Rio Tinto

Rio Tinto New Zealand Retirement Fund

June 2011

# SUPER NEWS

## Welcome to the Winter 2011 edition of the Fund newsletter.


## In this edition



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*Your super. Your future*

# Insurance changes

## During April and May 2011, the Trustees carried out a review of the Fund's premium rates for death and disablement cover and the insurance account.

### Premium rates to decrease

Following a review of the premiums being deducted from member accounts, the Trustees unanimously decided to decrease future insurance premium rates by 17% from 1 July 2011.

### Insurance account distribution

Having reviewed the Fund's insurance account, the Trustees have decided to distribute an amount above the required reserve level to members. You will therefore receive a refund of 20% of the total of insurance premiums charged to your account over the past five years, or since you joined the Fund if you have been a member for less than five years. The refund will be applied to your employer account on 30 June 2011 and will be detailed on your 2011 annual benefit statement.

### Make sure you're covered

As part of these changes, it may be a good idea to consider whether your current insurance level serves your needs. Many members have Basic insurance level, which may be because a) when they joined super wasn't their first priority; or b) deciding between the choices takes time and can feel overwhelming.

The Fund offers three levels of insurance cover: Basic, Medium and Top. If you have the Fund's Basic level of death, total and permanent disablement and ill-health insurance cover, you might like to reassess your choice if:

- You have considerable loans or debts;
- You have family that depends on your ongoing income; and/or
- Your financial position has changed (eg you've become a parent).

A quick way to work out whether you have enough cover is to look at your **insured amount** (available on your annual benefit statement, by calling the Fund helpline and on the Fund website) and compare this against your debts and ongoing regular expenses. If you identify a gap between your cover and combined debt and expenses, you or your dependants may struggle if something unforeseen happened and you needed to rely on your insurance cover and you were on a Basic cover. So it may be worthwhile considering applying for a higher level of cover.

To get more information about insurance through the Fund, contact the Fund Member Helpline on **0508 266 787**. A consultant will explain your insurance choices and can forward you an 'Application to change insurance cover form' if you feel you need more cover. You can also download forms from the Fund's website.


# Economic and investment update

## The global economic recovery appeared to have peaked early in the 2010/2011 Fund year.

Early in the year escalating European government debt, weak housing markets in the US and slowing growth in China all triggered a sharp decline in investment markets. Added to this were concerns about the sustainability of the recovery once government stimulus packages were withdrawn.

Share markets then rebounded on the back of a continued strong demand for commodities from emerging countries such as China and India, and indications of a further round of quantitative easing in the US. This easing allowed the U.S. Federal Reserve to expand its balance sheet by printing money to buy bonds, lowering borrowing costs and supporting asset markets. Nevertheless, the prospect of medium-term deflation, lingering fears of renewed financial risks and downward pressure on labour costs, among other factors, highlighted the fragility of the recovery at that time.

The final quarter of 2010 saw share markets rally strongly, building on the previous quarter's momentum as fears of a double-dip recession receded and governments introduced further stimulatory measures to support financial stability and economic growth. In the US, the Federal Reserve introduced US$600 billion of quantitative easing and the government extended the Bush tax cuts and provided further fiscal stimulus measures. Government debt continued to be a problem for some of the smaller European countries. Economic growth contracted in Greece and stagnated in Spain, and Ireland reluctantly accepted a Euro 85 billion support package from the International Monetary Fund to strengthen its banking system.

Most developed world economies grew modestly in the first quarter of 2011, and developing world economies grew strongly. Despite this encouraging growth, however, two major but unrelated recent events have the ability to severely alter the future for many countries and economies.

Popular pro-democracy movements in the Middle East and northern Africa may be a powerful force for democracy, rule of law and ultimately economic growth in that region, but pose supply risks for the world's oil supply sourced from the region. Unfolding developments may be a source of market volatility for some time yet.

Japan's devastating earthquake, tsunami and nuclear crisis have also caused considerable market volatility. Japan has few natural resources, relying on imported oil and gas and locally-produced nuclear power for base load electricity. This may spark a major structural change, not only in Japan, but also for the global carbon pollution reduction movement since nuclear base load power has until now been seen as part of the solution for many countries. Despite short-term volatility, Japan's eventual recovery may be a major source of growth there and in many other economies in the medium term.

These events are likely to mean that in the short-term, global monetary policy remains easy (that is, central banks will keep interest rates low, making money less expensive to borrow) as the after-effects work their way through the world's geo-political and financial systems.

## The Fund's investments

Here's how the Fund's investments performed to 30 April 2011. Returns are net of tax and investment-related costs:

| Periods to 30 April 2011 | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) |
|---|---|---|---|
| Growth | 7.85% | 1.39% | 0.64% |
| Balanced | 6.48% | 4.26% | 2.75% |
| Conservative | 5.45% | 5.89% | 4.34% |
| Cash | 2.86% | 3.45% | 4.10% |

# Investment changes

The Trustees have also recently changed the investment objectives and asset allocations for some of the Fund's investment options. Read on to find out more.

## Changes to investment objectives

Each of the Fund's four investment options, Growth, Balanced, Conservative and Cash, has a different benchmark (or target) mix of growth assets (shares and property) and income assets (fixed interest and cash). The benchmark asset mix for each option takes into account its long-term objective (or target return).

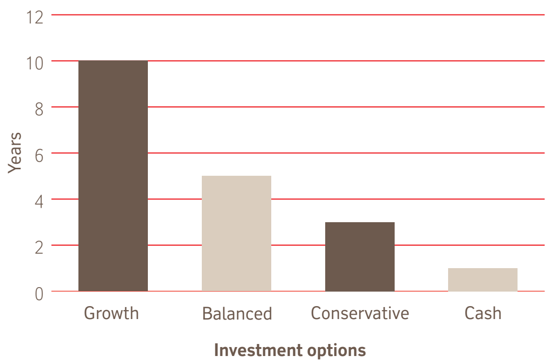
An investment option is generally expected to meet its objective, on average, at least two years in every three years (or 66% of the time). When the added value expected from the investment managers' outperformance is included, this expectation improves to an average of four years in every five (or 80% of the time).

Currently, the timeframes set for the Fund's investment options (other than the Cash investment option) to meet their objectives are expressed as "over rolling three-year periods". Modelling indicates that the Balanced investment option needs at least a five year timeframe to meet its objective of achieving an average annual return that exceeds inflation by 3% p.a., while the Growth investment option would require at least a nine year timeframe to meet its objective of achieving an average annual return that exceeds inflation by 4% p.a. (both measured after tax and investment fees).

### Revised timeframes

To reflect the timeframes indicated as necessary from the strategic asset allocation modelling, in future the Conservative investment option's return objective will be measured over three years, the Balanced over five years and the Growth over 10 years. (The Cash investment option's return objective will continue to be measured over one year.)

#### Timeframe to meet Investment objective



## Investment allocation changes

The global economic recession has changed investment market dynamics. Government debt in developed economies such as the US, Europe and Japan has increased very significantly as governments have issued bonds to try to stimulate economic growth. At the same time, there are market opportunities for New Zealand non-government bonds (for example, local government bonds).

### Revised asset allocations

In light of these changes, the fixed interest benchmarks for the Conservative and Balanced options have been adjusted to increase the amount invested in New Zealand fixed interest and reduce the allocation to international fixed interest accordingly.

The Conservative option's fixed interest benchmarks will be 24% New Zealand fixed interest and 16% international fixed interest. The Balanced option's fixed interest benchmarks will be 12% New Zealand fixed interest and 20% international fixed interest.

The following charts show the new benchmark asset mixes with previous benchmarks (where they have changed) in brackets.

## Investment manager changes

Late last year the Trustees carried out a review of the management of the Fund's Trans-Tasman share portfolio. In part this followed the departure of a significant number of key staff from Brook Asset Management Limited (Brook).

Previously the management of the Fund's investments in Trans-Tasman shares was allocated 50% to OnePath (NZ) Limited (formerly known as ING (NZ) Limited) and 50% to Brook.

Effective 2 December 2010, the management of 33% of the Fund's investments in Trans-Tasman shares was transferred from Brook to Harbour Asset Management Limited (Harbour). The portion that remained with Brook was transferred to Harbour during June 2011.

### About the new manager

*Harbour Asset Management Limited*

Harbour is a New Zealand based asset manager with significant experience managing funds for large government institutions, corporate superannuation funds, charities and other providers such as KiwiSaver funds. It has particular expertise managing New Zealand equities.

### Conservative Investment option

| | |
|---|---|
| Trans-Tasman shares | 8.0% |
| International shares | 19.0% |
| Trans-Tasman listed property | 2.0% |
| International listed property | 1.5% |
| International listed infrastructure | 1.5% |
| NZ fixed interest | 24.0% (7.0%) |
| International fixed interest | 16.0% (33.0%) |
| Cash | 28.0% |

### Balanced Investment option

| | |
|---|---|
| Trans-Tasman shares | 15.0% |
| International shares | 35.0% |
| Trans-Tasman listed property | 4.0% |
| International listed property | 3.0% |
| International listed infrastructure | 3.0% |
| NZ fixed interest | 12.0% (5.5%) |
| International fixed interest | 20.0% (26.0%) |
| Cash | 8.0% (8.5%) |

# Budget changes affecting retirement savings

## In its May 2011 Budget, the Government announced changes aimed at making KiwiSaver more sustainable in the longer term.

Briefly, the changes, which apply both to KiwiSaver schemes and to lock-in arrangements within complying superannuation funds such as the Fund, are:

- member tax credits will be halved from $1 to 50c for every $1 contributed by the member, up to a maximum member tax credit of $521.43 per year. This means that for the KiwiSaver year commencing 1 July 2011 onwards, a member making locked-in member contributions of $20 per week or more will receive $521.43 – half the current maximum; and
- the tax-free status of employer contributions to KiwiSaver schemes, and to locked-in accounts in complying superannuation funds, will end. From 1 April 2012, all KiwiSaver-type employer contributions will be subject to tax in the same manner as employer contributions to other superannuation schemes.

So that employees' ongoing savings are not unduly affected by these changes, from 1 April 2013 it is proposed that the compulsory minimum employer contribution and the minimum employee contribution rate will both increase to 3% of an employee's salary or wages.

Both the $1,000 kick-start contribution for first time KiwiSavers and the targeted first home deposit subsidy of up to $5,000 remain in place.

In addition, from 1 April 2012, employers will no longer be able to choose to deduct tax from employer contributions at a flat rate of 33%. Instead, all employers will be required to deduct tax at a progressive rate, which is usually the same as (or slightly less than) an employee's marginal tax rate. This change will not affect Fund members as tax is already deducted at progressive rates. (See page 5 for the current rates.)

# Website now easier to use

## Feedback from members told us that quite a few of you would like the Fund's website to be easier to use and more informative.

We're pleased to advise that the site's now had a facelift. As well as looking clean and contemporary, its features are now easier to use and locate. Take a look at www.realsuper.superfacts.co.nz.

If you regularly use internet banking, you'll see the similarities and find the site intuitive to navigate your way through. Once you've signed in with your member number and PIN, you can click on your account balance, transaction history and a number of other account details.

If you want help with the website, your Superannuation Inquiries Officer (Lynley Harris) can guide you through your first sign in and point out a few features to get you started. You can also seek assistance by calling the Fund Member Helpline.

The site is an easy way to keep an eye on your super. You can see how your chosen investment options are performing, check your insurance cover and beneficiary details, make changes to your account and keep up with the latest super news.

### New to the site:

- An ***Investment Choice 'mini-site'*** which sets out the basics of investing. You can find the link to the mini-site in the *Planning tools* section.

  If you've stayed in the Fund's 'default' investment choice (Balanced) because you haven't had the time to consider your options, or you're just not sure what option(s) might be best for you, this tool is a straightforward way to help you make a choice or ensure that the default option is a good fit for you.

- An ***Investment Choice planner***, to show you how combining a number of the Fund's investment options might impact your overall asset allocation.

Remember: these tools are for information only. They don't take the place of professional financial advice.


# Tax changes and salary sacrifice

## Tax changes which took effect on 1 October 2010 significantly reduced the benefits of salary sacrifice.

If you are still making salary sacrifice contributions (that is, you have elected to reduce your salary in exchange for additional employer contributions to the Fund) it could be a good time to review this arrangement.

After the top income tax rate rduced to 33%, some members who were previously making salary sacrifice contributions instead started contributing to a locked-in account to benefit from member tax credit contributions from the government of up to $1,043 a year (or approximately $20 a week) and tax-free employer contributions of up to 2% of salary. (However, please note the reductions to member tax credits and the pending tax on employer contributions to locked-in accounts described in the 'Budget changes affecting retirement savings' article on page 4). Please discuss this with your Superannuation Inquiries Officer (Lynley Harris) if you are interested in gaining tax credits via a locked-in account.

The following table compares the rate of marginal tax (PAYE) with the employer's superannuation contribution tax (ESCT) deducted from employer contributions to the Fund.

(Note that the employers have recently commenced deducting ESCT at progressive rates rather than the flat 33% rate that previously applied.) The income ranges to which the ESCT rates apply are higher than the income ranges to which the PAYE rates apply to reduce the risk that employer contributions made on behalf of employees whose income is close to a threshold are over taxed.

| Income range | PAYE rate % | Income & employer contributions in previous tax year* | ESCT deducted from employer contributions to the Fund % |
|---|---|---|---|
| $0 – $14,000 | 10.5 | $0 – $16,800 | 10.5 |
| $14,001 – $48,000 | 17.5 | $16,801 – $57,600 | 17.5 |
| $48,001 – $70,000 | 30 | $57,601 – $84,000 | 30 |
| $70,001 and over | 33 | $84,001 and over | 33 |

*Or, for a new employee, estimated for the current tax year

# Savings Working Group report

## The Savings Working Group, established last year to help the government develop its medium-term savings strategies and to stimulate public discussion on national saving, released its report on 1 February 2011.

The report revealed that New Zealand's level of foreign debt puts us right up there with Greece and Ireland, two countries at the centre of the recent European debt crisis. The problem centres around private sector debt, which is largely (90%) used to fund housing loans. This debt is largely funded by overseas borrowing from banks. The immediate risk is that foreign bankers could lose confidence in the New Zealand economy and decide to call in their loans. Even if we avoid a sudden economic crisis, unless steps are taken, our economic standing will continue to gradually deteriorate.

The Savings Working Group made a number of recommendations. These included reducing government spending, increasing public sector productivity, changes to KiwiSaver, financial education and amendments to the tax system.

# New financial services legislation

## New legislation setting high standards of competency, accountability and disclosure for financial advisers and financial service providers will take full effect on 1 July 2011.

The legislation made it compulsory for financial service providers (including trustees of superannuation schemes) to be registered on the Financial Service Providers Register by 1 December 2010. The Trustees have been registered accordingly.

To give consumers (such as members of superannuation schemes) access to a complaints procedure that is fair, accountable, efficient and effective, all financial service providers must also be members of an approved Disputes Resolution Scheme or the Reserve Scheme established by the government.

The Trustees have registered with an independent disputes resolution scheme operated by Financial Services Complaints Limited (FSCL) and approved by the Ministry of Consumer Affairs. If you have a complaint, we have 40 days to respond to your complaint. If you are not satisfied by our response, you may refer the matter to FSCL by emailing info@fscl.org.nz or calling FSCL on **0800 347257**.

Alternatively you may write to FSCL at:

Financial Services Complaints Limited
45 Johnston Street
P O Box 5967, Lambton Quay
Wellington 6145

Full details of how to access the FSCL scheme can be obtained on their website www.fscl.org.nz.

The legislation also introduces a new adviser framework including an Authorised Financial Adviser (AFA) qualification. Financial advisers who advise on more complex investments (including KiwiSaver) or who provide a financial planning service have until 30 June 2011 to become authorised financial advisers. As authorised financial advisers they must abide by a code of professional conduct. The code is intended to ensure consumers can have confidence that when they deal with an authorised financial adviser that person is professional and meets appropriate standards of competence.

# Trans-Tasman portability of retirement savings

## The Taxation (Annual Rates, Trans-Tasman Savings Portability, KiwiSaver and Remedial Matters) Bill became law on 7 September 2010 but has yet to take effect.

The provisions in the Bill relating to Trans-Tasman savings portability are expected to come into effect by late 2011 or early 2012. At the time of this update, no specific date can be provided as before the legislation can take effect equivalent enabling legislation in Australia must be passed (this legislation will shortly be introduced into the Australian Parliament). As currently worded, the legislation will allow transfers only between KiwiSaver schemes in New Zealand and complying superannuation funds in Australia.