government
superannuitants
association

Fact sheet 1

The Government Superannuitants Association (GSA) and the superannuation contract with the Crown

1. The Government Superannuitants Association represents the interests of superannuitants employed in central and local government as members of the Government Superannuation Fund (GSF) or the National Provident Fund (NPF) Defined Benefit Plan. Entry to these schemes was closed in 1992.

2. The GSA represents 28,000 annuitants and contributors, and their spouses. The GSA has 19 branches throughout New Zealand. Members are former and current teachers, public servants, health service and local government employees, Post Office and Railway employees, members of parliament, the Police, Defence Force and the judiciary.

3. These are all individually members of a defined benefit superannuation scheme requiring a regular payment from salary throughout the contributor's working life (usually at 6.5% of salary) to provide an annuity for life on retirement, and a payment of half that annuity to a surviving spouse. Other provisions relate to dependants and capitalisation of up to a quarter of the annuity.

4. The scheme is a lifetime contract between the individual contributor and his/her employer, the Crown. It is estimated that when extended families are taken into account, more than 100,000 New Zealanders are affected by decisions about these schemes.

5. This has been the sole means of saving for retirement for most employees. Participation in the scheme was encouraged and for a period was compulsory, and the existence of the scheme was taken into consideration in setting pay in the public sector.

6. GSF annuity levels in 2013 were:
   Lower quartile: $9,700
   Median: $14,500
   Upper quartile: $21,000

   - after being reduced by a factor set in 1990 based on a universally applied tax rate of 30%. The annuity is paid from the return of contributed funds, investment earnings on those funds, and the deferred payment of the employer's contribution.

7. The GSF is not fully funded: most of the employer contribution has not been paid into the Government Superannuation Fund (not to be confused with the New Zealand Superannuation Fund). But this factor is off-set by a legislative guarantee that the annuity, as based on the length of the contribution period and the recent annual salary prior to retirement, will be paid. The GSF scheme is actuarially calculated to continue until about 2070.

8. As optional individual contributory schemes paid for by employees over their working life-time, the government superannuation schemes (GSF and NPF) have nothing to do with *New Zealand Superannuation*, the tax funded universal provision for New Zealand nationals who reach a certain age.

Government superannuation is

- an individual contract with the employer, the Crown
- a tax paid retirement annuity
- based on my salary at retirement
- shared with my spouse

The GSA aims to preserve this contract

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Fact sheet 2

The annuity and tax

Who is affected?

Around 60,000 retired and current government employees who are members of contributory defined benefit superannuation schemes: the Government Superannuation Fund (GSF) and the National Provident Fund (NPF).

Superannuation tax changes in 1990

Before 1 April 1990, employee contributions were exempt tax (up to a combined threshold with insurance premiums above which tax was paid), employer contributions were exempt tax, investment income was exempt, and the annuity was taxed, at the individual's rate (the EET tax regime).
Since 1 April 1990, contributions and investment income have been fully taxed and the annuity exempt (the TTE tax regime). However, annuities have been still significantly reduced by the permanent reduction factor.

The annuity reduction factor

Annuities were (permanently) reduced from 1 April 1990 by a factor in substitution for the tax payable on annuities before that date:

1. **those retired before 1 April 1990**
   Annuity reduction factor: **1990 tax rates**
2. **those retiring between 1990 and 1999**
   Annuity reduction factor: **progressively increased to 30% in 1999** (40% for NPF)
3. **those retiring since 1999**
   Annuity reduction factor: **30%** (40% for NPF)

   (These reductions contrasted with the reductions to annuities in comparable private sector schemes, which tend to be lower.)

The reduction factor for those retiring after 31 March 1990 was calculated using a **GSF notional fully-funded model** with a universally applied 33% tax rate on employer contributions and investment income, regardless of the contributor's actual income. The equivalent tax rate is now 28%, 15% lower than the 1990 rate.

Income taxes cut

Income taxes have been cut a number of times since the superannuation reforms in 1990. The annuity reduction factor however, as the substitute for tax, has not been adjusted.

The GSF and NPF reduction factors continue to be based on the tax rate as applied in 1990 to scheme contributions and investment income.

For equity to be restored, the reduction factor would be adjusted to reflect the current 28% business tax rate (33% in 1990).

This means a 15% lowering of the individual's reduction factor: 40% reducing to 33.8%;
30% to 25.5%; and 19.5% to 16.5%.

Retirement savings over-taxed

The over-taxing of superannuation schemes latterly has been recognised and, over the last few years, changes have been made.

But the rules have been changed only for **defined contribution schemes** (such as KiwiSaver), which are now taxed at the individual's rate - typically 17.5%.

Annuities in **defined benefit schemes** such as the GSF and NPF continue to be reduced (taxed) by a factor based on an obsolete 30% universally applied tax rate.

This is clearly unfair and a standing grievance the GSA is seeking to remedy.

Information in this fact sheet can be verified by experts.

The GSA has consistently asked the Government to consider a possible remedy for this long-standing anomaly. A petition filed in Parliament in July 2011 was noted by the Commerce Select Committee, in December 2012, with no further action intended.