

**ANNUAL REPORT FOR**

**TE TUMU WHAKARAE MŌ TE KAWA MATAAHO  
PUBLIC SERVICE COMMISSIONER**

**State Sector Retirement Savings Scheme**

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**Year ended 30 June 2023**

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## INTRODUCTION

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This Annual Report to Te Tumu Whakarae mō Te Kawa Mataaho Public Service Commissioner in relation to the State Sector Retirement Savings Scheme (the SSRSS) has been prepared in respect of the year ended 30 June 2023.

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 former 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, Smartshares Limited (Smartshares) and AMP Services (NZ) Ltd (AMP). As advised in last year's Annual Report, Smartshares Limited was appointed in February 2022 as Manager of the ASB Superannuation Master Trust (SMT) which the SSRSS invests into. A carefully planned transition of the scheme to Smartshares is currently in progress and is expected to be completed during the next year.

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 24,392 to 23,262 during the year (a reduction of 4.6%). 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 1,130 in the year was reasonably well spread over each of the four quarters, with the June 2023 quarter recording the highest number of exits at 319. The most common reasons for exits were again Retirement (786) and Resignation for those over age 50 (244).

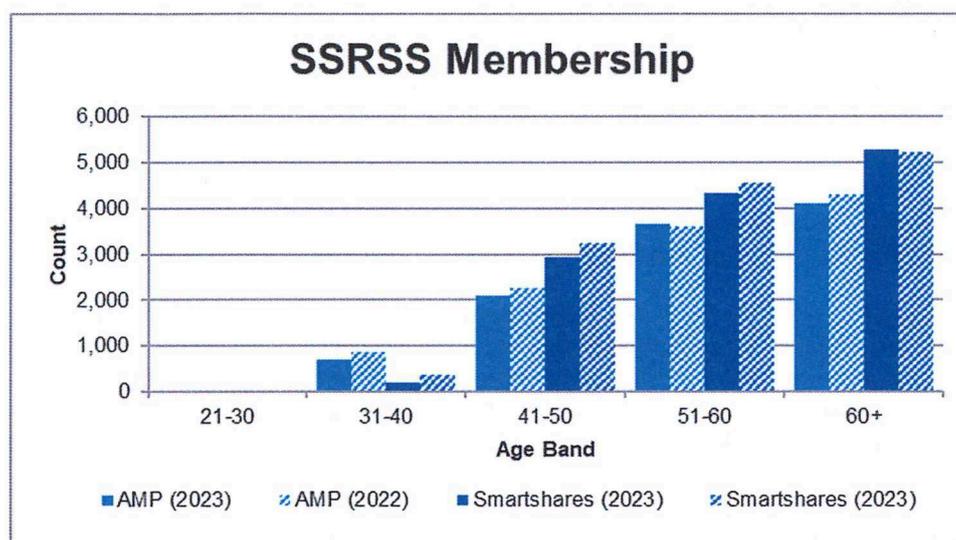
The total value of members' balances has increased. The total funds under management in the SSRSS is now just over \$2 billion, reaching \$2,032.3 million at 30 June 2023, compared to \$1,933.1 million at 30 June 2022 (an increase of 4.9%). The main reason for the increase of \$99.2 million in the year was the strong investment returns since October 2022 of positive \$178 million. Total contribution amounts averaged \$21.0 million per quarter over the year. This is a material decrease from the previous year where total contribution amounts averaged \$27.5 million. The average total benefit payments in each quarter over the year was \$32.8 million, compared to \$30.2 million per quarter over the previous year.

## MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2023 is given in the following table.

Summary of Membership	AMP	ASB	Total
Members at 1 July 2022	11,026	13,366	24,392
Withdrawals during the year	(493)	(637)	(1,130)
<b>Members at 30 June 2023</b>	<b>10,533</b>	<b>12,729</b>	<b>23,262</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. The following chart shows approximately 75% of the membership at 30 June 2023 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

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

	AMP \$m	ASB \$m	Total \$m
<b>Fund at 1 July 2022</b>	<b>813.7</b>	<b>1,119.4</b>	<b>1,933.1</b>
Contributions	38.5	45.5	83.9
Withdrawals	(52.8)	(78.5)	(131.3)
Investment returns	56.7	88.7	145.4
Other adjustments (inc. fees and tax)	0.8	0.5	1.2
<b>Fund at 30 June 2023</b>	<b>856.8</b>	<b>1,175.6</b>	<b>2,032.2</b>

Investment returns for the year were good following last year's poor returns (+\$145.5 million compared to -\$193.5 million in previous year). Member and employer contributions are materially lower than the previous year (\$83.9 million compared to \$110.2million). The total amount of benefit payments made during the year was slightly higher than the previous year (\$131.3 million compared to \$120.8 million). Other adjustments primarily comprise the year end PIE tax rebates.

## INVESTMENT MARKETS

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Over the past year, global markets have largely recovered from the lacklustre returns seen in 2022. This occurred despite concerns surrounding recession, out-of-control inflation, and several bank failures early in 2023. A pivotal factor behind this recovery was the strong performance of the US technology sector and enthusiasm around generative AI technologies. As such, stocks such as Nvidia, Microsoft and Apple saw their share prices increase significantly on hopes that these companies would benefit the most from the explosion in generative AI.

The global equity market concluded the Scheme's financial year (ending 30 June 2023) up by a substantial 18.2% in local currency terms. This was further aided by a surge in value of the US dollar, which saw unhedged New Zealand dollar returns reach 20.3%. Although the New Zealand share market performed well, it fell short of the returns seen in the global share market, finishing the year up 10.6%.

Throughout the year, interest rates continued to climb, with the New Zealand Official Cash Rate (OCR) reaching 5.5%. This is the OCR's highest point since the global financial crisis in 2008, as central banks worldwide try to tackle the issue of inflation. This has posed challenges for bond managers because bonds see mark-to-market losses as interest rates rise. The New Zealand bond market experienced a modest 0.5% increase over the year while the global market saw a slight decline of 0.3%.

On the other hand, higher interest rates have led to an increase in cash returns. This asset sector rose 4.1% over the financial year.

### **The Year Ahead**

The outlook for the economy has improved since last year. The discussions of recession have diminished, and we are cautiously optimistic for future investment returns.

Notably, inflation seems to have peaked, and New Zealand inflation rates have decreased marginally since the start of 2023 – from the 7.2% increase in the consumers price index in the year to 31 December 2022, to a 6.0% change seen over the year to 30 June 2023. Most commentators expect annual inflation to reach 2% by late 2025. This raises the prospect of a potential lowering of interest rates within the foreseeable future. However, there are still fears that inflation may prove to be "sticky", in which case interest rates could potentially remain at their current elevated levels or, indeed, rise further.

Higher prevailing interest rates have increased yields for bonds, which is an advantage to investors in this asset sector. If further mark-to-market losses are limited, the return on this asset sector should be better than it has been for some time.

## INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2023 for each fund offered under the SSRSS are shown in the following tables.

### Conservative and Moderate funds

Provider	Fund Name	Investment return in year to 30 June 2023 %	Investment return in year to 30 June 2022 %
AMP	Declared Rate	n.a	3.5
AMP	Conservative	3.4	-8.3
AMP	Moderate	4.9	-9.4
AMP	ASB Moderate	4.9	-8.6
Smartshares	Moderate	6.2	-7.8

### Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2023 %	Investment return in year to 30 June 2022 %
AMP	Balanced	7.2	-10.5
AMP	Balanced Fund No. 2	7.2	-10.4
AMP	Moderate Balanced	6.0	-10.1
AMP	ANZ Balanced Growth	6.9	-9.6
AMP	ASB Balanced	7.4	-8.9
AMP	Mercer Balanced**	5.8	-8.1
Smartshares	Balanced	9.1	-8.8
<b>MJW survey median</b>		7.8	-7.5

### Growth funds

Provider	Fund Name	Investment return in year to 30 June 2023 %	Investment return in year to 30 June 2022 %
AMP	Growth	9.7	-11.0
AMP	Aggressive	10.5	-11.4
Smartshares	Growth	11.8	-9.2

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 2023 ranged between 10.5% and 3.4% (compared to between -11.4% and -8.3% for the year to 30 June 2022).

### 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 2023 %	Investment return in year to 30 June 2022 %
Conservative	Smartshares	6.2	-7.8
Balanced	Smartshares	9.1	-8.8
Growth	Smartshares	11.8	-9.2

## 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			Smartshares		
			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	5 days	99% (100%)	86% (85%)	1 day	97% (100%)	97% (100%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	99% (96%)	66% (57%)	2 days	100% (100%)	100% (100%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (100%)	100% (100%)	1 day	88% (97%)	88% (97%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	99% (98%)	93% (88%)	1 day	99% (99%)	100% (100%)
Benefit payments: closed accounts						1 day	97% (98%)	100% (100%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	97% (97%)	97% (97%)	1 day	95% (93%)	95% (93%)

The Advisory Board has continued to focus on trying to ensure that the providers meet their service standards. AMP continue to record consistent performance against their own service standards and are now recording consistent improvements in the levels of performance against best practice standards. Smartshares have shown strong performance levels across all service standards. Their performance in processing switches was weaker in the first half of the year but has picked up back to their normal high levels in the last six months.

## **MINISTRY OF EDUCATION ISSUES**

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During the year ended 30 June 2015 the Ministry of Education identified some errors in the superannuation contributions made to AMP and ASB, and then remediated employee contributions and subsidies that were not paid. The Ministry is required to reimburse the members' accounts for any investment earnings missed due to underpaid contributions. The Ministry has advised there are approximately 300 SSRSS members involved in this issue.

The Ministry has updated the Advisory Board on the calculation method to determine the level of compensation for loss-of-investment earnings and is working with the fund managers and external actuarial advisors to finalise the calculations. This method will ensure members' accounts are fairly compensated and not adversely affected by the contribution errors.

We are pleased to report that this process was been completed during the year.

Separately, the Ministry has identified a small number of school payroll members for whom employer superannuation contributions are being split between SSRSS and KiwiSaver. The current SSRSS specification agreements only allow a member's employer superannuation contribution to be made to either SSRSS or KiwiSaver. The Ministry has requested that an adjustment be made to the specification agreements to enable currently affected members to retain their existing split arrangement or to choose which scheme to have their Employer contributions directed to. The Ministry will write to the affected members seeking their choice once the specification agreements have been amended.

The Advisory Board will continue to monitor the progress of this project.

## **UPDATE ON TRANSITION FROM ASB TO SMARTSHARES**

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In February 2022 Smartshares Limited was appointed as Manager of the ASB Superannuation Master Trust (SMT) which the SSRSS invests into. A carefully planned transition of the scheme to Smartshares started during this year and Advisory Board have continued to monitor the transition, focusing on member experience, and ensuring that members experience little to no disruption while receiving the same or better service as a result.

The Advisory Board will keep in regular contact with Smartshares while they complete the transition.

## CONCLUSION

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The year to 30 June 2023 has been another busy one for the SSRSS and the Advisory Board as we continue to monitor the progress of the transition of ASB into Smartshares, ensuring satisfactory outcomes for the members.

This year there have been a couple of changes on the Advisory Board with Linda Berkett replacing Stacey Coe in providing technical support to myself and recently, Stephanie Mills replacing Michael Stevenson as the NZEI representative on the Advisory Board. The Board would like to thank Stacey and Michael for their contributions during their time on the Advisory Board.

The recent investment returns and the current market volatility remain the focus of the Advisory Board and its advisers as we navigate through these uncertain times, keeping members' retirement savings at the forefront of our discussions. The Advisory Board were pleased to note another year of good performance from each provider against their service standards. 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 providers during the year. Their continued hard work in monitoring members' interests is appreciated.



Heather Baggott  
Chair - Advisory Board

# SSRSS DIRECTORY

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## ADVISORY BOARD

Heather Baggott (Chair)	Te Pou Turuki mō Te Kawa Mataaho   Deputy Public Service Commissioner Te Kawa Mataaho Public Service Commission
Kirsten Windelov	Policy Advisor NZ Public Service Association
Gavin Quigan	Principal Adviser - Restricted MIS Financial Markets Authority
Stephanie Mills	National Secretary   Korimako Tangiata NZEI Te Riu Roa
Fergus Welsh	Chief Financial Officer, Finance and Procurement Ministry of Health
Donna Delaney	Associate Deputy Secretary, Education Payroll Ministry of Education

## INVESTMENT AND ADMINISTRATION PROVIDERS

AMP	AMP Services (NZ) Ltd P O Box 55, Auckland Central, Auckland City 1140
Smartshares	Smartshares Limited Level 15, 45 Queen St, Auckland 1010

## INVESTMENT ADVISOR

Melville Jessup Weaver  
PO Box 1096, Wellington 6140

## SECRETARIAT

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PO Box 1096, Wellington 6140