

**ANNUAL REPORT FOR  
THE STATE SERVICES COMMISSIONER**

**State Sector Retirement Savings Scheme**

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**Year ended 30 June 2017**

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## **INTRODUCTION**

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This Annual Report to the State Services Commissioner in relation to the State Sector Retirement Savings Scheme (the SSRSS) has been prepared in respect of the year ended 30 June 2017.

The Annual Report has arisen from the requirement within the Terms of Reference of the Advisory Board for the SSRSS, which states:

*At the end of each financial year the Board should prepare a report for the State Services Commissioner on the overall performance of the SSRSS, including the providers and investment funds, and the emerging issues and challenges.*

## **ADVISORY BOARD**

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The Advisory Board was established by the State Services Commissioner to advise and assist with the ongoing management and development of the SSRSS. The Board adds value by providing advice, information and guidance from individuals with a range of experiences and backgrounds.

A schedule of the Advisory Board members is contained in the Directory at the end of this report.

During the year the Advisory Board met in accordance with the revised Terms of Reference. The meeting following the year-end was attended by each of the providers, to enable the Board to directly question the provider about any relevant matters of concern.

## **OPERATION OF THE SSRSS**

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The SSRSS has two service providers, ASB Group Investments (ASB) and AMP Services (NZ) Ltd (AMP). The third provider, National Mutual Corporate Superannuation Services Limited (AXA), merged with AMP from 31 March 2011.

Each provider is party to a Specification Agreement that sets out its role in providing a savings vehicle for employees who have chosen the provider as their investment manager. The Agreements detail the processes associated with all member activities as well as the provider reporting obligations to the Board.

SSRSS membership numbers decreased from 30,630 to 29,442 during the year (a reduction of 4%). As the SSRSS is a closed scheme and does not accept new members, the expectation is for the membership to decrease each year. The total decrease of 1,188 in the year was reasonably well spread over each of the four quarters. The most common reasons for exits were again Resignation for those over age 50 (460), Retirement (409) and transferring to KiwiSaver (260).

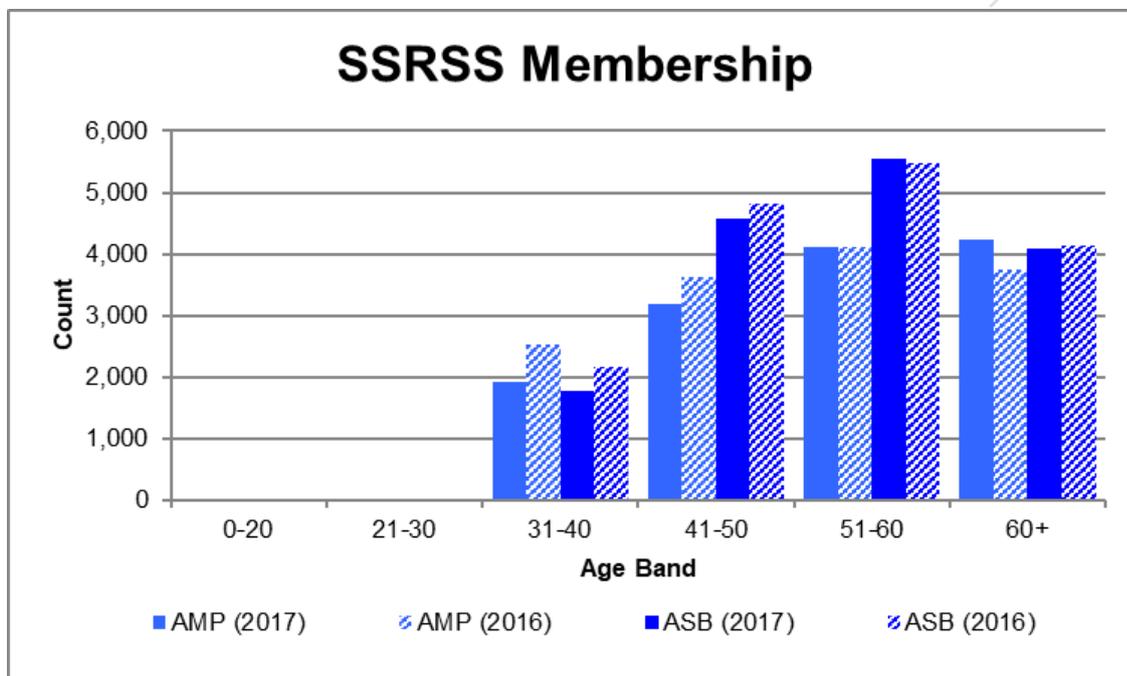
Despite the decline in membership, the total value of members' balances has increased. Over the year member balances increased to \$1,542.7 million, from \$1,398.2 million in the prior year (an increase of 10%). The main reasons for the increase of \$144 million in the year were the strong investment returns for the September and March quarters. Benefit payment amounts in three of the four quarters exceeded \$17 million. This is a significant increase from the previous year where benefit payment amounts averaged \$14 million.

## MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2017 is given in the following table.

Summary of Membership	AMP	ASB	Total
<b>Members at 1 July 2016</b>	<b>14,037</b>	<b>16,593</b>	<b>30,630</b>
Withdrawals during the year	(584)	(604)	(1,188)
<b>Members at 30 June 2017</b>	<b>13,453</b>	<b>15,989</b>	<b>29,442</b>

There has been a steady reduction in membership during the year. The count of withdrawals has continued at a fairly regular number each quarter, other than a spike of nearly 350 in the December quarter. The following chart shows just more than 50% of the membership at 30 June 2017 is now aged 50 and over so are eligible to withdraw their money from the SSRSS if they leave the State Sector. It is reasonable to expect the number of withdrawals to rise over the next few years.



## ASSETS UNDER MANAGEMENT

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At the overall SSRSS level, activities in the last year are summarised in the following table.

	AMP	ASB	Total
	\$m	\$m	\$m
<b>Fund at 1 July 2016</b>	<b>611.9</b>	<b>786.3</b>	<b>1,398.2</b>
Contributions	44.5	59.4	103.9
Withdrawals	(31.4)	(41.2)	(72.6)
Investment returns	54.9	72.7	127.6
Other adjustments (inc. fees and tax)	(7.6)	(6.7)	(14.3)
<b>Fund at 30 June 2017</b>	<b>672.2</b>	<b>870.5</b>	<b>1,542.7</b>

Positive cash flow generated primarily from strong investment returns (\$127.6 million compared to \$42.5 million in previous year) have contributed to the total assets in SSRSS increasing to more than \$1.5 billion. Member and employer contributions are at a similar level to the previous year (\$103.9 million compared to \$100.6 million). The total amount of benefit payments made during the year of \$72.6 million was a significant increase on the previous year (\$56.0 million). With the number of exits in the year remaining relatively constant it appears individual members' benefit payments are increasing. Other adjustments primarily comprises the year end PIE tax payments and this year the total of \$14.3 million is significantly more than the previous year (\$3.3 million).

## INVESTMENT MARKETS

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For the fourth year running, local sharemarkets have produced double digit returns with the NZX50 index recording a gross return of 21.9% for the year. However by contrast, the return on the MSCI index (which is an index measuring the returns of global shares) fell by almost 8% over the year.

During the year, the Official Cash Rate was reduced on three occasions and now stands at 2.00%, compared with the 2.75% a year earlier. It is expected that further reductions in the OCR will take place over the coming 12 months.

Longer term interest rates have continued to fall with the 10 year NZ government bond rate falling from 3.6% at the start of the year to 2.3% as at 30 June 2016. This has had the impact of providing a small boost to fixed interest returns.

The reduction in interest rates reflects the continued uncertainties that exist in global financial markets.

At some stage however, interest rates are likely to rise from their current record lows. As they do so, returns from existing investments in both global and New Zealand bonds will fall and may turn negative.

As alluded to earlier, the impact of rising interest rates is likely to be a drag on the performance of the Balanced Fund as bond values decrease. In addition, after four strong years of double digit returns it would not be surprising if the returns on the New Zealand share market over the current year were much more subdued - or even negative.

There also continues to be much uncertainty in financial markets throughout the world, with a clear risk that global share market returns could once again struggle.

During the year the Advisory Board sought and received confirmation from AMP and ASB that their respective investment fund options are not invested in unethical activities such as cluster munitions and land mines.

## INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2017 for each fund offered under the SSRSS are shown in the following tables.

### Conservative funds

Provider	Fund Name	Investment return in year to 30 June 2017 %	Investment return in year to 30 June 2016 %
AMP	AMP Capital Assured	6	6.4
AMP	AMP Conservative <sup>(1)</sup>	4.7	4.1
ASB	ASB Moderate Fund	6.7	6.7

### Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2017 %	Investment return in year to 30 June 2016 %
AMP	AMP Balanced	9.8	2
AMP	AMP Moderate <sup>(2)</sup>	6.7	3.2
AMP	AMP Moderate Balanced <sup>(2)</sup>	8.2	2.8
AMP	ANZ Balanced Plus	10.8	3.9
AMP	ASB Balanced	10.5	5
AMP	Nikko Balanced <sup>(1)</sup>	9.3	6.8
AMP	Fisher Balanced	9.7	6.1
ASB	ASB Balanced	9.8	5.9
<b>MJW survey average</b>		9.4	3.9

### Growth funds

Provider	Fund Name	Investment return in year to 30 June 2017 %	Investment return in year to 30 June 2016 %
AMP	AMP Growth <sup>(1)</sup>	12.7	0.6
AMP	AMP Aggressive <sup>(2)</sup>	14.4	0.0
ASB	ASB Growth Fund	12.8	5.3

As well, AMP offer the Lifestep Fund, which has asset allocations varying with the age of the member. Lifestep after fees but before tax investment returns for the year to 30 June 2017 ranged between 4.7% and 14.4% (compared to between 0.0% and 4.1% for the year to 30 June 2016).

### All funds

Over the year the after fees but before tax investment returns of the three providers have continued to be monitored and compared. The best performing funds in each main category are shown below:

Fund Category	Provider	Investment return in year to 30 June 2017 %	Investment return in year to 30 June 2016 %
Conservative	ASB	6.7	6.7
Balanced	ASB	9.8	5.9
Growth	ASB	12.8	5.3

## SERVICE STANDARDS

Each provider has an agreement with the Advisory Board to carry out its role to an agreed level of competence and timeliness. As the service standards are different within each agreement, each quarter the providers report to the Board on how their service levels have fared according to their own standards.

A summary of provider performance against the provider Service Level Agreement (SLA) is given in the following table, with the previous year's percentages in brackets. The table also shows provider performance against best practice SLAs.

Activity	Explanation	Best Practice SLA	AMP			ASB		
			AMP SLA	%age met within own standard	%age met within best practice standard	ASB SLA	%age met within standard	%age met within best practice standard
Change member records	Member record updated with notified changes; confirmation letter sent	1 day	10 days	98% (98%)	88% (50%)	1 day	40% (57%)	40% (57%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	99% (100%)	64% (75%)	2 days	83% (90%)	91% (97%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (99%)	83% (53%)	1 day	69% (86%)	70% (86%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	54% (79%)	76% (90%)	1 day	80% (63%)	98% (92%)
Benefit payments: closed accounts						1 day	74% (67%)	95% (89%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	56% (56%)	56% (56%)	1 day	77% (67%)	77% (67%)

The Advisory Board has continued to focus on trying to ensure that the providers meet their service standards. AMP have shown consistent performance against their own service standards and improved levels of performance against best practice standards. However, ASB have struggled during the year to maintain their usual high performance levels. ASB have advised they have made improvements to their team which should result in better performance levels. The Board will monitor this over the next year.

## **MINISTRY OF EDUCATION ISSUES**

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During the year ended 30 June 2015 the Ministry of Education identified some errors in the contributions made to AMP and ASB through their payroll provider, Novopay. The Ministry is required to reimburse the members for any investment earnings missed due to underpaid contributions. The Ministry are working through a project to consider the most appropriate method for reimbursing the lost investment returns for those members. As at 30 June 2017 this project is on-going.

The Advisory Board has requested updates on progress during the year and expressed concerns regarding the length of time the process is taking. The Advisory Board continue to monitor the progress of this project as they look to ensure no member of the SSRSS is adversely affected by the Novopay error.

## **CONCLUSION**

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The year to 30 June 2017 has proved a challenging year for the providers in terms of finding investment returns for their members. The Advisory Board continues to work to ensure that each member of the SSRSS receives a satisfactory level of administration performance from the providers.

I would like to thank the Advisory Board members for their efforts with the continued monitoring of the two of the providers during a year in which the SSRSS continues its gradual reduction in membership while increasing its total fund size.

I would particularly like to thank Kevin Wilson, Eva Hartshorn-Sanders, and Dairne Grant, all of whom have left the Board shortly after the financial year end to move on to other roles and ventures. Kevin in particular has been a member of the Board since the beginning and we will lose a significant degree of expertise with his departure. All of their hard work in monitoring members' interests is greatly appreciated.

Andrew Royle  
Chair - Advisory Board

# SSRSS DIRECTORY

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## ADVISORY BOARD

Andrew Royle (Chair)	Chief Legal Officer State Services Commission
Dairne Grant	Policy Advisor NZ Public Service Association
Gavin Quigan	Principal Adviser Financial Markets Authority
Eva Hartshorn-Sanders	National Women's Officer, Barrister and Solicitor PPTA
Fergus Welsh	Group Manager Ministry of Health
Kevin Wilson	Principal Adviser to Deputy Secretary Schooling Ministry of Education

## INVESTMENT AND ADMINISTRATION PROVIDERS

AMP	AMP Services (NZ) Ltd P O Box 55, Auckland Central, Auckland City 1140
ASB	ASB Group Investments Private Bag 93518, Takapuna, North Shore City, Auckland 0740

## INVESTMENT ADVISOR

Melville Jessup Weaver  
PO Box 11330, Wellington 6142

## SECRETARIAT

Melville Jessup Weaver  
PO Box 11330, Wellington 6142