

# Newsletter



New Zealand Universities' Superannuation Scheme October 2009

Welcome to the third Scheme newsletter for the 2009 Scheme year. This issue includes a progress report on the global financial crisis and its impact on the Scheme, discusses the different membership options available and updates you on other issues affecting the Scheme. If there are topics you would like covered in future issues, please call 0800 UNIScheme (0800 864 724).

## Global outlook continues to improve

After the deep global recession, economic growth has turned positive as wide-ranging government intervention has supported demand and lowered uncertainty and the risk of a collapse in the entire financial system. Nonetheless, there are signs that the recovery is likely to be a slow and painful process.

A year after the collapse of Lehman Brothers sent shockwaves around the world, the country at the epicentre of the global financial crisis appears to be on the road to recovery. An August survey by The Institute of Supply Management reported the first expansion in US manufacturing for 19 months. Other signs of improvement include a much lower trade deficit than last year and rising exports.

After 20 months of recession, improved housing market data and rising business and consumer confidence indicate a continuing recovery in the New Zealand economy. However, the Government recently warned that it could be 20 years before its books regain the ground lost as a result of the recession, together with the tax cuts eroding revenue and rising government spending.

## The impact on the Scheme

After a difficult start to the Scheme year, the improvement in investment markets referred to in the August newsletter has continued. The strong bounce back by global share markets has boosted the Scheme's returns from shares and listed property, benefiting members invested in the Balanced and Growth investment options in particular.

## Positive returns from all asset classes

Despite this, all asset classes in which the Scheme invests produced positive returns both for the September quarter and Scheme year-to-date.

International shares continued their strong performance, benefiting from some high-profile merger and acquisition announcements in the US. The tailwind from international shares and the economic recovery, together with a very strong return from Australian shares, saw Trans-Tasman shares post excellent returns.

Trans-Tasman property had a strong quarter, more than making up for disappointing results earlier in the year.

International property is currently the Scheme's best-performing asset class on both a quarterly and year-to-date basis as investors become increasingly keen to invest in assets that are seen to be fair value at present.

Confidence that central banks would keep interest rates low for some time yet and a temporary suspension in

concerns about the mounting public debt burden in the US benefited returns from international fixed interest.

There have been signs that New Zealand interest rates could rise earlier and more swiftly than previously expected. This would typically result in returns on New Zealand fixed interest assets coming under downward pressure. However, with strong offshore demand for long term government bonds, and the continued improvement in the corporate bond market, the September quarter return from New Zealand fixed interest was positive for the first quarter since the end of 2008. Returns from cash were again modest, reflecting low short-term interest rates.

The following table shows the returns (after tax and expenses for each investment option).

Investment option	Returns (after tax and expenses) to 30 September 2009	
	3 months	Scheme Year-to-Date (9 months)
Cash	0.35%	1.45%
Conservative	4.17%	4.97%
Balanced	7.49%	7.90%
Growth	10.57%	10.31%

## Note:

*Interest is applied on a daily basis throughout the year. The actual interest rates applied to your account balances may vary from those shown above.*

*Scheme interest rates are calculated monthly and posted on [www.superfacts.co.nz](http://www.superfacts.co.nz).*

*Past performance is not necessarily a guide to future performance and care should be exercised not to make decisions based on past performance only.*

## Adjustment to September interest rates

The interest rates applied to members' balances each month are based on market indices. The Trustees asked the Scheme's tax advisers to undertake a reconciliation of these interim indices with the actual returns from the Scheme's investments at mid-year (30 June 2009). That reconciliation indicated that the Scheme was carrying forward a liability of around \$600,000 which may have continued to year-end. The Trustees have adopted a cautious approach and adjusted the Conservative, Balanced and Growth rates by around 0.3% for September to offset that liability. They have taken this action in fairness to all members, those joining and exiting the Scheme before year-end and those remaining in the Scheme.

## Scheme membership

The Scheme offers subsidised and unsubsidised membership, as well as the opportunity to become a CFA (Complying Fund Accumulation) member and enjoy KiwiSaver-style benefits such as member tax credits and a tax exemption on some employer contributions.

### Subsidised and unsubsidised membership

If you join the Scheme as a subsidised member, your employer will also contribute on your behalf.

If you cannot join the Scheme as a subsidised member (for example, because your employer is already contributing to another scheme on your behalf) or you do not wish to become a subsidised member, you may join as an unsubsidised member and, unless you are a CFA member, your employer will not contribute on your behalf.

### About CFA membership and 'locked in' contributions

As a CFA member you need to 'lock in' member and employer contributions of at least 2% of your salary.

Your locked-in contributions cannot be withdrawn until the date you:

- reach New Zealand Superannuation age (currently 65) or,
- if you joined KiwiSaver on or after age 60, the date you complete five years membership of a KiwiSaver scheme or complying superannuation fund such as the Universities' Scheme.

As a CFA member (subject to eligibility) you will qualify for:

- member tax credits of up to \$20 a week;
- a tax exemption on locked-in employer contributions of 2% of your salary; and
- after three or more years' membership of a complying superannuation fund (such as the Scheme) and/or a KiwiSaver scheme, you may qualify for a first home deposit subsidy. Go to [www.hnzc.co.nz](http://www.hnzc.co.nz) for further details.

### What CFA membership could mean for you

The following table compares the contributions for two subsidised members both on a salary of \$60,000 and contributing 5% of salary to the Scheme. For the purposes of the example, no allowance has been made for interest and fees.

	Member A (Non CFA Member)		Member B (CFA Member)	
	Annual contribution	Total over 5 years	Annual contribution	Total over 5 years
Member contributions @ 5% of salary	\$3,000	\$15,000	3% of salary (unlocked) = \$1,800 plus 2% of salary (locked in) = \$1,200 Total = \$3,000	\$9,000  <u>\$6,000</u> \$15,000
Employer contributions @ 6.75% of salary	\$4,050 less tax @ 33% = \$2,714	\$13,568	4.75% of salary = \$2,850 less tax at 33% = \$1,910 plus 2% of salary (locked in) = \$1,200 Total = \$3,110	\$9,550  <u>\$6,000</u> \$15,550
Member tax credit	Nil	Nil	\$1,042	\$5,210
Total amount contributed to member's accounts	\$5,714	\$28,568	\$7,152	\$35,760

*Note: This example is for illustrative purposes only. For further information, please refer to your Super Guide or Investment Statement.*

The table shows that after five years:

- As a result of the tax exemption on employer contributions and member tax credits, Member B has \$7,192 more savings in the Scheme than Member A.
- Of Member B's total Scheme savings of \$35,760, \$17,210 is 'locked in'. Except in special circumstances (see the Super Guide for details) if Member B leaves the Scheme before age 65, locked in savings must be transferred to another complying superannuation fund or KiwiSaver scheme.

## Locked in accounts and leaving the Scheme

If you leave the Scheme before you are entitled to withdraw your locked in account balances, you have a choice of two options:

- Becoming a deferred member

If you are leaving as a result of retirement, resignation or redundancy, you can elect to become a deferred member and leave your locked in account balances in the Scheme.

Conditions apply to deferred membership. Refer to your Super Guide for details.

- Transferring your locked in accounts to another complying superannuation fund or a KiwiSaver scheme

If you elect to transfer your locked in account balances out of the Scheme, you need to provide Mercer with your new KiwiSaver or complying fund details. These details must be provided before your final payment from the Scheme can proceed.

## Changing your membership category

To change your membership category you need to complete a Change of Member Details form available from the Your library section of the Scheme website or payroll.

Your minimum contribution rate may change. For details refer to your Super Guide or the Change of member details form.

If you become a CFA member, your account balances at the date you become a CFA member will not be subject to lock in. When you leave the Scheme they will be payable as described in your Super Guide together with any unlocked benefits accumulated while you are a CFA member.

## Scheme news

The Trustees regularly monitor and review the performance of the Scheme's professional advisers to ensure they are receiving the best available advice and services.

### Investment management review

The Trustees have instituted a review of the investment performance of the Scheme, as it is five years since the NZUSS became fully independent, and the investment environment has become increasingly volatile.

In addition, the advent of KiwiSaver and the changing legislative and taxation regulations have posed questions about whether the current structure of the Scheme is optimal, given the nature and size of the Scheme. There will be full consultation with members and employers if any changes stemming from the review are recommended for implementation.

### Administration manager review

As a result of a tender process carried out earlier this year, the Trustees have reappointed Mercer as the Scheme's administration manager.

### New Scheme website

As part of a renegotiation of the administration agreement with Mercer, the Scheme's website is to be upgraded during January 2010.

The new website will have a range of additional features including:

- a breakdown between your locked and unlocked benefits;
- a bank account style summary of your account showing contributions, interest payments and any expenses not paid by your employer since your last annual benefit statement, together with a detailed transaction history;
- an investment section with information such as the benchmark (or target) asset allocation for each option, the level of risk and historical investment returns; and
- more functionality such as the ability to change investment options and reset your PIN online.

## Looking for more information about the Scheme?

- Call 0800 UNIScheme (0800 864 724)
    - Visit [www.superfacts.co.nz](http://www.superfacts.co.nz)
- (employer number 900106)