

**IN-CONFIDENCE**

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Chief Executives, Chief Financial Officers and Heads of Human Resources

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Treasury Vote Teams

**INCREASES IN GOVERNMENT SUPERANNUATION FUND (GSF) EMPLOYER CONTRIBUTION RATES**

In May this year Datacom, the schemes administrator for the Government Superannuation Fund Authority (GSFA), wrote to public service agencies informing them of increases in GSF employer contribution rates to apply from 1 July 2010.

As the letter stated, Cabinet had previously considered the impact of these new employer contribution rates and in CAB Min (10) 13/5:

“agreed that departments may seek a baseline adjustment in the 2010 October Baseline Update (OBU) only for increased costs in the 2010/11 year for the impact associated with the employer subsidy rate increases that have not been passed on to employees whose GSF payments are included as part of their total remuneration package”.

Treasury understands that there has been some debate around the application of this Cabinet decision for departments with employees that are on “total remuneration” (TR) packages. This circular sets out Treasury’s guidance, after discussing the interpretation of the Cabinet minute with the Minister of Finance.

Our understanding is that there are three possible situations for employees who are members of the GSF:

1. Employees that are not on TR packages, or are on TR packages that exclude the GSF employer contribution;

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2. Employees that are on TR packages that include the GSF employer contribution, and where the employer chooses to pass on to the employee the increase from 1 July 2010;
3. Employees that are on TR packages, where the employer chooses not to pass on the increase in employer contribution rates, either permanently or for a transition period.

In the case of situation 1 above, the increase in GSF employer contribution rates is a cost to the employing agency (with no impact on the employee). The Cabinet decision above allows departments to seek a baseline increase in OBU to reflect this cost for 2010/11 only.

In the case of situation 2 above, there is no cost impact on the employer, as the GSF employer contribution rate increase has been passed on to the employee. The impact is a reduction in the employee's take-home pay. Since there is no cost impact the agency should not seek a funding adjustment in the OBU.

In the case of situation 3, the agency has chosen to bear the cost of the contribution rate increase itself, to protect their employee's take-home pay. The employer could choose to do this either permanently or for a temporary period. Treasury's interpretation of the Cabinet decision is that agencies can seek a baseline increase in OBU to reflect this cost impact in 2010/11, but not any cost impact in subsequent years. The Minister of Finance has confirmed that he agrees with this interpretation.

An employer's choice to pass on the GSF employer contribution rate increase to staff on TR packages, or not, is an employment matter for the employer to determine. Cabinet's decision to allow departments to seek a baseline increase in OBU is one factor that may influence these decisions. We anticipate other factors such as the equitable treatment of employees and preserving the integrity of remuneration policy may also influence each agency's decision.

Treasury will recommend that the Minister of Finance accepts baseline adjustments requested in the OBU, providing that they comply with the Cabinet decision and guidance above. Any request should be notified to your Treasury Vote Team in advance of the department making its OBU submission.

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