

Superannuation Schemes 101

Now and again it's worthwhile going back to basics – especially for those who have only recently begun receiving this Survey. A brief run-down of workplace superannuation schemes follows – have a read – you might find you learn something new!! This Survey is the only one of its kind in New Zealand; it calculates the after fees and after tax investment returns (at the highest PIR tax of 28%) for all investment funds managed by the six Master Trust providers in New Zealand. It allows for an easy comparison of your chosen investment fund's performance, your investment fund provider's performance, and shows how many others have (obviously very wisely) entrusted their hard earned money alongside yours.

Defined Contribution Schemes

Most super schemes in New Zealand are Defined Contribution (DC) schemes, where both the employee and employer contribute to the fund. All KiwiSaver funds are DC schemes and in fact most super schemes in New Zealand are DC. **It is the employee who carries the investment risk:** if your investment falls in value in the few years leading up to retirement then the amount you have available at age 65 will have reduced and you will be worse off than if the markets had rallied in that same period. **Employees also carry the longevity risk:** if you live until age 110 but you thought you'd only reach 85, your savings at retirement will likely be lower and spending patterns during retirement slightly more extravagant. The savings would be made to last for the number of years you expect to live (give or take). Another 25 years of life after exhausting all your retirement savings: income shrinks substantially but at the same time your health slowly worsens and medical expenses rise. Or you could be hit by a bus the day after you retire. Who knows?!

Defined Benefit Schemes

The other common type of scheme is Defined Benefit (DB). It is generally only the employer who contributes to the scheme; upon reaching retirement age the employee begins receiving a pension which is usually a fixed sum each month or week, payable for life. **The investment risk is borne by the employer:** the contributions made throughout each employees' tenure must cover the pension benefit that is payable from retirement age. The pension amount is a fixed sum which is usually based on employees' salary and length of service. The value of the investment can still go up and down with the markets so the scheme needs to have enough in reserve to ensure that all future pension payments can be made, even if markets suffer a sustained downturn. **Longevity risk is also borne by the employer.** If an employee lives ten years longer than expected, the scheme must ensure it is able to cover the payments.

Upcoming Changes to Workplace Super

The Financial Markets Conduct Act will require super scheme providers to comply with new regulations from 1 December this year. The changes include a new system of supervision, licencing and greater governance requirements. Due to this increased level of compliance, many smaller super scheme providers (such as employer-owned "stand-alone" schemes) will not be able to carry out the extra work in a cost effective manner. Because of these increased costs, many schemes have, or are in the process of, transferring their members (employees) to

another form of workplace savings – most likely a Master Trust platform.

Q: What is a stand-alone superannuation scheme?

A: It is a super scheme established by an employer for the benefit of its employees. Each employer operating a stand-alone scheme carries out the administration functions of the scheme in-house and each scheme has its own Trust Deed, Investment Statement etc. The employer chooses the scheme rules such as what investment options are made available to employees, contribution rates, vesting and the like. These schemes can be quite costly to run due to the time spent on admin functions, compliance etc.

Q: What is a Master Trust?

A: Rather than an employer providing a super scheme that is self-managed, many employers can utilise the expertise and scale of one investment firm who manage and administer many schemes on the one platform. The scheme rules can stay exactly as they are – each workplace scheme on the platform is independent of other schemes. A Master Trust basically facilitates the pooling of investment funds from many sources (each employer scheme) to invest in bulk. This reduces the transaction costs of buying/selling securities and results in lower overall admin fees as the provision of these services is much more cost effective when carried out on a large scale, rather than many firms doing the work themselves.

Q: Who are the Master Trust providers in New Zealand?

A: There are currently six providers, namely:

- Aon
- AMP
- ASB
- Fisher Funds
- Mercer
- SuperLife

We have provided a table of the investment funds offered by each manager on the following page.

Q: What do each of the fund types mean?

A: Multi Sector means the fund is comprised of different asset categories i.e., shares, bonds and cash. A higher proportion of shares means the fund will fall into the Growth category; a lower proportion the Conservative category. Balanced usually means the fund has 60% of its assets in shares and property. Single Sector means the fund only has one type of asset – aggressive will mean shares or property and defensive represents bonds or cash.

Investment Returns

The annual rate of CPI was 0.4% for the year to 31 March. The three year annualised rate has dropped to 0.9%; well below the long term target of 1%-3%. Growth funds returned 2.4% over the year, while both balanced funds and conservative funds gained 2.9%. The negative results in global markets in January and February had a large (downwards) impact on these one year returns. Over the long term (five years) balanced funds were the best performers, returning an average of 6.5% per annum. Growth funds returned 5.0% p.a. and conservative funds gained 4.0%.

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ERIKSEN'S MASTER TRUST SURVEY

NEW ZEALAND MASTER TRUST INVESTMENT OPTIONS

Fund Type	AMP	Aon	ASB	Fisher Funds	Mercer	SuperLife
Multi Sector Growth Funds						
	Aggressive	Growth	Growth	Lifesaver Growth	Growth	Aim80
	Growth				High Growth	SuperLife80
						SuperLife100
Multi Sector Balanced Funds						
	Moderate Balanced	Balanced	Balanced	Lifesaver Balanced	Active Balanced	Aim60
	NZRT ANZ Balanced Plus					SupertLife60
	NZRT ASB Balanced					Ethica
	NZRT AMP Balanced					
	NZRT Fisher Lifesaver Balanced					
	NZRT Nikko AM Balanced					
Multi Sector Conservative Funds						
	Capital Assured	Capital Stable	Moderate	Lifesaver Conservative	Conservative	Aim30
	Conservative	Conservative			Moderate	SuperLife30
	Moderate					SuperLife Income
Single Sector Aggressive Funds						
	Australasian Shares		Australasian Shares	Trans-Tasman Equity	Shares	New Zealand Shares
	International Shares		World Shares	Equity		Australian Shares
	Passive International Shares		Global Property Shares			Overseas Shares Hedged
	Property					Overseas Shares Unhedged
						Property
						UK Shares/Property
						Emerging Markets
						Gemino
Single Sector Defensive Funds						
	Cash		New Zealand Cash	LifeSaver New Zealand Fixed Income	Cash	Cash
	New Zealand Fixed Interest		New Zealand Fixed Interest	LifeSaver Preservation		New Zealand Bonds
	International Fixed Interest		World Fixed Interest			Overseas Bonds
						Overseas Non- Government Bonds
						UK Cash
						UK Income

The material presented here has been compiled from publicly available sources and information from the respective Master Trust providers. Where tax paid returns for PIE compliant funds have not been available, tax paid returns have been calculated using a 33% tax rate up to 31 March 2008, 30% to 30 September 2010 and 28% thereafter.

Eriksen & Associates accepts no liability for any errors herein, or any legal or investment decisions made as a consequence of the information shown. Investment decisions or comparisons should not be based on past performances in isolation from other factors.

SUMMARY OF FUNDS: RESULTS TO 31 MARCH 2016

Sector	Fund Size \$ million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
All Growth Funds	1,127.9	2.4	7.7	6.0	6.6	5.0
Difference from 3 Months Ago:	36.5	(3.2)	0.4	(1.2)	(1.1)	(0.4)
Difference from 12 Months Ago:	103.7	(11.1)	(3.2)	(4.9)	(1.1)	(2.3)
All Balanced Funds	2,977.0	2.9	7.1	7.0	7.7	6.3
Difference from 3 Months Ago:	58.9	(2.3)	0.2	(0.8)	(0.7)	(0.1)
Difference from 12 Months Ago:	277.9	(9.2)	(2.9)	(2.9)	0.4	(0.6)
All Conservative Funds	887.4	2.9	5.1	4.1	4.5	4.0
Difference from 3 Months Ago:	53.8	(0.7)	0.1	(0.3)	(0.2)	(0.1)
Difference from 12 Months Ago:	96.6	(4.8)	(0.5)	(1.7)	(0.5)	(0.8)
All Single Sector Defensive	713.3	2.9	3.7	2.9	3.1	3.2
Difference from 3 Months Ago:	18.6	0.1	0.2	0.2	0.2	0.0
Difference from 12 Months Ago:	48.1	(1.6)	0.6	(0.3)	(0.4)	(0.3)
All Single Sector Aggressive	541.7	6.5	9.7	9.0	10.2	7.3
Difference from 3 Months Ago:	26.6	(1.8)	0.3	(1.7)	(1.7)	(0.8)
Difference from 12 Months Ago:	27.1	(7.8)	(2.0)	(3.6)	2.0	(1.3)
Total Funds	6,247.3	3.1	6.8	6.1	6.7	5.5
Difference from 3 Months Ago:	194.4	(1.9)	0.3	(0.8)	(0.7)	(0.2)
Difference from 12 Months Ago:	553.4	(7.6)	(1.5)	(2.5)	0.2	(0.8)

The material presented here has been compiled from publicly available sources and information from the respective Master Trust providers. Where tax paid returns for PIE compliant funds have not been available, tax paid returns have been calculated using a 33% tax rate up to 31 March 2008, 30% to 30 September 2010 and 28% thereafter.

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GROWTH FUNDS: RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP Aggressive	234.6	(1.2)	6.0	6.6	7.8	5.8
AMP Growth	170.3	(0.8)	5.7	6.2	7.2	5.5
Aon Growth	9.0	2.7	8.7	9.0	10.7	9.3
ASB Growth	273.9	3.6	9.4	9.5	10.0	7.6
Fisher Funds LifeSaver Growth	54.1	4.2	7.4	8.4	9.6	7.4
Mercer Growth	104.6	3.8	8.0	8.6	8.6	6.7
Mercer High Growth	17.8	4.0				
SuperLife Aim80	20.6	5.3	9.1	6.8	7.5	5.4
SuperLife SuperLife80	4.3	5.8	8.9			
SuperLife SuperLife100	238.7	5.5	9.3			
All Growth Funds	1,127.9	2.4	7.7	6.0	6.6	5.0

BALANCED FUNDS: RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP ANZ Balanced Plus	257.6	3.4	8.9	8.9	9.7	8.3
AMP ASB Balanced	62.1	3.0	8.0	7.6	8.0	6.4
AMP Balanced	734.5	0.1	5.3	5.4	6.3	5.3
AMP Fisher Balanced	143.6	4.8	7.2	7.3	7.7	6.2
AMP Moderate Balanced	248.2	0.7	5.1	5.0	5.7	4.8
AMP Nikko AM Balanced	135.4	7.4	9.7	9.1	9.3	7.4
Aon Balanced	55.4	2.9	7.0	7.2	8.8	8.0
ASB Balanced	616.9	3.7	8.4	8.0	8.5	6.8
Fisher Funds Lifesaver Balanced	253.6	4.2	6.9	7.0	7.8	6.3
Mercer Active Balanced	183.9	3.4	7.2	7.7	7.8	6.2
SuperLife Aim60	52.7	4.8	8.1	6.1	6.8	5.4
SuperLife Ethica	24.7	11.4	12.1	9.3	9.7	7.9
SuperLife SuperLife60	208.4	5.2	7.6	6.7	7.9	6.4
All Balanced Funds	2,977.0	2.9	7.1	7.0	7.7	6.3

CONSERVATIVE FUNDS: RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP Capital Assured	97.4	5.9	5.7	5.0	4.3	3.9
AMP Conservative	272.2	1.5	4.3	3.8	4.3	4.1
AMP Moderate	102.9	0.9	4.6	4.4	5.1	4.4
Aon Capital Stable	4.6	3.3	4.7	3.9	4.5	4.5
Aon Conservative	14.2	3.1	6.1	4.9	5.7	5.4
ASB Moderate	152.3	4.0	7.1	6.4	6.8	5.8
Fisher Funds LifeSaver Conservative	27.8	4.0	5.7	5.4	5.8	5.2
Mercer Conservative	30.2	3.3	5.3	5.2	5.1	4.6
Mercer Moderate	28.4	3.6				
SuperLife Aim30	36.6	4.0	6.4	4.9	5.6	5.0
SuperLife SuperLife Income	31.6	4.2	6.2	4.7	5.8	5.0
SuperLife SuperLife30	89.2	2.8	4.7			
All Conservative Funds	887.4	2.9	5.1	4.1	4.5	4.0

DEFENSIVE FUNDS (SINGLE SECTOR): RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP Cash	93.1	2.0	2.2	2.1	2.1	2.1
AMP International Fixed Interest	1.9	2.8	3.6			
AMP New Zealand Fixed Interest	8.1	3.8	5.2			
ASB New Zealand Cash	64.4	2.3	2.6	2.4	2.3	2.2
ASB New Zealand Fixed Interest	46.0	4.3	5.0	3.4	3.6	4.0
ASB World Fixed Interest	44.2	2.9	4.4	3.3	3.5	4.0
Fisher Funds LifeSaver New Zealand Fixed Income	13.9	4.8	5.5	3.5	3.8	4.3
Fisher Funds LifeSaver Preservation	46.7	3.4	3.1	2.9	2.8	2.7
Mercer Cash	24.7	1.9	1.9	2.0	1.8	1.9
SuperLife Cash	144.0	2.6	2.7	2.7	2.7	2.7
SuperLife New Zealand Bonds	116.7	4.8	5.5	4.3	4.7	4.9
SuperLife Overseas Bonds	52.3	2.1	5.1	2.6	3.2	3.8
SuperLife Overseas Non-Government Bonds	48.8	0.3	3.9	3.0	3.7	4.4
SuperLife UK Cash	7.8	4.5	3.5	3.7	1.3	
SuperLife UK Income	0.7	6.4	7.4	4.8		
All Single Sector Defensive	713.3	2.9	3.7	2.9	3.1	3.2

AGGRESSIVE FUNDS (SINGLE SECTOR): RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
AMP Australasian Shares	7.0	4.1	4.9			
AMP International Shares	8.3	(0.6)	6.2			
AMP Passive International Shares	3.9	(2.2)	7.4			
AMP Property Fund	7.9	5.0	11.2			
ASB Australasian Shares	7.2	7.5	9.0	9.2	11.9	8.4
ASB Global Property Shares	36.9	7.9	18.5	12.0	13.1	10.1
ASB World Shares	9.3	0.2	9.9	11.5	10.7	7.7
Fisher Funds LifeSaver Equity	39.6	2.9	7.4	9.1	9.5	5.9
Fisher Funds LifeSaver Trans-Tasman Equity	14.4	13.2	12.3	12.2	15.6	13.0
Mercer Shares	24.6	4.1	10.6	12.7	12.6	8.8
SuperLife Aust Resources ETF	0.3	9.6				
SuperLife Australian Shares	37.7	5.2	7.3	0.4	1.9	(0.0)
SuperLife Emerging Markets	14.4	(2.2)	6.5	1.9	1.1	(3.5)
SuperLife Gemino	6.3	2.3	(10.8)	3.1	8.8	(1.4)
SuperLife New Zealand Shares	78.7	19.2	9.5	13.1	18.0	13.4
SuperLife NZ 50 Portfolio ETF	23.2	12.8				
SuperLife Overseas Shares Hedged	101.4	(2.0)	6.3	8.3	9.4	7.4
SuperLife Overseas Shares Unhedged	80.3	5.6	13.3	13.1	11.3	7.3
SuperLife Property	38.3	12.6	18.3	11.3	13.6	12.4
SuperLife UK Shares/Property	2.0	3.2	6.4	5.4		
All Single Sector Aggressive	541.7	6.5	9.7	9.0	10.2	7.3

TOTAL FUNDS: RESULTS TO RESULTS TO 31 MARCH 2016

Fund Name	Fund Size \$million	Annualised Returns (Net of Tax & Expenses)				
		1 Year	2 Year	3 Year	4 Year	5 Year
Total Funds	6,247.3	3.1	6.8	6.1	6.7	5.5
Cash Benchmark (Net)		2.0	2.2	2.1	2.0	2.0
CPI		0.4	0.3	0.7	0.8	0.9