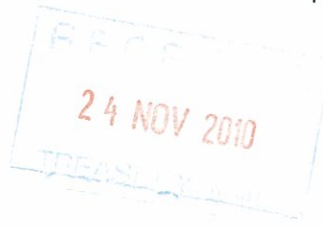


22 November 2010



Savings Working Group
c/o The Treasury
PO Box 3724
Wellington 6140

Dear Sir

The Government Superannuitants Association (GSA) is an organisation of 25,000 members representing annuitants and contributors to the Government Superannuation Fund (GSF) and the National Provident Fund (NPF), and their spouses. A number of different schemes, with different contribution and qualification provisions reflecting different employment conditions, allowed present and former government employees to qualify for membership of the Government Superannuation Fund so that teachers, Members of Parliament, the judiciary, the armed forces, the police, public servants, prison officers, Post Office and Railway employees could become members of one of the GSF annuity schemes. The NPF provides similar 'defined benefit' provisions for mainly health service and local government employees.

In essence the schemes are agreements between the Crown and its employees that both would contribute to the Fund according to agreed provisions, thus providing stability and certainty for both parties. The schemes were closed in 1992 but their provisions are actuarially calculated to extend to 2070 (although the bulk of the payments will be made long before that).

It is unarguable that saving for income in retirement is one of the major drivers of savings behaviour actively promoted by successive governments. Accordingly, the GSA would like the Savings Working Group to emphasise the paramount importance of providing certainty and equity in the provision of retirement benefits so that both current savers and annuitants can be confident that there is a strong tradition of stability and contractual commitment. This is particularly the case when the Crown is the employer. The vagaries of politics should not be permitted to intrude into what are long term undertakings by the contributors who have life-time contracts with the Crown.

For much of the history of the GSF, the Crown as employer did not pay the employer's contribution (although trading entities such as Railways, Post office and State Insurance did) but did guarantee the contracted annuities for retired members. Employees however, depending on which scheme they were in, did regularly pay between 5% and as much as 11% of their salary, and most current contributors pay 6.5%. The current payments by the Government to pay the required annuities are therefore not subsidies to the Fund (or to the annuitants) but contractual deferred payments – contributors accepted that their employer would not make the actuarially necessary payments (making the Fund substantially smaller in size and with consequently lower earnings). In essence they took promissory notes -

lending money to the Crown - accepting that it would be paid back much later when the annuities were to be paid.

Separate to this however is the question of taxation. In 1990 the then Government, pursuant to a major reform of the taxation of superannuation, reduced the GSF annuities by 30% (NPF annuities were reduced by 40%) but declared them tax free; there were transitional provisions. (Changes were made simultaneously to the taxation treatment of contributor's incomes and the earnings of superannuation funds.) This was not done by agreement with the contributors' representatives (as all previous changes to the schemes had been) but as part of taxation reform the Government was pursuing.

Twenty years on however there have been substantial changes to the taxation of incomes, but the Government has been unwilling to recognise the necessity of ensuring that changes made earlier in a different taxation environment are updated to reflect the current environment. While taxation is not part of the original superannuation contract, it does affect the outcome of the contract, and reflects upon the Crown as the employer partner to the contract.

The GSA therefore suggests the Savings Working Group emphasise in its final report the necessity of **the Crown as employer acknowledging that equity requires it recognise that changes it makes to the taxation of incomes are reflected in life-time superannuation agreements which it has with its former and present employees.**

The current Minister of Finance has claimed that the passage of time since the taxation changes were made - twenty years (although he erroneously calculated it as thirty years) - makes it unnecessary to revisit those decisions. Twenty years however is not a great length of time in the provision of retirement income. To provide certainty and equity, and encouragement of saving in retirement income schemes, the Crown should set an example and in so doing adhere to the original contract.

Perception is important to persons who are making decisions about savings and the importance of the acceptance of long term contractual obligations and equitable treatment by the Crown can provide an environment where savings are enhanced. This would be the "high level advice on options that would help deliver better functioning domestic savings performance" that your terms of reference require.

The GSA would be willing to provide further explanation and information on this issue if necessary.

Yours sincerely



David Thorp
Executive Officer