

Your Westpac

New Zealand Staff  
**Superannuation**  
Scheme

Annual Report **2007**

# Chairman's report

On behalf of the Scheme Trustees, I am pleased to present the Annual Report of the Westpac New Zealand Staff Superannuation Scheme, which incorporates In-Tandem, for the year ended 30 June 2007.

## Membership

We all need to plan for the life we want in retirement – so it's great to see how many members we have in the Scheme. The level of take-up continues to increase with 4,171 Westpac employees being members as at 30 June 2007.

Westpac is committed to providing workplace superannuation as a key employee benefit. This is clearly evident in the fact that the bank contributed the \$1.332M cost to administer the Scheme over the past 12 months.

There continues to be a small percentage of the bank's total staff who are eligible to join the Scheme and who have yet to do so. I recommend that all new and existing staff eligible to join In-Tandem think seriously about doing so.

## Investment Returns

As you will already know from your annual Member Statement, the Scheme had performance numbers that were somewhat subdued when compared with the previous year. To reiterate, the returns for the year ended 30 June 2007 were:

▪ Capital Stable Portfolio	+ 5.99%
▪ Balanced Portfolio	+ 5.03%
▪ Growth Portfolio	+ 6.11%
▪ Defined Benefit Portfolio	+ 5.01%

Over the last five years the In-Tandem performance is as follows:

Portfolio	2003	2004	2005	2006	2007	5 Year Avg
Growth	-3.75%	12.01%	5.09%	17.30%	6.11%	7.35%
Balanced	-0.30%	8.74%	5.33%	12.96%	5.03%	6.35%
Capital Stable	5.17%	4.71%	5.79%	5.27%	5.99%	5.39%

So how does the performance compare relative to similar funds?

Relative performance compared to extracts taken from the Eriksen Master Trust Survey (after tax and fees) shows:

## Over 5 years

	No. of funds	Median return	Average In-Tandem return	In-Tandem rank
Growth	12	6.8%	7.35%	6
Balanced	19	6.8%	6.35%	13
Capital Stable	21	4.1%	5.39%	2

Returns for the Balanced and Growth portfolios were noticeably lower than the equivalent returns achieved the year before. The main reason for this difference is a turnaround in the value of the New Zealand dollar versus our major overseas currencies. In the later part of the Scheme's 2006 year the global shares portfolio benefited significantly from a New Zealand dollar which weakened against most major currencies.

Three-quarters of the Scheme's investment in overseas shares is exposed to movement in the New Zealand dollar versus world currencies. During the year ended 30 June 2007 the value of the Trade Weighted Index increased by over 22%.

Saving for your retirement via the workplace is usually done over the longer term. Fluctuations in currency values, over the long term, are expected to be broadly neutral in their impact on returns from the Scheme's global share investments; however the last few years illustrate how significant volatility and/or a prolonged currency cycle can have a large impact over the shorter time periods.

In the current year, the rising New Zealand dollar has been offset in part by strong performance from the Scheme's New Zealand share portfolio and the portion of the overseas share portfolio that was fully hedged back into New Zealand dollars.

## Tax Changes

The taxation of superannuation has changed in the past years, with further tax changes being implemented over the coming 12 months. Investments in fixed interest and cash will continue to be taxed as they have been in the past. However, from 1 April 2007 international share investments have been taxed under the new Fair Dividend Rate method and domestic share investments in managed funds have no longer been subject to capital gains tax. Also, with effect from 1 October 2007 there have been new personal investor rules applied to what will be known as Portfolio Investment Entities ("PIEs"). And lastly, with effect from 1 April 2008 the corporate tax rate (which is also the rate applied to the Scheme's earning from fixed interest & cash investments) will reduce from 33% to 30%.

### **What does all this mean for members of the Scheme?**

Firstly, for those who earn less than \$38,000 p.a., PIE introduces the ability for managed fund investment returns to be taxed at 19.5% instead of the current rate of 33%. That is, the tax paid by a person earning less than \$38,000 who holds direct investments is now mirrored in managed funds which are PIEs. In-Tandem has a large number of members who earn less than \$38,000 p.a. and the Trustees wanted to pass this valuable benefit on to those members but unfortunately the legislation does not enable In-Tandem to become a PIE. All is not lost however, because In-Tandem members can now also become KiwiSaver investors (see below) and can obtain the lower tax rate on their KiwiSaver investment earnings.

Secondly, the changes in the taxation of investment income have been the catalyst for the Scheme's Trustees to undertake a comprehensive review of how the assets of the Scheme are managed, and what makes for optimal portfolio structures in the new environment.

The Trustees currently have the Scheme's assets invested under a blend of active and passive mandates. The new rules remove the tax-driven incentive for investment in passively managed equities and remove the tax disadvantages of active investment management. Consequently, the Trustees have moved to a fully active investment approach with effect from 1 October 2007. I will write to members explaining these changes more fully once they are decided.

### **KiwiSaver**

KiwiSaver came into effect from 1 July 2007. The In-Tandem section of your Scheme has been changed to enable members, if they wish, to participate in KiwiSaver without the need to sacrifice any more of their discretionary earnings. In-Tandem members may choose to divert some (or all) of their member contribution, along with a matching Bank contribution, to a KiwiSaver scheme of their choice. Obviously, unlike In-Tandem, your KiwiSaver savings will be locked in until you reach age 65 (or for 5 years from the date of joining if you are over age 60 when you join).

Each person will need to decide for themselves whether that loss of earlier access is adequately compensated for by the KiwiSaver incentives. The main KiwiSaver incentives are that the Bank's matching contribution to KiwiSaver is not taxed (whereas all the Bank's contribution to In-Tandem is taxed), the \$1,000 kick start, and the government's co-contribution of up to \$1,040 p.a. I encourage all In-Tandem members to do the math on whether the combo would offer a better long-run savings outcome. Unfortunately members of the pension section of the Scheme can not access the diversion arrangement.

### **Thank you**

As always, I would like to extend my sincere thanks to my fellow Trustees for their continued support and commitment during the year. Those Trustees are:-

### **Current**

David Cunningham (Bank appointed 14 Aug 2006 after 3 years as a Member-elected trustee)

David Boyes (Bank appointed 18 Sept 2006)

David Biegel (Member-elected 30 Sept 2006)

### **Past**

Henry Ford (resigned 18 Sept 2006)

Tony Ziesler (died in service 11 April 2007)

We were deeply saddened when long-standing member trustee, Tony Ziesler, passed away. For almost a decade Tony contributed an enormous amount in his role as trustee and provided a very helpful employee perspective to the governance of the scheme.

Each trustee has contributed diligently and with enthusiasm, bringing a broad range of skill and acumen to the governance team of the scheme.

I would also like to extend my thanks to the people who supply services to the Trustees throughout the year, and who assist with the smooth running of your Scheme. These include Westpac People & Performance, Scheme Secretary, Investment Advisors, Scheme Lawyer, and the Administrator of the Scheme.

If any member has questions or comments, I can be contacted at [Bruce\\_Kerr@westpac.co.nz](mailto:Bruce_Kerr@westpac.co.nz)



Bruce Kerr

Chairman

21 September 2007

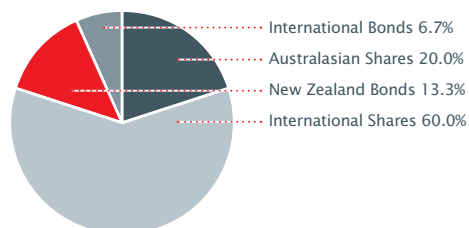
# Trustees' report

**The Trustees of the Westpac New Zealand Staff Superannuation Scheme provide members with the following information, as required by the Second Schedule to the Superannuation Schemes Act 1989:**

- The Trustees confirm that all contributions required to be made to the Scheme, in accordance with the terms of the Scheme's trust deed, have been made.
- The Trustees certify that all benefits required to be paid from the Scheme were paid in accordance with the terms of the Scheme's trust deed.
- The Trustees certify that the market value of the assets of the Scheme as at 30 June 2007 exceeded the value of the benefits that would have been payable had all members of the Scheme ceased to be members at that date and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries as at 30 June 2007. Further details are provided later in this report.
- The Trustees confirm that contributions are currently being made by the Bank, in accordance with the most recent actuarial review of the Scheme.
- The Trustees confirm that no more than 10 percent of the market value of the Scheme's assets were invested with employers (or associated entities), either directly or indirectly, who are parties to the Scheme.
- The trust deed was amended during the year. Please see page 6 for more details.

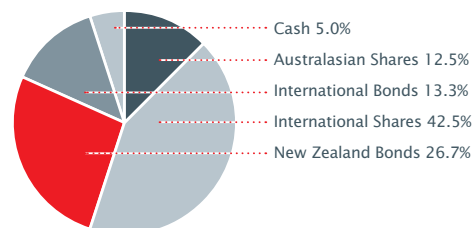
## The four investment portfolios

### Growth Portfolio



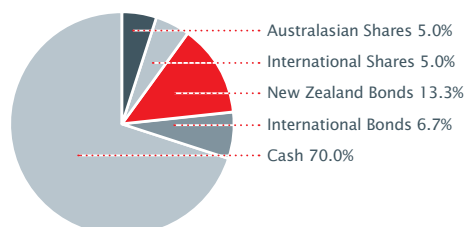
This portfolio is designed for people who intend to invest for 10 years or more and who don't mind volatility. It's riskier than our other portfolios because it invests primarily in shares, but this also means it should provide returns which are greater over the long term than the other portfolios.

### Balanced Portfolio



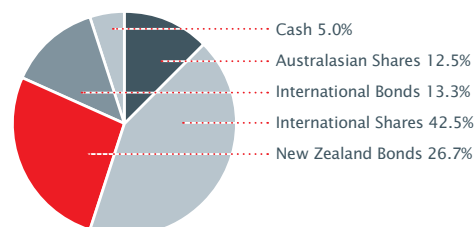
This portfolio is designed for people who are a little bit more risk averse, who aren't so keen to live with volatility, and/or want to invest for between say five and 10 years. As you can see, it invests across a range of assets – so it provides opportunity for growth but also protection against short-term market ups and downs.

### Capital Stable Portfolio



This portfolio is designed for those of us who like things a bit more steady, who intend to invest for a short time (say one to five years) or who are getting close to retirement. The objective is designed to provide average returns and protect members' savings.

### Defined Benefit Portfolio



The objective of this portfolio is to achieve a consistently above average performance over the medium to long term. The Defined Benefit Section is closed to new members.

# Your Scheme's performance

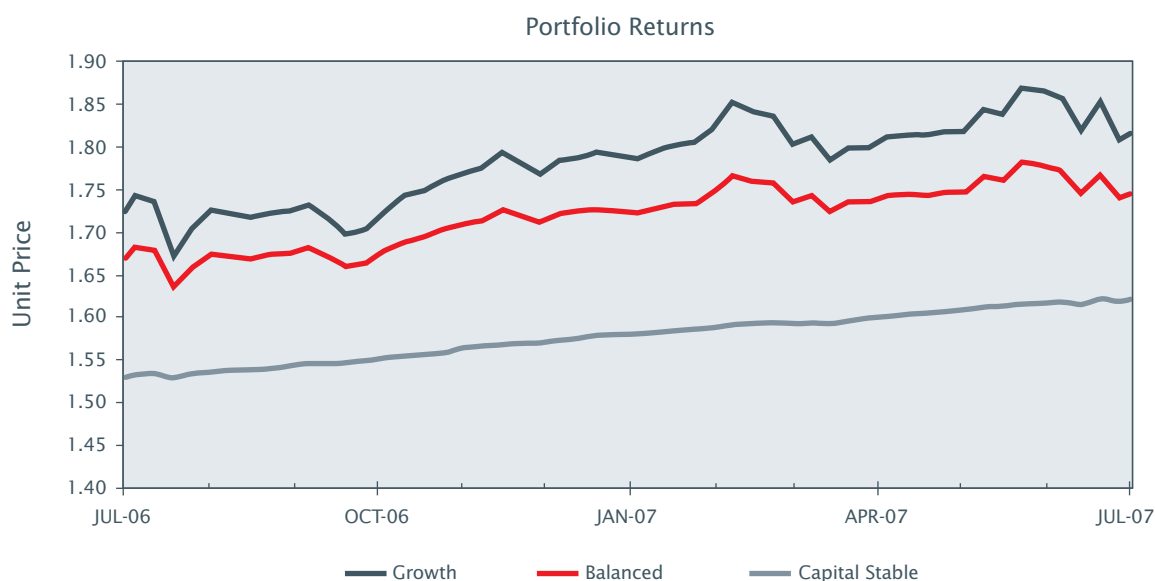
Details of the performance of each portfolio over the last two years are as follows:

In-Tandem	30 June 2007	30 June 2006
Growth	6.11%	17.30%
Balanced	5.03%	12.96%
Capital Stable	5.99%	5.27%
<b>Defined Benefit</b>	5.01%	13.00%

For more information on your Scheme's performance, log on to Kiosk (under the You tab on the intranet) and go to Pay.

## Unit prices calculated during the year

The graph below illustrates the unit price movements during the year for the three In-Tandem portfolios. The most current unit price available is applied to benefits payable to members who exit the Scheme during the year.

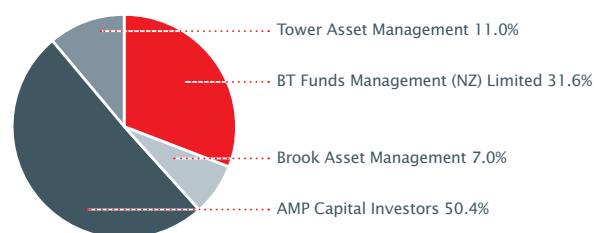


In respect of the Defined Benefit Section a return based on the Balanced portfolio is used when calculating the benefits payable to members who exit the Scheme during the year.

## Scheme details

Details of the Scheme benefits are contained in the Investment Statements. Copies of the Scheme's Investment Statements can be obtained from the Scheme Secretary.

## Distribution of Scheme Assets



The Trustees have adopted a sector specialist approach to the management of the Scheme's assets. Under this structure the Trustees appointed four managers to manage each class of the Scheme's assets. As at 30 June 2007, the Scheme held \$290.2 million in assets. The graph indicates the portion of total Scheme assets held by each manager as at 30 June 2007.

# Actuarial report

**An actuarial valuation of the Scheme was carried out as at 30 June 2007. The purpose of the valuation was to determine the financial position of the Scheme and to determine the level of contributions required from the Bank to meet the benefits payable from the Scheme.**

The results of the valuation show that there is a past service surplus, with net assets exceeding the value of the accrued liabilities by \$2.653 million. This compares with a past service surplus of \$3.762 million as at 30 June 2006. The slight deterioration in the Scheme's financial position is mainly as a result of poor investment performance over the year.

As noted in previous years' annual reports, the Trustees have agreed a formal funding policy with the Bank. Under the funding policy, the target funding ratio for the Defined Benefit Section is 95% to 105%. If the defined benefit funding ratio falls below 95% then additional Bank contributions are payable in order to meet the shortfall over a four-year period. If the ratio exceeds 105%, then the Bank contribution required to meet the cost of the future service benefits can be reduced. The defined benefit funding ratio as at 30 June 2007 was 102.4%, within the target range.

The contributions that I have recommended be paid by the Bank are as follows:

- 12.0% of the salaries of Defined Benefit members;

- the actual credits to the employer accounts of In-Tandem members;
- the cost of the credits to the employer accounts of members who participate in the Superannuation Incentive Plan;
- by way of reimbursement, the actual administration expenses incurred by the Scheme;
- the expected cost of the group life premiums for In-Tandem members.

These amounts are exclusive of withholding tax.



Bobby Schoonraad BSc FIA FNZSA  
Mercer

18 September 2007

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## Membership

Changes in the Scheme's membership numbers during the year were as follows:

### Active members

Opening membership at 1 July 2006	4,124
New members (including transfers)	738
Retirements	-4
Redundancy	-1
Withdrawals	-681
Total and permanent disablements	-2
Deaths	-3
<b>Closing membership at 30 June 2007</b>	<b>4,171</b>

### Pensioners and deferred pensioners

Opening membership at 1 July 2006	316
Retirements	2
New spouse's pensions	4
New deferred pensions	-
Deaths	(18)
Full commutation	(5)
<b>Closing membership at 30 June 2007</b>	<b>299</b>

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## When times get tough

We understand that sometimes, due to circumstances beyond your control, you may come under serious financial pressure. For this reason members can, in exceptional circumstances, withdraw some, or all, of their member account (you can't access the Bank's contribution). This is at the Trustees' discretion and they must be convinced that the member is experiencing serious financial hardship.

# Trust deed amendment

During the year under review, no amendments were made to the Scheme's governing trust deed. However, an amendment was made on 25 July 2007 (after the end of the Scheme year). The amendment made some modifications to the Scheme to allow Westpac to qualify for an exemption from the requirement to automatically enrol new employees in KiwiSaver from 1 July 2007 onwards.

The changes were:

1. A new category of membership was established for all permanent employees between the ages of 18 and 65 who do not meet the eligibility criteria to be invited to join other categories of the Scheme;
2. The Trust Deed was changed to allow In-Tandem members to direct contributions made by or in respect of them to a Kiwisaver scheme.

## Additional disclosure information

1. Neither the Trustees, the Bank, Mercer Human Resource Consulting Ltd (as administration manager) nor any investment manager, nor any director of any of those companies has, during the five years preceding 30 June 2007, been adjudged bankrupt or insolvent, or convicted of any crime involving dishonesty (within the meaning of section 2(1) of the Crimes Act 1961), or prohibited from acting as a director of a company, or placed in statutory management or receivership.
2. During the year ended 30 June 2007, the Scheme's assets were invested as follows:

### **Passive International Shares (unhedged)**

The Trustees' investment in passive international shares is arranged through their membership of a registered superannuation scheme, known as the AMP Superannuation World Index Fund ("Super WINZ"). The Trustee of the Scheme is The New Zealand Guardian Trust Company Limited. AMP Capital Investors manages, administers and monitors this fund.

### **Passive International Shares (hedged to the New Zealand dollar)**

The Trustees' investment in New Zealand dollar-hedged passive international shares is arranged through their membership of a registered superannuation scheme, known as the AMP Superannuation Investment Trust ("ASIT"), and is invested in its Hedged Passive International Fund. The Trustee of the Scheme is Perpetual Trust Limited. AMP Capital Investors manages, administers and monitors this fund.

### **International Bonds**

The Trustees' investment in global bonds is arranged through a unit trust known as the TAM International Trust International Bond Fund. TOWER Asset Management administers and monitors this fund. The Trustee of the fund is Trustees Executors Limited. The investment management is undertaken by PIMCO.

### **Active Australasian Shares**

The Trustees' investment in actively managed Australasian Shares is arranged through a unit trust known as the UT1 Brook Australasian Companies Fund. The Trustee of the fund is Trustees Executors Limited. Brook Asset Management manages, administers and monitors the fund.

### **Passive New Zealand Shares**

The Trustees' investment in passive New Zealand Shares is arranged through a registered superannuation scheme known as the AMP Superannuation Tracker Fund. The Trustee of the Scheme is The New Zealand Guardian Trust Limited. AMP Capital Investors manages, administers and monitors this fund.

### **New Zealand Bonds**

The Trustees' investment in New Zealand bonds is arranged through a segregated account with BT Funds Management (NZ) Limited, which manages, administers and monitors the account.

### **New Zealand Cash**

The Trustees' investment in New Zealand cash is arranged through a segregated account with BT Funds Management (NZ) Limited, which manages, administers and monitors the account.

3. There are no legal proceedings or arbitrations that are pending at 30 June 2007.
4. The Trustees of the Westpac New Zealand Staff Superannuation Scheme state that in their opinion, after due enquiry by them:
  - the value of the Scheme's assets relative to its liabilities (including contingent liabilities); and
  - the ability of the Scheme to pay its debts as they become due in the normal course of business has not materially and adversely changed since 30 June 2007.

# Summary financials

The Trustees authorised the summary financial report for issue on 5 November 2007.

## Summary Statement of Net Assets as at 30 June 2007

	30 June 2007	30 June 2006
	\$000's	\$000's
<b>Investments</b>		
New Zealand Government Stock	32,730	34,131
New Zealand Fixed Interest	30,269	23,366
International Bonds	31,736	30,161
Shares – Australasian	41,493	38,701
Shares – Internfational	124,069	128,425
	260,297	254,784
<b>Other Assets</b>		
Short-term Investments	28,841	31,971
Non-current (Deferred Tax)	278	1,767
Other	1,622	1,971
	30,741	35,709
<b>Total Assets</b>	<b>291,038</b>	<b>290,493</b>
<b>Less Liabilities</b>		
Current	797	656
	797	656
<b>NET ASSETS</b>	<b>290,241</b>	<b>289,837</b>

WHAT THE SCHEME OWNED AND WHAT IT OWED AT 30 JUNE 2007

## Summary Statement of Changes in Net Assets for the Year Ended 30 June 2007

	30 June 2007	30 June 2006
	\$000's	\$000's
<b>Investment Revenue</b>	<b>12,291</b>	<b>39,354</b>
<b>Other Revenue</b>	<b>833</b>	<b>685</b>
<b>Less Expenses</b>	<b>1,632</b>	<b>1,517</b>
<b>Net Surplus Before Tax</b>	<b>11,492</b>	<b>38,522</b>
<b>Taxation Expense/(Benefit)</b>	<b>1,205</b>	<b>(2,250)</b>
<b>Net Surplus After Tax</b>	<b>10,287</b>	<b>40,772</b>
<b>Plus Contributions</b>		
Members' Contributions	13,659	11,580
Company Contributions	15,345	18,169
Group Life Claims	471	140
Transfers In	155	496
<b>Less Benefits Paid</b>		
Pensions	5,939	6,042
Pension Commutations	1,841	7,255
Benefits Paid to Members Leaving the Scheme	31,733	19,548
<b>Change in Net Assets</b>	<b>404</b>	<b>38,312</b>
<b>Net Assets Brought Forward</b>	<b>289,837</b>	<b>251,525</b>
<b>Net Assets Available to Pay Benefits</b>	<b>290,241</b>	<b>289,837</b>

WHAT THE SCHEME RECEIVED AND PAID OUT DURING THE YEAR

## Summary Statement of Cash Flows for the Year Ended 30 June 2007

	30 June 2007	30 June 2006
	\$000's	\$000's
<b>Opening Cash on Hand</b>	<b>31,971</b>	<b>26,109</b>
Net Cash Flow from Operating Activities	(4,199)	3,904
Net Cash Flow from Investing Activities	1,069	1,958
<b>Closing Cash on Hand</b>	<b>28,841</b>	<b>31,971</b>

THE SCHEME'S BANK ACCOUNT

The Summary Financial Statements have been extracted from the annual audited Financial Statements dated 5 November 2007. For a better understanding of the Scheme's financial position, performance and cash flows for the year, these summary financial statements should be read in conjunction with the annual audited Financial Statements. The audit opinion on those financial statements was unqualified. The annual audited Financial Statements can be obtained at no cost from Mercer's Wellington office, 109 Featherston St, Wellington.



# Auditors' report to the members of Westpac New Zealand Staff Superannuation Scheme

We have examined the summary financial statements on page 7. The summary financial statements have been extracted from the Scheme's annual financial statements for the year ended 30 June 2007 and its financial position as at that date.

We have audited the annual financial statements for the year ended 30 June 2007, on which we expressed an unqualified audit opinion dated 5 November 2007.

## **Trustees' responsibilities**

The Trustees are responsible for the preparation and presentation of the summary financial statements which fairly summarises the financial position of the Scheme as at 30 June 2007 and its financial performance and cash flows for the year ended on that date.

## **Auditors' responsibilities**

We are responsible for expressing an independent opinion as to whether the amounts included in the summary financial statements, which have been prepared and presented by the Trustees, have been correctly taken from and are consistent in all material respects with the annual financial statements from which they were extracted and reporting our opinion to you.

## **Basis of opinion**

We have examined the summary financial statements to provide reasonable assurance that the amounts set out in the summary financial statements have been correctly taken from and are consistent in all material respects with the annual financial statements of the Scheme for the year ended 30 June 2007 from which they were extracted.

We have no relationship with or interests in the Scheme other than in our capacities as auditors and tax advisors.

## **Unqualified opinion**

In our opinion, the amounts set out in the summary financial statements have been correctly taken from and are consistent in all material respects with the annual financial statements of the Scheme from which they were extracted.

For a better understanding of the Scheme's financial position and the results of its operations for the year, the summary financial statements should be read in conjunction with the annual financial statements.

We completed our work for the purposes of this report on 5 November 2007 and our unqualified opinion is expressed as at that date.



Chartered Accountants Auckland

# Directory

## Trustees

### The Trustees of the Scheme are:

*Appointed by Bank:*

BJ Kerr, Chairman

D Cunningham (14 August 2006)

D Boyes (18 September 2006)

*Elected by Members:*

D Biegel (30 September 2006)

During the year the following Trustee resigned:

RA Ford (18 September 2006)

During the year the following Trustee passed away:

AW Ziesler (11 April 2007)

### Administration manager

Mercer\*

### Auditor

PricewaterhouseCoopers

### Investment managers

AMP Capital Investors

Brook Asset Management

BT Funds Management (NZ) Limited

TOWER Asset Management

### Solicitor

Simpson Grierson

### Insurer

Westpac Life NZ Limited

### Secretary

Greg Eustace

PO Box 2897

Wellington 6140

Freephone: 0508 INTANDEM (468 263)

Extn 83995

Fax: 04 914 0434

Email: [greg.eustace@mercerc.com](mailto:greg.eustace@mercerc.com)

## Complaints officer

Greg Eustace

Freephone: 0508 INTANDEM (468 263)

Extn 83995

Fax: 04 914 0434

Email: [greg.eustace@mercerc.com](mailto:greg.eustace@mercerc.com)

## Questions?

If you have any questions about your Scheme or would like more information, please give the scheme administrator, Mercer Human Resource Consulting, a call.

The Scheme Administration Manager

Westpac New Zealand Staff

Superannuation Scheme

Mercer Human Resource Consulting

PO Box 1849

Wellington 6140

Freephone: 0508 INTANDEM (468 263)

Extn 83995

Fax: 04 914 9434

email: [WellingtonEMAIL@mercerc.com](mailto:WellingtonEMAIL@mercerc.com)

\* From 1 November 2007, Mercer Human Resource Consulting Limited is changing its name to Mercer (N.Z.) Limited. All references in this annual report to Mercer Human Resource Consulting Limited should be replaced with Mercer (N.Z.) Limited from this date.