

**ANNUAL REPORT FOR**

**THE STATE SERVICES COMMISSIONER**

**State Sector Retirement Savings Scheme**

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**Year ended 30 June 2018**

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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 2018.

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 29,442 to 28,363 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 1,079 in the year was reasonably well spread over each of the four quarters. The most common reasons for exits were again retirement (426), resignation for those over age 50 (367) and transferring to KiwiSaver (172).

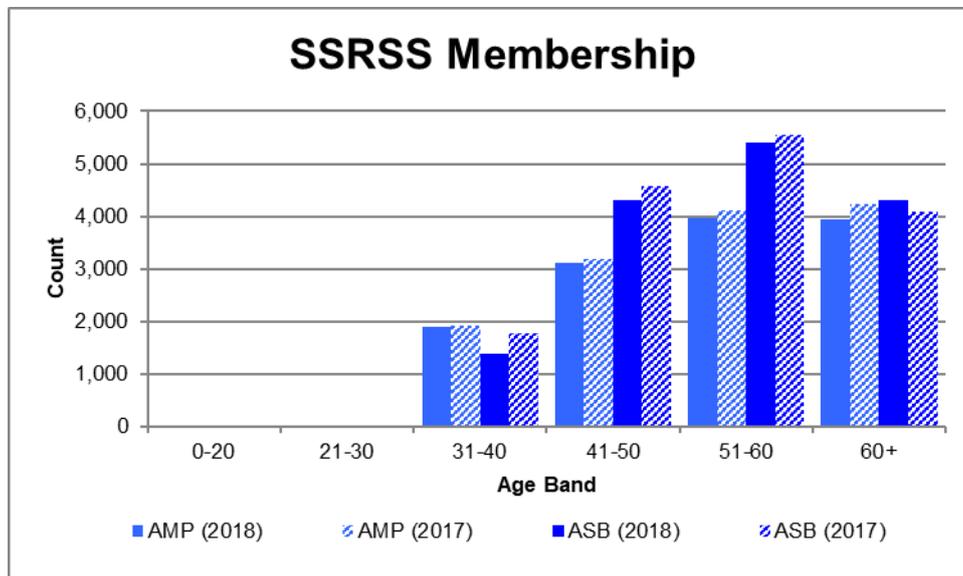
Despite the decline in membership, the total value of members' balances has increased. Over the year member balances increased to \$1,696.0 million, from \$1,542.7 million in the prior year (an increase of 10%). The main reasons for the increase of \$153 million in the year were the strong investment returns for the September, December and June quarters. Benefit payment amounts averaged \$20.1 million per quarter over the year. This is a significant increase from the previous year where benefit payment amounts averaged \$18.2 million.

## MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2018 is given in the following table.

Summary of Membership	AMP	ASB	Total
<b>Members at 1 July 2017</b>	<b>13,453</b>	<b>15,989</b>	<b>29,442</b>
Withdrawals during the year	(509)	(570)	(1,079)
<b>Members at 30 June 2018</b>	<b>12,944</b>	<b>15,419</b>	<b>28,363</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 just more than 60% of the membership at 30 June 2018 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 2017</b>	<b>672.2</b>	<b>870.5</b>	<b>1,524.7</b>
Contributions	44.8	62.3	107.1
Withdrawals	(34.1)	(46.2)	(80.3)
Investment returns	53.9	81.9	135.7
Other adjustments (inc. fees and tax)	(2.4)	(7.0)	(9.3)
<b>Fund at 30 June 2018</b>	<b>734.4</b>	<b>961.5</b>	<b>1,696.0</b>

Positive cash flow generated primarily from strong investment returns (\$135.7 million compared to \$127.6 million in previous year) have contributed to the total assets in SSRSS increasing to nearly \$1.7 billion. Member and employer contributions are at a similar level to the previous year (\$107.1 million compared to \$103.9 million). The total amount of benefit payments made during the year of \$80.3 million was a significant increase on the previous year (\$72.6 million). With the number of exits in the year remaining relatively constant it appears individual members' benefit payments are increasing. Other adjustments primarily comprise of the year end PIE tax payments and this year the total of \$9.3 million is less the previous year (\$14.3 million).

## INVESTMENT MARKETS

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Share markets produced strong returns over the year, with the S&P/NZX 50 index recording a return of 18.9% for the year ended 30 June 2018. The global share market produced a solid 12.1% (fully hedged to the currency) or 20.1% (in unhedged terms). Both figures are for the MSCI World index, and the latter is higher because of the fall in the New Zealand dollar.

Returns from fixed interest investments were reasonable, given the low level of interest rates. The New Zealand government bond index produced a return of 4.2% for the year. Global fixed interest lagged a bit: the Bloomberg Barclays Global Aggregate index returned 2.2%.

Cash returns were low but stable; the S&P/NZX NZ 90 Day Bank Bill index rose 2.0%.

Investment markets have continued to outperform the expectations of most commentators, showing the difficulty in attempting to "time markets". Had one moved to a conservative portfolio twelve months ago, they would have missed out on the good returns this year. In any one year, however, Members should bear in mind that the Balanced and Growth Fund returns will vary and may, in some years, may well be negative.

Turning to the short-term outlook, the global economy currently is strengthening. The US in particular is proving to be an engine for growth. This is leading the US central bank to continue upon its interest rate rising path, which is muting short-term returns from fixed interest investments. However, the resulting higher yields will be positive for the longer term returns.

## INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2018 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 2018 %	Investment return in year to 30 June 2017 %
AMP	AMP Capital Assured	5.6	6.0
AMP	AMP Conservative <sup>(1)</sup>	5.3	4.7
AMP	AMP Moderate <sup>(2)</sup>	6.9	6.7
ASB	ASB Moderate Fund	7.7	6.7

### Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2018 %	Investment return in year to 30 June 2017 %
AMP	AMP Balanced	9.3	9.8
AMP	AMP Moderate Balanced <sup>(2)</sup>	8.1	8.2
AMP	ANZ Balanced Plus	9.7	10.8
AMP	ASB Balanced	8.9	10.5
AMP	Nikko Balanced <sup>(1)</sup>	12.5	9.3
AMP	Fisher Balanced	9.5	9.7
ASB	ASB Balanced	10.2	9.8
<b>MJW survey average</b>		10.0	9.4

### Growth funds

Provider	Fund Name	Investment return in year to 30 June 2018 %	Investment return in year to 30 June 2017 %
AMP	AMP Growth <sup>(1)</sup>	11.8	12.7
AMP	AMP Aggressive <sup>(2)</sup>	12.9	14.4
ASB	ASB Growth Fund	12.5	12.8

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 2018 ranged between 5.3% and 12.9% (compared to between 4.7% and 14.4% for the year to 30 June 2017).

### 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 2018 %	Investment return in year to 30 June 2017 %
Conservative	ASB	6.9	6.7
Balanced	ASB	10.2	9.8
Growth	ASB	12.5	12.8

## 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	100% (98%)	96% (88%)	1 day	88% (40%)	88% (40%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	100% (99%)	71% (64%)	2 days	100% (83%)	100% (91%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (100%)	84% (83%)	1 day	92% (70%)	92% (70%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	71% (54%)	92% (76%)	1 day	98% (80%)	100% (98%)
Benefit payments: closed accounts						1 day	96% (74%)	100% (95%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	94% (56%)	94% (56%)	1 day	90% (77%)	91% (77%)

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 continue to improve the levels of performance against best practice standards. ASB have shown improved performance across all service standards having struggled during the previous year to maintain their usual high performance levels.

## **MINISTRY OF EDUCATION ISSUES**

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During the year ended 30 June 2016, 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 is working through a project to consider the most appropriate method for reimbursing the lost investment returns for those members. As at 30 June 2018 this project is on-going. The Ministry is committing additional resource to this work to complete its analysis. This will provide options to be discussed with stakeholders in 2019, allowing for resolution of this outstanding issue.

The Ministry have advised there are approximately 300 SSRSS members involved in this issue. The Advisory Board continue to monitor the progress of this project as they look to ensure none of these members is adversely affected by the Novopay error.

## **CONCLUSION**

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The year to 30 June 2018 provided another strong performance in the investment returns. Membership continues to steadily decline while member's balances, and the benefits paid to those exiting members, gradually increase. 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.

Dale Farrar  
Chair - Advisory Board

# SSRSS DIRECTORY

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## ADVISORY BOARD

Dale Farrar (Chair)	Deputy Commissioner, Workforce and Talent Management State Services Commission
Kirsten Windelov	Policy Advisor NZ Public Service Association
Gavin Quigan	Principal Adviser - Restricted MIS Financial Markets Authority
Michael Stevenson	General Secretary PPTA
Fergus Welsh	Group Manager, Financial Performance – National Services Ministry of Health
Andrew Turner	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
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