

NATIONAL PROVIDENT FUND

LOCKED-IN SCHEMES

INTRODUCTION

Since 1 July 2007, all employers have been required to make KiwiSaver available to their employees.

As an alternative to KiwiSaver, NPF has created locked-in sections for both the Pension National Scheme and the Lump Sum National Scheme (each a "Locked-in Scheme"). The advantage of a Locked-in Scheme is that it attracts many of the benefits of KiwiSaver, while maintaining the **Government Guarantee** and minimum 4 percent earnings rate. These two features are not available to KiwiSaver.

Anyone who is eligible to be a NPF member (*i.e. persons who were members of an NPF scheme as at 31 March 1991*), and who is an employee, can elect to contribute to a **Locked-in** Scheme with NPF.

Existing contributors to those NPF schemes listed below must cease contributions to their existing scheme to be eligible to contribute to the locked-in or non locked-in sections of the Pension National Scheme and Lump Sum National Scheme:

DBP Contributors Scheme
Aircrew Scheme
Annual Single Premium Scheme and
Level Premium Scheme

If you have any further enquiries, please contact the scheme administrator, Datacom, toll free on 0800 628 776.

Note, this summary reflects the position as at December 2009.

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LOCKED-IN SCHEMES

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28. Are members of the **Locked-in** Schemes eligible to withdraw funds to help pay for the deposit on their first home?
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KIWISAVER

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34. Are the **Locked-in** Schemes KiwiSaver “compliant”?
35. Can an NPF member make contributions to both a **Locked-in** Scheme and a KiwiSaver?

QUESTIONS AND ANSWERS

LOCKED-IN SCHEMES

1. What is a **Locked-in Scheme?**

A Locked-in Scheme is an NPF scheme providing many of the advantages of KiwiSaver (refer Question 31 for a comparison of the features of a Locked-in Scheme and a KiwiSaver Scheme).

2. Which NPF Schemes have become **Locked-in Schemes?**

New sections have been established within the -

- Pension National Scheme **and**
- Lump Sum National Scheme

that meet the requirements of a “complying superannuation fund”. These two schemes now have two distinct sections –

- the **Existing** section, also referred to as the Existing Scheme
- the **Locked-in** section, also referred to as the Locked-in Scheme

3. Why has NPF made these changes?

NPF wanted to provide members with a similar range of benefits to KiwiSaver, while still maintaining the other benefits attached to the Existing Schemes. NPF believes this effectively gives members the best of both worlds.

MAIN FEATURES OF LOCKED-IN SCHEMES

4. What are the main features of the **Locked-in Schemes?**

- The minimum member contribution to a Locked-in (i.e. KiwiSaver equivalent) Scheme is 2% of the member’s base salary¹ or wages.
- Prior to 1 April 2009, the minimum member contribution to a Locked-in Scheme was 4% of the member’s base salary. If you joined a Locked-in Scheme before 1 April 2009 and are contributing at a rate of 4%, with the agreement of your employer you may elect to reduce your contributions to 2% of base salary.
- Prior to 1 April 2008, employer contributions to a Locked-in Scheme could count towards the minimum contribution of 4% on any basis (subject to a minimum employee contribution of the lesser of 1% of base salary and \$10 per week).
- After 1 April 2008, and until 1 April 2009 a member of a Locked-in Scheme had to contribute a minimum of 4%, exclusive of any employer contributions, unless (if his or her employer agrees) certain transitional contribution rates are adopted. These required you and your employer to each contribute 2% to the Locked-in Scheme.
- From 1 April 2009, employer contributions cannot count towards the minimum member contribution rate. The 2% minimum member contribution must, as from 1 April 2009, come from your salary.
- Employer contributions to KiwiSaver schemes or existing superannuation schemes (which are KiwiSaver equivalent schemes to which employees are contributing, such as the Locked-in section of the Pension National Scheme

¹ “base salary” generally means your before-tax salary excluding bonuses and allowances.

or the Lump Sum National Scheme) are compulsory from 1 April 2008. Prior to 1 April 2009, the compulsory employer contribution was 1% of a member's base salary. From 1 April 2009 the compulsory employer contribution is 2% of a member's base salary.

- If you were employed by your current employer prior to 1 April 2008, then existing employer contributions to the NPF Existing or Locked-in Schemes are likely to discharge your employer's compulsory contribution obligations.
- Until 1 April 2009, locked-in employer contributions, of up to 4% of the employee's base salary, were exempt from employer's superannuation contribution tax (ESCT), provided the employee made matching locked-in contributions. From 1 April 2009, locked-in employer contributions of 2% of the employee's base salary are exempt from ESCT (again provided you are making matching locked-in member contributions).
- Locked-in employee contributions will attract matching member tax credit contributions from the Government of up to \$20 a week (\$1042.86 a year), credited to the member's account in the relevant Locked-in Scheme.
- All contributions to a Locked-in Scheme (both employee and employer) will be locked in until the New Zealand superannuation qualification age (currently 65 years) or for 5 years from the date when the employee first became a member of the Locked-in Scheme (and/or of another complying superannuation fund or KiwiSaver scheme), whichever is later.

For example, if the employee is 63 years of age when they elect to join the Locked-in Scheme, they will not be able to withdraw the funds from the Locked-in Scheme until 68 years of age (after 5 years).

- Approval may be given to early withdrawal in certain circumstances, e.g. in the case of first home purchases (and sometimes a second or subsequent home purchase depending on the member's financial situation), significant financial hardship, serious illness and permanent emigration.
- After members have been contributing to the Locked-in Scheme for 24 months they can apply for a locked-in savings break, called a contribution holiday, of between 3 months and 5 years. There is no limit to the number of times members can take contribution holidays. If members take contribution holidays, they can still make locked-in lump sum payments.

JOINING A LOCKED-IN SCHEME

5. Who can join a Locked-in Scheme?

Any person who was a member of an NPF scheme as at 31 March 1991, who is an employee and who is under New Zealand superannuation qualification age (currently age 65), can join a Locked-in Scheme. However, contributors to NPF's DBP Contributors Scheme, Aircrew Scheme Annual Single Premium Scheme and Level Premium Scheme must cease contributing to those schemes before being eligible to contribute to the Existing Scheme or the Locked-in Scheme. Copies of the Investment Statements and Application Forms for the Locked-in Schemes are available from the scheme administrator, Datacom, or on our website, www.npf.co.nz.

Existing members (both active and inactive) of NPF's Pension National and Lump Sum National Schemes (Existing Members) only need to complete an Election Form. A letter and Election Form has been sent to these members advising them of this option. Copies of the Election Form are available from the scheme administrator.

- 6. When can members elect to join a Locked-in Scheme?**
Members can elect to join a Locked-in Scheme at any time.
- 7. How does a member join a Locked-in Scheme?**
Existing Scheme members can simply complete the Election Form, have the form signed by their employer and send it to the scheme administrator, Datacom. The Election Form has been mailed to Existing Scheme members as part of an Employee Package (for another copy, contact the scheme administrator).
- Employees who are not Existing Scheme members, but who are eligible to join a Locked-in Scheme nonetheless, will need to obtain an Investment Statement and complete an Application Form. These documents are available from Datacom.
- 8. Do employers have to offer Locked-in Schemes to employees (if they are NPF members)?**
Yes. Any member of an Existing Scheme (who is under New Zealand superannuation qualification age) can elect to join a Locked-in Scheme. If a member decides they wish to join a Locked-in Scheme their employer must process the relevant contribution deductions.
- 9. What was the start date for the Locked-in Schemes?**
1 July 2007.
- 10. When will members be able to access contributions into a Locked-in Scheme?**
All contributions (both employee and employer) will be locked in until the New Zealand superannuation qualification age (currently 65 years) or for 5 years from the date of commencement, whichever is later.
- 11. Are members able to make early withdrawals from a Locked-in Scheme?**
You can apply for an early withdrawal of all your account in the Locked-in Scheme in certain circumstances, e.g. in the case of first home purchases (or sometimes a second or subsequent home purchase), significant financial hardship, serious illness and permanent emigration. In each case, the Board may in its discretion permit the withdrawal if satisfied that, had you been member of a KiwiSaver Scheme, you would have been permitted to make the withdrawal.
- In the case of permanent emigration, you can apply to have your locked-in savings transferred to a recognised overseas superannuation scheme, or, 12 months after you emigrate, you can apply to withdraw those savings from your locked-in account.
- Note that there are restrictions on withdrawal of member tax credit contributions. Member tax credit contributions (ignoring earnings on those tax credits) can only be withdrawn before New Zealand superannuation qualification age in cases of serious illness. If you withdraw (or transfer) your locked-in savings following permanent emigration, tax credits are forfeited and repaid to the IRD.
- If you die then your locked-in savings will be payable to your estate.
- 12. Can a member take a break from making contributions into the Locked-in Scheme?**
After members have been contributing to the Locked-in Scheme for 24 months they can apply for a savings break, called a contribution holiday, of between 3 months and 5 years. There is no limit to the number of times members can take contribution holidays. If members take contribution holidays, they can still make lump sum payments.

13. **If an employee joins a **Locked-in** Scheme, can they continue to contribute to their Existing Scheme?**
Yes, employees may contribute to two NPF schemes at the same time, but note that existing employer contributions are likely to discharge an employer's obligation to contribute to a Locked-in Scheme from 1 April 2008.
14. **What happens to a member's **Locked-in** account if they change employment?**
The member will need to ask their new employer to process their contributions into their Locked-in Scheme via payroll.
15. **How much time and cost is involved for the employer in providing the **Locked-in** Schemes to employees?**
NPF and Datacom have worked hard to ensure the process involved for the employer is as simple and easy as possible. The employer is responsible for providing accurate information about the employer and employee contributions to Datacom including:
- clearly identifying which Schemes the contributions are being deposited into; and
 - paying the correct tax on contributions.
16. **Are employee and employer contributions into a **Locked-in** Scheme made through the PAYE system in the same way as KiwiSaver?**
No, all contributions to the Locked-in Schemes are made to NPF. All queries regarding the Locked-in Schemes, and all other NPF schemes, should be directed to the scheme administrator, Datacom.
17. **Under what circumstances will employer contributions attract the exemption from ESCT?**
For locked-in employer contributions to be exempt from ESCT (that is, employer's contribution withholding tax), the employee must make matching locked-in contributions. Until 1 April 2009, the tax exemption applied to a maximum of 4% of the employee's base salary. From 1 April 2009, employer contributions of 2% of the employee's base salary are exempt from ESCT.
18. **Does the employer have to pass on this tax saving to their employees?**
Passing on the benefit of the ESCT exemption to employees is a matter for employers, but if the employer's contributions are expressed as before-tax amounts, then the tax saving will be an employees as of right (credited to his or her account in the relevant Locked-in Scheme). The terms of your employment contract will be relevant. NPF strongly recommends employers do in any event pass this saving on to their employees (by way of additional contributions, if necessary).
19. **Will employers have to make compulsory matching payments into their employees' **Locked-in** Schemes?**
From 1 April 2009, employers are required to contribute 2% of your base salary, except in certain circumstances (see question 20 below). Prior to 1 April 2009, employers were required to contribute 1% of your base salary.
20. **Will the payments employers already make into their employees' existing NPF schemes count towards the compulsory payments employers are required to make into their employees' **Locked-in** Schemes?**
In relation to employees employed before 1 April 2008 who had access to an NPF scheme as at 17 May 2007, where the employer is making or has agreed to make contributions to that scheme for the employee before 1 April 2008, and the contributions vest in the employee within a period of 5 years from the date membership commenced (which is the case in the Existing Schemes and the Locked-in Schemes) those employer contributions count as compulsory employer contributions.

BENEFITS

21. What are the advantages for employers in offering **Locked-in Schemes to employees?**

In the current tight labour market, staff attraction and retention is of critical importance. Passing on the ESCT saving employers receive to employees, and enabling employees to access KiwiSaver equivalent member tax credit contributions from the Government, are tangible benefits employers can show when seeking to attract and/or retain staff.

An employee may elect to “sacrifice” an additional percentage of their base salary which the employer can then pay as additional employer contributions into the Locked-in Scheme. In this way, if an employee is then paying tax at a marginal rate of 38%, the employee can benefit from the difference between this rate and the lower ESCT rate of 33%, through “salary sacrifice”.

22. What is a “salary sacrifice”?

This is where the employee chooses to “sacrifice” a percentage of their base salary or wages, which the employer can then pay as additional employer contributions into the Locked-in Scheme. This way the employee has the benefit of effectively paying less tax on gross income, while the employer does not have to pay more than the minimum compulsory employer contribution required. (See question 19)

23. What are the benefits of the **Locked-in Schemes?**

- Locked-in Schemes offer members the same benefits as the Existing Schemes:
 - § Government Guarantee; and
 - § 4% minimum annual earnings rate. **These benefits do not apply to KiwiSaver.**
- Over and above this, Locked-in Schemes also offer:
 - § Employer’s superannuation contribution tax exemption on employer contributions of 2% of the employee’s base salary. For employer contributions to be tax free, the employee must make matching locked-in contributions;
 - § tax credits on employee contributions;
 - § access to the first home deposit subsidy from Housing New Zealand. Note that there are eligibility conditions for the first home deposit subsidy (see question 29).

24. Do employer contributions to a **Locked-in Scheme attract the same employer tax credits as KiwiSaver?**

Until 1 April 2009, the Government provided employers with a matching tax credit up to a maximum of \$20 per week (\$1,042.86 a year), per employee, for employer contributions to a Locked-in Scheme. These were administered directly via Inland Revenue and the employer’s payroll (and were netted off against other tax liabilities). These tax credits could be used to meet the cost of the employer contribution and other PAYE liabilities. Employer tax credits ceased to apply from 1 April 2009.

25. Do employee contributions to a **Locked-in Scheme attract the same member tax credits as KiwiSaver?**

Yes, the Government provides employees with a tax credit contribution matching their contributions up to a maximum of \$20 per week (\$1,042.86 a year). This credit is paid into the Locked-in Scheme and forms part of the member’s locked-in contributions. Tax credits may only be withdrawn early in cases of serious illness. If you permanently emigrate, tax credits must be repaid to the IRD.

26. **Are members' **Locked-in** accounts credited with the \$1,000 kick start from the Government in the same way as KiwiSaver?**
No. The Locked-in Schemes are not eligible to receive the \$1,000 kickstart.
27. **Are members of a Locked-in Scheme able to divert payments from the Locked-in Scheme to their mortgage in the same way as some KiwiSaver schemes?**
No. The Locked-in Schemes do not allow mortgage diversion. In any event, mortgage diversion through a KiwiSaver scheme has been closed to new participants as from 1 June 2009.
28. **Are members of the Locked-in Schemes eligible to withdraw funds to help pay for the deposit on their first home?**
Provided you have been contributing to the Locked-in Scheme for at least three years, if you have never owned a home (or are in the same financial position as would be expected of a person who has never owned a home), you may be able to withdraw the balance in your Locked-in Scheme account to help pay for the deposit on your home. A number of conditions apply, for example the house must be intended as your principal place of residence.
29. **Are members of the Locked-in Schemes eligible for a Government-provided first home subsidy?**
If you have been contributing continuously to the Locked-in Scheme for at least three years, you may be eligible for a subsidy of up to \$1000 for each year of Scheme membership (up to a maximum subsidy of \$5000), to buy your first home (or subject to conditions a second or subsequent home if you are in the same financial position as would be expected of a person who has never owned a home). The eligibility criteria are set by Housing New Zealand and include household income and regional house price caps. The household income limits currently² are that you must:
- have a gross household income of less than \$100,000 a year if your household consists of one or two people; or
 - have a gross household income of less than \$140,000 a year if your household consists of three or more people.
30. **Are members of the **Locked-in** Schemes eligible for the management fee subsidy which was available under KiwiSaver?**
No. Note also that the management fee subsidy only applied under KiwiSaver until 1 April 2009.

² The Government has indicated that it intends to revisit the criteria for the first home subsidy.

KIWISAVER

31. How do the features of the **Locked-in** Schemes compare with KiwiSaver?

Feature	Locked-in Scheme	KiwiSaver
Tax exemption on Employer Contributions (see Q17,Q18 and Q21)	ü	ü
Locked-in (see Q10)	ü	ü
\$1,000 kick start (see Q26)	X	ü
4% minimum annual earnings rate (see Q23)	ü	X
Government Guarantee (see Q23)	ü	X
Early withdrawals (see Q11)	ü	ü
Employee tax credit (see Q25)	ü	ü
Employer tax credit (see Q24)	Ceased 1 April 2009	Ceased 1 April 2009
Compulsory employer contributions (see Q19)	ü	ü
Fee subsidy (see Q30)	X	Ceased 1 April 2009
Access to first home deposit subsidy (see Q29)	ü	ü
Mortgage diversion facility (see Q27)	X	Ceased 1 June 2009 for new participants

Note the salary definition for contributions is different under the Locked-in Schemes and KiwiSaver. For Locked-in Schemes salary is generally before tax base salary. For KiwiSaver schemes salary is before tax salary including bonuses and most allowances.

32. How does KiwiSaver affect the **Existing** Schemes?

KiwiSaver does not have any direct impact on the Existing Schemes. Employees may join KiwiSaver and continue contributing to their Existing Scheme. Employer contributions to an Existing Scheme are likely to offset any compulsory employer contribution obligation to a KiwiSaver scheme or Locked-in Scheme.

33. Can an NPF member continue to make contributions to their **Existing** Scheme and at the same time join a **Locked-in** Scheme?

Yes, members may make contributions to more than one NPF scheme (subject to eligibility, particularly for those schemes listed on the first page of these questions), provided the employer's payroll department is willing to make and remit the additional deductions.

34. Are the **Locked-in** Schemes KiwiSaver "compliant"?

No, the Locked-in Schemes are not KiwiSaver compliant. A fundamental requirement of becoming a KiwiSaver Scheme is that the scheme must be available to new members. NPF schemes, by an Act of Parliament, have been closed to new members since 1 April 1990 and therefore cannot meet this requirement.

35. Can an NPF member make contributions to both a **Locked-in** Scheme and KiwiSaver?

While NPF members can contribute to both, there is little to be gained by contributing to a Locked-in Scheme *and* a KiwiSaver scheme. This is because –

- tax exemptions are only available on contributions up to the maximum level of 2% of salary from 1 April 2009 (contributions above this level are subject to ESCT), and member tax credits are only available on contributions up to \$1042.86 per year, and

- both the Locked-in Scheme and a KiwiSaver scheme will require a minimum contribution rate of 2% of salary from 1 April 2009, that will be locked-in until the New Zealand superannuation qualification age.

If a member wishes to contribute, say, 6% of their base salary to a scheme, they may wish to consider contributing 2% to a Locked-in Scheme, with the balance of 4% going to an Existing Scheme. Contributions to an Existing Scheme are not locked-in.

In some cases a member who contributes to an Existing Scheme, and whose employer is also contributing to that scheme, could choose to contribute to a Locked-in Scheme or KiwiSaver scheme, and trigger the compulsory employer contribution obligation in relation to the locked-in amount, in addition to their existing employer subsidy.

However, the KiwiSaver Act provides that in relation to members who were employees before 1 April 2008 (and who had access to a registered superannuation scheme as at 17 May 2007), and for whom employer contributions are being made (or were agreed to be made) before 1 April 2008 (which vest within 5 years), those contributions count as compulsory contributions.

In relation to any other members, as the employer contribution rate under the trust deeds for the Pension National and Lump Sum National Schemes is set by agreement between the employer and the member, the additional burden on the employer can be alleviated by the employer agreeing with its employees to reduce the contribution rate to the Existing Scheme. Your employment agreement may also impact on how the compulsory employer contribution obligations are affected in this situation, and your employer is unlikely to agree to pay compulsory employer contributions to a Locked-in Scheme as well as a KiwiSaver Scheme.

It is not possible to transfer an account a member has with a KiwiSaver scheme, to a Locked-in Scheme.