

INSIGHTS

AUGUST 2022



NZAS
RETIREMENT FUND
Your Super. Your Future.

MESSAGE FROM THE TRUSTEE

Welcome to this August edition of Insights.

This edition includes the Fund's indicative investment returns to 30 June, market and economic news, tips for keeping digitally safe, links to guidance on obtaining financial advice, a further call for nominations for four member-elected directors, and an update on salary sacrifice contributions to the Fund. For any questions on this newsletter or the Fund, please call Helpline on **0508 266 787**.

Regards,

NZAS Retirement Fund Trustee Board

TRUSTEE ELECTION - FURTHER CALL FOR NOMINATIONS

The Fund is managed by a Trustee Board consisting of eight Trustee Directors. Four are elected by the members, and four are appointed by the company. The latest three-year term of office for the four current member-elected Trustee Directors ends on 31 October 2022.

You will have received information by email and post seeking nominations for these member-elected Trustee Director positions. **Nominations close on Friday 5 August 2022 at 5pm.**

You can read more about the election process [here](#).



INVESTMENT OPTION RETURNS*

The following table shows investment returns (after tax and investment-related costs) for each of the Fund's four investment options for the stated periods, each ended 30 June 2022:

	Cash	Conservative	Balanced	Growth
3 months (quarter to 30 June 2022)	0.4%	-4.8%	-7.6%	-10.0%
Year ended 30 June 2022	0.7%	-5.9%	-8.7%	-10.9%
3 years (p.a.)	0.6%	1.2%	2.6%	4.1%
5 years (p.a.)	1.0%	2.7%	4.4%	6.3%
10 years (p.a.)	1.6%	4.6%	7.0%	9.6%

*These are indicative rates - they may change when the final earnings rates are declared for the year.

You can find the [latest earning rates](#) and general information about [how financial markets are performing](#) on the Scheme website.

THE INVESTMENT MARKETS

It was a very difficult quarter for virtually all investment markets covering both growth and income type assets. Global shares were down around 14% (before taking any movement in the New Zealand dollar into account), NZ shares 10%; global fixed interest 5% and NZ fixed interest 2%. Let's drill down into some of the events behind this volatility in April, May, June and into July.

In April, global share markets had their most difficult month since March 2020 as the convergence of global central banks tightening monetary policy, economic growth momentum fading and a challenging corporate earnings outlook triggered a 'risk-off' response among market participants. In recent years, policy support would be ever present to ease the pain, however high inflation readings left central banks little option but to quickly reverse their course and tighten by lifting 'official' interest rates.

China's 'zero-COVID' policy continued to place pressure on already strained global supply chains. Shipping analytics firm 'Windward' calculated in April that 20% of the world's roughly 9,000 active container ships were idle in traffic jams (with close to 30% of that backlog in China alone).

As New Zealand mortgage interest rates rose across the board, valuation company 'QV' reported in April that in the 3 months ended 31 March 2022, house prices had experienced their biggest quarterly drop in a decade (with the average house price decreasing by 0.6%).

May was another volatile month for share markets which ended relatively flat after a strong end to the month. Share markets continued to digest a fast changing economic environment as inflation concerns took centre stage. The market questioned whether central banks across the world would continue hiking interest rates to control inflation amid slowing economic conditions and heightened risks of recession.

China struggled in containing the spread of COVID-19, with Shanghai remaining in lockdown for the majority of May, and officials slowly easing restrictions in early June. However, officials indicated that they would continue with their zero-COVID strategy for some years.

New Zealand shares did not fare as well as international counterparts during May, with the NZX50 down 4.8%. Multi-decade high inflation and subsequent rate hikes by the Reserve Bank of New Zealand (RBNZ) put pressure on borrowers and dampened the economic growth outlook in New Zealand, particularly for homeowners.

June was a particularly poor month for investment returns as central banks continued to tighten monetary conditions through rising interest rates as signs of an economic slowdown continued to mount - fuelling concerns that central banks could be hiking into an economic recession. The New Zealand domestic sharemarket, while negative for the month, performed better than its global counterparts on the back of strong earnings and the nature of its dividend paying constituents.

Over the June quarter as a whole, interest rates in New Zealand and internationally rose substantially, leading to negative returns from longer term fixed interest assets.

The RBNZ continues to raise the official cash rate (OCR) to get on top of inflation. The latest rise of 50 basis points on 13 July 2022 lifted the OCR to 2.5%. As mentioned in the March 2022 newsletter, inflation still remains elevated (7.3% annual inflation as at 30 June 2022 - the highest in 30 years). Inflation is likely to remain stubbornly high for the rest of 2022 and into 2023, remaining well outside the RBNZ's medium term range of between 1.0% - 3.0%. However, the inflationary impulse from government spending should wane over the course of the year, and central banks are tightening policy. In addition, supply should gradually rise to meet demand, as the disruption in the supply chain eventually subsides.

FINANCIAL ADVICE

We all want to get the best out of our savings and to ensure we make informed decisions. Sometimes we have to ask for advice.

There are many free online financial planning tools available and financial advisory services that can help you develop or refine your savings strategy. Some of these are published on the Fund's 'Financial Advice' webpage at www.nzasretirementfund.com/financial-advice.



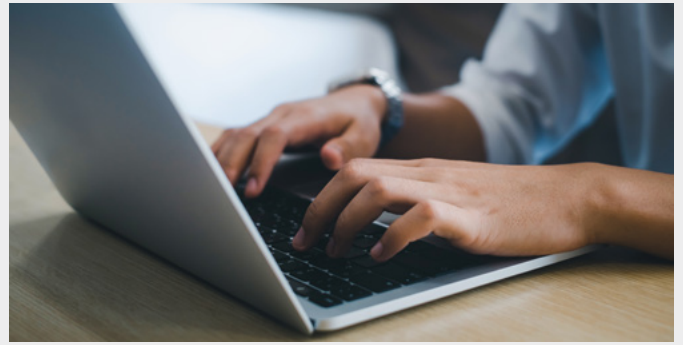
ARE YOUR CONTACT DETAILS CORRECT?

We are currently preparing your member statement and annual report for the year ended 30 June 2022, and these will be sent to you by end of September. Take a moment now to log in at www.nzasretirementfund.com and check that your contact details are correct so there is no delay in these important documents reaching you.



KEEP DIGITALLY SAFE

New Zealanders are being impacted by cyber security threats more frequently at both work and home. CERT NZ, an organisation established to support businesses, organisations, and individuals who are affected by cyber security incidents, shares some common threats. These include: information leaks, text messaging scams, COVID-19 scams, spam, malware, online identity theft, denial-of-service attacks, phishing, ransomware, unauthorised access, and online scams and fraud. You can read more about each [here](#).



What should you do to keep digitally safe? CERT NZ recommends four steps you can action today:

1. Upsize your password

“Long and strong passwords are much harder for attackers to crack. We recommend creating a passphrase, that’s a string of four or more words as it’s easier to remember and is stronger than a random mix of letters, numbers and symbols.”

2. Upgrade to two-factor authentication

“Upgrading to two-factor authentication (2FA) adds another layer of security to your accounts. It’s a simple extra step after you log in, like using your thumb print or entering a code from an app. You can enable 2FA on most of your online accounts, and your devices. You’ll usually find the option to turn it on in the privacy settings.”

3. Uphold your privacy

“Start by checking that your social media settings are switched to Friends Only, and check that any requests for personal information are legitimate before you share your details. If a company or business asks you for information, think about why they might need it. Do they really need your middle name and phone number? If you’re not sure, don’t provide the information.”

4. Update your apps and devices:

“Updating your apps and devices helps keeps bugs and viruses out. Updates not only add new features, they also fix security risks that attackers can use to gain access to your information. Set updates to happen automatically whenever a new version is available. Then you don’t have to think about it!”

This article references material sourced from www.cert.govt.nz. Visit their website for more information on [keeping digitally safe](#).

SALARY SACRIFICE UPDATE

Your Trustee Directors recently reviewed the pros and cons of reintroducing salary sacrifice as a member option. They sourced information from the Fund’s advisers and concluded that there would be no material benefit or tax advantage for members in reintroducing this option, and some potential downsides depending on individual members’ circumstances.

The standard contribution rates for the Fund are as follows:

- a member must contribute from after-tax pay at the minimum rate of 4% of base salary; and
- NZAS’ before-tax contribution rate is:
 - for a subsidised member, 10% of base salary plus 5% of any lump sum bonus; and
 - for an unsubsidised member, 3% of base salary (but only if the member chooses to contribute on a locked-in basis).

If a member wishes to increase their retirement savings through the Fund above those standard contribution rates then there is a facility in place for this to happen. The member can increase their own contributions by completing the [‘NZAS14A - Application to change contributions’](#) form and filling in a preferred contribution amount (subject to an overall maximum member contribution rate of 20% of base salary).

What is salary sacrifice?

Historically, while:

- the top personal income tax (PAYE) rate was 39% and then 38%; and
- the top employer’s superannuation contribution tax (ESCT) rate was 33%;

many higher-earning Fund members took advantage of that tax differential through a “salary sacrifice” arrangement with NZAS.

The salary sacrifice involved a member agreeing to reduce their salary (and any bonus entitlements) for future pay periods in return for NZAS agreeing to make matching additional employer contributions to the Fund for the member’s benefit on top of its standard contributions.

Through this arrangement, the member gained a tax saving enabling them to make greater net retirement savings contributions through the Fund.

The top PAYE and ESCT rates were aligned on 1 April 2011, removing this tax advantage, and salary sacrifice was no longer offered (though Fund members who had already elected a salary sacrifice were permitted to continue that arrangement).

PAYE and ESCT rates remain aligned.

Should the Fund wind up at some stage in the future with reserves (i.e. a residual Reserve Account and/or Insurance Account balance) available for distribution, the balances of eligible members* would not be recognised for reserves sharing purposes to the extent that they related to net salary sacrifice contributions which (together with any ongoing member contributions) exceeded when made:

- the minimum member contribution rate of 4% of base salary; or
- the rate (if higher) at which those members were contributing immediately before commencing a salary sacrifice.

* Members who have already left NZAS' employment (and any unsubsidised employee members) would not share in any such reserves distribution.

YOUR TRUSTEE DIRECTORS

You're welcome to contact any of your Trustee Directors if you have any questions about the Fund. The current Trustee Directors' details are [online](#) or you can call them on their direct lines:

Site Based Trustee Directors

Paula 03 218 5571
Grant 03 218 5541
Allan 03 218 5811
Karen 03 218 5689
Andrew 03 218 5989

Offsite Trustee Directors

Tim 027 453 5565
Stephanie +61 407 718 161
Bruce 027 284 0481

Any questions about the Fund? You can contact the Helpline on **0508 266 787** (Australia 03 8687 1849, and international +61 3 8687 1849) between 9am and 7pm Monday to Friday, except for national public holidays.