

New Zealand  
Permit No. 2665

Permit 



## New Zealand Fire Service **Superannuation Scheme**

Member investment choice – making a choice that's right for you



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## Introduction

Your investment in the Scheme accumulates in two ways. One is your and your employer's contributions on your behalf to the Scheme and the other is how the investments perform each year.

When the Trustees introduced member investment choice from 1 October 2008 members could change their elections on an annual basis. Now, to give members additional flexibility and choice, from August 2010 member investment choice elections will be permitted to be made at any time of the year – not only effective 1 October as was the case – but an election will still be permitted only on an annual basis.

The Trustees continue to offer member investment choice because they understand that when it comes to saving for retirement, members have different needs. For instance, you may have many years to invest your savings or you could need to start living off them in the next few years. People also feel differently about fluctuations in returns; you could be happy to accept an increased risk of a negative return in exchange for potentially better long-term returns or you may prefer to accept the likelihood of more modest returns over the longer term in exchange for the comfort of a reduced risk of a negative return.

This guide takes you through the investment choices available and explains some of the important points you should take into account before making an investment decision.

It is important to understand that from August 2010 elections will close at midnight on the 20th day of each month and that your new election will not take effect until the first day of the following month. To explain, if you correctly completed an election and received confirmation that your change had been received by midnight on the 20th day of September, the change would take effect on 1 October.

Interim interest rates for your current option/s would apply to the last day of the month in which you made your election. Interim interest rates for your new option/s would apply from the first day of the month after you made your election.

This guide has been prepared by the Trustees to help you choose the Member Investment Choice option (or options) that best suit your personal circumstances and requirements. It should be read in conjunction with the Scheme's investment statement and the information available on [www.firesuper.co.nz](http://www.firesuper.co.nz).

Whilst every care has been taken in the preparation of this guide, if there is an ambiguity or discrepancy between it and the Scheme's Trust Deed, the Trust Deed will prevail.

August 2010



## Considering changing investment options? What you need to do

### STEP 1: Think about your personal and financial goals

Important points to consider are how long it will be before you need your savings and how much risk you're comfortable with.

To help you understand what type of investor you may be and how you feel about risk, complete the Risk Profile Quiz on pages 6 and 7

### STEP 2: Read this guide carefully

It has been prepared to help you understand your options, key investment terms and to assist you to select the option or combination of options that are right for you. If you have any questions about how investment choice works, call the freephone at Mercer on 0800 MY SUPER (0800 69 78737).

If you need further help after you have read this guide and viewed the information available on [www.firesuper.co.nz](http://www.firesuper.co.nz), you are encouraged to talk to a financial adviser. The Trustees have provided a list of financial advisers, and their contact details, on [www.firesuper.co.nz](http://www.firesuper.co.nz).

### STEP 3: Choose your new investment option/s

Refer to page 8 of this guide and follow the steps set out there.

You can change your investment option/s online at [www.firesuper.co.nz](http://www.firesuper.co.nz) once a year at any time. Please ensure your total adds to 100%.

Once you have completed your change of options on [www.firesuper.co.nz](http://www.firesuper.co.nz), note the confirmation number on the displayed page or print the page out as confirmation that your change of options has been received. If no confirmation number is displayed, you need to restart the process set out on page 8.

Your revised option/s will take effect from the first day of the month after confirmation of your change has been received and will apply to your existing accumulations and the total of your future contributions. Note that if your change is not received by midnight on the 20th day of the month, it will not take effect until the first of the second month following, for example, if you submitted a change on 25 August, it would not take effect until 1 October.

### ...And remember

- When selecting your option/s, past performance is not an indicator of future performance.
- Information about the different options is available later in this booklet.

## About investment choice

It's good to know that whatever stage of life you're at, however long your money will be invested, or whatever your personal attitude to investment risk is, the Scheme has a range of investment options available.

You have four options to choose from:

- Cash
- Conservative
- Balanced
- High Growth

### Investment option combinations

You can invest in one or a combination of the investment options, as long as your total investment adds up to 100%.

The option/s you choose will apply to your existing accumulations and to all future contributions. You cannot have your current accumulations in one option and direct your future contributions to another option.

### You're not locked into your choice

You can change your investment options as your personal circumstances change. The change must be made online at [www.firesuper.co.nz](http://www.firesuper.co.nz) and can be made once a year taking effect from the first day of the month after a confirmed election has been received, provided your change is made prior to midnight on the 20th of the month.

Because your contributions are for retirement savings, it is good practice to stick to your strategy and only make changes if your personal circumstances change. It is also important to avoid making changes just because investment markets change.



## More about investments

### Assets classes

The savings in each investment option are invested in assets. Assets are divided into categories or classes according to their type. There are four main types of asset class – shares, property, fixed interest and cash.

Investing in a variety of asset classes reduces the risk of a low or negative return that may occur because one asset class does not reach its expected level of return.

The asset classes your Scheme accumulations are invested in will depend on the investment option, or combination of options, you choose.

When you invest in one or more of the Scheme's investment options, the Scheme invests it in a mix of asset classes with a corresponding level of risk suited to the objectives of that investment option or options.

### Risk and return

The Scheme's investment options have different levels of risk and return. Risk refers to the chance your investment has of losing value as investment markets change. Return is the amount you earn from your investment.

Generally, an investment with more risk will have a greater chance of a negative return over the short term, but a higher return over the long term. The sharp fluctuation in short-term returns is often referred to as volatility.

Each of the four main asset classes – shares, property, fixed interest and cash – has different levels of risk, and therefore different potential for returns.

### Income assets

Cash and fixed interest are known as income assets (sometimes also referred to as defensive assets). Income (or defensive) assets usually earn lower investment returns, especially in the short term. However, as they are subject to a lower level of risk, the possibility of earning a negative return in any year is less than with a growth asset.

### Growth assets

Shares and property are known as growth assets. Growth assets have the most potential to earn high returns over the long term. Compared with income assets, growth assets have a higher level of risk, which means they are more likely to fall in value in the short term. The investment returns for growth assets may vary significantly from one year to the next and there is the possibility of negative returns in some years.

### Diversification

Diversification is a generally accepted way of balancing risk and return. Diversification simply means not putting all your eggs (or money) in one basket (or asset class). This way you have a better chance of protecting your money from a fall in value and can reduce the risk of low or negative returns. If one of the asset classes is not achieving its expected returns, another performing well may offset the negative impact.



## Understanding the four main asset classes

### Shares

Investments in shares (sometimes called stocks or equities) are investments in companies. A shareholder has some ownership in the company and its profits, and can receive benefits in two ways – through income received from the company through the payment of dividends, and through capital growth when the price of a share increases.

Shares have historically earned higher investment returns than other asset classes over the long term but because of the volatility of the share market in the short term, it is one of the highest risk asset classes.

- **Return:** Expected to have high growth/returns over the long term.
- **Risk:** Expected to have a high degree of volatility from year to year, including the possibility of negative returns in some years.

### Property

Property investments are typically made by investing in property trusts, either listed on the Stock Exchange or unlisted. These can be investments in office buildings, shopping centres, tourism developments, factories and warehouses. A property earns money for its owners in two ways:

- by providing rental income;
- when its value (and the potential sale price) increases.

Property has historically earned medium to high investment returns over the long term, but the volatility of the property market makes it a medium to high-risk asset class.

- **Return:** Expected to have moderate growth/returns over the long term.
- **Risk:** Expected to have a moderate degree of volatility from year to year, including the possibility of negative returns in some years.

### Fixed interest

Fixed interest (sometimes called bonds) is usually loans to government organisations or major companies that are 'fixed' to be repaid at a certain time. The organisation that borrows the money repays it, plus interest. Fixed interest has historically gained a low to medium level of investment return over the long term and is subject to a low to medium level of risk.

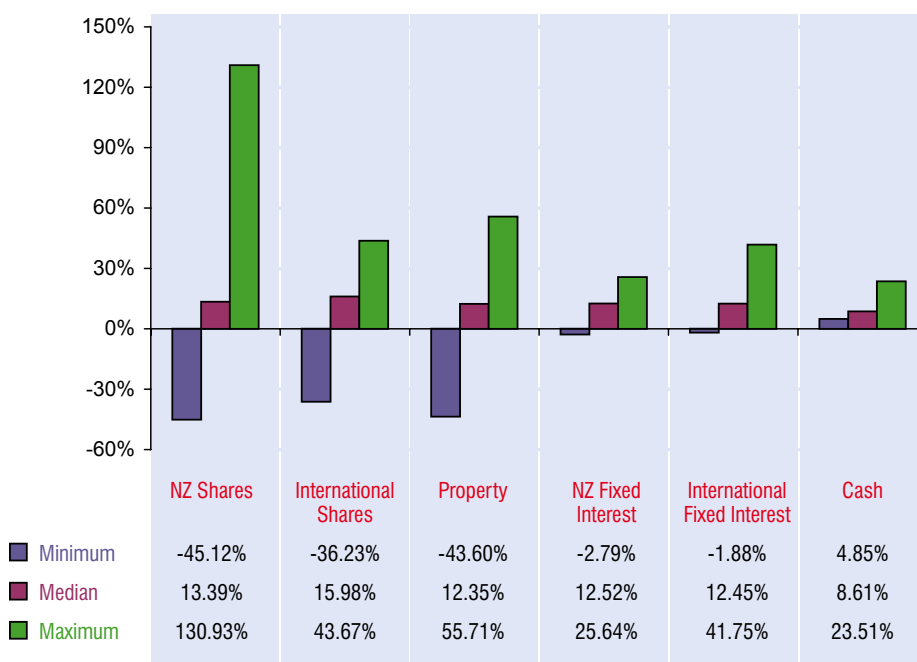
- **Return:** Expected to have low to moderate growth/returns over the long term.
- **Risk:** Expected to have a low to moderate degree of volatility from year to year, with the possibility of negative returns in some years.

### Cash

Cash is money invested in term deposits and bank bills for short periods of time. The return received on cash is the cash amount invested plus the interest it has earned. Cash has historically earned a low level of investment return over the long term and has the lowest level of risk.

- **Return:** Expected to have low growth/returns over the long term.
- **Risk:** Expected to have a low degree of volatility from year to year.

The graph below demonstrates the maximum, minimum and median returns for each of the asset classes for the last 27 years (only 18 years for international property). It shows cash returns are relatively stable, having never been negative and ranging from a low of 4.85% p.a. to a high of 23.51% p.a. New Zealand shares have shown much more volatile returns, with a low of negative 45.12% p.a. and a high of positive 130.93% p.a. The median return for cash was 8.61% p.a. while the median return for New Zealand shares was 13.39%. It's important to note that due to lower rates of inflation than in the past, investment returns in the future are expected to be lower than the historic median figures.



## Your choices made easy

You can choose to invest your accumulations and future contributions in one or more of the Scheme's four investment options –whatever suits you best. When you have decided which investment option/s meet your requirements, select your options online at [www.firesuper.co.nz](http://www.firesuper.co.nz) as set out on page 8.

Please be advised that at 31 May 2010 the Cash option had an exposure of 4.67% of its assets to New Zealand Property and the Conservative option had an exposure of 4.90% of its assets to New Zealand Property. These exposures will continue until these assets are able to be sold.

The options you may choose from are:

	High Growth	Balanced (default)	Conservative	Cash
<b>Comparison to other choices:</b>	<p>Potential for the highest long-term returns and the largest fluctuations (volatility) from year to year compared with the other options.</p> <p>With this option, your super has the greatest likelihood of both increasing in value the most in any given year and reducing in value in any given year.</p>	<p>Expect higher returns than the Conservative option but lower longterm returns than the High Growth option. It is still possible that your accumulation could reduce in any given year and that it could produce strong growth in some years. You would expect the ups and downs in performance to be less pronounced than for High Growth.</p>	<p>Expect lower long-term returns and less volatility from year to year than for High Growth and Balanced. It is still possible that your benefit can reduce in value in any given year – but less likely than for the High Growth and Balanced options.</p>	<p>Expect the lowest longterm returns and least fluctuations in return of the four options. Very unlikely to lose value but over the long-term there is a risk that returns may not keep up with inflation.</p>
<b>Objective:</b>	<p>A return above benchmark before tax of 1.25% per annum over 5 year rolling periods.</p> <p>An average rate of return (after tax) at least equal to the CPI rate plus 4.0% per annum over 5 year rolling periods.</p>	<p>A return above benchmark before tax of 1.0% per annum over 5 year rolling periods.</p> <p>An average rate of return (after tax) at least equal to the CPI rate plus 3.0% per annum over 5 year rolling periods.</p>	<p>A return above benchmark before tax of 0.5% per annum over 5 year rolling periods.</p> <p>An average rate of return (after tax) at least equal to the CPI rate plus 1.5% per annum over 5 year rolling periods.</p>	<p>A return above benchmark before tax of 0.25% per annum over 5 year rolling periods.</p> <p>An average rate of return (after tax) at least equal to the CPI rate plus 0.25% per annum over 5 year rolling periods.</p>
<b>Asset Allocation:</b>				
<b>Invested:</b>	<p>Growth: 85.0%</p> <p>Income: 15.0%</p>	<p>Growth: 58.5%</p> <p>Income: 41.5%</p>	<p>Growth: 20.0%</p> <p>Income: 80.0%</p>	<p>Income: 100.0%</p>
<b>Risk:</b>				



## Factors to consider

The best option (or combination of options) will depend on a number of factors. Before you make a decision, consider the following:

### When are you likely to need your retirement savings?

This is one of the critical issues. As far as possible, you need to take a long-term view.

### Consider the cost of living as well

When you consider investment returns, you need to consider the impact of inflation (the cost of living). For example, if your money was earning say 3% per year after tax, and the cost of living increased by more than 3% per year, then at the end of the year your investment would be worth less in terms of its purchasing power.

### Your needs in retirement

Everyone has different ideas and expectations for their retirement. Some people may want to travel while others are happy enjoying their grandchildren and the garden.

### Your personal feelings about investing

While some investors are happy to quietly ride out periods of negative returns in the knowledge that what goes down must come up, others prefer to opt for investments with lower average returns but lower volatility.

### Your personal financial circumstances

The option/s you choose will also vary depending on your personal circumstances. For example, your age, when you intend to retire, any other investments you have and your dependants.

Before you make any investment decisions, it's important to analyse your needs and assess your attitude to the balance of risk and return. To get an indication of what kind of investor you are, complete the Risk Profile Quiz on page 6.

If you would like further help choosing your investment option/s, the Trustees suggest you contact a financial adviser.

## Frequently asked questions

### Can I invest in more than one option?

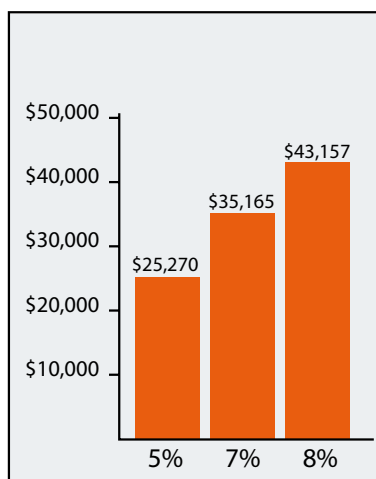
Yes, you have the flexibility to invest in one or more of the four options.

### Do the options I choose apply to my existing savings and future contributions?

The option/s you select apply to both your existing accumulations and future contributions.

### How much difference could my choice of investment options make?

Even a small difference in returns can have a significant effect on your accumulations over time. This is due to the impact of compound interest. The graph below shows how your savings may grow over 20 years on a \$10,000 lump sum invested at different rates of return.



### If I choose more than one option, how will I know how much of my savings is invested in each asset class?

If you go to [www.firesuper.co.nz](http://www.firesuper.co.nz),

- select 'Access account details' (complete your details), then
- select 'Your investments' and then
- 'Your investment mix' you can see how your savings would be invested if you chose a combination of investment options.

### What should I do if I want to change my investment option/s?

You can change investment options at [www.firesuper.co.nz](http://www.firesuper.co.nz) once a year with these changes taking effect from the first day of the month after a confirmed election has been received, provided your election is received by midnight on the 20th of the month.

### Is there a fee for changing my investment options?

No.

### Is there anyone I can talk to about choosing my investment strategy?

The freephone 0800 MY SUPER (0800 69 78737) can give you limited advice about the options available. If you feel you need more help, you are encouraged to talk to a financial adviser. Alternatively, the Retirement Commissioner's website, [www.sorted.org.nz](http://www.sorted.org.nz) has some helpful articles and tools.

### How is interest allocated to my accumulations?

An interim interest rate is calculated and declared monthly for each option and may be negative or positive.

On the last day of each month an interim interest rate is calculated and allocated to your accumulations in each option at that date. Interim interest rates will be calculated and allocated to your newly chosen investment option/s from the first day of the month after your confirmed election has been received, provided your election is received by midnight on the 20th of the month.

If you leave during the month, the interim interest rate applying at that time will be allocated to your accumulations.

### How can I see what interim interest rate is allocated to each option?

The interim interest rates are posted on [www.firesuper.co.nz](http://www.firesuper.co.nz) each month.

### Who can I phone if I have a question about how investment choice works?

If you have any questions about how investment choice works, please call the freephone at Mercer on 0800 MY SUPER (0800 69 78737). Information about investment choice is also available on [www.firesuper.co.nz](http://www.firesuper.co.nz).

## Risk Profile Quiz

This quiz is designed to provide a broad indication of how you would react to investment risk in certain circumstances. Before you make your investment decision, you should take into account your personal needs and circumstances as these are likely to have an impact on your overall investment decision. The quiz is merely a guide and it's recommended that you seek professional advice before you make any decisions to ensure your investment option(s) are appropriate to your needs and circumstances.

### Question 1

Points

Bearing in mind that you're saving for your retirement, how long do you expect your money to remain invested?

a. Less than two years	10
b. Two to five years	20
c. Five to 10 years	30
d. More than 10 years	40

### Question 2

Given my current retirement savings, I estimate that I have enough money at retirement to provide for the retirement lifestyle I'd like to lead.

a. Strongly agree	5
b. Agree	10
c. Disagree	15
d. Strongly disagree	20

### Question 3

How would you feel about the value of your retirement savings going up and down by as much as 20% or more over a short period of time such as a year?

a. Very concerned	5
b. Fairly concerned	10
c. A little concerned	15
d. Not concerned	20

### Question 4

Imagine you own shares and the share market suddenly slumps. Your shares are worth 10% less than they were a month ago. You are inclined to:

a. Sell your shares and invest the money elsewhere	5
b. Sell half the shares and invest the money elsewhere	10
c. Do nothing	15
d. Buy more shares	20

### Question 5

If you were going to invest in the share market would you choose?

a. I wouldn't invest in shares, they're too risky	5
b. A broad selection of shares in established companies	10
c. A mix of shares in both established and small growing companies	15
d. Small growing companies	20

### Question 6

You inherit \$50,000. Where would you invest it?

a. In your bank account	5
b. A mix of different investments	15
c. Just shares	20

Your Investment Score



## Your profile

Your score and profile description

### Between 35 and 60

You are likely to:

- Be a short-term investor
- Want security from your investors
- Be happy to accept lower returns over the long term in return for low risk in the short term

Investment options which may suit your profile:

Cash

Conservative

### Between 61 and 85

You are likely to:

- Be a medium-term investor
- Want the potential for some higher returns
- Be comfortable with the possibility of small to moderate fluctuations in the value of your investment in the short term

Investment options which may suit your profile:

Conservative

Balanced

### Between 86 and 115

You are likely to:

- Be a medium to long-term investor
- Want strong long-term growth from your investment
- Be comfortable with the possibility of moderate to high fluctuations in the value of your investment in the short to medium term

Investment options which may suit your profile:

Balanced

High Growth

### Between 116 and 140

You are likely to:

- Be a long-term investor
- Want strong long-term growth from your investment
- Be comfortable in investing mostly in high-risk options to potentially generate the highest return, even though there may be negative returns in the short to medium term

Investment option which may suit your profile:

High Growth

## Case studies

### Case study 1

Name: Wayne

Age: 30

At 30, Wayne is still a long way from retirement. He has so far only saved a relatively small amount in his Scheme accumulations. Although Wayne hasn't had much experience with investments, he recognises that he needs to obtain strong returns on his retirement savings to ensure he and his partner, Tracey, have adequate



savings for their retirement, however far away that may seem at the moment. Wayne decides to invest all his savings in the High Growth option. He's comfortable knowing that this option has the risk of losses in the short term, as he has many years left in his investment timeframe, he can aim for potentially higher returns over the long term.

### Case study 2

Name: Anna

Age: 42

Anna has recently returned to work after a break to raise her children. While she did not contribute to the Scheme while she was not working, Anna's savings accumulated prior to stopping work plus interest earned while she was not working



means she has a nice little nest egg. As she's not comfortable with the idea of the value of her savings falling, she decides to forgo potentially higher returns and invest her savings and future contributions in the Conservative option.

### Case study 3

Name: Pat

Age: 45

Pat estimates he has about 15 years to retirement. His children have left home, so he is able to make saving for retirement a priority. Although Pat has quite a while until he plans to retire, he decides to invest in the Balanced option,



where he'll have some exposure to growth assets but the likelihood of a negative return is less than he would have had, had he invested in the High Growth option.

### Case study 4

Name: John

Age: 50

John is 50 and has been in the Fire Service for 20 years. He has other investments as well as his superannuation including an investment property and some shares. He plans to retire within the next five years and take his wife on the 'OE' they missed out on when they were younger. As John has growth investments outside the Scheme and plans to withdraw his savings fairly soon, he doesn't want to risk negative returns.



As a result, he decides to adopt a conservative strategy towards his Scheme savings and invest half his savings plus future contributions in the Conservative option and half in the Cash option. (Note he will not be able to access any savings in the Complying Fund section until he is 65.)

## Changing your options online

### STEP ONE

Enter your member Number and PIN from your benefit statement or call 0800 MY SUPER (0800 69 78737).



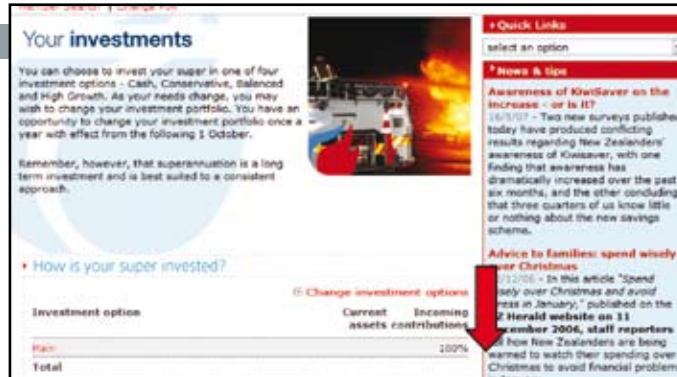
### STEP TWO

Select the Your Investments tab at the top of the screen.



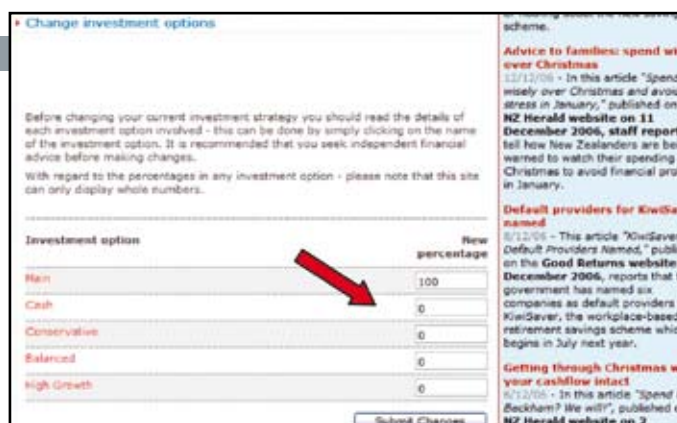
### STEP THREE

Select the Change Investment Options link



### STEP FOUR

Select your new strategy



### STEP FIVE

This shows your new selection has been successful. If you do not see this screen including the confirmation number you need to start the process from Step 1 again.







**Firesuper**

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