March 2021 Newsletter

This newsletter covers the appointment of a new Deputy Chairman, proposed Trust Deed amendments and policy changes, and a commentary on the current investment market with projections of future earnings of the Fund.

Deputy Chairman

Following Craig Harrison’s election to the position of National Secretary of Maritime Union of New Zealand, Craig was appointed by the union to be a trustee of the Maritime Retirement Scheme and Maritime KiwiSaver Scheme.

At the February meeting of Trustees, Craig was appointed Deputy Chairman of the Board of Trustees.

Trust Deed Amendments and Policy Changes

The Trustees have resolved to make two amendments to the Trust Deed affecting members of the Seafarers Fund:

Retirement Benefit: Currently under the Trust Deed a Seafarer Member is only entitled to a retirement benefit if they have ceased to be a Seafarer or member of the Union on or after the Normal Retirement Date. The Normal Retirement Date for Seafarer Members who joined after 1 January 1996 is 65 and age 60 for any other Seafarer Member. The Trust Deed is to be amended to allow Seafarer Members over the age of 60 who cease to be a Seafarer or member of the Union access to their retirement benefit.

Vesting of Seafarer Benefits: The Trustees have resolved to reduce the vesting scale for members of the Seafarers Fund from 20 years to 5 years. The previous 20-year scale was a legacy of the old Seafarers Retirement Fund and the new 5-year scale brings the Seafarers Fund into line with the vesting scale already applying to members of the Waterfront Fund.

Under the new scale seafarers who are leaving the industry prior to the Retirement Age of 60 will be entitled to their full benefits after 5-years membership, rather than needing to be a member for 20 years to qualify for full vesting. Members with less than qualifying years of service can still qualify for full vesting of their benefits by deferring payment of the benefits until the end of the qualifying period or by transferring their benefits to another approved superannuation scheme including a KiwiSaver scheme.

These changes are expected to take effect in mid-May when the Trust Deed is formally amended.

Leaving Intentions

Members only become eligible to their benefits when they are leaving the seafaring or waterfront industry permanently. Members who are changing roles or changing employer with the intention of continuing to work within the respective industries are not generally eligible to their benefits. Even members who are declared redundant but who have an intention of resuming work for the same or another employer are generally not eligible. To remove any doubt regarding a member’s intentions, the Exit Form is being amended to make provision for members to declare that they are leaving with no intention of resuming work in the industry.

Deferred Benefits

There has been an increase in the take up of the facility for members to defer their benefits and, if they wish, take regular monthly withdrawals.

With or without making regular monthly withdrawals, deferred beneficiaries can also make occasional lump-sum withdrawals. These were previously restricted to two lump-sum withdrawals per year but the maximum number of lump-sum withdrawals has now been increased to four per year to provide deferred beneficiaries with more flexibility in the management of their retirement savings.

Family Members

Members of the Maritime KiwiSaver Scheme are reminded that their immediate family member may also join the Maritime KiwiSaver Scheme. Immediate family members are defined as a member's spouse, civil union partner, de facto partner, parent, child, step-parent and step child.

Please note that this facility is available to Maritime KiwiSaver members and their families only. Family members of Maritime KiwiSaver Scheme members are not eligible to join the Maritime Retirement Scheme and family members of Maritime Retirement Scheme members are not eligible to join the Maritime KiwiSaver Scheme.

Investment Commentary

This section of the newsletter provides members of the Maritime Retirement Scheme and Maritime KiwiSaver Scheme with update on the Schemes' recent performance and a forecast of future returns. It is not financial advice and members may wish to seek appropriate advice before taking any action with respect to their investments.

Recent performance

The Fund continues to perform well, despite relatively high levels of market volatility and uncertainty with respect to the investment outlook. For the first nine months to 31 December 2020 of the current financial year, the net (after tax) returns for the two portfolios were:

- Conservative Portfolio 10.5%
- Balanced Portfolio 20.9%

Members will not need reminding that the last twelve months have been extraordinary. The world is still suffering under a once-in-a-century pandemic, and this has seen unprecedented action from governments and central bankers to support economies.

Recent positive news with respect to vaccine development has spurred investment markets higher, although most believe that there is some way to go before economies will be back to their levels before the virus hit.

The Trustees continue to closely monitor the Fund's asset allocation and fund managers. In November 2020, part of the exposure to global bonds were switched to a different fund manager, reflecting the Trustees' conviction in an investment fund that was more efficient and more likely to provide strong, sustainable investment returns going forward. The asset allocation for the portfolios remains largely unchanged, although is under continual review to ensure its suitability to the current market environment and members' long term investment goals.

Investment outlook

While the Fund's returns have been strong in the past, the current low interest rate environment suggests that the future returns will be weaker. Recently, the Trustees sought investment advice to quantify the expected future returns.

The following table shows the Fund's annual returns since the formation of the Fund on 1 April 2016 (net of charges and tax) and contrasts these with the forecasts of future returns obtained from the Fund's independent Investment Consultant:

	Conservative Fund	**Balanced Fund**
Past returns (per annum)	4.5%	7.5%
Forecast returns (per annum)	1.7%	3.4%

Please note that the forecast returns have a high degree of uncertainty attached to them and actual results may be higher or lower. The figures above were independently sourced and are intended to be a central estimate of the average long-term return. Year-to-year results will differ significantly.

Returns have been relatively good over recent years. A key driver of this has been the downward movement in interest rates. As interest rates fall, fixed interest sectors are rewarded with mark-to-market gains.

Additionally, equity valuations tend to rise. Both of these effects translate into higher returns for the Fund's diversified portfolios.

Interest rates are now near-zero worldwide, which suggests weaker returns will be had going forward. This is reflected in the preceding table with both portfolios expected to have significantly lower returns in the future.

This does not mean that further falls in interest rates are impossible. Indeed, it is possible that investment markets will continue their very strong run, in which case returns may be better than forecast. There is a high degree of uncertainty with respect to forecasts at the current time and future returns may be significantly higher or lower.

The striking feature is that, because of very low interest rates, the conservative portfolio is expected to return just 1.7% per annum after charges and tax are deducted. By contrast, the balanced portfolio is expected to provide a return of 3.4% per annum. While this is lower than what has been achieved in the past, it is markedly higher than the conservative portfolio.

This, of course, masks the additional risk in the balanced portfolio. Members should expect the balanced portfolio to be more volatile year-to-year than the conservative portfolio.

Implications for Members

The Trustees wish to take this opportunity to recommend that members review their portfolio selection and ensure that it matches their personal circumstances. This may include their time horizon and tolerance for risk.

Members should be mindful that typically the intention should be for retirement portfolios to last many years past member's actual retirement date. Members should consider how much of their retirement savings they require at their retirement date and how much will remain invested for the longer term. Moreover, members should consider whether their contribution rate is sufficient to meet their retirement goals.

As always, members are encouraged to visit the Funds' website for more information.

Tax

Members are reminded of the importance of providing the correct Prescribed Investor Rate (PIR) so that the correct tax is deducted. IRD is now matching PIRs with member earnings and is invoicing members if the amount of tax deducted is too low. In cases where a PIR of 10.5% or 17.5% was declared and the correct rate which should have been declared was 28%, members will be invoiced for the shortfall in tax at 33%. Hence it is strongly in the interest of members to declare the correct rate. The IRD website has some detailed information to help people determine their PIR (https://www.ird.govt.nz/roles/portfolio-investment-entities/using-prescribed-investor-rates).If members have declared the wrong rate or are uncertain what rate they have declared they should contact Maria Kane at Melville Jessup Weaver, email maritime@mjw.co.nz, or 0800 947 357.

David Young
Chairman of Trustees