dairy industry superannuation scheme

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Super news

for the seven months to 31 October 2013

Scheme investments

Events in the US continue to dominate Scheme returns

Since our last newsletter, events in the US have continued to dominate returns from the Scheme's investments.

Shares and fixed interest investments both benefited in mid-September when the US Federal Reserve surprised financial markets by announcing that it was unlikely to start reducing its huge-asset purchasing programme until at least early 2014.

Not so positive was the failure of the US Congress to pass its budget before the start of the financial year on 1 October. Ultimately this triggered a partial government shutdown which lasted 16 days.

Financial markets seemed relatively unconcerned about the shutdown, instead focussing on another US debt ceiling scare. It was estimated that unless agreement could be reached, by late October, the US government would be in default, that is, unable to meet its obligations, including interest and principal payments on its debt. An agreement funding the US government until mid-January and extending government borrowing until 7 February 2014, was finally reached in mid-October.

Despite these events, the Scheme's investments in shares, and trans-Tasman shares in particular, have performed well benefiting investors in the Growth and Balanced options which invest more heavily in shares.

For more detailed information about the Scheme's investments, see the quarterly investment update which is available by signing in to www.dairysuper.superfacts.co.nz and going to the investments page.

Returns for each investment option after tax, fees and expenses to 31 October 2013

	Cash	Cash/ Conservative	Conservative	Conservative/ Balanced	Balanced	Balanced/ Growth	Growth
Scheme year to 31 March 2013	2.0%	4.3%	6.7%	8.6%	10.4%	11.3%	12.2%
Periods to 31 October 2013							
Scheme year to date (7 months)	1.0%	1.8%	2.6%	4.3%	6.1%	7.2%	8.3%
12 months	2.0%	4.3%	6.5%	10.0%	13.6%	15.7%	17.8%
3 years (average pa)	2.2%	3.7%	5.2%	6.4%	7.7%	8.3%	9.0%
10 years (average pa)	3.4%	4.0%	4.6%	4.8%	5.0%	5.1%	5.2%

[1]*Fund returns are determined each month. The reported returns are effective returns, taking into account the effect of compound interest and rounded to one decimal place*

The risk of avoiding risk

All investments carry risk. Most of us think of risk as the likelihood of a negative return reducing the value of our savings. Another risk, sometimes referred to as 'the risk of avoiding risk', is that returns don't outperform the increase in the Consumers Price Index (CPI), reducing the buying power of your savings. More conservative and cash-based funds have less risk of negative returns but a greater risk of returns not keeping pace with inflation.

Most of us want our retirement savings to buy as much when we are retired as they could have at the time they were saved. Our goal is to at least maintain the value of our savings in 'real' terms. This means that after allowing for tax and expenses, the return needs to be greater than the increase in the CPI. This is why the key long-term objective for each fund (other than cash) is stated as a return above the rate of inflation.

The following table shows the increase in the CPI over similar periods to the table above.

Period	Increase in CPI
Scheme year to 31 March 2013	0.9%
Periods to 30 September 2013*	
Scheme year-to-date (6 months)	1.1%
12 months	1.4%
3 years (average pa)	2.2%

**Data is shown to 30 September because the increase in the CPI is only measured on a quarterly basis.*

Looking at the tables above, over three years the return from the Cash option has matched the increase in the CPI, meaning savings in that option have just maintained their value in real terms.

Scheme news

Answers to your questions about the Scheme's interest rates

When are the interest rates on the website updated?

The interest rates on the website are updated each month, usually about one month in arrears. For example, the interest rate for October was uploaded in late November. The delay is because monthly rates are calculated using reports from the investment managers, which are not generally available until late in the following month.

How often are my account balances updated?

Your account balances on the website are updated on a daily basis. To cover the period until the monthly interest rate is available, an interim rate is used. The interim interest rates are based on large unitised funds with similar asset allocations to the Scheme's investment options. They are updated weekly. The interim rates are estimates only and your account balances may be adjusted (up or down) when the monthly rates become available.

How is the annual credited interest rate calculated?

The annual credited interest rate is based on the Scheme's audited financial statements for the year. The rate for each option is calculated using the monthly rates for the first 11 months of the Scheme year (April to the following February) with the rate for March being adjusted to bring the final credited interest rate into line with the financial statements.

Workplace Savings NZ awards

The Scheme's annual report was one of three finalists (one of the others being the Fonterra scheme) in the annual report category at the Workplace Savings NZ awards held recently. While we didn't win an award this year, it is pleasing to know that our annual report continues to be regarded as a market leader.

Have you checked out the new member booklet yet?

If you have been to the website recently you will have noticed that the Scheme now has a new member booklet. The booklet aims to provide all the information you need to manage your Scheme membership such as how the contribution rate you choose affects your employer's contribution and any insurance cover, as well as detailed information about the investment options.

Scheme fact sheets

If you have a question about the Scheme, do look at the fact sheets on the Documents & forms page on www.dairysuper.superfacts.co.nz. We plan to add to these over the coming months.

Do you have a will and if so, is it up-to-date?

Making a will

It's easy to delay making a will fearing the lawyer's bills that may arise. In fact, the expensive bit is administering your estate after your death. These costs come out of your estate and vary, depending on who administers the will.

While legally you can draft your own will, it is not recommended as if the proper procedures are not followed, your will may be invalid. Using a law firm or trustee company doesn't mean your will cannot be challenged by a disgruntled relative but using a professional should ensure the will is legally valid.

You can choose anyone to be your executor. The person you choose doesn't have to be a lawyer, they can be a family member or friend. Often people choose a relative or friend and a lawyer or accountant and make them co-executors.

Maintaining your will

You need to review your will whenever you have a big life change like the birth of a child or separation. Other circumstances such as the purchase of a property or birth of grandchildren are also reasons to check your will.

If you marry or enter a civil union, your will is automatically revoked unless it states otherwise or specifically says that it was made with your marriage or civil union in mind.

Make sure you keep a copy of your will in a safe and accessible place and let your executor(s) and family know where it is.

Nominated beneficiaries

It is important that your nominated beneficiaries form and your will don't conflict. You can update your nominated beneficiaries by signing in to www.dairysuper.superfacts.co.nz or by completing and returning a nominated beneficiaries form available from the website or by calling the helpline.

Cutting through the jargon

Some of the terms used in Scheme communications are specific to superannuation, estate planning or investments.

Consumers Price Index (CPI) - measures changes in the price of goods and services purchased by households (also referred to as inflation).

Estate – everything someone owns at the date of their death.

Executor – a person appointed to manage someone's estate as set out in their will.

Real rate of return – the after tax and expenses return on an investment, in excess of inflation.