

Welcome to the second issue of the Scheme newsletter for 2008.

Read on for an update on issues affecting the Scheme and your membership. An article on the reverse summarises some of the factors behind the current sharemarket correction and discusses the importance of not over-reacting.

Change to interim interest rate calculation

Historically, the interim interest rate for each investment option has been calculated taking into account the net of tax investment earnings and estimated expenses of the investment option and the Scheme in general.

The interim interest rates are used to calculate benefits for members who leave the Scheme other than at the balance date of 31 December and for members who switch between investment options during the year. Interim interest rates are also applied to members' estimated account balances on the website.

The new portfolio investment entity (PIE) tax regime has added complexity to the calculation of the Scheme's interest rates and, without a change, the methodology would also result in substantial delays in allocating investment earnings to members. As a result, the Trustees have decided to calculate the interim monthly rates based on the appropriate market index for each asset class, for example, the NZX50 for Trans-Tasman shares.

Once final audited accounts are available, adjustments will be made to the rate for the month of December. The annual declared crediting rate as at 31 December each year, will continue to be determined by the Trustees taking into account (amongst other things) the net of tax investment earnings and expenses of the relevant investment option chosen by a member and the expenses incurred by the Scheme generally.

Addendum to the annual report

The following information, which is required under the KiwiSaver Act, was inadvertently omitted from the Scheme's annual report to 31 December 2007.

As at 31 December 2007:

- The market value of the Scheme's assets subject to complying fund rules was \$2,801,766.14, held by 1,447 members.
- The value of withdrawals made subject to complying fund rules was \$458.12.

New Chair of Trustees appointed

As announced in the Scheme's 2007 annual report, Graeme Fogelberg resigned as a Trustee and Chair of Trustees effective 30 April 2008. The Trustees would like to thank Graeme for his work as a Trustee over the last 10 years and latterly as Chair of Trustees.

The Trustees invited Lindsay Tairaoa, who was formerly Scheme Secretary, to replace Graeme as a Trustee and Chair of Trustees. Lindsay accepted the invitation and took office with effect from 1 May 2008. As Scheme Secretary since the Scheme's inception in March 1993, Lindsay brings to his new role a wealth of knowledge about the Scheme and its operation, as well as superannuation in general.



Member tax credits

If you are a CFA member, you are entitled to an annual member tax credit matching your contributions to your Locked-In Account up to a maximum of \$1,042.86 per year (this works out to about \$20 per week).

To receive the maximum member tax credit of \$1,042.86 you must have:

- been a member of a KiwiSaver or complying scheme for the entire KiwiSaver year¹, and
- contributed at least \$1,042.86 yourself.

Your member tax credit payments are considered "excluded income" for tax purposes, although tax is payable by the Scheme on any investment earnings.

If you join part-way through a KiwiSaver year then at the end of the first year (30 June) a member tax credit will be paid in proportion to the length of time you've been a member. For example, if you became a CFA member on 1 January and contributed approximately \$20 a week to your Locked-In Account, then by 30 June you'll be eligible for a maximum member tax credit of \$521.43 (half of the annual maximum).

¹The KiwiSaver scheme year runs from 1 July to the following 30 June.

The Scheme's administrator, Mercer, claims the tax credit on your behalf after 1 July each year. Inland Revenue will then calculate your entitlement and send it on to Mercer to invest in your Locked-In Account.

Inland Revenue has advised that member tax credits will not be paid for at least two to three months after 30 June.

Sharemarket fall

When sharemarkets fall, so can your Scheme account balances. In this article we explore the importance of keeping a cool head and staying focussed on your long-term plan.

We all know that investing in growth asset classes such as shares brings with it the risk of short-term loss. Still, it's one thing to know something will happen and quite another to stay calm when it does and starts to affect your own retirement savings.

Over recent years we've become used to double-digit returns from sharemarkets. The last serious correction in sharemarkets was earlier this decade, when markets responded to the fall-out from the bursting of the "dot com bubble".

The current correction

We're now experiencing another major correction. This time it's mainly attributed to problems with sub-prime mortgages in the United States and a generally weakening US economy. Sub-prime mortgages are loans to borrowers who cannot borrow through usual channels such as trading banks. These loans were packaged in bundles by investment banks and sold to other institutional investors. When honeymoon interest periods ended, borrowers began defaulting on their loans and the large investors suffered losses which affected the entire US economy.

As world markets are highly integrated, this correction – which has been compounded by rising oil prices – has now impacted on New Zealand.

The effects of the correction are being felt by superannuation scheme members in the form of negative returns. All schemes invest to varying degrees in shares because they have historically generated the greatest long-term returns.

Some reactions

In a 'defined contribution' superannuation scheme such as this Scheme, you can clearly see the effect of negative returns on your account balances. The extent of the impact depends on

the investment option you choose. The greater the proportion of growth assets (shares and property) the more exposed you are to volatility, including negative returns.

Common reactions to negative investment returns are:

Fear – fear of 'going backwards', 'wasted savings' and 'not having enough at retirement'.

Blame – focussing on someone else to blame for the downturn – rather than trying to understand the bigger picture.

Denial – pretending it isn't happening.

Reacting this way to negative investment movements is perfectly understandable, but may lead to rash decisions such as switching to more conservative investments that mean a lower benefit in the long run. It's important to remember that superannuation is a long-term investment (if you have more than seven years before you plan to withdraw it), and a calm, well-informed approach is generally the best.

Keeping a cool head

In times like these, consider the following actions:

- Sit tight – if you are a long-term investor with an investment timeframe of more than seven years. This is generally considered long enough to ride out any downturn and enjoy the benefits of a recovery.

If you are planning to withdraw your account balances sooner, you might wish to discuss the merits of your current investment option with a financial adviser. The Retirement Commission's website www.sorted.org.nz also provides tools and information to help you evaluate the suitability of your current option.

- Refresh your understanding of investment concepts and the Scheme's investment options by reading the Scheme's Super Guide, which is available from the website or by calling the Helpline.
- Re-assess your retirement goals, investment timeframe and personal risk tolerance to make sure your investment strategy remains appropriate.
- Seek advice from an appropriately qualified investment adviser. They are best positioned to help you make sure you're on track for retirement and that your investment strategy will get you where you want to go.

Looking for more information?

- Call **0800 UNIScheme** (0800 864 724)
- Visit www.superfacts.co.nz
(employer number 900106)