

2 Minutes on Super

NEWS, REMINDERS AND TIPS ABOUT YOUR SAVINGS

DECEMBER 2020

When it's better not to work hard

by Mary Holm

A super scheme provider received an angry letter from a member. "How come my account did so badly last year?" he asked. "My mate's in the same scheme. His money grew, but mine went down 5%."

Puzzled, the provider looked at the man's account. He had been busy. At the end of each month, he had looked at which of the provider's funds had performed best during that month and moved his money into that fund. If he had left his money in his original fund, his return that year would have been 9.2%. Why did he do so badly?

Often in life, past success is a good guide to future success. The winner of the last race is a pretty good bet to do well in this race. Your favourite band or movie director or author is likely to please you with their next offering.

Not so in investing. The type of investment that did really well last year has a pretty good chance of performing poorly this year. The country whose share market soared last year is quite likely to see a drop this year. The fund manager that topped the list last year may well come near the bottom this time around.



SOMETIMES THE WORST PERFORMER IN A YEAR CAN BE THE BEST PERFORMER THE NEXT

	Cash %	New Zealand bonds %	Overseas bonds %	Commercial property %	New Zealand shares %	Overseas shares %
2005	7	7	9	20	11	16
2006	8	4	6	25	22	16
2007	9	4	9	-4	3	0
2008	9	16	15	-21	-32	-22
2009	3	2	4	12	21	4
2010	3	7	2	3	4	7
2011	3	13	8	11	-1	-14
2012	3	5	7	21	27	10
2013	3	-2	3	4	18	27
2014	3	8	12	24	19	11
2015	3	5	5	14	15	13
2016	3	3	6	3	10	6
2017	2	5	3	13	24	20
2018	2	5	7	31	32	27
2019	2	5	3	10	6	-3

■ Worst-performing asset class
 ■ Best-performing asset class

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This isn't always true. Our table shows that sometimes an investment has a good run for several years. But it's also not uncommon for one year's top performer to come bottom the next year or the year after.

Why? Markets sometimes rise fast and get overheated. Then investors panic and rush to sell at ever lower prices. Some time later, people realise the downturn was overdone and rush back in again. Impressive returns the year after a plunge are not uncommon. But don't count on that either!

Because of this changeability, it's not wise to move your savings from one place to another chasing last period's winners.

It's important to note that we're not talking about broad long-term trends. For example, history shows us that, over the decades, share returns are more volatile but they are higher, on average, than returns on bonds. And that's sure to continue – over the long term.

But research shows that trying to cash in on short-term movements is not easy and doesn't always pay off. Those who do best are the ones who work out the right type of investment for them and then just stick to it through thick and thin. Bonus: it's much easier!

The best type of investment for you depends on these things:

- Your tolerance for ups and downs. Earlier in 2020, concerns about COVID-19 sent New Zealand and world share markets sharply downwards – before they recovered again. If that downturn made you panicky, you should probably be in a lower-risk fund.
- When you plan to spend the money. It's best to put money you plan to spend within 3 years into a low-risk fund so it can't plunge right before you withdraw it, and 3-year to 10-year money is best in a medium-risk fund. And if you can tolerate some volatility, it's good to have longer-term money in a higher-risk fund where long-term returns will probably be higher.

For help with choosing your risk level, use the [PSS Risk Profiler](#).

Mary is a financial journalist and the author of six books on personal finance. Earlier this year, she was appointed an Officer of the New Zealand Order of Merit for services to financial literacy education.

The information provided here is general in nature and is not intended as personalised financial advice. Before making financial or investment decisions, you may wish to contact an authorised financial adviser.

Switches aren't instant

A couple of things to keep in mind if you do decide to change funds:

- The process takes a few business days. The change doesn't happen automatically when you hit 'submit'. The unit price that applies is the one that's current on the day your request is processed – not the day you submit your request.
- The first switch each scheme year is free (April to March). Subsequent switches incur a fee (currently \$66.69).

Make sure you're on the right tax rate

Several members got a surprise recently, receiving a letter from Inland Revenue advising them they were on the wrong tax rate for their super (called a prescribed investor rate or PIR). We emailed you about this in November, but it's worth repeating the main points here:

- It's your responsibility to make sure you're on the correct PIR. It's based on your total taxable income. (For example, you may have income from a rental property or other investment.) PSS or Payroll doesn't hold that information.
- If your PIR is too low, Inland Revenue will require you to pay the shortfall, and you may be liable for penalties and interest.
- If your PIR is too high, you can recoup any overpayment as part of the income tax year-end process. This is only possible from the tax year beginning 1 April 2020. PSS only became a PIE on 1 July 2019, so the period for which you would not be able to recoup any overpaid tax is relatively short.

PIE tax is paid on your behalf at the end of the scheme year. As long as you update your PIR before 31 March each year, this new rate will be applied for the full tax year.

Work out your PIR using [Inland Revenue's online tool](#)

Change your PIR if you need to by completing a [Confirmation of tax rate \(PIR\)](#)

Protecting your privacy

The Privacy Act 2020 came into effect on 1 December 2020. It replaces the 1993 Act, largely reflecting the realities of the digital world we now live in. Key provisions include strengthening protections of data flowing across borders, mandatory reporting of privacy breaches and new powers for the Privacy Commissioner to enforce privacy rules. For the PSS, it's very much a case of the law catching up with existing practice. Member data is held by Mercer in order to carry out its role as administration manager. The company has a robust privacy and security programme and data protection policies and established protocols around privacy breaches.

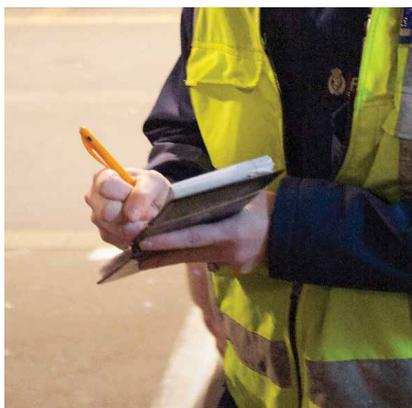
Benefit payments over the holidays

The last payment date for benefits for 2020 will be Friday 18 December. You need to factor this in if you are planning to withdraw money over the holidays. This applies to all benefits including partial withdrawals, first-home benefits, leaving service payments, significant financial hardship payments and withdrawals from retained member accounts. If you've set up a regular payment from your retained account, this will be processed as usual. For a pre-Christmas payment, Mercer needs to receive the completed form from you (or Payroll in the case of leaving service payments) by Friday 11 December. At this point, a pre-Christmas payment may not be possible if you have a charge registered against your super.

Latest returns

Unit prices are updated on the website each business day. Each month, we also post returns based on the change in unit prices over a given period expressed as a percentage. This provides another way for you to follow the performance of your investment. This table shows the monthly returns for this scheme year (after fees and before tax). Percentage returns on your investments will vary depending on your prescribed investor rate (PIR). Numbers in brackets are negative.

PERCENTAGE RETURNS FOR THIS SCHEME YEAR				
	Growth	Balanced	Stable	Cash Plus
April 2020	5.75	4.37	2.51	0.09
May 2020	2.68	1.97	1.44	0.02
June 2020	1.84	1.41	1.07	0.04
July 2020	2.84	2.18	1.51	0.03
August 2020	2.48	1.28	0.67	0.04
September 2020	(1.34)	(0.68)	(0.30)	0.02
October 2020	(0.13)	(0.06)	0.18	0.03
November 2020	5.56	3.90	2.01	0.02
Year to date	21.23	15.19	9.42	0.31



Got a question?

policiesuper.co.nz

You'll find plenty of information about the PSS and your membership online. Our website is optimised for mobile phones and tablets and has lots of features to help you manage your super.

0800 PSSHEME (0800 777 243)

The helpline will operate as usual over the holiday period. There is someone available to take your call from 9.00am to 7.00pm Monday to Friday (except public holidays).