

CASH PIE STAR RATINGS

IN THIS REPORT:

We research & rate 11 Cash PIE Saving Funds offered by 10 product providers to determine those that provide outstanding value for investors.



WHAT ARE CASH PIES?

Portfolio Investment Entities (PIEs) are a unique form of managed investment that provide some investors with tax advantages. A PIE pays tax on investment income based on the prescribed investor rate (PIR) of their investors, rather than at the entity's tax rate. This tax rate is capped, though, at 28%. As such, investors with a marginal tax rate of 30% or 33% can benefit from a lower tax rate on their PIE investment earnings. In our current low interest rate environment, this can be a real advantage.

Marginal tax rate	Amount invested	Advertised return	After-tax effective return	\$ after tax return
17.5%	\$100,000	3.00%	3.00%	\$3,000.00
30.0%	\$100,000	3.00%	3.11%	\$3,113.62
33.0%	\$100,000	3.00%	3.25%	\$3,253.04

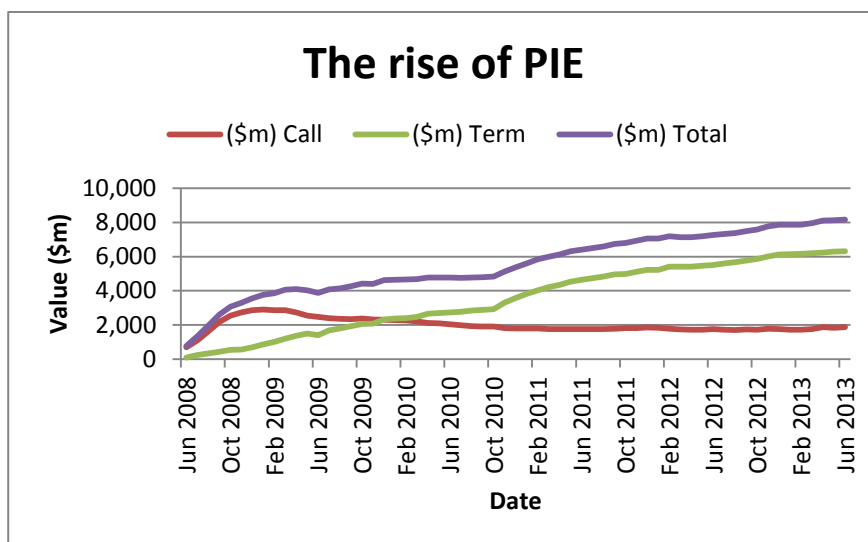
In addition to lower tax for high income earners, PIEs also offer, on average, a higher base rate of income when compared to online saver accounts. Happily, this benefits all investors, irrespective of their prescribed tax rate. Currently the difference between the average online saver rate and the average PIE rate offered by the institutions on CANSTAR's database is as follows:

Online Saver Rate	PIE rate	Effective rate at 30% tax	Effective rate at 33% tax
2.96%	3.21%	3.33%	3.48%

There is always variation from an average, of course, and currently CANSTAR notes a range of online saver rates on its database of between 2.50% and 3.75% and a range of Cash PIE rates between 2.60% and 4.10%. Consumers should ensure that they check the interest rates of the products on offer, on a regular basis.

POPULARITY IS INCREASING

According to figures from the Reserve Bank of New Zealand (RBNZ), the total amount of money currently invested in Cash PIEs is approximately \$8 billion. While the total amount invested is still small in terms of overall household cash deposits of approximately \$120 billion, it is an amount that has been steadily growing over the past few years.



Source: RBNZ

HOW WE ASSESS THE PIEs

For the third year running, CANSTAR has assessed the price and features of available Cash PIEs, this year assessing 11 Cash PIE funds to determine which ones offer outstanding value for money. For the purposes of this rating we have assumed that a typical investor frequently deposits and withdraws from their account, expecting flexibility and easy access to funds as well as a competitive rate.

For the purposes of this star rating, our fund selection extends to all Cash PIEs with a fund objective to reproduce a pre-tax return *similar* to that of an on-call savings account. Therefore, the funds need to possess characteristics of an on-call account such as:

- A fixed rate of return
- Investment in on call deposit
- Funds must be 'at call'

Each Cash PIE account reviewed for the CANSTAR *Cash PIE star ratings* is awarded points for its comparative pricing and for the array of positive features attached to the product. Points are aggregated to achieve a pricing score and a feature score.

Pricing is rated on the advertised rate of return, when distributions are paid and how the fund remits the tax to the IRD.





We have also taken into account over 40 features in each fund to determine which fund provides the most flexibility to consumers. Features taken into account include minimum opening deposit, ongoing balance and withdrawal amount, reporting options, internet and phone access, the period to process deposits and withdraw funds and the credit rating of the institution.

Details of the pricing and features that CANSTAR assess are contained in the methodology attached to this report.

WHO OFFERS OUTSTANDING VALUE?

This year, CANSTAR has awarded two institutions with five stars for providing outstanding value for money in the Cash PIE sector. Alphabetically these institutions are as follows:

	Call PIE Account	Heartland Bank currently offers the highest base interest rate on the Cash PIEs assessed, at 4.10%. The Call PIE account has a minimum opening deposit of \$1,000 and the return is calculated monthly, with tax paid upon distribution.
	Online Saver PIE	Westpac's Online Saver PIE receives the highest feature score in CANSTAR's assessment, due to its wide range of access to online banking, phone banking and mobile banking. It currently also provides a promotional offer of up to 1.00% bonus interest.

LIKE TO KNOW HOW WE DID IT?

For more in-depth information on how we conducted this report, read our methodology contained in this report. And to compare the Cash PIE products assessed, visit www.canstar.co.nz.

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Cash PIE Star Ratings

Report Date: OCTOBER 2013

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. This is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

Product Name	Rate of Return (as at 31 October 2013)		Return Calculated	Tax Paid	Minimum Opening Deposit \$	Minimum Subsequent Deposit \$	Minimum Withdrawal \$	Internet Facility	Phone Facility
	Base Rate %	Bonus Rate %							
All ratings take into account costs and features - see our methodology document for further details									
★★★★★ Outstanding value									
Heartland Call PIE Account	4.10%		Monthly	Upon Distribution	1000	1	1	✓	✓
Westpac Online Saver PIE	3.00%		Monthly	Upon Distribution	500	0	0	✓	✓
★★★★									
RaboDirect Cash Advantage Fund	3.30%		Withdrawal	Upon Withdrawal	250	250	0	✓	✗
Medical Assurance Society PIE Fund	3.25%		2ndMonth	Upon Distribution	500	0	500	✓	✓
ASB Cash Fund	3.00%		Monthly	Upon Distribution	500	0	0	✓	✓
★★★									
TSB PIE Cash Fund	3.50%		Quarterly	Upon Distribution	5000	1000	1000	✓	✗
SBS Lifestages Deposit Port	3.00%		Quarterly	Upon Distribution	5000	500	500	✗	✗
ANZ Call Fund	2.60%		Quarterly	Upon Distribution	500	1	1	✓	✓
Kiwibank PIE Online Call	2.40%	0.60%	Monthly	Upon Distribution	2000	0	0	✓	✓
BNZ Cash PIE	3.30%		Monthly	Upon Distribution	1000	250	500	✓	✓
Westpac Online Bonus Saver PIE	0.10%	3.90%	Monthly	Upon Distribution	500	0	0	✓	✓



CASH PIE STAR RATINGS

What are the CANSTAR Cash PIE Star Ratings?

Portfolio Investment Entities (PIEs) is a unique form of managed investment that allows investors to take advantage of special tax rules available at their Prescribed Investor Rate (PIR). These special tax rules involve a capped PIR of 28%, therefore investors with a marginal income tax rate of 30% or 33% are able to maximise their return through this reduction of tax.

CANSTAR Cash PIE star ratings involve a sophisticated rating methodology, unique to CANSTAR that compares Cash PIEs in New Zealand. CANSTAR star ratings provide a transparent analysis of a shortlist of Cash PIEs, enabling consumers to narrow their search to products that have been independently assessed and ranked. The results are reflected in a consumer-friendly 5-star concept, with 5 stars signifying outstanding value offered by the product.

What types of products are evaluated in CANSTAR Cash PIE Star Ratings?

Our fund selection extends to all Cash PIEs with a fund objective to reproduce a pre-tax return *similar* to that of an on-call savings account. Therefore, while structured as a 'managed fund', the funds need to possess characteristics of an on-call account such as:

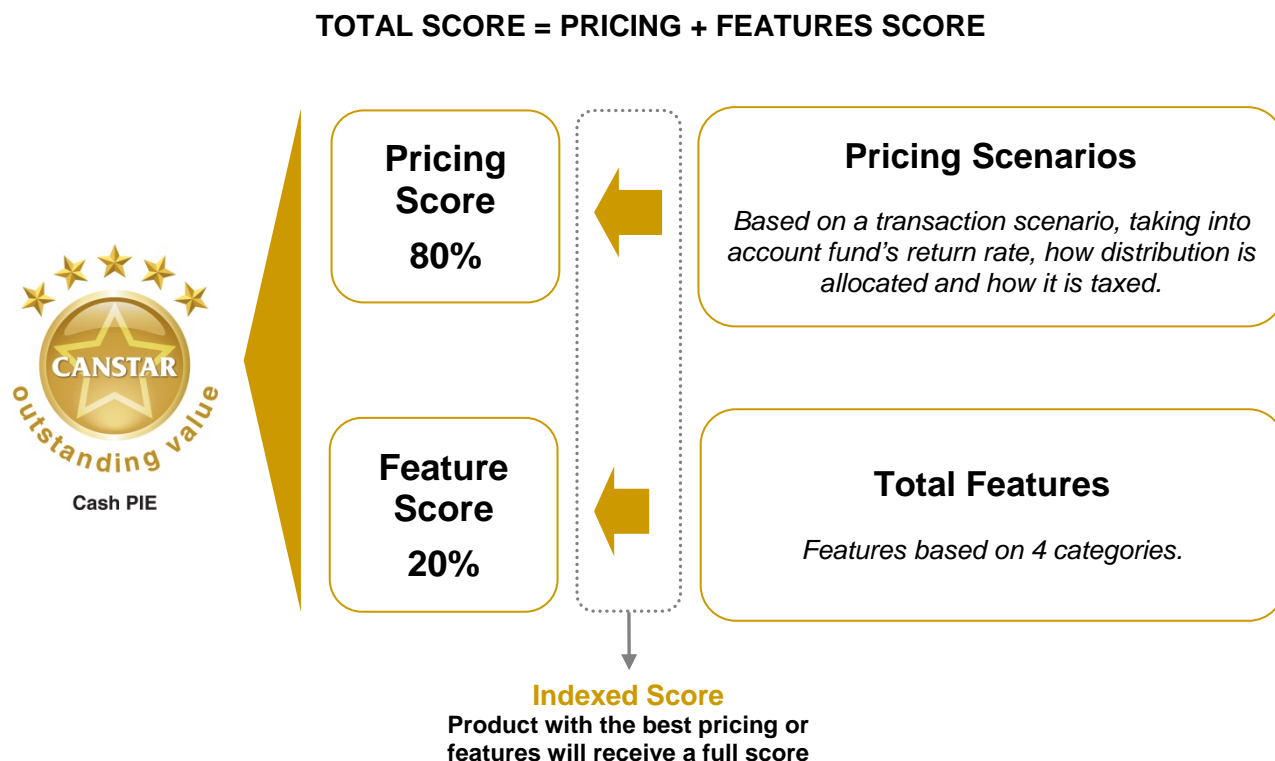
- A fixed rate of return
- Investment in on-call deposit
- Funds must be 'at call' i.e. no more than 30 days-notice to withdraw



How are the CANSTAR Cash PIE Star Ratings calculated?

Each Cash PIE account reviewed for the CANSTAR *Cash PIE star ratings* is awarded points for its comparative pricing and for the array of positive features attached to the product. Points are aggregated to achieve a Pricing score and a Feature score.

To arrive at the total score CANSTAR applies a weight against the Pricing and Feature scores. This method can be summarised as:



Pricing Score

The pricing score is based on a transaction scenario reflecting the typical behaviour of consumers investing in Cash PIEs:

- Initial investment of \$5,000 in January
- \$100 monthly additional deposits
- \$100 quarterly withdrawals (in March, June and September)
- Full withdrawal in December (*to account for funds that have returns upon withdrawals only*)

The total return of each fund is calculated using the current interest rate, interest payment frequency, and when the institution deducts tax from the customer's account and remits it to the Inland Revenue.

The total return is then indexed against each fund in the profile and then weighted by its respective feature weighting to determine the fund pricing score.



Feature Score

Each individual feature is categorised into four different categories outlined in the table below and is allocated points. Based on the points received each individual product gets a total feature score. This total score is then weighted against the weights provided in the following table for their respective profile feature score. The feature scores then get indexed to provide final feature score.

Category	Feature Weighting	Examples of data captured
Specific Conditions	30%	Minimum opening deposit, Minimum subsequent deposit, Minimum withdrawal, Minimum ongoing balance, Period for clearing and processing deposits, Period for processing withdrawals, Age restrictions, Guarantee of returns.
Features	25%	Reporting options, ATM facility, Cheque facility, Direct Credit Facility, PIR and effective return calculator, ability to set regular savings and withdrawal plan, Transferability to other products.
Accessibility & Communication	43%	Internet Facility: apply online [including joint customers], check balance online, view past transactions online, online transfers, make deposits and withdrawals, online statements Mobile facility: Mobile applications, text alerts Phone Facility: make deposits and withdrawals, check balance Coverage: Number of branches
Credit Rating	2%	S&P (or equivalent Moody or Fitch) Credit Rating

How many products and financial institutions are analysed?

In order to calculate the ratings, CANSTAR analysed 11 Cash PIE products from 10 financial institutions in New Zealand.

How are the stars awarded?

CANSTAR ranks Cash PIEs based on value-for-money measures and then awards star ratings according to rank. The number of products awarded each of the 5 to 3 star ratings will ultimately depend on the dispersion of final scores.

Scores are awarded to each product on the basis of price and features. The methodology is revised and parameters are updated on a regular basis to make sure that the products are analysed using the most up-to-date information capturing all industry developments.

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.



How often are products reviewed for star ratings purposes?

All ratings are fully recalculated every twelve months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at www.canstar.co.nz if you would like to view the latest star ratings reports of interest.



- Business deposits
- Cash PIE
- Credit cards
- Credit card rewards
- Home loans
- Kiwisaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts
- Term deposits

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