June 2019 Newsletter

Earnings for the Year

Despite a poor third quarter, Fund achieved good returns for the year, particularly the Balanced Portfolio. The Balanced and Conservative portfolios achieved a gross return (before expenses and tax) of 8.5% and 4.4% respectively and a net return (after expenses and tax) of 6.2% and 4.4% respectively.

Member Statements

Enclosed is your member statements for the year ended 31 March, 2019. As per last year, shown on your member statements are projections of your account balances at age 65 based on, firstly, your current account balances and, secondly, projected balances in your account(s) at age 65 assuming you continue to contribute at your current contribution rate(s). If you belong to both MRS and MKS you need to add the projections of the MRS and MKS balances together to obtain projections of your overall retirement savings in the Fund.

Projected Rate of Earnings

In the current low-interest environment the high earnings of investment markets in recent years are not expected to be sustained, at least in the short to medium term.

Our investment consultant, Melville Jessup Weaver, has recently reviewed their projections of earnings rates. Compared to their previous projections of 4.6% and 2.9% after tax for the Balanced and Conservative portfolios respectively, MJW has now advised that they expect earning rates after tax to fall in the short to medium term to 4.1% and 2.4% per annum for the Balanced and Conservative portfolios respectively (which allowing for inflation at 2% equate to real returns after inflation of 2.1% and 0.4% per annum).

The Fund's Disclosure Documents including the Statement of Investment Performance and Objectives have been amended to incorporate these new projections of earnings.

Investment Choice

In view of these reduced earnings projections, particularly for the Conservative Portfolio, members may wish to review their investment choice(s), i.e., whether to invest in the Balanced or the Conservative portfolio.

The Fund's brochure on investment choice and the information on the Fund's website on investment choice have been updated to reflect the new earnings projections. In reviewing investment choices, members are encouraged to read this material and to consider obtaining independent financial advice.

You can exercise your right to change your investment choice to two ways. Your existing account balances can be shifted from one portfolio to the other – refer to your member statement to see your account balances in the Balanced and the Conservative portfolios. You can also change the portfolio into which your future contributions are directed. You can, if you wish, split both your existing account balances and your new contributions between the two portfolios.

The Balanced Portfolio is expected to be more volatile but is expected to earn higher returns in the medium to longer term whereas, while the Conservative Portfolio is expected to earn lower returns, it is expected to be less volatile. Members should generally be taking a longer-term perspective with their retirement savings even in retirement since, as members retire, they should generally be planning for their retirement savings to be lasting for the duration of their retirement years. But in making your investment choices, you should taking into account your individual financial circumstances and for this purpose, as stated above, you may wish to obtain independent financial advice.

Financial Planning for Retirement

While national superannuation provides a basic income for retirees, it is only sufficient for a very basic lifestyles, no frills, no extras. Retirees wishing to have choices and to live in modest comfort need to have additional income, generally from their retirement savings. How much additional income you want in your retirement depends on the lifestyle to which you aspire. Each year, the Trustees send out two brochures to assist members with their financial planning for retirement. These brochures are included with this newsletter.

The first brochure, entitled “Financial Planning for Retirement”, is designed to assist you set a savings target for yourself and then a contribution rate to achieve your target. The tables in this brochure suggest that retirees typically require $400 to $500 per week of retirement income in addition to national superannuation to provide themselves with choices and a comfortable retirement lifestyle and this will require retirement savings of $400,000 to $500,000 to generate this additional income for about 25 years. This is consistent with the savings targets generally suggested by commentators on superannuation.

The second brochure entitled ”Regular Monthly Payments to Deferred Members” is designed to assist you, when the time comes, to manage your retirement savings, in particular by leaving your retirement savings with the Fund and making regular withdrawals from your account.

Last year and again this year, annual statements to members provide projections of account balances at age 65. There are two projections. Firstly, there is a projection of what the member’s current account balance will amount to assuming no further contributions and, secondly, there is a projection of what the member’s account balance will amount to assuming the member continues to contribute at the current rate.

An analysis of the projections of the retirement savings of members, as shown on member statements, shows a very wide range of expected account balances and also significant differences between the expected balances of seafarers and waterside workers.

The averages of the projected balances of seafarers across all age groups are generally in the range $150,000 to $200,000. Only a quarter of seafarers are expected to have account balances of $300,000 to $400,000 or more, and a quarter are expected to have account balances of less than $100,000.

The averages of the projected balances of waterside workers vary more widely. For waterside workers aged over 40, the average of the projections is in the range $200,000 to $300,000, a quarter are expected to have account balances of $400,000 to $500,000 or more, and a quarter are expected to have account balances of $100,000 to $200,000 or less.

For waterside workers aged less than 40, the averages of the projections is in the range of $350,000 to $400,000, a quarter are expected to have account balances in excess of $500,000, and a quarter are expected to have account balances of less than $100,000.

Of course, you may expect to have other sources of income in your retirement, eg, you may have other investments such as a rental property. Also, you may be anticipating selling your home and purchasing a less expensive property, thereby releasing funds that can be invested to provide additional retirement income. These are the personally circumstances you need to take account of in your planning for your retirement.

Alternatively, you may wish to increase your rate of savings for your retirement in which case, to generate additional retirement savings, you can increase your contributions to the Fund and/or work beyond age 65.

Financial planning for retirement is very much a personal matter which needs to take into account your individual financial circumstances but whatever these circumstances you should generally start savings for retirement as soon as possible, save continuously throughout your working life and avoid, if possible, making withdrawals from your savings prior to your retirement.

Members who save continuously for 30 years or more, during their years of employment as seafarers or waterside workers, can expect to have retirement savings of $400,000 to $500,000 when they retire. Retirement savings of these amounts will enable you to enjoy a financially secure retirement.

Informing Retiring Members of their Options

When members are retiring or (resigning), the Administrator sends the brochure entitled "Regular Monthly Payments to Deferred Members" to remind them that they have the options of deferring their benefits and then, if they wish, making regular withdrawals from their accounts.

The advantages of members deferring their benefits is that their savings will continue to be managed effectively and efficiently in a diversified mix of investments depending on the member's choice between the Balanced and the Conservative portfolios. The costs that the Fund incurs for administration and investment management are less than the costs that are generally charged by KiwiSaver providers and other fund managers.

The advantages of making monthly withdrawals is that it enables members to simply manage the drawdown of their savings during retirement and it provides regular to meet normal living expenses.

In addition to sending out the brochure to retiring members the Trustees have also adopted the practice of the Chairman and/or Deputy Chairman contacting members with account balances in excess of $50,000 to remind them that they can defer their benefits and make regular withdrawals. Of course we are not providing financial advice that member should defer their benefits and make regular withdrawals. If they wish, members should seek independent financial advice.

Transfers to Another KiwiSaver Scheme

The Trustees are concerned when members transfer from the Maritime Retirement Scheme to another KiwiSaver scheme that they may inadvertently jeopardise their entitlement to the additional death benefit. Under our Fund's trust deed contributions to MKS count towards the minimum contribution of 4% which members are required to make (unless they suspend their contributions).

If members transfer to another KiwiSaver scheme, the minimum contribution to MRS reduces to 3% and the contributions to this other KiwiSaver scheme are not taken into account in determining members additional death benefit, it is only the member's contributions to MRS that are taken into account in determining additional death benefits.

The Trustees have decided to introduce a procedure of contacting the member when the Fund is advised to transfer member MKS benefits to another KiwiSaver to explain any jeopardy this creates for the member's additional death cover in MRS. Because this is, to some extent linked to the conditions of the members collective agreement, this contact will be made by a trustee representing MUNZ.

Prescribed Investor Rates (PIRs)

Members are responsible for declaring to the Fund their individual PIR which is then applied to the gross earnings of the Fund for the purposes of the Fund paying tax on the individual earnings of members and crediting net earnings after tax to members' accounts. The PIRs previously advised and which were applied to your earnings last year are shown on your member statement.

Enclosed with this newsletter is a form for you to determine your PIR based on your individual earnings over the last two years. If your PIR has changed, would you please advise the Administrator of your new PIR as soon as possible.

Most of Fund's members have gross earnings of more than $48,000 which means most members should be declaring a PIR of 28%. If you currently have a PIR of less than 28% would you please check that your PIR is correct and advise if a change to your PIR is required. It is your responsibility to declare the correct PIR based on your earnings and you are liable for any tax owing to IRD if you declare a PIR which is too low.

If you are a deferred member you may well have earnings excluding earnings on PIE investments of less than $48,000 and earnings including earnings on PIE investments of less than $70,000 in which case your correct PIR may be less than 28%. If you are a deferred member with a PIR of 28% you should check whether you should be declaring a lower PIR. If your PIR is too high you are not entitled to a refund from IRD for any overpayment of the tax deducted from your earnings of your investments with the Fund.

Trustees

Ray Fife of Bluff and Gary Horan of Lyttelton have been appointed by MUNZ to replace Mike Clark and Alan Windsor. The Trustees have thanked Mike and Alan for their services and wished them well in retirement.

Deepthi Swarnapuri of Ports of Auckland has been appointed a trustee by Stevedores and Ports Inc in place of Diane Edwards. Deepthi has been appointed to represent the employers of waterside workers.

Steve Chapman, NZ Ports and Stevedoring Manager Swire Shipping which operates the Pacifica shipping service has been appointed by the trustees to represent the employers of seafarers replacing David Scott. David has been thanked by the trustees for his services, for many years as Chairman of the Seafarer Retirement Fund and more recently as a trustee of the MRS and MKS.

Mark Thompson has resigned from KiwiRail as the Manager of the Interisland Line and has joined Centeport Wellington. Mark has agreed to continue as a trustee pending the appointment by the trustees of a new trustee to represent the employers of seafarers.

Simon Brodie has been reappointed as the Licensed Independent Trustee and David Young has been reappointed as the Independent Chairman of the Fund.

The appointments by the trustees are subject to confirmation at the Annual Meeting of trustees set down for 17 July.