to consider or talk to your financial planner about other superannuation arrangements that may provide a greater return over the long term.

Before deciding to alter your superannuation arrangements, you should consider your financial circumstances, needs, objectives and any exit penalties or other fees that may apply.

Investment options

This is only relevant to Challenger Guaranteed Personal Superannuation, Challenger Guaranteed Allocated Pension and Challenger Guaranteed Term Allocated Pension. Information regarding the Term Life (under Super), the Guaranteed Income Pension Plan and the Challenger Retirement Fund Guaranteed Lifetime Pension Plan products is on page 4.

The investment return in each option invested through the Guaranteed Personal Superannuation product is credited after the deduction of tax payable on Fund earnings. This tax is remitted to the Australian Taxation Office (ATO). No tax is payable in respect of investment return supporting pension payments and therefore the investment return through the Guaranteed Allocated Pension and Term Allocated Pension products does not have tax deducted from it.

From 1 July 2017, the investment return in each option invested in the Guaranteed Allocated Pension supporting a transition to retirement (TTR) income stream that is not in the retirement phase (see 'Superannuation Update' on page 6) will be credited after tax until the earlier of the member turning age 65 or the member notifying the fund Trustee in writing that they meet another condition of release.

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Where a TTR income stream is in the retirement phase (see 'Superannuation update' on page 6) no tax is payable in respect of the investment return on assets supporting the income stream.

There are two investment options available for these products, the Guaranteed Cash option and the Guaranteed Fixed Rate option.

Guaranteed Cash option

Investment objective	To provide a stable return
Who should invest	Investors seeking a low-risk investment with a stable return
Minimum suggested investment timeframe	No minimum
Risk profile	Very low

Investment earnings

For members invested in the Guaranteed Cash option, the investment return is determined by Challenger Life each Monday and is fixed for the following week. The return is credited daily, and is calculated by multiplying the daily equivalent of the applicable rate to the relevant account balance each day.

Investment performance to 30 June 2017

Guaranteed Personal Superannuation – Cash	
1 Year	1.29% p.a.
3 Year	1.70% p.a.
5 Year	2.17% p.a.
10 Year	Not applicable
Since inception	2.48% p.a.

Guaranteed Allocated Pension – Cash	
1 Year	1.52% p.a.
3 Year	2.01% p.a.
5 Year	2.56% p.a.
10 Year	Not applicable
Since inception	2.93% p.a.

Guaranteed Personal Superannuation – Cash (CNA)*	
1 Year	0.86% p.a.
3 Year	1.27% p.a.
5 Year	1.74% p.a.
10 Year	2.84% p.a.

Guaranteed Allocated Pension – Cash (CNA)*	
1 Year	1.03% p.a.
3 Year	1.50% p.a.
5 Year	2.05% p.a.
10 Year	3.34% p.a.

*closed to new applications

Guaranteed Fixed Rate option

Investment objective	To provide a fixed rate of return for a set period of up to 10 years
Who should invest	Investors seeking a low-risk investment with a fixed return for a known period of time
Minimum suggested investment timeframe	For the term you select
Risk profile	Very low

Investment earnings

For the Challenger Guaranteed Allocated Pension and Challenger Guaranteed Term Allocated Pension members, investment return is calculated daily and credited to each member account monthly, in arrears.

For Challenger Guaranteed Personal Superannuation members, investment return is credited to the relevant account on each anniversary of the start of the chosen term and is calculated by multiplying the term's fixed rate to the account balance at that time.

Investment performance

If you have chosen to invest in the Guaranteed Fixed Rate option, the fixed rate that applies to your investment is shown on your investment confirmation.

We are unable to provide details of general investment performance as rates vary from time to time and will depend on the term of the investment, payment frequency and when the investment (or re-investment) is made.

To obtain the current fixed rates on offer please contact your financial adviser or call our Investor Services team on 13 35 66.

Other Plans

Challenger Term Life (under Super)

Challenger Term Life (under Super) is life insurance provided through the Fund. Investment earnings and performance are not relevant for this type of product.

For additional information relating to this product, contact Metlife's Client Services team on 1300 555 625 which administers the product on our behalf.

This product is closed to new applications.

Challenger Retirement Fund Guaranteed Lifetime Pension Plan

We are unable to provide details of general investment performance for the Pension Plan as performance will differ depending on each member's individual circumstances.

For additional information relating to this product, contact our Investor Services Team on 13 35 66.

These members were transferred into the Fund on 29 May 2014. This product is closed to new applications.

Challenger Guaranteed Income Pension Plan

We are unable to provide details of general investment performance for Challenger Guaranteed Income Pension Plan as rates vary from time to time and will depend on the term of the investment, payment frequency and when the investment was made.

For additional information relating to this product, contact our Investor Services Team on 13 35 66.

This product is closed to new applications.

Additional information

Claiming a tax deduction (Challenger Guaranteed Personal Superannuation only)

During the 2016/17 financial year, if you were self-employed and had taxable income you may be able to claim a tax deduction for a contribution you personally made to superannuation.

You may also be eligible to claim a tax deduction for personal contributions if you were no longer employed or were employed and less than 10% of your combined assessable income, your reportable fringe benefits and your reportable employer superannuation contributions is from employment related activities (**10% test**). This applies for personal contributions received by us until 30 June 2017.

From 1 July 2017, an individual will no longer be required to meet the 10% test to claim a tax deduction for personal contributions for the 2017/18 financial year.

For confirmation of whether your personal contributions to the Fund are eligible for a tax deduction (a personal deductible contribution), please contact your financial adviser. If you intend to claim a tax deduction for your personal super contributions before starting an income stream or rolling the money out of the Fund, you must complete and send to us a 'Notice of intent to claim or vary a deduction for personal super contributions'. In addition, the notice must be completed before you lodge your tax return for the year the deduction is to be claimed and in all circumstances before the end of the financial year following the year the contribution was made. Upon receiving your completed notice we will send you an acknowledgement letter. You will need the acknowledgement letter before you claim a tax deduction. Notices are available at www.challenger.com.au or by calling Investor Services on 13 35 66.

Temporary residents departing Australia

A temporary resident is defined as a holder of a temporary visa under the Migration Act 1958. Generally former temporary residents are entitled to receive any super contributions paid by their employer once they leave Australia. This payment is called a departing Australia superannuation payment (**DASP**).

We have an obligation to pay unclaimed superannuation of a non-resident to the ATO. If you are a non-resident and your benefit has been transferred to the ATO, you must claim it directly from the ATO. If your benefit has not been transferred to the ATO, you can claim directly from us. We are not obliged

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to provide any notification or an exit statement to you if your funds have been transferred to the ATO because you are a non-resident. Additional information regarding DASP can be found at the ATO website, www.ato.gov.au.

Superannuation contributions surcharge

Any surcharge liabilities that have been transferred from your previous fund may be deducted from your account.

Approved Eligible Rollover Fund

In certain circumstances required by law, we may transfer any money you have invested in the Fund to the Fund's nominated Eligible Rollover Fund (ERF), including if:

- you are a member who is classified as 'lost'. You will be classified as 'lost' if we have not received a contribution or rollover for you in the past 12 months, you have not contacted the fund and/or accessed your details via the fund's website, and we have sent you one item of written communication and it has been returned as unclaimed mail or your address details have never been provided to us. You will not be classified as 'lost' if we have recently verified your address and we have no reason to believe it is incorrect;
- you are entitled to be paid a benefit from the Fund and you have not nominated whether you wish to receive it in cash or roll it over to another superannuation or rollover fund within 90 days; or
- your benefits fall below an account balance threshold (excluding Term Life). The threshold will remain at \$6,000 for the 2017/18 financial year.

Members can search for their lost or other super by contacting:

Australian Taxation Office
13 28 65
my.gov.au

If all money you have invested in the Fund is transferred to the ERF you will cease to be a member of the Fund and we will cease to have any responsibility to you in respect of the amount transferred. Instead, you will become a member of the ERF and subject to its governing rules.

We have nominated the AUSfund (RSE Reg. R1000795) as the Fund's ERF. The ERF's contact details are:

AUSfund
Locked Bag 5132
Parramatta NSW 2124
Ph: 1300 361 798
website: www.ausfund.com.au
Email: admin@ausfund.com.au

You are able to transfer or withdraw benefits from the ERF as the rules of the ERF and superannuation law permit.

Complaints

As part of our commitment to providing quality service to our clients, we endeavour to resolve all complaints quickly and fairly. Our policy is to acknowledge any complaint within five business days of receiving it and investigate, properly consider and decide what action (if any) to take and to communicate our decision to you within 45 days (or 30 days in relation to privacy complaints). If you have a particular complaint, please do not hesitate to contact us by calling our Investor Services team on 13 35 66 or by writing to:

Complaints Resolution Officer
Challenger Retirement and Investment Services Limited
GPO Box 3698
Sydney NSW 2001

If you are not satisfied with our response or how the complaint has been handled (or if we have not responded within 45 days or 30 days in relation to privacy complaints), you may contact the following external dispute resolution scheme:

Superannuation Complaints Tribunal
Locked Bag 3060
Melbourne VIC 3001
Tel: 1300 884 114
www.sct.gov.au

For complaints relating to Challenger Term Life (under Super) contact Metife's Client Services Team on 1300 555 625.

Superannuation update

During the 2016/17 financial year, the Government legislated a number of superannuation changes which became effective from 1 July 2017.

The following information is a Superannuation update which includes a summary of the changes which may impact Challenger Guaranteed Personal Superannuation, Challenger Guaranteed Allocated Pension, Challenger Guaranteed Term Allocated Pension, Challenger Guaranteed Pension Plan, Challenger Retirement Fund Guaranteed Lifetime Pension Plan and Challenger Term Life (under Super) members.

Transfer balance cap

On 1 July 2017, a limit was introduced on how much superannuation can be transferred to an income stream in retirement phase known as the 'transfer balance cap' (**the cap**). The cap is \$1.6m for 2017/2018 and subject to indexation. From 1 July 2017 the initial amount invested into a Challenger Allocated Pension in the retirement phase will be reported to the ATO and count towards the cap. Where an existing Challenger Allocated Pension was payable at 30 June 2017, the value of the income streams assets at that time counts towards the cap.

A Challenger Allocated Pension is considered to be an income stream in the retirement phase unless it is a TTR pension and the member is under 65 and has not met an eligible condition of release such as retirement, terminal medical condition or are permanently disabled. In cases where the cap is exceeded, the excess amount along with any excess earnings will be required to be rolled back to a superannuation account or withdrawn from superannuation. Where the ATO notifies Challenger an excess amount is to be withdrawn it must be completed within 60 days. Where Challenger is unable to contact the member, the member's benefit will be rolled over to the approved eligible rollover fund.

Capped defined benefit income streams

Challenger Term Allocated Pensions, Challenger Guaranteed Income Pensions Plans and Challenger Retirement Fund Guaranteed Lifetime Pension Plans payable as at 30 June 2017 are known as capped defined benefit income streams. These income streams count towards the cap but are assessed based on their annual entitlement multiplied by the term remaining (rounded up), or a factor of 16 if it is a lifetime income stream. From 1 July 2017, 50% of all payments from capped defined benefit income streams above the defined benefit income cap (currently \$100,000 p.a.) will count towards the member's assessable income for the year. Pay as you go withholding will

apply on the assessable income amount where the Trustee has a valid TFN. Where the Trustee does not have a valid TFN, the assessable income amount will be taxed at the highest marginal rate (plus applicable Government levies).

Superannuation death benefits

On the death of a member, a superannuation fund is required to pay a death benefit as a lump sum and/or a retirement phase income stream to an eligible beneficiary.

From 1 July 2017, a death benefit pension must be treated as an income stream in the retirement phase. It can be rolled from one superannuation fund to another retaining its treatment as a death benefit pension and cannot be added to a superannuation accumulation account.

Death benefit pensions will also count towards the beneficiary's transfer balance cap. The amount will generally be based on the purchase price of the death benefit income stream and will count on the day it commences unless it is payable to a reversionary beneficiary. In that case, an amount will count towards the reversionary's transfer balance cap 12 months after the member's date of death, based on the balance as at the time of reversion.

Total superannuation balance

From 1 July 2017, the Government introduced a new method to value the amount a person has in superannuation, known as the 'total superannuation balance', which includes money in the accumulation and pension phase. For the 2017/18 financial year a member's total superannuation balance is based on their 30 June 2017 balances, with each future financial year's balance based on the preceding 30 June amounts.

The total superannuation balance is used to determine a member's eligibility to:

- make a non-concessional contribution and bring forward their non-concessional contributions cap;
- carry forward any unused concessional contributions cap amounts (from 1 July 2018);
- receive the Government co-contributions; and
- claim the tax offset for spouse contributions.

Superannuation Guarantee

The Superannuation Guarantee (SG) rate is currently at 9.5% of ordinary time earnings. During the 2016/17 financial year the SG rate was payable on earnings of up to \$51,620 per quarter increasing to \$52,760 per quarter for the 2017/18 financial year.

The SG rate will remain unchanged until 1 July 2021, at which time it will increase by 0.5% each financial year until it reaches 12% on 1 July 2025.

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Concessional contributions

During the 2016/17 financial year individuals aged 50 and over during the year were able to make concessional contributions (which includes employer, personal deductible and salary sacrifice contributions) of up to \$35,000. Those who were under age 50 for the entire financial year had a concessional contribution limit of \$30,000.

For the 2017/18 financial year, the maximum that can be made as a concessional contribution has been reduced to \$25,000 for all eligible ages.

Additionally, from 1 July 2018 individuals with a total superannuation balance of \$500,000 or less can accrue any unused concessional contributions cap amounts (up to 5 years) and carry them forward for use in later years.

For the 2016/17 financial year the income threshold at which a higher income individual pays additional tax of 15% on certain super contribution, known as Division 293 tax, was \$300,000 per annum. From 1 July 2017 the higher income threshold has been reduced to \$250,000 per annum.

If this tax applies, you will receive a notice from the ATO which you can pay directly or arrange to have it deducted from your superannuation account.

Non-concessional contributions

During the 2016/17 financial year, the cap on non-concessional contributions (NCCs) was \$180,000 and will reduce to \$100,000 for the 2017/18 financial year. For those under age 65 at any time during the 2017/18 financial year an amount of up to \$300,000 can be contributed during the year, by bringing forward up to two future years' worth of NCCs. In cases where the 'bring forward' was triggered in an earlier year, transitional bring forward cap amounts may apply.

From 1 July 2017 NCCs can only be made by those with a total superannuation balance under the general transfer balance cap of \$1.6m (subject to indexation) as at 30 June of the previous financial year.

Government contributions

During the 2016/17 financial year eligible individuals with an adjusted taxable income of \$37,000 or less during the financial year who made a concessional contribution to super may be eligible for the low income superannuation contribution (LISC) of up to \$500.

From 1 July 2017, the LISC was replaced with a Low Income Superannuation Tax Offset (LISTO) of up to \$500 for those with adjusted taxable income below \$37,000 who make a concessional contribution to super. The amount is generally payable in the following financial year.

Additionally, eligible individuals who make a NCC to super may be entitled for a maximum co-contribution of \$500 where their income is below an income threshold. For 2016/17 the maximum is payable for eligible individuals with income equal to or less than \$36,021, phasing out once income reached \$51,021. For the 2017/18, the maximum is payable until income exceeds \$36,813, phasing out once income reaches \$51,813.

Taxation of superannuation payments

From 1 July 2017 the Temporary Budget Repair Levy no longer applies, which has reduced the highest marginal rate back to 45% (excluding Medicare levy of 2%).

Transition to retirement (TTR) income streams

From 1 July 2017, the tax exempt status of assets supporting TTR income streams was removed, meaning earnings are taxed at 15% until a member reaches age 65, or notifies the trustee they have met the retirement condition of release, is permanently disabled or has a terminal medical condition. When this occurs the TTR income stream will be considered to be in the retirement phase and earnings on the supporting assets will be tax-free. Additionally, the government has removed the ability for individuals to elect to treat certain payments as superannuation lump sums.

Spouse superannuation contributions

From 1 July 2017, the income threshold from which the spouse contributions tax offset reduces, increased from \$10,800 to \$37,000. The offset is 18% of the lesser of \$3,000 reduced by \$1 per \$1 of spouse's income above the threshold and the total contribution made for the spouse, up to a maximum of \$540.

Downsizing contributions

In the 2016/17 Federal Budget the Government announced the introduction of 'downsizer contributions' which would allow eligible older Australians to contribute some of the proceeds of selling their home to superannuation. This contribution type allows those aged 65 or older who sell their home from 1 July 2018 after owning it for 10 years or more to contribute up to \$300,000 to superannuation without having to meet the work test or having the amount count towards their NCC cap. Note that currently this measure has not been legislated.

First home super saver scheme (FHSSS)

In the 2016/17 Federal Budget the Government announced the introduction of the FHSSS to help Australians boost their savings for their first home. The FHSSS would apply to voluntary super contributions made from 1 July 2017 of up to \$15,000 per year and \$30,000 in total which, along with deemed earnings, could be withdrawn for a first home deposit from 1 July 2018. Note that currently this measure has not been legislated.

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Sydney NSW 2000
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Facsimile 02 9994 7777

Victoria

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31 Queen Street
Melbourne VIC 3000
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Facsimile 03 9947 9494

Queensland

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241 Adelaide Street
Brisbane QLD 4000
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Facsimile 07 3136 5407

Western Australia

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Perth WA 6000
Telephone 08 6466 9613

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Adelaide SA 5000
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Investor Services

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