PEOPLE FOCUS

June 2010 Willis New Zealand Ltd

THE LAUNCH OF WILLIS PEOPLE RISK

Willis People Risk is the new name for the Willis Employee Benefits Division. The new name has been adopted to reflect the fact our work encompasses all of the needs of organisations that arise in respect of the risks associated with their people.

We are not changing what we do for organisations. We will continue to provide Employee Benefits as a key part of our People Risk services. We believe the new name will help communicate that we provide many more services in addition to Employee Benefits.

These services are all designed to help protect an organisations most important asset - its people.

The range of People Risk services available from Willis include:

Health and Wellbeing

A fit healthy workforce is more productive and has lower costs associated with absenteeism. The combination of wellness programmes and access to medical insurance lifts workplace performance and reduces business costs.

Workplace Safety and ACC Coverage

For larger organisations there are options in relation to ACC coverage, and management of workplace injuries.

Personal Accident and Travel Insurance

Employees who are exposed to specific risks of personal injury or are travelling on business need tailored protection.

Key Person and Shareholder Protection

The loss through disablement or death of a key employee or shareholder can be a major financial blow to an organisation.

Employee Benefits

The attraction, motivation and retention of employees is a major issue for organisations in today's world of shortages of skilled workers.

Employees highly value the provision of workplace plans enabling access to health, life, trauma and income protection insurance alongside assistance with retirement savings through KiwiSaver or other superannuation plans.

Willis People Risk team comprises specialists with expertise in each of the above areas. These specialists work with our Willis clients to identify those People Risks that are of greatest concern and provide solutions to manage these risks.

Further information on any of our People Risk services can be obtained by a discussion with one of our People Risk specialists.

NEW PEOPLE RISK NATIONAL BUSINESS DEVELOPMENT MANAGER

We are pleased to announce the appointment of Neil Sharpe to the above role within Willis People Risk. Neil comes to Willis with significant experience and expertise in all aspects of group risk insurance, superannuation and KiwiSaver. Neil is based in our Wellington office. He will be managing the needs of a number of our clients as well as working on developing new opportunities for Willis. When he is not working Neil enjoys long distance running and travel.

BUDGET 2010 CHANGES

The Government's 2010 Budget included changes intended to encourage savings and productive investment. These changes included:

- An increase in the rate of GST from 12.5% to 15% effective from 1 October 2010.
- The company tax rate will reduce from 30% to 28% from 1 April 2011.
- All personal tax rates will reduce including a reduction in the top rate from 38% to 33%.
- Tax rates applicable to PIE entities will reduce with the top rate reducing from 30% to 28%.
- The rates of tax applicable to Employer Superannuation Contributions (ESCT) will reduce from 1 October 2010 to align with the new reduced personal tax rates. Note: employers have the option of applying a flat rate of 33% or of aligning ESCT to personal tax rates.
- The reduction in the top marginal tax rate means that there is now an alignment between this rate and the top rate of ESCT. There is therefore no longer an incentive to arrange salary sacrifice contributions for the purpose of reducing tax. In view of this the Fund Withdrawal Tax introduced to counter such tax avoidance is to be phased out. FWT will not apply to any employer sourced superannuation benefits accruing after 1 October 2010.

The new personal income tax rates are as below:

Income	Current Rates	New Rates
$0 to $14,000	12.5%	10.5%
$14,000 to $48,000	21.0%	17.5%
$48,001 to $70,000	33.0%	30.0%
Over $70,000	38.0%	33.0%

Willis Comments

The increase in the rate of GST will increase the cost of some insurance premiums i.e. trauma, health and income protection but not life premiums. A separate change to the basis on which life insurers pay tax, comes into effect from 1 July 2010. This will result in an increase in life insurance premiums.

The reductions in rates of PIE tax on investment earnings will increase the net of tax returns for savers. This should significantly improve accumulated savings for investors in superannuation and KiwiSaver plans over the long term. Tax payers will have more money in their hands as a result of the personal tax reductions. This may for some mean an opportunity to increase levels of savings for retirement.

Those who have not yet been able to afford KiwiSaver may now find it is possible to make the 2% contribution and receive the benefit of employer contributions plus the government incentives of the $1000 kick start contribution plus the tax credits of up to another $1040 per annum.

It is interesting to note some investment managers have expressed concerns at the administration difficulties arising from the PIE tax changes. This may see some more of the smaller KiwiSaver providers reviewing their participation in this market.

WHY KIWISAVER MEMBERS SHOULD NOW BE REVIEWING INVESTMENT STRATEGIES

KiwiSaver which commenced on 1 July 2007 is now well established with some 1.3 million members and funds invested of around $4.9 billion.

The Global Financial Crisis ("GFC") impacted on investment returns from KiwiSaver schemes over the past two years but a strong recovery in returns has occurred during the past 12 months. For example in the year to 31 March 2010 global shares have increased by some 47.1% and New Zealand shares by around 27.6%.

The median returns for KiwiSaver schemes as reported in the Mercer KiwiSaver Survey for the period to 31 December 2009 indicate the following results for the most common range of investment strategies.

	2009 Return	2008 Return	2 Year Return
Default	7.2%	0.7%	4.1%
Conservative	8.1%	-1.9%	2.6%
Balance	12.1%	-12.0%	-0.7%
Growth	16.5%	-22.1%	-4.4%

It can be seen from the above results that over this two year period low risk strategies have paid off. However higher risk strategies had the best returns in 2009.

For KiwiSaver investors the impact of the GFC was masked by the government subsidies such as the $1,000 kick start contribution and the tax credit of up to $1,040 per annum. These amounts offset the losses on investments in 2008. In addition the amounts invested initially were relatively small for most KiwiSaver members.

Now that KiwiSaver accounts will have grown to be more significant amounts KiwiSaver members need to take more notice of the returns they are receiving.

Many KiwiSaver members have invested through low risk default investment options. During the GFC it was hard to argue with this as a "safety first" approach during very unusual times in investment markets.

However for long term investment of retirement savings it is generally accepted that low risk funds with minimal exposure to growth assets will not provide appropriate long term outcomes. Growth assets such as shares and property have in the past provided the best protection against inflation.

A decision about investment strategy is not just about chasing the highest returns. It also needs to involve the assessment of personal attitudes to risk, the length of time before the funds are required, what other investments are held and the general investment environment. Most importantly, the chosen strategy needs to pass the "sleep test". If the chosen strategy causes personal anxiety that prevents a good night's sleep, then it is probably the wrong strategy.

There will be many KiwiSaver investors for whom a low risk strategy remains the best option. However it is important in our view to stop and assess if the investment strategy adopted initially remains appropriate. This is particularly important if no active decision was taken and the investor has just accepted a default strategy.

Further reviews of personal investment strategy should be undertaken on a regular basis, at least each 3 to 5 years, or whenever personal circumstances change in a way that affects tolerance for investment risk.

SELECTION OF A KIWISAVER PROVIDER

Recent events concerning poor management practices followed by a particular KiwiSaver provider have highlighted the need to be careful in the selection of a KiwiSaver scheme. The Government is taking actions to improve governance, including, introducing requirements to bring all KiwiSaver providers up to the standards required of the six appointed default providers.

The Government has announced the formation of a new "super regulator" across all financial services called the Financial Markets Authority ("FMA"). The FMA will, amongst other things, take over the supervisory work currently conducted by the Government Actuary. This includes the supervision of KiwiSaver schemes. The FMA is expected to be in place by 2011.

It is widely anticipated that there will be more consolidation of the number of KiwiSaver providers. Outside the top grouping are many providers who have lower numbers of members or have many members who are not making significant ongoing contributions . Some of these providers may struggle to generate sufficient margins to remain in the KiwiSaver business.

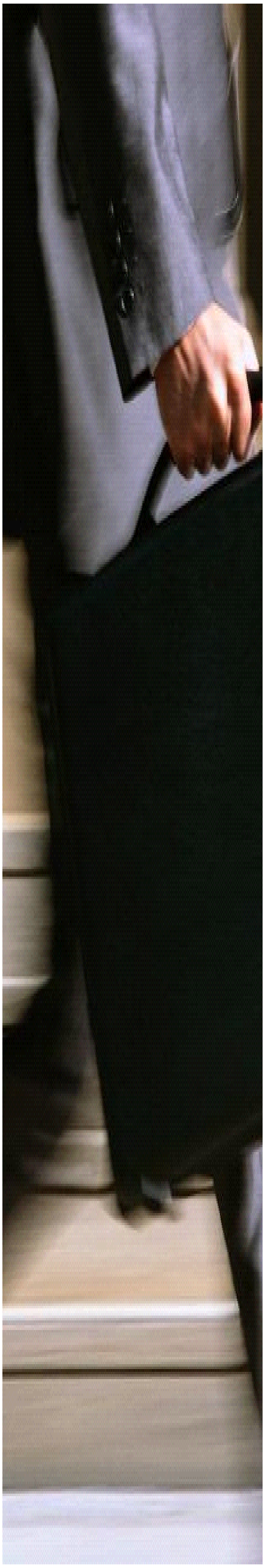
The demands of the above mentioned increased governance requirements may be the trigger that results in decisions to withdraw from the market.

The selection of a suitable KiwiSaver provider requires consideration of many factors. It is tempting to focus on investment performance.

Whilst this is an important factor there are many other matters to consider. There is a need to "get under the bonnet" and understand how the particular provider operates.

Consideration needs to be given to matters such as:

- what is the approach taken for the management of funds?
- who is actually managing the investments and what is their track record ?
- what are the options being made available?
- how are returns allocated to investors?
- what is the organisation's financial strength?
- has it invested in good systems that keep accurate records of contributions and returns?
- how easily can you find out how your investment is going?
- are all fees disclosed?
- are the fees reasonable?



The Willis People Risk specialists in superannuation and KiwiSaver, can assist with information on how to consider selection of a KiwiSaver provider.

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INSURANCE - WHY LIFE INSURANCE ALONE IS NOT SUFFICIENT PROTECTION

When first considering personal insurance needs it is natural to think of life insurance. It is the most common form of protection and it is logical to, for example, secure mortgage protection insurance so that in the event of death there is no ongoing debt for dependants to service. However, it is an unfortunate fact that in many cases financial distress arises from major health issues or injuries that are not fatal.

For example one in five men and one in seven women will suffer a critical illness during their lifetime. In 2005 there were 18,610 new cancer cases in New Zealand. Two out of five people some time during their lifetime will be unable to work for at least six months or more because of sickness or accident. What's more, you are more likely to be disabled by illness than by accident so contrary to popular belief, you cannot rely on accident compensation in all situations. Of disabilities lasting six months or more only one in 20 are related to accidental causes.

Insurers have developed solutions that cater for serious illness and disability. A balanced protection plan uses these solutions so that the key risks are covered.

A basic check list of the essential elements of protection

R Medical:

Health cover that ensures the option of private treatment is available when an unexpected serious condition arises.

R Trauma Protection:

Helps guard against financial hardship should an individual suffer one of a specified number of critical conditions, such as stroke cancer or heart attack. This benefit is paid as a lump sum so it is ideal for providing funds for immediate expenses, supplementary income or to meet significant one off costs.

R Income Continuance:

This guards a person's greatest asset - their power to earn. This benefit provides regular income so that normal daily expenses such as mortgage repayments can still be met in the event of a period of total disablement be it either short or long term.

R Life Cover:

Provides funds in the form of a substantial lump sum to repay a mortgage and provide for the future support of dependants in the event of death from any cause.

R Total and Permanent Disablement Cover:

Provides a lump sum in the event of total and permanent disablement through sickness or injury.

When designing Employee Benefit Plans and structuring Risk Protection for organisations and individuals we consider solutions that address each of the above needs.

The emphasis on any particular type of insurance versus others will depend on a view of the most critical risks and the associated costs of purchasing insurance.

The Willis People Risk specialists will be pleased to assist at anytime with reviewing your organisation's People Risks and options for managing these risks. We are also able to assist individual employees with a comprehensive assessment of their personal insurance needs if required.

CONTACT

Willis New Zealand Ltd
www.willisgroup.co.nz

If you are interested in any of the topics contained in this update, or for further information on People Risks please contact your Willis Client Advocate® or the People Risk team direct or via email: peoplerisk.nz@willis.com

Greg Austen
People Risk Practice Manager
t: +64 9 920 2998
m: +64 21 751 925
e: austeng@willis.com

Neil Sharpe
Business Development Manager
t: +64 4 495 9738
m: +64 21 909 237
e: sharpen@willis.com

Nick Hall
People Risk Consultant
t: +64 9 920 2943
m: +64 21 337 939
e: halln@willis.com