

ANNUAL REPORT FOR

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

State Sector Retirement Savings Scheme

Year ended 30 June 2020

INTRODUCTION

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 2020.

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 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

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 27,241 to 26,271 during the year (a reduction of 3.6%). 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 970 in the year was reasonably well spread over each of the four quarters, although there was a big drop in the number of exits during the quarter ended 30 June 2020. The most common reasons for exits were again Retirement (356), Resignation for those over age 50 (369) and transferring to KiwiSaver (97).

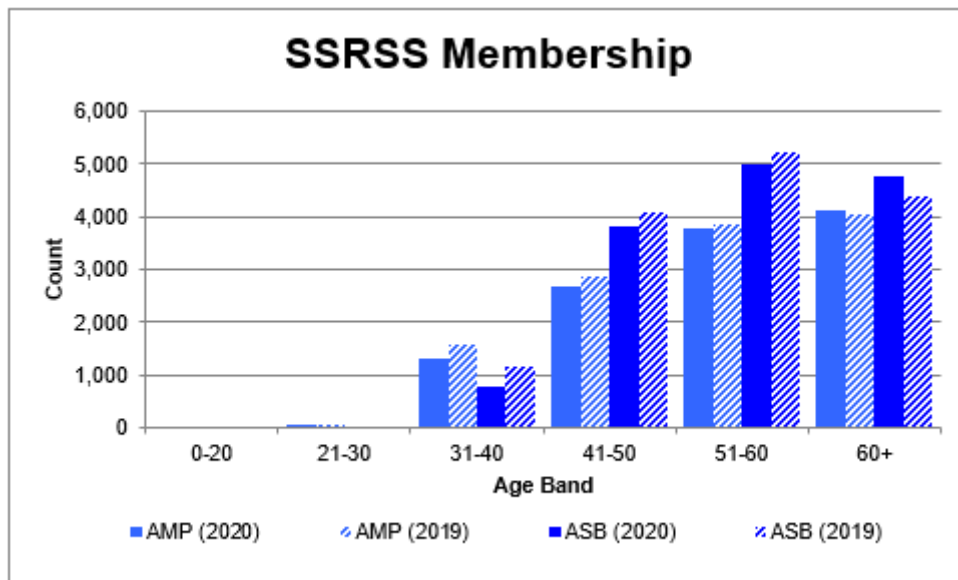
Despite the decline in membership, the total value of members' balances has increased. Over the year member balances increased to \$1,869.1 million, from \$1,820.4 million in the prior year (an increase of 2.7%). The main reasons for the increase of \$48.7 million in the year were the significant drop in investment returns for the March quarter followed by a strong bounce-back in returns for the June quarter. Total contribution amounts averaged \$27.9 million per quarter over the year. This is an increase from the previous year where total contribution amounts averaged \$25.6 million. Benefit payment amounts averaged \$24.2 million per quarter over the year. This is an increase from the previous year where benefit payment amounts averaged \$23.3 million.

MEMBERSHIP

A summary of the movements in the membership of the SSRSS for the year to 30 June 2020 is given in the following table.

Summary of Membership	AMP	ASB	Total
Members at 1 July 2019	12,373	14,868	27,241
Withdrawals during the year	(478)	(494)	(972)
Members at 30 June 2020	11,895	14,374	26,269

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 67% of the membership at 30 June 2019 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
Fund at 1 July 2019	779.7	1,040.7	1,820.4
Contributions	47.0	65.6	111.6
Withdrawals	(41.9)	(54.8)	(96.7)
Investment returns	10.2	25.4	35.6
Other adjustments (inc. fees and tax)	(2.6)	(0.8)	(1.7)
Fund at 30 June 2020	792.5	1,076.6	1,869.1

Investment returns for the year were significantly impacted by the economic fallout from COVID-19 (\$35.6 million compared to \$128.6 million in previous year). Member and employer contributions are at a slightly higher level than the previous year (\$111.6 million compared to \$102.3million). The total amount of benefit payments made during the year of \$96.7 million is also slightly higher than the previous year's \$93.3 million. With the number of exits in the year remaining relatively constant it appears individual members' benefit payments are increasing. Other adjustments primarily comprises the year end PIE tax payments and this year the total of \$1.7 million is less the previous year (\$13.2 million) due to the PIE tax refund from many of the SSRSS funds.

INVESTMENT MARKETS

Share markets produced a relatively good return for the year, with the S&P/NZX 50 Index producing a return of 9.9% for the year ended 30 June 2020. Global share markets produced a lower return of 3.4% (fully hedged against currency movements) or 7.1% (in unhedged terms). Both figures are for the MSCI World index, and the latter figure is higher mainly because of the fall in the New Zealand dollar against the US dollar.

The continued fall in interest rates helped enhance fixed interest returns. As interest rates fall, fixed interest investments gain in value. The Bloomberg NZ Bond Composite Index returned 5.4% for the year, slightly below the return from the Bloomberg Barclays Global Aggregate Index, which returned 5.7% (fully hedged to New Zealand dollars).

Cash returns have continued to drop – in line with the New Zealand Official Cash Rate – and the outlook for returns from this sector in the near term is very low.

The Year Ahead

Global economies continue to hurt as many workers and businesses struggle to return to normal. The world is expected to experience a decline in economic activity not seen since the 1930s. Economic uncertainty remains high: the extent to which Government intervention will continue and the behaviour of consumers and investors are still great unknowns. As a result, there is still considerable uncertainty about what the economic landscape once the impact of COVID-19 and Governmental restrictions fades.

Nevertheless, the amount of Governmental support in the form of quantitative easing has been extraordinary and there is currently a good deal of optimism in the markets as prices continue to rise. There are questions around the extent to which this is sustainable given the continuing hardships of many economies.

The New Zealand Treasury has forecast several scenarios depending on how events play out. Under the central scenario, it expects the local economy to contract through 2020 and 2021. Inflation is expected to be low for the 2020 year at 0.8% although the Treasury predicts it will return to within the lower half of the Reserve Bank's 1%-3% targeted band in subsequent years.

The Reserve Bank of New Zealand held the OCR at just 0.25% in August 2020 and has indicated that it will remain at this level until March 2021. With longer term bond yields low and also likely to remain that way, the outlook for fixed interest investments is therefore one of low yields and low overall returns.

INVESTMENT PERFORMANCE

The after fees but before tax investment returns achieved by the providers for the year to 30 June 2020 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 2020 %	Investment return in year to 30 June 2019 %
AMP	AMP Capital Assured	3.8	5.0
AMP	AMP Conservative	2.8	6.8
AMP	AMP Moderate	2.7	7.1
ASB	ASB Moderate	3.6	8.0

Balanced funds

Provider	Fund Name	Investment return in year to 30 June 2020 %	Investment return in year to 30 June 2019 %
AMP	AMP Balanced	2.1	7.7
AMP	AMP Moderate Balanced	2.2	7.5
AMP	ANZ Balanced Growth	3.5	7.9
AMP	ASB Balanced	2.6	8.4
AMP	Nikko Balanced	2.4	6.7
AMP	Mercer Balanced	2.6	6.7
ASB	ASB Balanced	3.9	9.1
MJW survey average		3.9	7.2

Growth funds

Provider	Fund Name	Investment return in year to 30 June 2020 %	Investment return in year to 30 June 2019 %
AMP	AMP Growth	1.4	8.2
AMP	AMP Aggressive	0.4	8.4
ASB	ASB Growth	2.9	9.7

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 2020 ranged between 2.8% and 0.4% (compared to between 6.8% and 8.4% for the year to 30 June 2019).

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 2020 %	Investment return in year to 30 June 2019 %
Conservative	ASB	3.6	8.0
Balanced	ASB	3.9	9.1
Growth	ASB	2.9	9.7

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% (100%)	75% (92%)	1 day	62% (100%)	80% (100%)
Contribution amounts	Reconciled and allocated and funds invested	3 days	5 days	98% (100%)	58% (65%)	2 days	100% (100%)	100% (100%)
Switches	Processed and confirmation letter sent	1 day	2 days	100% (100%)	94% (94%)	1 day	91% (90%)	92% (92%)
Benefit payments: partial withdrawals	Payment actioned on receipt of request and confirmation sent	3 days	5 days	84% (82%)	98% (98%)	1 day	94% (99%)	100% (100%)
Benefit payments: closed accounts						1 day	93% (96%)	99% (99%)
Enquiries (written and phone)	Response provided as appropriate	1 day	1 day	76% (79%)	76% (79%)	1 day	74% (79%)	99% (82%)

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 with a slight drop in responding to enquiries. They have also slightly improved the levels of performance against best practice standards. ASB have shown consistently strong performance across most service standards but have eased off in their performance relating to responding the member enquiries.

MINISTRY OF EDUCATION ISSUES

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 preferred calculation method to determine the level of compensation for loss-of-investment earning. 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 2020, and for this process to be completed in the first quarter of 2021.

The Advisory Board has requested further updates and will continue to monitor the progress of this project.

UPDATE ON AMP WEALTH MANAGEMENT

During the year the Advisory Board continued to monitor the developments within AMP. The sale of AMP's life business was completed with an effective date of 30 June 2020. AMP have advised that the planned sale of the wealth management business has now been put on hold indefinitely.

AMP have undertaken an investment management review which includes the funds within the New Zealand Retirement Trust ("NZRT"). SSRSS funds are invested in the NZRT. The main driver for this review was to ensure the investment strategy was delivering the best outcome for clients.

AMP recently announced the outcome of this review which is that they will move their funds from AMP Capital to BlackRock with transition to the new investment model expected to be completed by June 2021. The Advisory Board will carefully consider this decision in the interests of the SSRSS members.

CONCLUSION

The year to 30 June 2020 provided a challenging environment for investment returns. The global pandemic of COVID-19 and the associated Governmental restrictions meant the investment markets saw significant volatility. The Advisory Board were pleased to note another year of good performance from each provider against their service standards. Membership continues to steadily decline while member's balances, the benefits paid to those exiting members, and the total funds under management 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

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

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SECRETARIAT

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