

**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 2021**

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## INTRODUCTION

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On 7 August 2020 the State Services changed its name to Te Kawa Mataaho Public Service Commission (Te Kawa Mataaho) and the State Services Commissioner changed to Te Tumu Whakarāe mō Te Kawa Mataaho Public Service Commissioner following the enactment of the Public Service Act 2020.

This Annual Report to Te Tumu Whakarāe 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 2021.

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, 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 26,269 to 25,382 during the year (a reduction of 3.4%). 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 887 in the year was reasonably well spread over each of the four quarters, with the September quarter recording the highest number of exits at 260. The most common reasons for exits were again Retirement (325), Resignation for those over age 50 (291) and transferring to KiwiSaver (92).

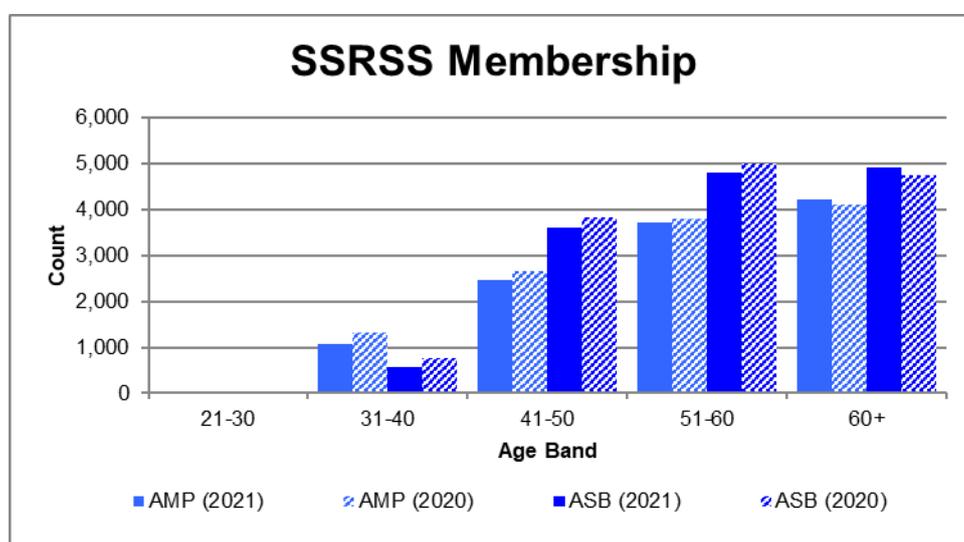
The total value of members' balances has increased. The total funds under management in the SSRSS is now more than \$2 billion reaching \$2,140.4 million at 30 June 2021, compared to \$1,869.1 million at 30 June 2020 (an increase of 12.7%). The main reason for the increase of \$271.2 million in the year were the significant investment returns of \$259 million. Total contribution amounts averaged \$29.5 million per quarter over the year. This is an increase from the previous year where total contribution amounts averaged \$27.9 million. Benefit payment amounts averaged \$22.9 million per quarter over the year. This is a decrease from the previous year where benefit payment amounts averaged \$24.2 million.

## MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2021 is given in the following table.

Summary of Membership	AMP	ASB	Total
<b>Members at 1 July 2020</b>	<b>11,895</b>	<b>14,374</b>	<b>26,269</b>
Withdrawals during the year	(415)	(472)	(887)
<b>Members at 30 June 2021</b>	<b>11,480</b>	<b>13,902</b>	<b>25,382</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 70% of the membership at 30 June 2021 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	ASB	Total
	\$m	\$m	\$m
<b>Fund at 1 July 2020</b>	<b>792.5</b>	<b>1,076.6</b>	<b>1,869.1</b>
Contributions	47.6	70.2	117.8
Withdrawals	(40.2)	(51.4)	(91.6)
Investment returns	108.1	150.6	258.7
Other adjustments (inc. fees and tax)	(2.4)	(11.2)	(13.6)
<b>Fund at 30 June 2021</b>	<b>905.6</b>	<b>1,234.8</b>	<b>2,140.4</b>

Investment returns for the year were significantly boosted by the economic recovery following the COVID-19 pandemic impacts in the year ended 30 June 2020 (\$258.7 million compared to \$35.6 million in previous year). Member and employer contributions are at a slightly higher level than the previous year (\$117.8 million compared to \$111.6million). The total amount of benefit payments made during the year of \$91.6 million is slightly lower than the previous year's \$96.7 million. This is consistent with the small decrease in the number of exits in the year. Other adjustments primarily comprise the year end PIE tax payments and this year the total of \$13.6 million is back to the level of the 2019 year after last year's \$1.7 million which was primarily due to the PIE tax refund from many of the SSRSS funds following the low investment returns in that year.

## INVESTMENT MARKETS

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The 2021 year witnessed a very strong recovery for equity markets. The MSCI World Index delivered an impressive gain of 36.4%. In unhedged terms, a large rise in the value of the New Zealand dollar meant that the return was lower at 28.3%. New Zealand equity markets also started very strongly but have faltered since the beginning of 2021, finishing the year up 11.2%.

Interest rates reached historic lows around the middle of the financial year before beginning to climb again. Rising interest rates has the effect of reducing the value of existing bond assets, which are already locked into the previous, lower rates. The result of this rise has been nil return from global bonds in aggregate. The climb in domestic interest rates was more persistent and has led to a loss of 3.0% from the New Zealand fixed interest sector.

The market return from cash was very low at 0.3% this year. This is in line with the New Zealand Official Cash Rate, which has been held at 0.25% since March 2020.

### ***The Year Ahead***

Most major economies have seen a strong economic recovery over the past year. Instrumental to this has been the strong momentum building in vaccination programmes and improvements in the levels of unemployment. A consequence has been central banks such as the US Federal Reserve (“the Fed”) projecting an earlier pathway for rising interest rates and beginning to have conversations around the slow withdrawal of the currently very high levels of monetary support.

The dynamics of economies reopening after lockdowns has led to a spike in inflation. The Fed has been quick to assert that this will be only a transitory spike, however many of the Fed’s decisions with regard to interest rate policy will depend on how long this higher inflation persists.

Similarly in New Zealand, the language used by the Reserve Bank is slowly becoming more optimistic and the Reserve Bank has already begun to withdraw some of its economic support. The Reserve Bank was expected to lift the Official Cash Rate (currently 0.25%) on August 18. However, the sudden return to a nationwide, level 4 lockdown the day before stayed its hand. In spite of its uncertainty about how events would develop, in its August Monetary Policy Statement the Reserve Bank has brought forward its timeline for cash rate rises. It is now projecting rises to the Official Cash Rate beginning late 2021, to reach 2.1% by 2024.

While optimism in the economy has done great things for equity markets, share prices are now at historic highs relative to the earnings being produced by companies. There is therefore risk around how long these high price premiums can be maintained.

In fixed interest sectors, prospects are certainly weaker with very low income available as well as projections for capital losses as interest rates are raised. However, these projections all depend on the success of the efforts to overcome COVID-19; there are multiple possible futures for interest rates and bond sectors depending on how events play out.

## INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2021 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 2021 %	Investment return in year to 30 June 2020 %
AMP	Capital Assured	2.6	3.1
AMP	Conservative	6.2	2.2
AMP	Moderate	9.5	2.0
AMP	ASB Moderate	7.6	1.7
ASB	Moderate	7.8	3.2

### Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2021 %	Investment return in year to 30 June 2020 %
AMP	Balanced	15.5	1.5
AMP	Ethical Balanced	19.3	-0.1
AMP	Moderate Balanced	12.3	1.5
AMP	ANZ Balanced Growth	20.7	2.9
AMP	ASB Balanced	14.3	2.2
AMP	Nikko Balanced	16.6	1.7
AMP	Mercer Balanced**	15.8	1.9
ASB	Balanced	14.3	3.4
<b>MJW survey median</b>		17.3	3.9

### Growth funds

Provider	Fund Name	Investment return in year to 30 June 2021 %	Investment return in year to 30 June 2020 %
AMP	AMP Growth	21.3	0.8
AMP	AMP Aggressive	23.9	-0.2
ASB	ASB Growth	20.3	1.9

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 2021 ranged between 5.4% and 2.0% (compared to between 2.2% and -0.2% for the year to 30 June 2020).

### 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 2021 %	Investment return in year to 30 June 2020 %
Conservative	AMP	9.5	2.0
Balanced	AMP	20.7	2.9
Growth	AMP	23.9	-0.2

## 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			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	100% (100%)	93% (75%)	1 day	100% (62%)	100% (62%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	98% (98%)	63% (58%)	2 days	100% (100%)	100% (100%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (100%)	91% (94%)	1 day	94% (91%)	94% (91%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	96% (84%)	89% (98%)	1 day	98% (94%)	100% (100%)
Benefit payments: closed accounts						1 day	98% (93%)	100% (99%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	97% (76%)	97% (76%)	1 day	86% (99%)	86% (99%)

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 starting to record consistent improvements in the levels of performance against best practice standards. ASB have returned to their strong performance levels across all service standards.

## **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. The Ministry expects to make the compensation payments to AMP and ASB members' accounts from late 2021, and for this process to be completed in the first quarter of 2022.

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 has requested further updates and will continue to monitor the progress of this project

## **UPDATE ON AMP INVESTMENT REVIEW**

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Following the completion of their investment management review in late 2020, AMP announced their decision to move their funds from AMP Capital to BlackRock. During this year AMP have progressed through the funds transfer project, keeping the Advisory Board updated at regular intervals. At 30 June 2021 the project was very near completion.

AMP's move to BlackRock provides SSRSS members with more opportunities for ESG investment options as well as reduced administration management fees. The Advisory Board have recently agreed with AMP a lower administration management fee across all funds and for the full range of investment funds in the New Zealand Retirement Trust ("NZRT") to be made available to SSRSS members. Each of these changes will take effect in October 2021.

The effect of the reduction in AMP administration management fees will mean that for approximately 65% of the AMP SSRSS members, who are invested in either the AMP conservative, balanced or growth fund, their fees will be less than or equal to the new fees that AMP KiwiSaver members will be charged for the equivalent funds.

## CONCLUSION

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The year to 30 June 2021 has been a busy one for the SSRSS and the Advisory Board with great progress being made in each of the two big projects (the Ministry of Education remediation and the AMP investment review).

The investment returns achieved across all funds offered in the SSRSS were particularly pleasing following the impacts of the global pandemic of COVID-19 in the previous year. 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.

Dale Farrar  
Chair - Advisory Board

# SSRSS DIRECTORY

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## ADVISORY BOARD

Dale Farrar (Chair)	Kaikōmihana Tuarua/Deputy Commissioner, Workforce, Employment and Equity Te Kawa Mataaho Public Service 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	Chief Financial Officer, Finance and Performance Ministry of Health
Ian Dennis	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 1096, Wellington 6140

## SECRETARIAT

Melville Jessup Weaver  
PO Box 1096, Wellington 6140