

6 May 2010

GOVERNMENT SUPERANNUATION FUND

CHANGES IN EMPLOYER SUBSIDY RATES AND IMPACT ON CONTRIBUTORS ON TOTAL REMUNERATION PACKAGES

QUESTIONS AND ANSWERS

1. What are the employer subsidy rates?

The employer subsidy rates represent the Government Actuary's assessment of how much employers are required to pay to GSF to meet the cost of future entitlements only for their employees who are GSF members (that is entitlements arising from contributory service after the valuation date).

2. Why have the employer subsidy rates gone up so much?

Up until 30 June 2009, in setting the employer subsidy rates, the Government Actuary calculated there were actuarial surpluses in most GSF schemes. These surpluses were used to partly fund the employer subsidy rates and keep them at the same consistent level.

The global financial crisis in 2008 and 2009 has eliminated the actuarial surpluses and created deficits in the schemes. Therefore, in order to provide sufficient money in the Fund to meet the future entitlements of the GSF members, the employer subsidy rates must increase.

The new methodology, adopted at 30 June 2009 by the Government Actuary in setting the employer subsidy rates, means employers only meet the cost of future service entitlements for their employees and any future surpluses or deficits will not be taken into account. The new methodology has resulted in higher employer subsidy rates compared to previous years (where actuarial surpluses have been used to smooth employer subsidy rates) but lower subsidy rates than would have arisen had the old methodology continued and the deficits at 30 June 2009 been included in the setting the employer subsidy rates.

Going forward, using the new methodology, contribution rates should be broadly stable because the investment performance of GSF (and any deficits or surpluses in the schemes) will be ignored by the Government Actuary when setting the employer subsidy rates. However, there will still be slight rises in employer subsidy rates as contributors age.

3. How often are the employer subsidy rates reviewed?

The employer subsidy rates for the GSF schemes are reviewed annually by the Government Actuary. Employers are advised of any changes to employer subsidy rates prior to 1 July each year.

The next review will be undertaken as at 30 June 2010 and the employer subsidy rates determined by that review would be effective from 1 July 2011.

4. Are the member contribution rates going up as well?

The member contribution rates are not changing. Member contribution rates are set by legislation and can only increase if there is a change in the legislation. No changes to the legislation are proposed.

However, if your employment is based on a total remuneration package, or you have made a former higher salary election (to protect a previous higher salary rate) it is likely you are paying some, or all, of the employer subsidy. In these cases, your overall contributions [being member contributions and employer subsidy contributions] to GSF will increase and your take home salary will decrease.

5. When will the increase be effective from?

The increase is effective from 1 July 2010.

6. Will the employer subsidy rates go up again next year, and the year after?

It is probable, as the GSF schemes mature, that employer subsidy rates will continue to increase, although future increases are likely to be more gradual.

7. Does my employer have to pay the employer subsidy?

Your employer is required to pay the employer subsidy to GSF if you are eligible to make, and are making, contributions to GSF.

How the employer subsidy is funded is a matter for agreement between you and your employer.

8. Can my employer pass this additional cost on to me?

The answer to this question will depend on the terms of your employment agreement with your employer.

9. What will happen to my GSF superable salary if I am on total remuneration?

If you are on a total remuneration package, and you are meeting some, or all, of the employer subsidy from your total remuneration, then it is likely your superable salary for GSF purposes will reduce whenever the employer subsidy rate increases and increase whenever the employer subsidy rate decreases.

10. Can I make a former higher salary election to protect my GSF superable salary?

You may be able to make a former higher salary election and protect [for GSF purposes] your current [higher] superable salary *rate*. Such elections must be made within 3 months of the reduction in salary rate, otherwise approval from the Authority is required.

Note that if your hours also reduce, you may only elect to contribute at the part-time equivalent higher salary based on your reduced hours.

11. What happens if I have already made a former higher salary election?

If you have already made a former higher salary election, you must continue contributing to GSF on that previous higher salary rate. You cannot stop contributing to GSF unless you suspend contributions to GSF or cease Government service [refer responses below regarding qualifications to this statement].

If you currently meet some, or all, of the employer subsidy from your total remuneration, you will have to pay more to GSF from 1 July 2010. This will mean your overall contributions to GSF will increase and your take home pay will reduce.

12. What happens if I can't pay the higher subsidy rate?

If you are under age 50, you may elect to suspend contributions to GSF. However, if you do not restart contributions to GSF before reaching age 50, you will then only be entitled to receive a refund of contributions on reaching age 50.

Irrespective of age, you may elect to suspend contributions to GSF provided you join and contribute to another qualifying scheme (eg a KiwiSaver scheme). If you are considering this option you should contact the scheme administrator, Datacom (see below) to ensure that the scheme you intend to join meets the relevant requirements.

13. Can I stop contributing to GSF on my former higher salary?

No. Former higher salary elections cannot be revoked. Once you make a former higher salary election, you are required to contribute to GSF on that higher salary rate until such time as your actual salary rate exceeds your former higher salary rate.

14. Where do I go if I want to talk to someone about this?

If you would like more information on any of the matters raised above, please contact the scheme administrator, Datacom, toll free on 0800 654 731.

If you require financial advice, we recommend you contact the Institute of Financial Planners who will direct you to a financial planner in your area. The Institute of Financial Planners may be contacted toll free on 0800 404 202.