

Superannuation – An overview

Superannuation, in a similar vein to life assurance, has been fostered to varying degrees by governments of the day. This factsheet looks at the some of the alternatives available and information you should obtain before committing yourself to any scheme.

Government schemes

Government Superannuation Fund Act 1956:

- ✦ For public servants;
- ✦ Contributions by public servants are not tax deductible;
- ✦ Pensions are not taxable;
- ✦ The income of the scheme is subject to tax; and
- ✦ The Government Superannuation Fund is closed to new members.

National Provident Fund:

- ✦ Contributors receive pensions on retirement which are not taxable;
- ✦ The income of the Fund is subject to tax; and
- ✦ The National Provident Fund is closed to new members.

New Zealand Superannuation

- ✦ All New Zealand residents over the age of 65 are entitled to receive New Zealand Superannuation.
- ✦ New Zealand Superannuation payments are taxable, and are subject to a surcharge when the superannuitant receives income other than the New Zealand superannuation, and that other income exceeds a stated minimum.

- ✦ New government employees can join superannuation schemes operated by individual government departments under the Global Retirement Trust.

Non-government schemes

Employers who establish superannuation schemes for their employees often call the schemes defined benefit or defined contribution schemes.

• Defined *benefit* scheme

This is one where the benefits are defined in terms of factors which will not be known until (or near to) retirement, eg final salary, and years of service. Generally, they are unallocated schemes where the funds in the scheme are not allocated to any one member's account. It is usual for the employer to make up any shortfall if the fund is insufficient. It requires periodic actuarial examination.

• Defined *contribution* scheme

One where the benefits arise from the contributions paid into the fund plus the net income. It is sometimes called an accumulation scheme as the funds are accumulated and credited to the member's individual account. No shortfall arises as the benefits paid depend only on the amount of the funds standing to the credit of the member. This scheme does not require actuarial examination.

Both these types of scheme may provide retirement benefits in the form of a pension or a lump sum.

Investment product and adviser disclosure rules

Superannuation schemes are required to issue an investment statement to investors and register a prospectus. There is an exemption for small employer superannuation schemes.

In addition, investment advisers and brokers are required to disclose, before giving investment advice or receiving investment money or property:

- ✦ Any conviction for certain offences;
- ✦ Whether they have been adjudged bankrupt, or prohibited by an Act or by court from taking part in the management of a company or a business; and
- ✦ Their procedures relating to the receipt and disbursement of the money, or receipt and distribution of the property.

At the request of an investor who is receiving investment advice, the adviser is required to disclose:

- ✦ The name of any relevant organisation with which the adviser has a relationship;
- ✦ The experience and qualifications of the adviser;
- ✦ The types of securities about which the adviser gives advice;
- ✦ Any indirect, pecuniary, or other interest in giving the investment advice; and
- ✦ Any remuneration received from a person, other than the investor, in connection with giving the investment advice that is reasonably likely to influence the adviser in giving the advice.

There are sanctions for any investment adviser or broker who fails to comply with these disclosure requirements.

Additional information requests

A member of a registered superannuation scheme may receive (on request) a statement of the specific interest, mortality, and other assumptions and bases of calculation applied in determining the:

- ✦ Value of the assets and liabilities of the scheme, for the purposes of an actuarial examination of the scheme; and
- ✦ Benefits under consideration, where a member is considering a proposed change to their benefits.

Human Rights Act 1993

The Human Rights Act has provisions that apply specifically to superannuation schemes. These special provisions provide for the following:

- ✦ A scheme cannot require an applicant for membership to be of a minimum age.
- ✦ Schemes can treat males and females differently if this is able to be justified on the basis of actuarial or statistical data.
- ✦ Members can also be treated differently on the basis of disability or age, only if this treatment is able to be justified on the basis of actuarial and statistical data or opinion.
- ✦ Trustees can also still:
 - ✦ Require an applicant for membership to be under a maximum age;
 - ✦ Allow members to increase or reduce contributions either temporarily or indefinitely;
 - ✦ Specify an age of eligibility for each type of benefit provided to members of the scheme;
 - ✦ Require persons joining the scheme after 1 January 1995 to leave the scheme when they qualify for New Zealand Superannuation;
 - ✦ Provide benefits on the death or disability of members of the scheme that decrease in value as the age of members increases; and
 - ✦ Provide benefits for members that differ in nature and amount according to the member's period of membership in the scheme.
- ✦ Employers can no longer require employees to retire by reason of age.

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- ✦ If you consider that any of the issues contained in this fact sheet may affect you.

Disclaimer

Important: This is not advice. Clients should not act solely on the basis of the material contained in this fact sheet. Items herein are general comments only and do not constitute or convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. We believe the contents to be true and accurate as at the date of writing but can give no assurances or warranty regarding the accuracy, currency or applicability of any of the contents. This fact sheet is made available to our clients as a helpful guide for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.