

Welcome to the latest edition of the Fire Service Superannuation Scheme's Supernews, which contains the latest news and information about your scheme and superannuation in general. If there are topics you would like included in future issues, please call the scheme helpline on 0800 697 8737.



INVESTMENT MARKET PERFORMANCE

Global share markets maintained their upward trend in the final quarter of 2017 and through into January. However, in early February investors received a nasty reminder that the only way isn't always up, with a sharp and sudden fall in global share prices. At the time this article was prepared investment markets continue to be very volatile.

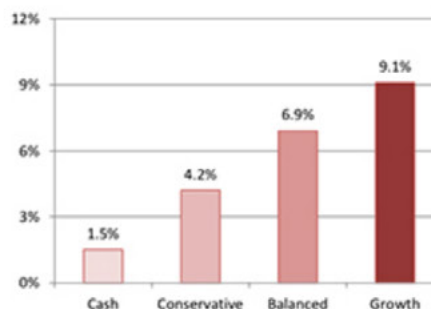
Returns from fixed interest investments were relatively modest as the US Federal Reserve increased interest rates to 1.5%. (Returns from fixed interest securities fall when interest rates rise as the security retains the interest rate applicable at the time of purchase.) In New Zealand, the Reserve Bank has kept the Official Cash Rate at 1.75%, where it has been since the end of 2016.

REVIEW OF INVESTMENT EXPECTATIONS

At their December meeting the trustee directors considered a letter from the scheme's investment consultant, Russell Investment Group, which stated that their modelling output for each of the scheme's investment options was broadly in line with the current investment expectations and that no changes were required. After some discussion, the trustee directors agreed with Russell's recommendation. Refer to page 4 of the scheme's 2017 annual report or pages 2 – 4 of the product disclosure statement for the current investment expectations. (Copies of both documents are available [here](#).)

SCHEME EARNINGS RATES

The chart to the right shows the earnings rate for each investment option for the scheme year-to-date. As mentioned above, a sizeable share market correction occurred in early February, although approximately one-half of the losses have since been reversed. As a result, earning rates have taken a hit so far in 2018. However, share market performance in the 9 months to 31 December was particularly strong and the estimated earnings rates year-to-date (to 19 February 2018) are currently still healthy, particularly for the Balanced and Growth options.



Please note that the returns shown are after tax and all administration and investment expenses.

For the most up-to-date earning rates please visit the [scheme website](#).

COULD CASH OUTPERFORM CONSERVATIVE?

In the current market environment of increasing interest rates, there is potential for the Cash investment option to outperform the Conservative investment option because of the latter's allocation to fixed interest.

While they are generally seen as less risky than other asset classes, fixed interest securities (bonds) can still deliver negative returns. The primary cause is an increase in interest rates. When rates go up, existing bonds lose value. This is because the existing bond return is 'locked in' at a lower interest rate than what newly issued bonds are offering.

In contrast, the Cash option's short-term cash investments are not affected by increasing interest rates. They therefore have the potential to outperform the Conservative option over short periods when interest rates are rising faster than expected.

However, over the long term, the Conservative option's fixed interest investments are expected to outperform cash as they tend to offer higher interest rates to compensate for additional risks.

THE EFFECT OF TAKING A BREAK FROM WORK ON KIWISAVER HOMESTART GRANTS

A recent newspaper article about a woman who initially missed out on a KiwiSaver HomeStart grant highlights the need to have contributed regularly to a KiwiSaver scheme or to an 'exempt employer' scheme (such as the scheme) for at least three years in total. Periods when you are temporarily away from work (such as on parental leave) do not count unless you contribute the applicable minimum amount during those periods.

To qualify for the grant, a person is expected to have contributed for at least three years at a rate at or above the minimum allowable rate, which is currently (as applicable):

- 3% of gross income; or
- 3% of the gross adult minimum wage (which currently equates to around \$20 a week) for non-earners; or
- 3% of the annual benefit for beneficiaries.

Just contributing the minimum \$1,042.86 needed to be eligible for the maximum annual government contribution is not automatically considered enough to qualify for a HomeStart grant.

The amount of the grant varies, depending on whether you are purchasing an existing home or a new home (or land on which to build a new home). For someone purchasing an existing home, the grant is worth a minimum of \$3,000 and a maximum of \$5,000, and for someone purchasing a new home or land to build a new home on, it is worth a minimum of \$6,000 and a maximum of \$10,000.

The grants, which are administered by Housing New Zealand, are subject to qualifying criteria including income and house price caps. More information about the grant is available [here](#). Any queries about KiwiSaver HomeStart grants should be directed to Housing New Zealand and not to the Scheme Secretary or the Trustee.

REVIEWING YOUR SCHEME MEMBERSHIP

As a matter of good practice, reviewing your scheme membership on a regular basis is very important.

Although saving for your retirement is usually a long-term undertaking, it shouldn't be a set-and-forget process. That doesn't mean that you should be chopping and changing between options.

The appropriate option for you can be influenced more by your personal circumstances than how investment markets themselves are performing. Your age, changes in your family situation and other investments you have can mean you may need to consider realigning your investment options.

Remember though, that volatile investment markets aren't a good reason to make sudden changes in direction. Markets go up and they go down, and quickly, and it is better to ride out the volatility – even if a falling share market can make you nervous.

How frequently should you be having a look at where your savings are invested? It's up to you, although yearly is a popular choice because you can tie it in with the arrival of the scheme's annual report and your annual confirmation (previously known as your benefit statement), your birthday or some other important anniversary.

And it doesn't need to be a full-blown review. The main thing is to be aware that your scheme membership continues to meet your needs when retirement finally beckons.

CONTINUING YOUR MEMBERSHIP AFTER YOU CEASE SERVICE

Your scheme membership doesn't have to stop when you leave service. The scheme rules allow you to leave all or some of your benefit in the scheme and become a deferred member. Deferred membership has a number of advantages:

- **Easy access to your savings and at the same time, potentially higher returns**

Normally, to allow you to make withdrawals at fairly short notice, your savings would need to be invested in assets such as cash and fixed interest, which tend to provide moderate returns. However, because of the size of the scheme, you still have the flexibility to choose an investment option which includes higher performing longer-term assets such as shares.

- **A way of avoiding 'realising' investment losses**

If investment markets are depressed at the time you leave your employer, individual membership allows you to leave all or some of your benefit in the scheme until such time as markets recover.

- **Make regular withdrawals**

A recently introduced feature allows you to have an amount deducted from your scheme account each month and paid into your nominated bank account. This can be a useful way of supplementing other retirement income.

If you decide to become a deferred member, you need to advise the Trustee of this within one month of the date you leave service. The easiest way to do this is to tick the appropriate box in part 1 of the Cessation Advice form.



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