



for the year ended 30 June 2007

**teachersretirement**  
SAVINGS SCHEME

**Annual Report**

**MERCER**



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Prepared for the Members of the Teachers  
Retirement Savings Scheme



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## Scheme returns since inception (after tax and fees)

Period to 30 June	Investment Fund			
	Cash	Stable	Balanced	Growth
2003*	2.07%	5.41%	6.65%	8.03%
2004	3.13%	5.28%	7.99%	10.92%
2005	4.14%	6.95%	8.08%	9.14%
2006	5.16%	6.31%	10.56%	14.67%
2007	4.89%	5.68%	8.17%	10.75%

\*8 months only

# The Year's Results at a Glance

Just over \$39 million in contributions were received by the Teachers' Scheme and invested in the Employee Retirement Plan (ERP) during the 12 months to 30 June 2007.

The value of Teachers' Scheme members' funds invested in the ERP as at 30 June 2007 was almost \$140 million, an increase of over 46% (over \$44 million) since 30 June 2006.

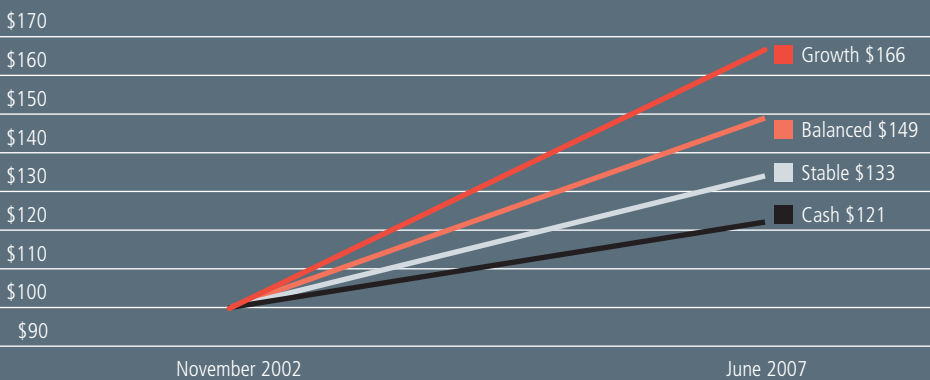
558 new members joined the Teachers' Scheme over the past year, bringing total membership to 12,053.

The ERP has again achieved competitive investment returns for the Teachers' Scheme. For the year to 30 June 2007 the returns (after tax and fees and based on the monthly declared interest rates for each Investment Fund) were:

Cash Fund	4.89% p.a.
Stable Fund	5.68% p.a.
Balanced Fund	8.17% p.a.
Growth Fund	10.75% p.a.

The following graph shows the value at 30 June 2007 of \$100 invested in the Teachers' Scheme when it began in November 2002 (56 months).

\$100 invested through the Teachers' Scheme in the ERP when it commenced in November 2002 is now worth, as at 30 June 2007:



The Teachers' Scheme website [www.teachersretire.org.nz](http://www.teachersretire.org.nz) provides up-to-date information on the Teachers' Scheme's investment performance and growth throughout the year.

## Message from the Trustee

We are pleased to present the 2006/07 Annual Report for the Employee Retirement Plan (the ERP). The Teachers' Retirement Savings Scheme forms part of the ERP, and as at 30 June 2007 is the only scheme participating in the ERP.

In this report, you'll find information about the growth and performance of the Teachers' Scheme over the past year, as well as some general information.

### Increased membership and contributions

During the year, 558 principals and teachers joined the Teachers' Scheme, boosting total membership to 12,053 as at 30 June 2007.

The continuing growth in membership is very encouraging. In terms of membership, the Teachers' Scheme is one of New Zealand's largest employer-sponsored superannuation schemes. The monthly administration fee deducted from each member's accounts reduces as membership increases, so the growth in membership benefits all members.

The ERP received over \$39 million in contributions from Teachers' Scheme members and their employers over the last year.

Over 89% of the Teachers' Scheme members are contributing more than the Scheme's minimum 1% of salary, with 80% contributing at least 3%. This is very pleasing, and shows that members recognise the importance of saving for retirement and value the employer contribution subsidy.

Total member funds at 30 June 2007 were almost \$140 million, an increase of more than \$44 million over the last year.

### Another sound year for investment markets

The strong New Zealand dollar and rising interest rates had a detrimental impact on returns in some sectors but overall, all four ERP Investment Funds provided sound returns. See page 7 for further information about investment markets and their contribution to total Fund returns.

### Greater flexibility added to the Teachers' Scheme

Subject to certain conditions, once you've been a member of the Teachers' Scheme (or another SSRSS or a KiwiSaver scheme) for at least three years starting from 1 July 2007, you can make a once-only withdrawal from your Basic and Voluntary Accounts to go towards the purchase of your first home. If you emigrate from New Zealand, you can transfer your Teachers' Scheme savings to an approved overseas superannuation scheme. Alternatively, one year after you emigrate you can apply to withdraw the full amount.

## Useful information on [www.teachersretire.org.nz](http://www.teachersretire.org.nz)

If you're looking for information about the Scheme or KiwiSaver, webinars (short on-line seminars) specifically developed and produced for the Teachers' Scheme are available on the Teachers' Scheme website, [www.teachersretire.org.nz](http://www.teachersretire.org.nz).

Click on the 'View the latest webinars' button on the home page to view the on-line seminars presented by one of Mercer's education specialists. Usage statistics show that the budgeting and investment choice webinars continue to be well used.

## To summarise

Your Scheme continues to make pleasing progress. All of the Teachers' Scheme Investment Funds have again provided sound returns and membership continues to grow.

Investment markets can be unpredictable and will always be subject to external influences, but we are confident that the information and tools provided will help you to plan and manage your Teachers' Scheme savings so that you can look forward to a financially secure retirement.



on behalf of the Trustee, Public Trust

# Superannuation Developments

## KiwiSaver

The KiwiSaver Act took effect from 1 July 2007. A webinar explaining KiwiSaver is available on the Teachers' Scheme website [www.teachersretire.org.nz](http://www.teachersretire.org.nz).

The Government Actuary has approved all state and state-integrated schools as exempt employers. This means that they are not required to automatically enrol new employees in KiwiSaver. You can still choose to join KiwiSaver if you wish. Enrolment packs are available from your school and from Inland Revenue.

## Recent tax changes

### Investment income

The rate of tax on the Teachers' Scheme's investment income will reduce from 33% to 30% from 1 April 2008. This rate applies regardless of your personal tax rate.

### Employer contributions

Effective 1 April 2007, a new scale for the taxation of employer contributions was introduced. Since the Ministry pays withholding tax in addition to the dollar-for-dollar subsidy (up to a maximum of 3% of a member's salary) credited to members' accounts, this does not directly affect you as a member.

### New Portfolio Investment Entity (PIE) tax regime

Effective 1 October 2007, taxation legislation gives collective investment vehicles such as unit trusts and superannuation schemes the option of electing into the new PIE tax regime. The Mercer Super Investment Trust, into which the ERP invests, will become a PIE, which means that member schemes such as the Teachers' Scheme will benefit from a tax exemption on capital gains on shares in New Zealand and some Australian companies.

Changes to the Investment Funds' asset allocations in response to the new tax regime are set out on pages 9 and 10 of this report.

## 2007 Investment Returns

### How your funds are invested

Teachers' Scheme members' funds are invested in the ERP's four Investment Funds. These funds, in turn, are invested with the Mercer Super Investment Trust (MSIT). Specialist investment managers selected for their expertise, and for recognised performance in their specific investment sectors, have been appointed to manage the MSIT's assets. The ERP's Investment Funds are invested according to their strategies, as outlined on pages 9 and 10, in the MSIT's investment sector funds.

### Returns for the year

All four of the ERP's Investment Funds provided Teachers' Scheme members with good returns for the year to 30 June 2007. The indicative investment returns for each of the Investment Funds were:

	Indicative Net Returns (after deductions for tax and Plan fees and expenses) % p.a.	Equivalent Gross Returns (before tax at 33%, fees and expenses) % p.a.
Cash Fund	4.89	8.1
Stable Fund	5.68	8.7
Balanced Fund	8.17	11.6
Growth Fund	10.75	14.6

The net returns are derived by compounding the monthly declared interest rates for each Investment Fund from 1 July 2006 to 30 June 2007. Please note that your returns may not be the same as those shown, as the timing of cash flows (for example, contributions) during the year will affect the actual returns achieved on your account balances.

The actual net investment earnings credited to your accounts are based on monthly declared returns, your allocations across the four Funds and the balances in your accounts each month. The table below shows the monthly declared returns and, for illustrative purposes only, the cumulative returns for the year to 30 June 2007:

Period	Cash		Stable		Balanced		Growth	
	Monthly	Cumulative	Monthly	Cumulative	Monthly	Cumulative	Monthly	Cumulative
<b>2006</b> July	0.44%	0.44%	0.42%	0.42%	0.34%	0.34%	0.24%	0.24%
August	0.38%	0.82%	0.39%	0.81%	0.30%	0.64%	0.19%	0.43%
September	0.34%	1.16%	0.67%	1.49%	0.91%	1.56%	1.14%	1.57%
October	0.40%	1.56%	0.89%	2.40%	1.65%	3.23%	2.36%	3.96%
November	0.33%	1.90%	0.62%	3.04%	0.78%	4.04%	0.90%	4.90%
December	0.32%	2.23%	0.48%	3.53%	0.97%	5.05%	1.46%	6.43%
<b>2007</b> January	0.52%	2.76%	0.39%	3.93%	0.79%	5.88%	1.14%	7.64%
February	0.39%	3.16%	0.28%	4.22%	-0.11%	5.76%	-0.49%	7.11%
March	0.35%	3.52%	0.46%	4.71%	0.64%	6.44%	0.86%	8.03%
April	0.48%	4.02%	0.58%	5.31%	1.13%	7.64%	1.68%	9.85%
May	0.39%	4.42%	0.49%	5.83%	1.08%	8.81%	1.66%	11.68%
June	0.45%	4.89%	-0.14%	5.68%	-0.58%	8.17%	-0.83%	10.75%

These net returns take into account the investment returns achieved by the MSIT's specialist investment managers, plus any interest on contributions held in the ERP's bank account (before being invested), less tax and ERP expenses. Tax is deducted at 33%, while Scheme expenses include all operating expenses, such as audit and bank fees and the MSIT's investment management fees.

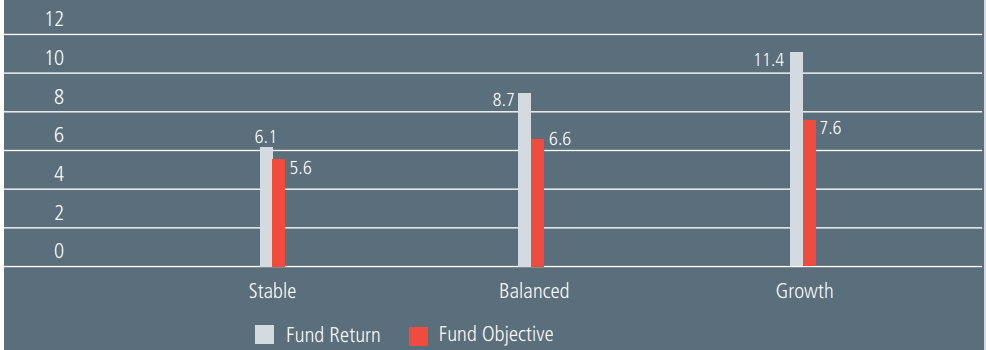


Investment returns are determined by how the different investment sectors perform and how the MSIT's managers react and invest within those markets. See page 7 for the sector returns. Each of the ERP's Investment Funds – Cash, Stable, Balanced and Growth – is invested in differing combinations of these sectors. See pages 9 and 10 for more details.

## Returns compared with objectives

The Trustee is pleased to report that, to date, the long-term returns (net of tax and fees) from the three non-cash Investment Funds have been above their objectives, which were based on five-year average performance and are now (from 1 October 2007) based on performance relative to inflation. (As the Teachers' Scheme has not yet operated for five years, comparisons are made on a four-year basis.) The objectives were to outperform the net return from cash at the bank (as measured by the 90-day Bank Bill Rate less tax at 33%) by 1% in the Stable Fund, 2% in the Balanced Fund and 3% in the Growth Fund. The new objectives are shown on pages 9 and 10.

Fund Net Returns Compared to Objectives % p.a. for Four Years to 30 June 2007

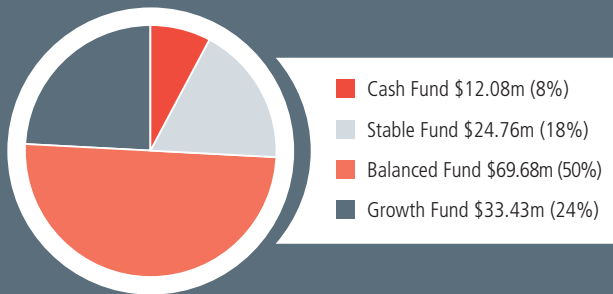


( The ERP's Investment Fund returns are net of tax and all Plan fees and expenses.)

The Cash Fund's objective is based on a three-year time period. On average, over three years, the Cash Fund outperformed the 90-day Bank Bill Index by 0.10%, as compared to its objective of 0.20%.

The following chart shows the mix of members' current investment choice (as at 30 June 2007).

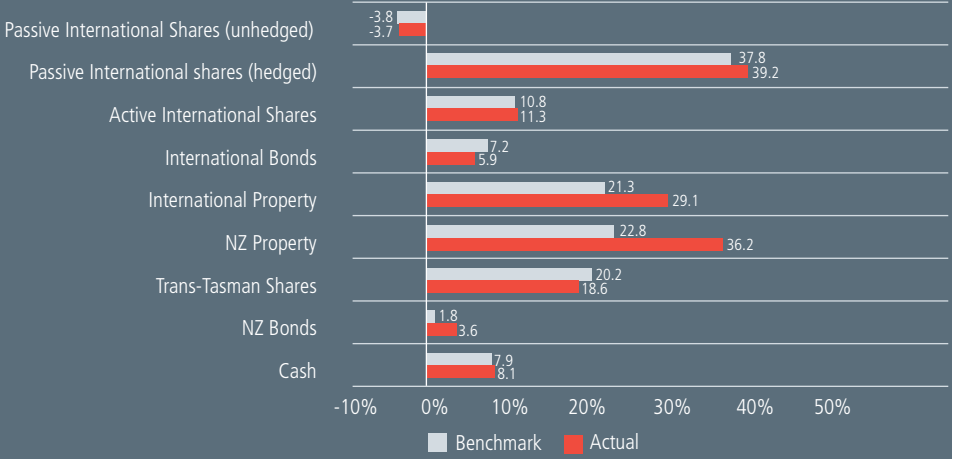
Managed Fund Values as at 30 June 2007



# Investment Performance

## Returns to 30 June 2007

The gross returns (that is, before fees and tax) and the benchmark (or target) returns of the sector funds managed by specialist investment managers for the MSIT for the year to 30 June 2007 were:



As the graph above shows, over the year to 30 June 2007, most sectors produced sound, and in some cases impressive, returns. Hedged passive international shares (that is, investments in a portfolio of shares invested in accordance with a named index) and New Zealand and international property gave the stand-out performances (39.2%, 36.2% and 29.1% respectively before fees and tax). The rise in the New Zealand dollar against most major currencies, particularly the US dollar, was reflected in the negative return from unhedged passive international shares. A steady rise in interest rates reduced returns from fixed interest securities.

Most investment managers achieved their objectives over the year, with the best performances coming from New Zealand property and international property (these returned +13.4% and +7.8% above their respective benchmarks).

The return from Trans-Tasman shares was 1.6% below benchmark. The underperformance was largely because the manager’s investment style is to invest in larger companies. Until recently, middle and small-sized companies have performed better than their larger counterparts and better than the NZX 50 index (the benchmark).

The underperformance of 1.3% from international bonds was because the manager focused on lower-risk sovereign debt issues and invested a higher proportion in this type of security than the benchmark. As a result, the portfolio missed out on the higher returns from corporate and other riskier forms of debt.

## Investment market performance to 30 June 2007

Major influences on the global economy and markets during the year were:

- strong economic growth, particularly in Asia and Europe;
- merger and acquisition activity; and
- further interest rate rises.

In New Zealand, growth was stronger than expected, which highlighted inflation pressures and prompted the Reserve Bank to raise interest rates. Higher interest rates attracted money to New Zealand, pushing our dollar higher. Unfortunately, these higher rates held back returns from New Zealand fixed interest investments.

Returns from New Zealand shares were boosted by continuing takeover activity. The Australian sharemarket benefited from the resource boom and strong economic performance, and provided another very strong result.

Although a plunge in the Chinese sharemarket in late February sparked a fall in global sharemarket returns, the Scheme's investments in international shares performed well overall. The strong New Zealand dollar had a detrimental effect on returns from the unhedged portion of the international shares investment portfolio.

The moderate returns from international fixed interest securities reflected volatile interest rates worldwide.

Some of the Scheme's best returns came from property, particularly New Zealand property as demand from both tenants and buyers continued to exceed supply.

Overall, the good results from shares and property during the year, supported by more moderate returns from fixed interest securities, provided a sound performance for Teachers' Scheme members.

The past year has highlighted the fact that investment returns fluctuate. However, the Teachers' Scheme is well positioned to cope with this as the investment strategy for each Investment Fund is designed to achieve sound long-term returns and to ride out any weaknesses that may occur from time to time.

## Investment strategy

The ERP offers members four Investment Funds with varying degrees of risk, from low risk (the Cash and Stable Funds) to high risk (the Growth Fund). "Risk" means the expected fluctuations in returns (also referred to as volatility) and the likelihood of posting a negative return. Risk is managed by investing the funds in a variety of different investment sectors (each with its own risk level) to spread or diversify the overall risk to you. The overall risks and returns from each Investment Fund reflect the risks and returns of the investment sectors in proportion to the percentage they are invested in each sector.

The benchmark allocations as at 30 June 2007, which took effect from 1 April 2004, are set out on pages 9 and 10. The benchmark strategies were revised as at 1 October 2007 to allow the ERP to benefit from the new taxation rules for managed funds. The revised benchmark for each Investment Fund is shown in brackets.

The benchmark is intended to be a long-term average mix, but the actual mix will vary from time to time as the funds are actively managed. (Active management means that the investment managers have the discretion to adjust the allocation of the assets under their management to try and improve returns. Passive management means that the assets are invested in accordance with an index, for example, the NZX 50 for New Zealand shares.)

The Trustee is confident that the long-term investment strategies adopted will continue to serve members well in the future when compared with other means of investing.

The Trustee aims to achieve sound long-term returns from the ERP's investments and ensure the ERP has enough funds to meet all benefit payments when they fall due by:

- obtaining satisfactory returns, taking into account the accepted degree of risk and the markets in which the ERP invests; and
- spreading risk, so the ERP doesn't have "all its eggs in one basket".

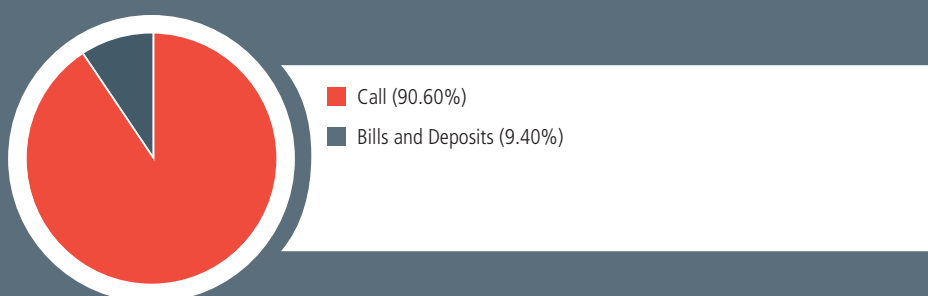
## Statement of investment policy and objectives

Copies of the statement of investment policy and objectives for the ERP can be obtained free of charge from the ERP's Secretary, Derek Vincent of Mercer Human Resource Consulting, at the address shown in the Directory on page 19.

The following charts summarise the main features of each of the ERP's Investment Funds.

# Your Guide to the ERP's Investment Funds

## Cash Fund – Benchmark asset allocation (as at 30 June 2007) 100% NZ Cash



### Investment objective

To outperform the NZX 90 Day Bank Bill Gross Index by 0.20% p.a. over any rolling three-year period.

### Suitable for investors looking for

Short-term investments offering protection from negative returns (particularly applicable if you are nearing retirement age).

### Risk of capital loss (negative return)

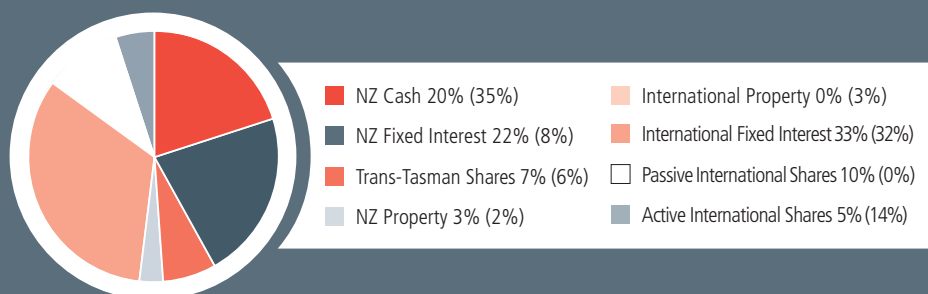
Unlikely, with returns similar to those from cash deposits.

### Mix of investments

NZ cash and short-term (up to one year) NZ dollar securities issued or backed by the NZ Government, NZ banks or corporates. Generally, securities that have a minimum short-term credit rating of A-1 or better.

## Stable Fund – Benchmark asset allocation (as at 30 June 2007)

Revised benchmark from 1 October 2007 shown in brackets



### Investment objective

To outperform the net return (after tax at 33%) on cash invested in the bank by 1% p.a. on average over a five-year period. From 1 October 2007: for the long-term net return (after tax and investment-related expenses) to outperform inflation (as measured by the increase in the Consumers Price Index (CPI)) by an average of 2.5% p.a.

### Suitable for investors looking for

Consistent shorter-term returns but with less variability than the Balanced and Growth Funds.

### Risk of capital loss (negative return)

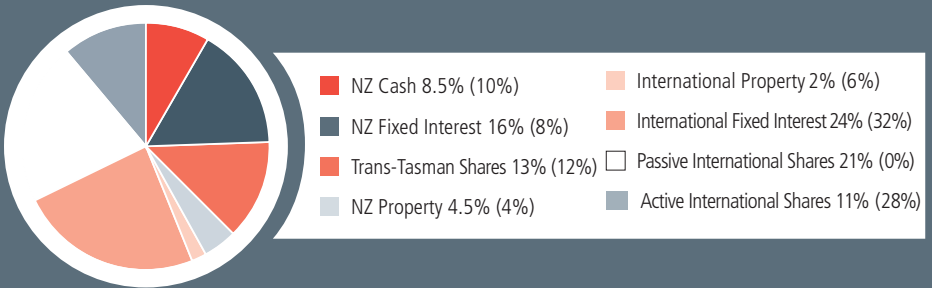
Low (one year in every 14 years).

### Mix of investments

25% growth assets, 75% income assets (no change from 1 October 2007).

## Balanced Fund – Benchmark asset allocation (as at 30 June 2007)

Revised benchmark from 1 October 2007 shown in brackets



### Investment objective

To outperform the net return (after tax at 33%) on cash invested in the bank by 2% p.a. on average over a five-year period. From 1 October 2007: for the long-term net return (after tax and investment-related expenses) to outperform inflation (as measured by the increase in the Consumers Price Index (CPI)) by an average of 3% p.a.

### Suitable for investors looking for

Medium-term investments with potentially higher returns than those from the Stable Fund, and who are willing to accept some variability in returns.

### Risk of capital loss (negative return)

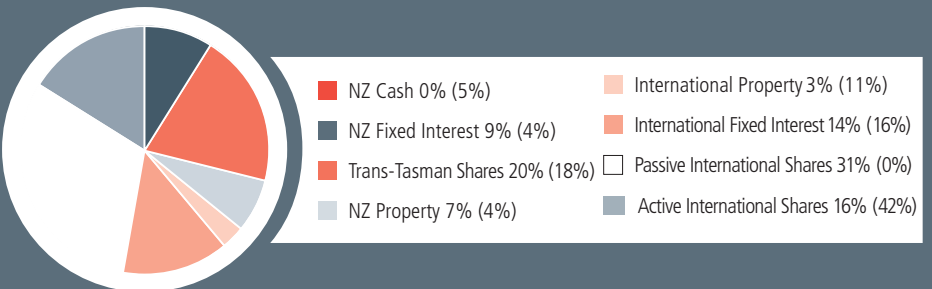
Moderate (one year every six years)

### Mix of investments

51.5% growth assets, 48.5% income assets (from 1 October 2007: 50% growth assets, 50% income assets).

## Growth Fund – Benchmark asset allocation (as at 30 June 2007)

Revised benchmark from 1 October 2007 shown in brackets



### Investment objective

To outperform the net return (after tax at 33%) on cash invested in the bank by 3% p.a. on average over a five-year period. From 1 October 2007: for the long-term net return (after tax and investment-related expenses) to outperform inflation (as measured by the increase in the Consumers Price Index (CPI)) by an average of 4% p.a.

### Suitable for investors looking for

Long-term investments with potentially higher returns than those from the Stable or Balanced Funds, and who are willing to accept more variable returns in the short term.

### Risk of capital loss (negative return)

High (one year in every five years)

### Mix of investments

77% growth assets, 23% income assets (from 1 October 2007: 75% growth assets, 25% income assets).

# The Year in Review

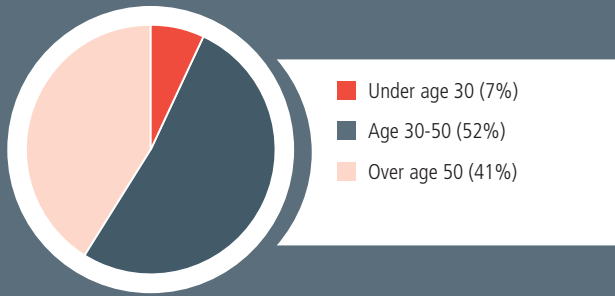
## Membership

The ERP's membership (made up entirely of Teachers' Scheme members) increased from 11,641 at 30 June 2006 to 12,053 at year end 30 June 2007. There were 558 new members and 146 members withdrew.

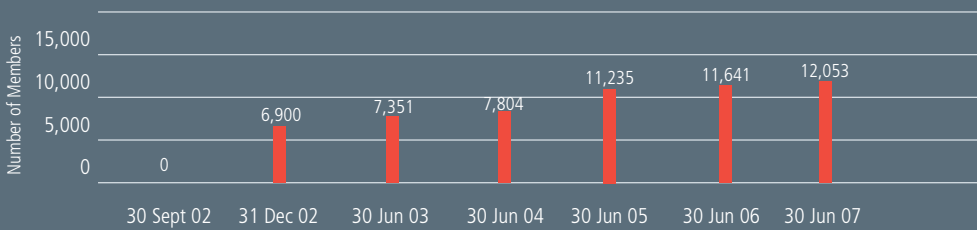
Of the ERP – Teachers' Scheme membership:

- 52% are aged between 30 and 50
- 41% are over the age of 50
- only 7% are under the age of 30

### Membership Profile



### Growth in Membership



## Contributions

In the year to 30 June 2007, contributions and transfers into the ERP in respect of the Teachers' Scheme totalled \$39,098,339.

### ERP Contributions Received For 12 Months Ended 30 June 2007

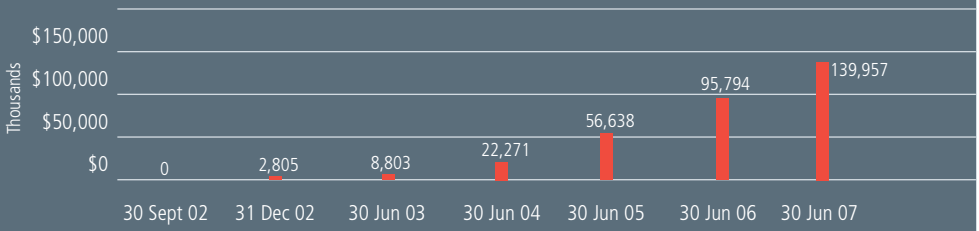


## Members' funds invested

In the year to 30 June 2007, \$39.09 million of Teachers' Scheme contributions was invested in the Mercer Super Investment Trust (MSIT) (before ERP expenses were deducted and members' withdrawal benefits paid). This compares to \$33.73 million received in the previous year to 30 June 2006.

The total Teachers' Scheme funds in the ERP invested with the MSIT increased by over 46%, from \$95,794,333 as at 30 June 2006 to \$139,956,850 as at 30 June 2007.

### Growth in Funds Under Management



## Benefit payments

In total, 146 members left the Teachers' Scheme during the year. Of these:

– 114 members retired (permanently leaving teaching aged 50 or more)	\$1,242,239
– 11 members died	\$95,576
– 5 members were paid out on disability, ill-health or redundancy	\$53,611
– 12 members transferred to another superannuation scheme	\$86,193
– 2 members received financial hardship or relationship property division	\$11,118
– 2 members were exited due to nil balances	\$0

**Total benefit payments to members who left the Teachers' Scheme** **\$1,488,737**

In addition, the following partial withdrawal payments were made:

• 5 members received partial retirement benefits (after attaining age 55)	\$31,589
• 182 members received in-service withdrawals (under age 50)	\$504,469
• 261 members received in-service withdrawals (over age 50)	\$1,380,443
• 17 members received financial hardship partial payments	\$68,865

**Total partial withdrawal payments made** **\$1,985,366**

**Total benefit payments** **\$3,474,103**

## The Trustee

The Trustee (Public Trust) meets with the administration manager and the investment manager of the MSIT Investment Funds at least quarterly, to monitor the ERP's activities and investment performance, and to discuss issues relevant to its operation. The Trustee also meets with the Ministry of Education during the year to discuss benefit design, legislative changes and other relevant issues.

At 30 June 2007, the Trustee's Board Members were:

Peter Taylor (Chair), Blenheim

Donal Curtin, Auckland

David Edwards, Auckland

Robin Hill, Upper Hutt

Fiona Pimm, Christchurch

Sarah Roberts, Auckland

Hon Matt Robson, Auckland

Murray Weatherston, Auckland

During the year Liz Coutts, Patricia Jones and Stephanie McIntyre resigned as Board Members and David Edwards, Robin Hill and Sarah Roberts were appointed as Board Members.

Public Trust has appointed Dean Apps, Philip Dyer and Martyn Ogilvie to act as representatives of the Trustee in fulfilling its role and carrying out the necessary day-to-day activities.

## Trustee's certification

In accordance with the requirements of the Superannuation Schemes Act 1989, the Trustee of the Employee Retirement Plan (ERP) certifies that as at 30 June 2007:

- All contributions required to be made to the ERP in accordance with the terms of the Trust Deed have been made.
- All benefits required to be paid from the ERP in accordance with the terms of the Trust Deed have been paid.
- The market value of the assets of the ERP at the close of the financial year – 30 June 2007 – equalled or exceeded the total value of benefits that would have been payable had all members ceased to be members at that date, and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries as at the close of the financial year.



For and on behalf of Public Trust as Trustee of the  
Employee Retirement Plan

7 November 2007

For the purposes of this certificate, 'the Trust Deed' means the trust deed of the ERP as amended from time to time, as well as the relevant employer agreements (other than those parts comprising the Investment Instructions), as amended from time to time.



## The Trust Deed

The Teachers' Scheme is part of the ERP, a cash accumulation superannuation scheme governed by a trust deed dated 30 August 2002 (as amended) and registered under the Superannuation Schemes Act 1989.

The ERP's Trust Deed sets out the ERP's rules. However, these may be overridden by the terms of the employer agreement applicable to the Teachers' Scheme. The Trustee is responsible for ensuring the provisions of the Trust Deed – subject to the terms of any relevant employer agreement – are carried out.

During the year, there were no amendments to the ERP Trust Deed but the Teachers' Scheme employer agreement was amended to allow all state or state-integrated schools to be approved as exempt employers under the new KiwiSaver legislation.

The amendment:

- Introduces a minimum contribution rate of 4% of salary for Unsubsidised Members joining the Scheme on or after 1 July 2007
- Subject to certain conditions, allows members to make the following withdrawals:
  - If you have contributed to the Scheme (or an SSRSS or KiwiSaver scheme) for at least three years from 1 July 2007, you may apply to the Trustee to make a once-only withdrawal from your Basic and Voluntary Accounts to go towards the purchase of your first home.
  - If you permanently emigrate from New Zealand, you may apply to the Trustee to transfer your Total Credit (the balance of all your Scheme accounts) to an approved overseas superannuation scheme. Alternatively, one year after the date you emigrate, you may apply to withdraw your Total Credit as a cash lump sum.
  - If, in the Trustee's opinion, you suffer an injury, illness or disability that leaves you unable to work in any occupation you are suited for by education, training or experience (or a combination of those things) or that poses a serious and imminent risk of death, you may apply to withdraw all or part of your Total Credit.

The amendment also anticipates that in future, the Teachers' Scheme may acquire 'complying superannuation fund' status for KiwiSaver purposes. It also allows for a feature referred to as salary sacrifice, which permits members to choose to forfeit a portion of their salary in exchange for additional employer contributions to the Scheme. The benefit of this is that employer contributions are taxed at 33% whereas the personal tax rate for someone earning \$60,000 or more is currently 39%.

**Trust Deed:** You can view the Trust Deed and the Teachers' Scheme employer agreement at the Wellington office of Mercer Human Resource Consulting (Level 10, 109 Featherston Street, Wellington). Copies are also available at a cost of less than \$10.

**Prospectus:** You can also obtain copies of the ERP's registered Prospectus and Teachers' Scheme Investment Statement, which summarise the main provisions of the Trust Deed and employer agreement. The registration date of the most recent registered Prospectus is 20 December 2006.

## Trustee's disputes handling procedures

The ERP's Trustee received no complaints from members in the year to 30 June 2007.

The ERP's Trustee has a disputes handling procedure that is available to any member who has a complaint about the ERP's operation. Contact the Secretary to the Trustee at the address on page 19 for further information.

# Abridged Financial Statements

	2007	2006
	\$	\$
<b>Statement of Financial Performance</b>		
<b>Revenue</b>		
Net Investment Revenue	9,209,307	7,264,722
<b>Total Revenue</b>	<b>9,209,307</b>	<b>7,264,722</b>
<i>Less</i>		
<b>Expenses</b>		
Administration Fees	277,470	266,475
Auditors' Remuneration	15,047	10,359
Auditors' Remuneration – other fees	-	1,772
Trustees' Fees	69,658	40,484
Other Expenses	11,433	47,237
<b>Total Expenses</b>	<b>373,608</b>	<b>366,327</b>
<b>Surplus before Taxation and Membership Activities</b>	<b>8,835,699</b>	<b>6,898,395</b>
Income Tax Credit	(254,158)	(235,743)
<b>Surplus after Taxation and before Membership Activities</b>	<b>9,089,857</b>	<b>7,134,138</b>
<b>Membership Activities</b>		
Member Contributions	16,637,773	15,784,666
Member Voluntary Contributions	5,750,903	4,735,368
Employer Contributions	16,638,016	15,784,094
Transfers in from Other Schemes	71,647	464,950
<i>Less</i> Benefits Paid	3,474,103	2,263,079
<b>Total Membership Activities</b>	<b>35,624,236</b>	<b>34,505,999</b>
<b>Benefits Accrued during Year</b>	<b>44,714,093</b>	<b>41,640,137</b>

2007

\$

2006

\$

## Statement of Financial Position

### Assets

Investments	139,956,850	95,794,333
Current Assets	3,255,728	2,769,946
<b>Total Assets</b>	<b>143,212,578</b>	<b>98,564,279</b>

Less

### Current Liabilities

Sundry Creditors	55,753	126,987
Fund Withdrawal Tax Payable	9,162	3,448
Contributions Refundable	-	274
<b>Total Liabilities</b>	<b>64,915</b>	<b>130,709</b>

<b>Liability for Accrued Benefits</b>	<b>143,147,663</b>	<b>98,433,570</b>
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<b>Vested Benefits*</b>	<b>143,147,663</b>	<b>98,433,570</b>
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## Statement of Cash Flows

Net Cash Flows from Operating Activities	35,312,925	34,029,010
Net Cash Flows from Investing Activities	(35,083,905)	(31,481,677)
Net Increase/(Decrease) in Cash Held	229,020	2,547,333
Cash at Beginning of Year	2,551,407	4,074
<b>Cash at End of Year</b>	<b>2,780,427</b>	<b>2,551,407</b>

\*Vested Benefits are benefits payable to members or beneficiaries under the conditions of the Trust Deed, on the basis of all members ceasing to be members of the ERP at balance date.

## Abridged Financial Statements

The Abridged Financial Statements shown on pages 15-16 which were authorised for issue on 6 September 2007 are an abridged version of the Employee Retirement Plan's audited general purpose financial statements for the year ended 30 June 2007. The auditors have issued an unqualified audit report dated 6 September 2007 on the Plan's general purpose financial statements for the year ended 30 June 2007.

The Abridged Financial Statements cannot be expected to provide as complete an understanding of the financial performance, financial position and cash flows of the Plan as that provided by the general purpose financial statements. The auditors have examined the abridged financial statements for consistency with the general purpose audited financial statements and have issued an unqualified opinion dated 6 September 2007 on page 18 of this Annual Report.

A copy of the Plan's general purpose financial statements, including the audit report, can be obtained at no charge from the Plan manager, Mercer Human Resource Consulting, at the address shown on page 19 of this Annual Report.

The general purpose financial statements of the Employee Retirement Plan have been prepared in accordance with the Superannuation Schemes Act 1989, the Financial Reporting Act 1993, Financial Reporting Standard FRS32: Financial Reporting by Superannuation Schemes, and the provisions of the Trust Deed.

## Auditors' Report

### To the members of the Employee Retirement Plan

We have examined the summary financial statements on pages 15 and 16. The summary financial statements have been extracted from the Plan's annual financial statements for the year ended 30 June 2007 and its financial position as at that date. We have audited the annual financial statements for the year ended 30 June 2007, on which we expressed an unqualified audit opinion dated 6 September 2007.

### Trustee responsibilities

The Trustee is responsible for the preparation and presentation of the summary financial statements which fairly summarises the financial position of the Plan as at 30 June 2007 and its financial performance and cash flows for the year ended on that date.

### Auditors' responsibilities

We are responsible for expressing an independent opinion as to whether the amounts included in the summary financial statements, which have been prepared and presented by the Trustee, have been correctly taken from and are consistent in all material respects with the annual financial statements from which they were extracted and reporting our opinion to you.

### Basis of opinion

We have examined the summary financial statements to provide reasonable assurance that the amounts set out in the summary financial statements have been correctly taken from and are consistent in all material respects with the annual financial statements of the Plan for the year ended 30 June 2007 from which they were extracted.

We have no relationship with or interests in the Plan other than in our capacity as auditors.

### Unqualified opinion

In our opinion, the amounts set out in the summary financial statements have been correctly taken from and are consistent in all material respects with the annual financial statements of the Plan from which they were extracted.

For a better understanding of the Plan's financial position and the results of its operations for the year, the summary financial statements should be read in conjunction with the annual financial statements.

We completed our work for the purposes of this report on 9 November 2007 and our unqualified opinion is expressed as at that date.



# Directory

## ERP Trustee

The Trustee is responsible for managing the ERP on behalf of members, ensuring the ERP is operated in accordance with the Trust Deed and acting in the best interests of members at all times.

The Public Trust is sole corporate Trustee of the ERP.

## ERP Secretary

The ERP's Secretary and Privacy Officer is Derek Vincent of Mercer Human Resource Consulting<sup>1</sup>.

**All correspondence with the ERP Trustee should be addressed to:**

The ERP Trustee  
c/-The Secretary to the Trustee  
Mercer Human Resource Consulting Limited<sup>1</sup>  
Level 10, 109 Featherston Street  
P O Box 2897, Wellington 6140  
Telephone: 04 890 7000  
Fax: 04 914 0434

## Administration manager

As the administration manager, Mercer maintains records of members' accounts, calculates members' benefits, prepares the annual accounts and produces members' annual statements.

Mercer Human Resource Consulting Limited<sup>1</sup>  
Level 10, 109 Featherston Street  
P O Box 1849, Wellington 6140  
Free Phone: 0508 4 TEACHERSRETIRE or 0508 4 83224  
Direct phone line: 04 890 7000  
Fax: 04 914 0434  
Email: [teachersretire@mercer.com](mailto:teachersretire@mercer.com)  
Website: [www.teachersretire.org.nz](http://www.teachersretire.org.nz)

<sup>1</sup>From 1 November 2007, Mercer Human Resource Consulting Limited is changing its name to Mercer (N.Z.) Limited.

## Auditors

The auditors audit the Scheme's financial statements.

PricewaterhouseCoopers  
113-119 The Terrace  
PO Box 243, Wellington

## Solicitors

The Scheme’s solicitors, Phillips Fox, advise the Trustee on legal issues affecting the Scheme.

Phillips Fox  
50-64 Custom House Quay  
PO Box 2791, Wellington

## Investment managers

The ERP funds are invested by the Mercer Super Investment Trust with a team of specialist investment managers selected for their expertise and recognised performance in their specific investment sectors.

Asset Class	Investment Manager
NZ Cash	ING (NZ) Limited
NZ Fixed Interest Securities	Tyndall Investment Management New Zealand Limited
Trans-Tasman Shares <sup>2</sup>	Brook Asset Management Limited ING (NZ) Limited
NZ Property	AMP Capital Investors (New Zealand) Limited
Global Property <sup>3</sup>	AMP Capital Investors (New Zealand) Limited
International Shares 50% Hedged <sup>4</sup>	Tower Asset Management
International Shares 150% Hedged and unhedged <sup>4</sup>	State Street Global Advisors – accessed via Arcus Investment Management Limited
International Fixed Interest	PIMCO

<sup>2</sup>From 1 October 2006, ING (NZ) Limited have managed approximately 50% of the ERP Funds’ investments in Trans-Tasman shares.

<sup>3</sup>From late October 2007, ING (NZ) Limited will manage approximately 50% of the ERP Funds’ investments in global property.

<sup>4</sup>From late October 2007, the ERP Funds’ investments in international shares will be managed by Mercer.

