

ANNUAL REPORT FOR
THE STATE SERVICES COMMISSIONER

State Sector Retirement Savings Scheme

Year ended 30 June 2016

INTRODUCTION

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 2016.

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

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

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 31,704 to 30,630 during the year (a reduction of 3%). 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 1,074 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 (421), Retirement (366) and transferring to KiwiSaver (167).

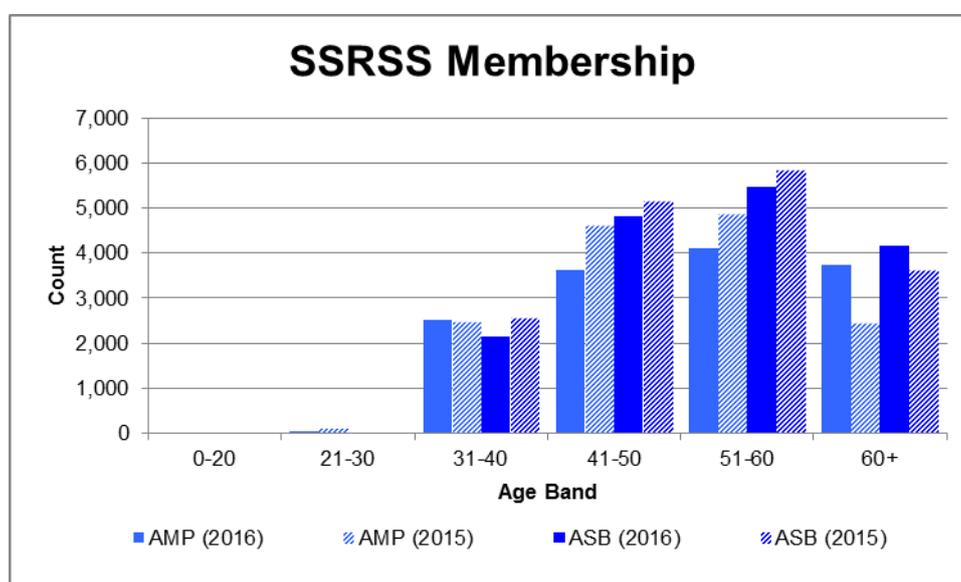
Despite the decline in membership, the total value of members' balances has increased. Over the year member balances increased to \$1,398.2 million, from \$1,314.6 million in the prior year (an increase of 6%). The increase of \$83 million in the year is approximately half the size of the increase in member balances recorded in the prior year. The main reasons for this moderate increase were poor investment returns for the September quarter and a slight increase in benefit payment amounts during the year.

MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2016 is given in the following table.

Summary of Membership	AMP	ASB	Total
Members at 1 July 2015	14,530	17,174	31,704
Withdrawals during the year	(493)	(581)	(1,074)
Members at 30 June 2016	14,037	16,593	30,630

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 50% of the membership at 30 June 2016 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
Fund at 1 July 2015	582.8	731.8	1,314.6
Contributions	45.3	55.3	100.6
Withdrawals	(25.1)	(30.9)	(56.0)
Investment returns	11.8	30.7	42.5
Other adjustments (inc. fees and tax)	(2.9)	(0.6)	(3.5)
Fund at 30 June 2016	611.9	786.3	1,398.2

Positive cash flow generated primarily from moderate investment returns (\$42.5 million compared to \$126.5 million in previous year) have contributed to a slight growth in total assets in SSRSS over the year. Member and employer contributions are at a similar level to the previous year (\$100.6 million compared to \$105.4 million). The total amount of benefit payments made during the year of \$56.0 million was a small increase on the previous year (\$49.5 million). Other adjustments primarily comprises the year end PIE tax payments and this year the total of \$3.5 million is significantly smaller than the previous year (\$12.8 million).

INVESTMENT MARKETS

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.

INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2016 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 2016 %	Investment return in year to 30 June 2015 %
AMP	AMP Capital Assured	6.4	6.2
AMP	AMP Conservative	4.1	7.2
ASB	ASB Conservative Fund	6.7	11.0

Balanced funds

Provider	Fund name	Investment return in year to 30 June 2016 %	Investment return in year to 30 June 2015 %
AMP	AMP Balanced	2.0	9.1
AMP	AMP Moderate	3.2	8.0
AMP	AMP Moderate Balanced	2.8	8.6
AMP	ANZ Balanced Plus	3.9	14.5
AMP	ASB Balanced	5.0	13.7
AMP	Nikko Balanced	6.8	15.2
AMP	Fisher Balanced	6.1	9.7
ASB	ASB Balanced	5.9	14.1
	MJW survey average	3.9	12.5

Growth funds

Provider	Fund name	Investment return in year to 30 June 2016 %	Investment return in year to 30 June 2015 %
AMP	AMP Growth	0.6	9.9
AMP	AMP Aggressive	0.0	10.3
ASB	ASB Growth Fund	5.3	16.8

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 2016 ranged between 0.0% and 4.1% (compared to between 7.2% and 10.3% for the year to 30 June 2015).

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	Fund name	Investment return in year to 30 June 2016 %
Conservative	ASB	ASB Conservative Fund	6.7
Balanced	ASB	ASB Balanced	6.8
Growth	ASB	ASB Growth Fund	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	5 days	98% (95%)	50% (71%)	1 day	57% (88%)	57% (88%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	100% (99%)	75% (57%)	2 days	90% (94%)	97% (96%)
Switches	Processed and confirmation letter sent	1 day	5 days	99% (96%)	53% (9%)	1 day	86% (85%)	86% (85%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	2 days	79% (80%)	90% (61%)	1 day	63% (77%)	92% (96%)
Benefit payments: closed accounts						1 day	67% (84%)	89% (97%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	56% (78%)	56% (78%)	1 day	67% (90%)	67% (90%)

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.

ADVISORY BOARD CHANGES

During January Glenn Barclay was appointed as national secretary of the PSA. As a result, he resigned from his position on the Advisory Board. In March the Dairne Grant was confirmed as a replacement Board member from the PSA.

MINISTRY OF EDUCATION ISSUES

During the previous year the Ministry of Education identified some errors in the contributions made to AMP and ASB through their payroll provider, Novopay. The Ministry has identified where employee contributions and subsidies were not paid, and this remediation has been completed. The Ministry are considering the extent of any further obligations to complete this process.

The Advisory Board will monitor the progress of this project as they look to ensure no member of the SSRSS is adversely affected by the Novopay error.

FIRST HOME AND INCREMENTAL WITHDRAWAL CHANGES

The specification agreements with the providers were changed from 1 July 2016 to enable members to withdraw employer contributions for first home purchases (previously only member contributions could be withdrawn), and to enable incremental withdrawal of funds upon date of entitlement. Members were notified of the changes.

REVIEW OF THE SCHEME

Consultation into whether there should be a formal review of the continued operation of the SSRSS concluded in mid-2015. Responses were received from 22 State sector agencies; PPTA, PSA and CTU; and AMP. The unanimous stakeholder view was that the current position should continue. On advice, the previous Commissioner decided not to progress a review.

ETHICAL INVESTMENT OPTIONS

At the board meeting of 14 September the providers presented the steps they have taken to make available ethical investment options for members and to exit investments in companies black-listed by the NZ Super Fund, such as those involved in the manufacture of cluster bombs. This was in response to concerns that Kiwisaver and other retirement savings schemes such as the SSRSS were potentially investing in these companies in breach of the law.

Both providers provided assurances that they are legally compliant.

ASB stated that it does not directly hold securities in companies that manufacture cluster munitions, landmines, or nuclear weapons. It will divest its holding in global index-tracking funds that have exposure to those types of companies. This divestment was completed in October.

ASB is also planning to review its approach to responsible investing, including potentially providing investors with investment options focussing on socially responsible investments. No timeframe was provided within which it would do this.

AMP explained that it has developed a "grey list" of companies in respect of the funds that it directly holds that covers similar ground as the NZ Super Fund blacklist and would be moving to remove itself from indirect exposure to investment in these companies by December 13. The transition period is necessary to incorporate changes into established contractual timeframes in order to avoid additional costs to members.

AMP already has a responsible investment fund available, the AMP Responsible Investment Balanced Fund. The Board discussed adding this fund to those available through the SSRSS. The Board also tested the providers' willingness to enable member transfers between them. This would enable competition and expansion of investment options, particularly ethical investment options. Both providers appeared receptive but requested time to consider. The Advisory Board will follow up on this matter with the providers.

CONCLUSION

The year to 30 June 2016 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, particularly Glenn Barclay, for their efforts with the continued monitoring of the merger of two of the providers during a year in which the SSRSS continues its gradual reduction in membership while increasing its total fund size. Their continued hard work in monitoring members' interests is appreciated.

Andrew Royle
Chair - Advisory Board

SSRSS DIRECTORY

ADVISORY BOARD

Andrew Royle (Chair)	Chief Legal Advisor State Services Commission
Glenn Barclay (to January 2016)	Policy Advisor NZ Public Service Association
Dairne Grant (from March 2016)	Policy Advisor NZ Public Service Association
Gavin Quigan	Manager, Superannuation Schemes 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 the Deputy Secretary Early Learning and Student Achievement 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

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