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, the Board 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 31 December 2015.

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KIWISAVER

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30. Does the new Trans-Tasman portability of retirement savings regime, which allows transfer of superannuation savings between certain Australian and New Zealand superannuation schemes, apply to the NPF schemes?

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 25 for a comparison of the features of a Locked-in Scheme and a KiwiSaver Scheme).

2. Which NPF Schemes are Locked-in Schemes?
Locked-in *sections,* that meet the requirements of a “complying superannuation fund”, have been established within the -

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

These two schemes 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 did NPF make 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?

- From 1 April 2013 the minimum member contribution to a Locked-in Scheme is 3% of the member’s base salary[1] 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 are currently contributing at a rate of 4% to the Locked-in Scheme, with the agreement of your employer you may elect to reduce your contributions to 3% of base salary.
- From 1 April 2013, the minimum contribution your employer is required to make to the Locked-in Scheme is 3% of your base salary or wages.

  However, if you were employed by your current employer prior to 1 April 2008, then employer contributions to the Existing Scheme are likely to discharge your employer’s compulsory contribution obligations (see question 17). This means that even if you are contributing to a Locked-in Scheme your employer is not required to make contributions to the Locked-in Scheme (with all your employer’s contributions being paid to the Existing Scheme instead).
- Locked-in employer contributions are subject to ESCT in the same manner as all other employer superannuation contributions.
- Locked-in employee contributions attract matching member tax credit contributions from the Government at a rate of 50c per dollar, up to $521.43 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

[1] “Base salary” generally means your before-tax salary excluding bonuses and allowances.

years) or until 5 years after 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 a member has 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 to join a Locked-in Scheme. Copies of the Election Form are available from Datacom.

6. When can members elect to join a Locked-in Scheme?

Members who meet the criteria set out in Question 5 above 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.

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?

As a general rule, all contributions (both employee and employer) will be locked in until the New Zealand superannuation qualification age (currently 65 years) or for 5 years after the date when the member first became a member of the Locked-in Scheme (and/or of another complying superannuation fund or KiwiSaver scheme), whichever is later.

11. Are members able to make early withdrawals from a Locked-in Scheme?

You can apply for an early withdrawal from 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 contributions) 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 Inland Revenue This differs from the position for a KiwiSaver Scheme, where on permanent emigration to Australia, the tax credits are not forfeited.
If you die, 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 a member has been contributing to the Locked-in Scheme for 24 months they can apply for a savings break, called a contributions holiday, of between 3 months and 5 years. There is no limit to the number of times members can take contributions holidays. If members take contributions 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. However, employer contributions to an Existing Scheme are likely to discharge an employer's contribution obligations entirely (meaning the employer is not also required to contribute to the Locked-in Scheme).

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. Do employers have to make compulsory matching payments into their employees' Locked-in Schemes?

Except in certain circumstances (see question 17 below), your employer is required to contribute 3% of your base salary,

17. 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?

For 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

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

Locked-in Schemes enable employees to access KiwiSaver equivalent member tax credit contributions from the Government, while maintaining the Government Guarantee and the minimum 4% earnings rate. This is a tangible benefit employers can show when seeking to attract and/or retain staff.

19. What is a "salary sacrifice"?

This is where the employee chooses to 'sacrifice' an additional percentage of their base salary or wages, which the employer can then pay as additional employer contributions into the relevant NPF scheme. Where the member's marginal tax rate is higher than the applicable ESCT rate (ESCT is the rate of tax payable on an employer's superannuation contributions), the member benefits from the difference in the tax rates.

The highest marginal income tax (PAYE) rate is 33% (as at 1 December 2013), the same rate as the highest ESCT rate, and the PAYE and ESCT rates and thresholds are broadly consistent. There is therefore now little if any financial advantage in paying additional contributions through salary sacrifice.

20. 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:
  - member tax credit contributions from the Government with respect to employee contributions; and
  - access to the first home purchase subsidy from Housing New Zealand. Note that there are eligibility conditions for the first home purchase subsidy (see question 23).

21. Do employee contributions to a Locked-in Scheme attract the same member tax credit contributions as KiwiSaver?

Yes. As at 1 December 2013, the Government provides members with a tax credit contribution matching their locked-in contributions at the rate of 50c per dollar up to a maximum $521.43 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, you cannot withdraw any member tax credits.

22. Are members' Locked-in accounts credited with a kick start from the Government?

No. The Locked-in Schemes have never been eligible to receive a kickstart from the Government.

The $1000 kickstart previously available to KiwiSaver was removed in 2015.

23. Are members of the Locked-in Schemes eligible to withdraw funds to help pay for the purchase of 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 purchase of your home. A number of conditions apply- for example the house must be intended as your principal place of residence.

24. 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 $1,000 for each year of Scheme membership (up to a maximum subsidy of $5,000), 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. For details about required contribution levels and the other qualifying criteria, visit the Housing New Zealand website www.hnzc.co.nz. Housing New Zealand administers the home purchase subsidy facility and subsidies are not payable from the Locked-in Scheme.

KIWISAVER

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

Feature	Locked-in Scheme	KiwiSaver
Locked-in (see Q10)	✓	✓
$1,000 kick start (see Q22)	**X**	✓ until 2015 only
4% minimum annual earnings rate (see Q20)	✓	**X**
Government Guarantee (see Q20)	✓	**X**
Early withdrawals (see Q11)	✓	✓
Member tax credit (see Q21)	✓	✓
Forfeit of tax credits on permanent emigration to Australia (see Q11)	✓	**X**
Compulsory employer contributions (see Q16)	✓	✓
Access to first home purchase subsidy (see Q24)	✓	✓

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

26. 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.

27. 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.

28. 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 have been closed to new members since 1 April 1990 and therefore cannot meet this requirement.

29. 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 –

- member tax credits are only available on member contributions at a rate of 50c per dollar up to a maximum tax credit contribution of $521.43 per year, and
- both the Locked-in Scheme and a KiwiSaver scheme require a minimum member contribution rate of 3% of salary as at 1 December 2013, 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 the first 3% of that amount to a Locked-in Scheme, with the balance of 3% 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.

30. Does the new Trans-Tasman portability of retirement savings regime, which allows transfer of superannuation savings between certain Australian and New Zealand superannuation schemes, apply to the NPF schemes?

No, as this regime only applies to transfers to and from KiwiSaver schemes.