

Retirement of Geoff Mercer



After 15 years with Civic Assurance, General Manager Geoff Mercer has elected to retire. Geoff joined Civic in 1993 bringing his experience in the large commercial insurance and reinsurance sectors in both New Zealand and overseas markets to the company. Over the period with Civic, Geoff has overseen the restructure and substantial growth of the core insurance portfolio and been involved from inception with both the LAPP Disaster Fund and the Riskpool Liability Pool.

Geoff has a long list of interests to pursue and plans to spend as much time as possible travelling. The Board and Management thank Geoff for his commitment and the significant contribution he has made to the growth and success of the Company. We wish him a long and happy "life after Civic".

New Civic Appointment



Christopher Munden joins us this month as Civic Assurance's new General Manager Insurance. Christopher is a highly respected insurance executive who brings with him over 35 years experience and well honed skills in commercial general insurance gained in many centres throughout New Zealand.

Christopher is no stranger to the local government insurance scene having spent several years with the Municipalities and Counties Co-op Insurance Companies during the seventies and eighties working with territorial authorities in Canterbury, Nelson, Marlborough and the West Coast South Island.

Christopher's focus with Civic will be to see that every local authority realises the full benefits of insuring with their own insurance and risk financing company.

Update on LAPP Disaster Fund

Papakura District Council has recently become the 55th local authority member of the LAPP Disaster Fund and the first member in the Auckland region. Membership of the Fund is open and favourable joining arrangements are in place. New member enquiries should be directed to Christopher Munden, on phone (04) 978 1251 or e-mail at christopher.munden@civicasurance.co.nz.

Long standing Fund Trustee, Ian Lawrence resigned at 31 July. As a foundation Trustee, Ian's association with LAPP spans more than 14 years. With his legal and strong local government backgrounds, Ian has seen the Fund grow from a "zero base" to become the financially sound risk management vehicle it is today, successfully fulfilling its local government members' obligations with respect to the reinstatement of essential services infrastructure damaged as the result of natural disasters and emergencies. The Trustees and membership thank Ian for his wise counsel and wish him well for the future.

Ian has been replaced as a Trustee by Dale Lott, Chief Financial Officer at North Shore City Council.

Management

Tim Sole BSc MBA CStat FNZIM FIAA FNZSA ANZIF (Fellow)
(Chief Executive)

Geoff Mercer AINZ AAII ANZIM
(General Manager)

Christopher Munden ANZIF (Senior Associate)
(General Manager Insurance)

Roger Gyles CA
(General Manager – Finance)

Ian Brown
(Superannuation Manager)

Published by Civic Assurance,
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A Council with no Flood Insurance

Hull City in the UK was flooded on 15 June and 25 June. 10,000 homes in Hull were evacuated and 6,500 homes were flooded. The second flood closed 76 of Hull's 88 schools and nine days later six schools were still closed. One person drowned.

Twelve schools and 3,500 of the flooded homes were owned by Hull City Council. The Council took the decision not to insure their properties against flood because the excess of £250,000 per building was considered too high. Instead, they opted for a self-insurance scheme where £9 million was set aside to cover damage and repairs.

£9 million was nothing like enough and Hull City Council now faces a £200 million (NZ\$550 million) repair bill for the flood damage. As of 27 July, Central Government had offered £5.3 million towards clean-up costs and repairs to schools.

The decision not to insure Council buildings was against government policy. But Michael Hudson, the Council's Director of Finance, said that there had been less than £1,000 of "wet perils" damage to Council-owned properties in the past ten years. He said that the Council took the decision that it was better value to self-insure.

"We annually carry out risk assessments on all Council buildings to allocate appropriate insurance cover," he said. "With the information we receive about the unlikely nature of serious storm and flood damage, we have chosen for a number of years not to insure every Council building and house against wet perils."

A spokesman for the Department of Communities and Local Government said that Hull City Council should have had its buildings insured. We agree.

Weather related insurance claims

Recent weather events in the Far North, Hawke's Bay, Taranaki and Otago/Southland regions have resulted in substantial losses for insurers and reinsurers. Changing weather patterns and global warming are much debated topics which are of particular interest and concern to the insurance industry.

Civic Assurance which covers local authority assets all around New Zealand is likely to be called on to meet claims whenever events occur and this latest round of floods and tornados has resulted in substantial losses being experienced by affected authorities and significant insurance claims being made.

Being able to provide cover in situations like these proves the value of Civic and reinforces the historical decision of local authorities to establish their own insurance and risk financing company.

While costly natural disasters may erode profitability from time to time, Civic will continue to provide its local authority client base with competitive insurance coverage and premiums. Shareholders can expect Civic to produce a profit this financial year, albeit somewhat smaller than in recent times.

KiwiSaver FAQs

Q. Who should join KiwiSaver?

A. Those who hope to buy their first house in three or more years time; those near 65 who are saving anyway, and just about everyone else in between.

Q. Should I join KiwiSaver?

A. By joining KiwiSaver you could turn a \$1,000 investment into a \$4,000 investment. The \$4,000 would be made up from your \$1,000, the KiwiSaver kick start of \$1,000, a KiwiSaver tax credit of \$1,000, and \$1,000 from your employer. There is more to KiwiSaver than this of course, and for a longer answer see www.supereasy.co.nz.

Q. What's the catch?

A. Once signed up to KiwiSaver you cannot opt out (but you can take contribution holidays) and mostly you can't touch your savings until you get to retirement age (currently age 65). However, having your retirement savings 'locked-up' is not necessarily a bad thing!

Q. How much should I save?

A. The other side of this question is 'how much should I spend?', and this probably has a different answer to how much you would like to spend! Ask yourself what you need/want now and what you need/want in retirement? To help you with this, try www.sorted.org.nz, a website provided by the Retirement Commissioner. It is not just a question of whether you can afford to save, but whether you can afford not to save.

Q. Will my employer match my contribution?

A. At the moment, some employers will and some employers won't, but by 1 April 2008 every employer will be required to match at least 1% of their employees' salaries, and this rises to 4% by April 2011. Don't feel too sorry for the employers: beginning 1 April 2008 they (like their employees are now) will also be eligible for KiwiSaver tax credits from the government of up to \$20 per week per employee.

Q. What are the tax incentives worth?

A. Not counting the \$1,000 kick start, at a salary of \$35,000 where there is a 4% contribution the tax incentives are worth up to \$1,119 pa – it will depend on how the employee and employer contributions are shared (to see the best arrangement for you, see the KiwiSaver SuperEasy tax calculator on www.supereasy.co.nz.) For a salary of \$70,000 with an 8% contribution, the incentives not counting the \$1,000 kick start are worth up to \$2,128 pa. KiwiSaver tax

incentives are based on when you enrol, so if you waited until 1 October rather than joining on 1 July, your tax credit is \$260 less.

Q. If I join KiwiSaver, which KiwiSaver provider should I use?

A. There are about forty KiwiSaver providers to choose from and it is up to you (not your employer) to choose the one you want. For the record, the writer of this piece has signed up for KiwiSaver SuperEasy, as has his wife and children.

Q. Can I change my KiwiSaver Provider?

A. You can change your KiwiSaver provider at any time and as many times as you like. The only rule is that you can only have one KiwiSaver provider at a time. To change there is no need to tell your employer, you just apply to your new provider.

Q. Which KiwiSaver fund will perform best?

A. No one knows, because historical returns of an investment fund or an investment manager are not a good guide to the fund's or investment manager's future investment performance. However, and averaged over a reasonable period, returns on 'balanced' funds are expected to be of the order of 5% pa after tax and fees. The corresponding number for 'income' funds is 3% to 4% pa and for 'growth' funds is 6% to 7% pa.

Q. What are the fees?

A. Each KiwiSaver scheme will have its own fee structure. For KiwiSaver SuperEasy fees there is a fund management fee of 0.5% pa (\$5 per \$1000) for the Automatic Fund and 0.75% pa for the other funds and effectively no other charges – so no switch fees, no entry fees and no exit fees. Fees are an important consideration when choosing a KiwiSaver scheme because seemingly small differences on an annual basis can accumulate to make a significant difference over time.

Q. How do I get the forms to join KiwiSaver SuperEasy?

A. Go to www.supereasy.co.nz.

Q. What's wrong with using a default fund of a 'default provider'?

A. Nothing at all if that is what you want. However, the default funds of the default providers are mandated to be invested very conservatively, and that could reduce your average net return when compared to investing in a growth fund by 3% pa. Now, 3% pa may at first not seem much, but when repeated year after year the effect builds up. Thus \$10,000 invested for 30 years at 4% pa would be worth \$24,273, whereas that same amount invested at 7% pa for 30 years would be worth \$76,123 – more than three times as much.

Q. Is it true that there is no government guarantee for KiwiSaver?

A. There is no government guarantee for any of the KiwiSaver providers, so investors in KiwiSaver SuperEasy will be comforted to know that the Auditor General is responsible for KiwiSaver SuperEasy's annual audit and that KiwiSaver SuperEasy has six independent trustee directors – five appointed by local government and one by the CTU. These directors have access to and employ independent actuarial and investment advice and use a range of professional fund managers (currently AMP Capital, ASB Group Investments, ING and Tower) for managing the investments.

Q. Could KiwiSaver SuperEasy turn into another Bridgecorp?

A. Investors in Bridgecorp are expected to lose some or all of their investment. However, if something similar happened to an investment made by KiwiSaver SuperEasy the members would lose on average less than 1% of their investment. This is because KiwiSaver SuperEasy through its fund managers is investing in over 1,000 different companies. Risk is never eliminated, but it can be diversified.

Q. Should I get independent advice?

A. If you can find it, yes. But be warned that some 'independent advisors' would never recommend Civic's KiwiSaver SuperEasy because Civic's KiwiSaver SuperEasy does not pay commission. Civic Assurance is owned by local government for local government, so while not claiming to be totally independent, we are genuine in our endeavours to give local government staff the best KiwiSaver product we can. Luckily for non-local government staff, they can be members of KiwiSaver SuperEasy too.

Q. Tell me about salary sacrifice?

A. Go to the FAQ section of www.supereasy.co.nz.

Q. Can my partner/children/great great grandmother sign up for KiwiSaver SuperEasy?

A. Yes, yes and probably no – you need to be under 65 to sign up for KiwiSaver. Note also that you need to be over 18 to qualify for the tax credit of \$20 per week.

Q. Where can I get more information about KiwiSaver and KiwiSaver SuperEasy?

A. You can get more information about KiwiSaver from www.kiwisaver.govt.nz and more information about KiwiSaver SuperEasy from www.supereasy.co.nz. For phone enquiries, ring Ian Brown, Superannuation Manager, (04) 978 1263.

We are happy to run KiwiSaver presentations for Council staff

Local Authority staff who already have attended these sessions – hear what they have to say.

- "It was well thought out, excellently structured and answered every question we could throw at it."
- "I doubt other organisations receive the same calibre of presentation."
- "This session was never dull – kept our attention throughout."
- "I recommend this presentation to anyone who needs hard information to make a choice about KiwiSaver."

Just contact Ian Brown, Superannuation Manager on 04 978 1263 or at ian.brown@civicasurance.co.nz

AM Best Rating Agency confirms Civic's Financial Strength

Leading insurance company rating agency, AM Best, has awarded Civic Assurance a financial strength rating of 'A (Excellent)' since 1995. Prior to 1995 there was no requirement for insurance companies to be rated.

AM Best recently confirmed that rating for another twelve months with the comment that the outlook for the rating is stable. Civic's very strong cash position and very low exposure to shares means that its risk through exposure to world stock market fluctuations is negligible.

Civic Sponsorship

Civic is pleased to advise that Peter Hennessey, Communications Manager for the Western Bay of Plenty District Council, was awarded the Civic Assurance United States Manager Exchange Award for 2007. Peter is travelling to the States in late September.

Once again, Civic was a Principal Sponsor for the Annual SOLGM Conference. Civic is proud to be a sponsor of this event, but could not do it without the support of its customer councils – so thank you to the 71 out of 85 councils who insure their assets with the local government owned Civic Assurance.