teachersretirement SAVINGS SCHEME

...for the teacher

Newsletter November 2011

# The Teachers Retirement Savings Scheme – Your Scheme

Welcome to the first newsletter for the 2011/2012 Scheme year. Its publication almost coincides with the arrival of your annual member statement and the Trustee Annual report. The Annual Report discusses the year to 30 June in more detail, so this newsletter looks at what has been happening to investment markets since that date. Although that's only a period of a little more than five months, a lot has been going on.

We also consider what effect recent market volatility has on the Scheme's investment returns, whether your retirement cash will last the distance, and where to go to access appropriate financial advice

## A challenging investment environment

It has been a bumpy ride for investment markets since the last newsletter in May. Share markets have been especially volatile, with a variety of major challenges putting the pressure on most world markets.

The annual report you received recently will have provided you with more detailed information concerning the year to 30 June 2011. This newsletter focuses on events subsequent to that date.

After ending the Scheme year on a less positive note, the world's economies and their investment markets have remained volatile, ensuring that a level of wariness continues to affect investor confidence.

The slowdown in global growth and market volatility has continued to escalate. In early August, global share markets experienced their most volatile week since the 2008 financial crisis after Standard & Poor's downgraded the credit rating of US government bonds for the first time in the country's history.

The prelude to this was a protracted debate in the US Congress about lifting the debt ceiling. The immediate crisis ended when a complex deal was reached that raised the debt ceiling and reduced future government spending. However, similar debates are anticipated for the 2012 and 2013 budgets.

Europe's debt problems also continued. At the beginning of August, the European Central Bank (ECB) took an unprecedented step towards halting Europe's debt crisis by pledging to buy government bonds from Italy and Spain. In Italy, the government cobbled together an emergency austerity package as borrowing costs shot up amid fears that its debts have become unsustainable. Greece also continued to battle with the austerity measures required to ensure they receive their next tranche of ECB cash.

Financial markets then appeared to settle, but early September again saw share markets fall sharply on worries that the European debt crisis may actually be getting worse. There are even fears that the euro currency itself may not survive in its current form.

Shares in some of Europe's largest banks were especially hit hard. The banks hold billions of euros worth of government debt and investors are unsure how much those bonds will be worth in the future. While Germany and France have shown increasing economic strength, many other countries are struggling under their heavy debt burdens.

In New Zealand, the economy is proving reasonably resilient, although the strengthening dollar continues to impact on exporters and offshore investment returns. However, New Zealand government bonds continue to be reasonably well supported.

## Returns

The following table shows the *indicative* returns performance of each of the funds for the first four months of the Plan year, to 31 October 2011 and the previous financial year to 30 June 2011.

| Indicative Returns After Tax & All Expenses | | |
|---|---|---|
| | **Year to date return 1 July to 31 October 2011** | **Year to 30 June 2011** |
| **Cash Fund** | 0.60% | 2.67% |
| **Stable Fund** | -0.65% | 5.04% |
| **Balanced Fund** | -3.19% | 7.74% |
| **Growth Fund** | -6.13% | 10.22% |

**Note**: These numbers have been calculated on a standardised basis and are indicative only, reflecting the monthly changes in unit prices for each Fund. The actual returns you receive may differ from those shown as the timing and amounts of your contributions may impact on your actual returns.

Past performance should not be relied on as an indicator of future returns and care should be exercised not to make decisions based on past performance only.

## How these returns affect your savings in the Scheme

The impact on your Scheme savings depends on the investment option(s) you have selected. For example, account balances invested in the Balanced and Growth options have higher weightings to equities (shares), so will be more severely influenced by the current share market volatility. The Cash and Stable Funds are more conservative and will be less affected, as the Stable Fund has only a small proportion of its assets invested in shares, while the Cash Fund's investments are entirely in income assets – mainly cash.

At present, it is hard to accept that light will eventually appear at the end of the investment tunnel. However, in situations such as this, it is important to remember that Scheme membership is a long-term undertaking and that markets do recover. Time is generally on your side.

## Tax on your employer contributions

If passed, proposed changes to KiwiSaver currently before parliament will see minimum compulsory employer contributions (and employee contributions) increase from 2% to 3% from 1 April 2013.

In conjunction with this, effective from 1 April 2012, employer contributions to KiwiSaver will no longer be tax free, but taxed at a progressive rate similar to a member's PAYE tax rate.

However, because your employer pays contribution tax direct to Inland Revenue on top of its contributions to the Scheme on your behalf, you will be better off – by the amount of your tax rate – than if contributions were being made under KiwiSaver regulations.

## Getting the right advice

With strict new rules about financial advice now in place, it's important to realise that depending on the advice they provide, your investment adviser must be either an Authorised Financial Adviser (AFA) or a Registered Financial Adviser (RFA).

**Authorised Financial Advisers** are able to give personalised advice to clients on complex financial products that have more of an investment focus, which would include your involvement in the Scheme.

**Registered Financial Advisers** are restricted to providing advice on less complex financial products such as mortgages and term deposits and are not qualified to give you advice about the Scheme.

It is important, therefore, that you contact an AFA if you have questions about your Scheme membership. For example, how much to contribute or which investment option is best for you.

For a listing of Authorised Financial Advisers in your area, follow the link :

http://www.fma.govt.nz/help-me-invest/using-an-adviser/find-an-adviser/.

You can also refer to the Scheme website or contact the Scheme's Administration Manager with any general queries you may have about the day-to-day operation of the Scheme. (See contact details at the foot of this page.). Please remember, however, that they are not permitted to provide you with any specific financial advice.

## Scheme year end information

You should have recently received your annual benefit statement and a copy of the Trustee annual report for the Scheme year ended 30 June 2011. Should you have any queries or questions in regards to these or if you have not received your annual report and benefit statement please call 0508 4 TEACH.

You can also access your benefit statement and annual report online at www.trss.superfacts.co.nz.

## To find out more about anything mentioned in this newsletter...


Call 0508 4 TEACH (0508 4 83224)
Email teachersretire@mercer.com
Visit www.trss.superfacts.co.nz


If there are topics you would like covered in future issues of the newsletter, please let us know by calling 0508 4 TEACH **(0508 4 83224).**

## Making your retirement funds last the distance

Retirement may be just over the horizon for some members, and they will soon need to spend time considering how to handle their savings as they move through their retirement years.


Assuming you intend to retire at age 65, income will usually be from two sources: New Zealand Superannuation and the benefit you receive from the Scheme (plus from any other investments). New Zealand Super is paid fortnightly, but your Scheme return is payable as a lump sum. The question is, what to do with such a large amount of money to make sure it lasts as long as you want it to.

The first step should be to sit down and establish just how much money you will need and for how long. (A good guide is to aim for an annual income of 70% of your expected after-tax pay just before retirement.) Statistics show that a man retiring at age 65 can expect to live for 18 years, while for women it is closer to 23 years.

Needs will fall into two categories: day-to-day living expenses and some well-earned rewards for planning for your retirement. Remember too, that you don't want to lock all your money up and not have ready cash available for an overseas trip or a new car.

One option is to leave your money in the Scheme and make withdrawals as and when required. A significant advantage of this option is that if investment markets are down at the time you retire, you can wait to withdraw your savings until markets recover as they have historically done.

There's always the possibility of keeping on working after retiring. Many people these days are taking on part-time – and sometimes full-time – work not just to help ends meet, but for their own personal enjoyment. Relieving or tutoring could be an option. This can make retirement savings last longer and therefore have an influence on how they are handled.

Planning (or failing to plan) for your retirement can make the difference between financially struggling when you retire and having money for the extra enjoyments you deserve.

For advice based on your own needs and circumstances, you should contact an Authorised Financial Adviser. The Investment section of the Retirement Commissioner's website www.sorted.org.nz has a range of helpful information about choosing an investment adviser, including an Advice checklist and links to the list of Authorised Financial Advisers on the public register at www.fspr.govt.nz – including details of the financial services they can provide.