STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga

Working Paper No. 14

Retirement Savings Schemes for Government Employees: A Brief Preliminary Review of Some Key Issues

by Michael B Hyndman

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Michael B Hyndman*
July 2002

ABSTRACT

In light of current proposals to create a new superannuation scheme for government employees, this paper looks at the key issues that such an approach would be likely to raise for the government as employer. The paper argues that while many of the employer and employee goals will be compatible, some of them may conflict and, therefore, require the parties to make some tradeoffs in order to achieve mutually satisfactory employment conditions. These goals provide criteria for assessing the design options of an employee retirement saving scheme for both the defined-benefit and defined-contribution types. The demise of both compulsory membership and an expectation of lifetime careers in the public service – plus the availability of a wide range of financial investment options in the private sector – has effectively removed the justification for the government to offer its employees a defined-benefit scheme. One of the key findings of the analysis is that employee retirement saving schemes are now not a significant employment tool, and that employee convenience is served by flexible and attractive scheme features. Finally, there are various ways in which an employer could help to ensure that a retirement saving scheme for its employees is administered cost-effectively, including by contracting out and competitive tendering.

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RETIREMENT SAVING SCHEMES FOR GOVERNMENT EMPLOYEES

1. Introduction

In light of current proposals to create a new superannuation scheme for government employees, it is relevant to look at the key issues that such an approach would be likely to raise for the government as employer. This report identifies these issues and briefly discusses each of them.

Section 2 of the report analyses the goals that employers and employees may seek to achieve through an employee retirement saving scheme. Section 3 reviews the main scheme design features that both parties would need to resolve before any new scheme were introduced. It discusses how various scheme features separately and in combination might contribute to achieving the goals of government employers and employees. It also summarises the main findings from this analysis. Section 4 presents some preliminary conclusions derived from this brief review.

2. Goals for Employee Retirement Saving Schemes

An employee retirement saving scheme is one possible means for both employees and employers to achieve some of their respective employment related goals. Such goals are outlined below, separately for employers and employees.

These goals provide a set of criteria for the government to use in determining whether the Crown, as employer, should introduce a new employee retirement saving scheme; and if so, what design features it should incorporate.

2.1 Employer Goals

The Crown's goals as employer may include the following goals:

- Attracting staff: To attract sufficient staff with the skills and/or experience or potential to meet the employer's requirements.
- Retaining competent staff: To retain sufficient staff of the requisite calibre for long enough on average:
  - To maintain continuity of organisation-specific institutional knowledge within the organisation; and
  - To enable the organisation to derive sufficient benefit from employees to recoup the costs it has incurred in training them, both on and off the job.
- Being a good employer: To be "good employer".
- Being fiscally responsible: To be fiscally responsible by achieving the Crown's employment goals as efficiently and cost-effectively as possible.
- Avoiding undue risk exposure by the Crown: To avoid the Crown being exposed unnecessarily to major fiscal risks.

2.2 Employee Goals

Government employee goals may include the following:

- Obtaining adequate employee compensation: To obtain adequate compensation for the skills, experience, and effort employees put into their respective roles in an organisation, and for their effectiveness in contributing to its goals. Such compensation may take the form of a package including:
  - Salary and bonuses,
  - Reimbursement of work-related expenses (e.g., car, car park, phone),
  - Employer contribution for retirement savings, and
  - Health, fitness and medical-insurance schemes.
- Enhancing employee career prospects: To enhance employee career prospects by:
  - Acquiring training both on and off the job;
  - Acquiring experience in the job;
  - Developing a network of business contacts; and
  - Developing a reputation for performance.
- Ability to pursue new employment opportunities without major penalty: To obtain an employee-compensation package that does not significantly disadvantage those employees who leave to take up new employment opportunities.
- Flexibility of retirement savings approach: To determine when, how, and to what extent to save for retirement income at different stages in an individual's working life to fit changing circumstances.

While many of these employer and employee goals will be compatible, some of them may conflict and, therefore, require the parties to make some tradeoffs in order to achieve mutually satisfactory employment conditions. These goals provide criteria for assessing employee retirement saving scheme design options described in the next section.

3. Design Features of Employee Retirement Saving Schemes

3.1 Main Design Issues for Employee Retirement Saving Schemes

The main design-feature issues an employer needs to resolve in considering whether to create a new retirement savings scheme for its employees are summarised diagrammatically in the Appendices to this report. Figure 1 shows those relating to "defined-benefit" schemes and Figure 2 those relating to "defined-contribution" schemes. The remainder of this section discusses these issues separately for the two basic types of scheme, in terms of how different design features may contribute to achieving the goals of the employer and employees.

3.1.1 Defined-Benefit versus Defined-Contribution Scheme?

In general, the primary issue is which of the following two basic types of scheme will best meet the employer's and employees' goals:

- *Defined benefit scheme*: A "defined-benefit" scheme defines each member's level of benefit entitlement on retirement independently of the accumulated value of their contributions – typically in relation to his/her average base salary level in a specified period immediately preceding retirement (i.e., a "back-end loading" of pension entitlements). Its employee members typically are required to contribute a specified proportion of their salaries to the scheme, and the employer to underwrite the scheme's liabilities by contributing whatever balance of funds is needed to pay the defined benefit entitlements.[1]

- *Defined contribution scheme*: A "defined-contribution" scheme simply defines the contributions of employee members and the employer, and provides retirement benefit entitlements whose level depends entirely on the value of accumulated net investment funds attributable to an individual member.[2]

Defined-benefit schemes

In practice, the current law effectively prevents State sector employers from creating a defined-benefit scheme for their employees or entering into a new arrangement to contribute to such a scheme. This is the result of s.84B of the State Sector Act 1988, which took effect from 1 July 1992. This section requires a State sector employer – who wishes to enter into any new (i.e., post 1 July 1992) superannuation-scheme arrangements for its employees – to ensure**,** amongst other things:

- "That the scheme provides that the sum of all benefits … payable from the scheme in respect of any member of the scheme will <u>not exceed</u> the sum of —
  - Contributions paid by or on behalf of a member and investment earnings thereon; and
  - Any allocations to the member from surplus funds held within the scheme; and
  - The amount paid in respect of that member from any insurance policy effected for the benefit of members of the scheme;"

  and
- "That the benefits provided by the scheme are fully funded as they accrue."

This conclusion is based on the following interpretation of what s.84 means for any employee superannuation-scheme arrangements that a State sector employer enters into on or after 1 July 1992 ("new scheme").

- The total amount of benefits payable by a scheme in respect of a member may not exceed the total amount of funds <u>actually held</u> by or on behalf of the scheme in respect of that member. This interpretation reflects s.84's use of the past tense in stating the condition that the benefits shall not exceed the sum of:
  - contributions paid by an employee member and employer (in respect of the member) plus any net income from investing these contributions,
  - any surplus funds of the scheme, which are allocated to the member,
  - any insurance benefit paid in respect of the member from an insurance policy "effected for the benefit of members of the scheme".

If this interpretation is correct the condition would seem to rule out the possibility of any new scheme providing contingent benefits, as their value cannot be known with certainty until the occurrence of the future contingent event that defines their actual value. Such uncertainty makes it impractical for any scheme to offer contingent benefits and meet its duty to ensure that (in respect of a member) "the sum of all benefits … payable" will not exceed the funds in hand (in respect of the member), including "the amount paid … from any insurance policy". Contingent benefits include, for example, retirement benefits that are defined as a percentage

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1 The GSF scheme, which is now closed to new members, is a defined benefit scheme.
2 The Global Retirement Trust offers individual retirement plans, of a defined-contribution type.

of a member's average salary over a stated period immediately before retirement. In other words, this interpretation seems to rule out State sector employers' option to enter into any new arrangements to contribute to a defined-benefit scheme that commits to provide contingent retirement benefits:

- Requiring that "the benefits … are fully funded as they accrue", reinforces this conclusion that State sector employers may not enter into any new defined-benefit scheme arrangements.

If the law had intended State sector employers to be able to contribute to a defined-benefit scheme in respect of a member joining such a scheme from 1 July 1992 – but with the financial risks managed more effectively from the employer's perspective – it could have expressed the condition differently. For example, with a change in sub-section (iii) regarding insurance cover, the condition could have been as follows:

- The sum of all benefits payable will not exceed the sum of the first two components of a scheme's funds – as spelt out in sub-sections (i) & (ii) – plus any insurance cover payable (i.e., not the amount paid from any insurance policy for the benefits of the scheme's members).

Such an expression arguably would allow State sector employers to offer a defined-benefit scheme to new members provided that the scheme has reliable insurance cover to meet any shortfall between the sum of first two components, and the sum of the retirement benefits payable from a future date (i.e., once the contingent event defining the actual level of such benefits becomes known).

If such insurance cover were available to State sector employers to cover any such shortfall – whose magnitude is uncertain at this stage – the cost of insurance premia payable to obtain such cover is likely to be substantial, if not prohibitive. A material issue then would be whether the expected benefits from being able to offer State sector employees new defined-benefit scheme arrangements would be justified by the cost of obtaining the pre-requisite insurance cover.

In the absence of any such insurance cover, a defined-benefit scheme exposes an employer to a potentially large financial risk by virtue of the employer's liability to underwrite employees' retirement entitlements. This risk reflects the contingent nature of these entitlements,[3] and lengthy period over which the employer's contingent liability may continue in respect to individual members. It presumably is the main reason why State sector employers no longer have the option of entering into new defined-benefit scheme commitments. Another possible reason may be that other employers with whom State sector employers compete for staff do not provide defined-benefit schemes for their employees, due to the financial risk.

Without a robust case showing that a defined-benefit scheme could yield some major advantages for a State sector employer to justify bearing the potentially large financial risk or cost, it would be unwise to consider amending s.84 to remove its effective prevention prohibition.

[3] For example, contingencies under the GSF defined-benefit scheme include (i) members' average salary in the 5 years immediately before retirement; (ii) members' actual life span; and (iii) inflation (as GSF pensions are inflation-indexed).

Government Superannuation Fund (GSF) Example

For example, in earlier years some features of the GSF scheme probably helped the government to attract able employees to the public service – and retain them – in the face of private sector competition for staff. Such features arguably included:

- *Staff-attracting features:* The provision of indexed pensions may have helped to attract some able staff to the public service - especially when inflation was relatively high - since no private sector employers could afford to offer inflation-adjusted pensions.
- *Staff-retention features*: The indexed pensions themselves, plus the combined "lock-in" impact of the following GSF features, all helped the public service to retain staff:
  - compulsory membership of the GSF scheme prevented employees from having the option of gaining immediate access to a higher current pay rate in lieu of the employer's contingent contribution liability to the GSF; plus
  - a minimum retirement age of 50 years encouraged employees to at least remain in the scheme – and thereby the public service – until age 50 when early retirement was permitted;
  - very limited portability to other registered superannuation schemes of a GSF member's share of the employer contributions accrued to date; and
  - "back-end loading" of pension entitlements also encouraged people to remain in the public service beyond this minimum retirement age in order to boost the level of their pre-retirement average salary – and thereby pension entitlement – beyond what it would be if they left at age 50.

But once GSF membership ceased being compulsory – and State sector employees could choose to receive the benefits of a higher salary now rather than the employer's contribution to the GSF later – the "lock-in" impact on staff retention was essentially removed. New or younger employees typically preferred a higher current salary. Only those staff who had already been in the scheme for a significant period (e.g., at least 10 years) remained effectively locked-in.

The demise of both compulsory membership and an expectation of lifetime careers in the public service – plus the availability of a wide range of financial investment options in the private sector – effectively removed any last vestige of justification for the government to offer its employees a defined-benefit retirement saving scheme. People joining state sector organisations today have little need or wish to be effectively locked into a defined-benefit scheme such as the GSF. As a result, the financial risks to the government of a defined-benefit scheme for its employees now seem to outweigh any benefits to it from doing so.

Defined-contribution schemes

With a defined-contribution scheme the employer's financial risk exposure is essentially removed. From the employer's perspective, committing to support such a scheme is no more risky than paying employees a higher current salary rate. From a cost perspective the government – and its employees – are both likely to be indifferent about whether it provides or supports a defined-contribution type of retirement saving scheme for its employees. Employees do not need to join such a scheme in order to secure the financial benefit represented by the employer's contribution to it. They may simply opt to take the money now in the form of higher current salary cash payments. This leaves employees free to invest in a retirement saving scheme of their own choosing, or to use the cash otherwise.

3.1.2 Other Scheme Design Features and Their Impacts

All other issues are secondary, compared with the choice between a defined-benefit and defined-contribution type of retirement saving scheme. Table 1 below briefly outlines their likely impacts on employer and employee goals.

Table 1
Defined-Benefit Scheme Design Implications

Scheme-Design Issues	Implications for Employer & Employee Goals
1. <u>Membership</u>	
a. Voluntary or compulsory?	In today's employment market, compulsory membership is not a feasible option. If lawful, it would be unpopular with employees and may deter State sector employment.
b. Restrictions on membership?	Such schemes would need to be restricted to a defined group of employees, given financial risks to the government (as employer).
2. **<u>Benefits</u>**	
a. Definition of retirement benefit?	Defining retirement benefit entitlement as a percent of average base salary in a period just prior to retirement (e.g., last 5 years) may help to retain employees who join the scheme. But they are likely to be employees who envisage a lengthy period of government employment anyway. It will not impact on the many people who envisage a short period of government employment and so do not become members.
b. Form of retirement benefit?	An option to pay part of a retirement benefit as a cash lump sum on retirement, and the balance as either a life annuity or an annuity certain, would need to be offered to meet general employee expectations.
c. Indexation of pension?	Indexed pensions are desirable for employees, but entail sizeable financial risk for employer. But benefits may not be taken up given average duration of government employment.
d. Withdrawal benefits?	The more attractive the withdrawal benefits, the less the scheme encourages members to remain government employees. The level of withdrawal benefits will depend on vesting rules, and their impact on employees' behaviour will also depend on conditions relating to cessation of membership.
e. Death benefits?	Death benefits are essential to meet employee expectations.
f. Life and medical insurance?	Life and medical insurance may benefit employees, but is not vital for them or the employer given other sources of cover.

Scheme-Design Issues	Implications for Employer & Employee Goals
3. <u>Contributions</u>	
a. Employee contribution level?	With a defined-benefit scheme, the employee contribution would need to be set after taking into account the expected aggregate cost of future benefit entitlements and the level of subsidy the employer is prepared to pay. This would require an actuarial assessment as well as policy decision.
b. Employer contribution level?	Employer contributions usually underwrite defined-benefit schemes, and so equate to the scheme's residual liability net of employee contributions.
c. Timing of employer contribution?	A key issue is whether the employer contribution each year should be a scheme's actuarially assessed expected future residual liability, or current year's actual residual liability.
d. Other employer subsidy?	Unless a defined-benefit scheme explicitly requires the employee to meet (in whole or part) its administration costs and investment-management costs, these will effectively be borne by the employer since the benefits typically are defined without regard to these costs. This differs from defined-contribution schemes whose costs of administration typically are met from an explicit charge on members, and whose investment management costs are deducted from the gross investment returns.
4. <u>Vesting Rules</u>	
a. Vesting period?	The longer the vesting period before the contribution of an employer is fully vested to a member's credit, and reflected in his/her withdrawal entitlement, the more it is likely to encourage existing members to remain in the scheme and, thereby, remain a govt. employee; but to discourage new employees from joining the scheme, because of this lock-in effect.
b. Vesting schedule?	The impact of a vesting period may be unchanged, reduced or exaggerated depending on whether the rate of vesting the employer contribution each year is constant, or faster, or slower in the initial years of the vesting period.
5. <u>Cessation of Membership</u>	
a. Rules for withdrawal?	If membership of an employee retirement saving scheme were compulsory, a member would not be allowed to cease being a member unless also ceasing to be an employee of an organisation covered by the scheme. An inflexible approach to permitting members to withdraw from a scheme is unlikely to meet employee needs and so helps to attract and retain employees. If a scheme's vesting rules are fair to members and the employer, a member should be readily able to withdraw from it subject to providing adequate advance notice.

Scheme-Design Issues	Implications for Employer & Employee Goals
	The member would receive his/her contribution, less the vested proportion of the employer's contribution. Withdrawal rules are unlikely to be an effective means for an employer to boost staff retention. Strict withdrawal rules are likely to deter employees from joining the scheme in the first place.
b. Portability of benefits?	"Portability" refers to a scheme member's right to transfer retirement savings from one such scheme to another upon changing employment. Portability is highly desirable for employees, but is unlikely to be feasible for defined-benefit schemes – except between similar schemes with reciprocity. It seems to be common for defined-contribution schemes.
c. Locking-in?	"Locking-in" refers to a rule that denies members access to their respective retirement savings while they remain members, but would not prevent a member uplifting the savings upon ceasing employment and thence membership. Locking-in – once the norm – now seems less common. It appears to have two main impacts: i It reduces employees' flexibility to alter saving levels and forms, when this may be appropriate for changes in their respective circumstances (e.g., maternity leave); ii But it may benefit a scheme's investment earnings by reducing the proportion of its investments that need to be held in lower-return liquid financial assets, in order to meet a higher expected rate of withdrawals. Alternatively, the same outcome might be achieved via withdrawal rules that allow for any such detrimental impact on a scheme's earnings when calculating a member's withdrawal benefit. A combination of locking-in and portability would <u>permit</u> a member – who ceases employment with the current employer prior to retirement – the option either to transfer the accumulated savings to another scheme, if moving to new employer with a scheme available; or to use the savings in some other way.
d. Preservation?	"Preservation" refers to a duty to preserve until retirement any savings accredited to a scheme member, even if the member leaves the scheme prior to retirement. Preservation is understood to be rare in New Zealand. A combination of preservation and portability would <u>oblige</u> a member who moves to another employer, either:

Scheme-Design Issues	Implications for Employer & Employee Goals
	i to transfer the accumulated savings to another scheme, if one is available with the employer; or ii to leave the accumulated savings in the present scheme until he / she actually retires.
e. Retirement age?	The allowable retirement age is vital for employer and employees by facilitating mutually beneficial retirements.

With defined-contribution employee retirement schemes, the main design issues (and implications of how they are resolved) are essentially the same except for benefits and contributions. Table 2, therefore, focuses solely on issues relating to these two features of defined-contribution schemes. As regards the other design features, the brief comments in Table 1 also apply to defined-contribution schemes.

Portability is an exception, however, as it is unlikely to be feasible for defined-benefit schemes, except those which are similar and offer reciprocity between them.

Table 2
Defined-Contribution Employee Retirement Scheme Design Implications

Scheme-Design Issues	Implications for Employer & Employee Goals
1. Benefits	
a. Value of retirement benefit?	The retirement-benefit entitlement a defined-contribution scheme is basically equal to the total value of a member's accumulated contributions plus the employer's fully vested contributions. This value will be represented by the member's share of the net market value of the scheme's invested funds. Determining retirement benefit entitlements in this way avoids the employer bearing a large potential financial risk. Instead, the employee member bears the investment portfolio risks, since the actual level of retirement benefit entitlement depends on the investment performance of the scheme's funds.
b. Form of retirement benefit?	An option to pay part of a retirement benefit as a cash lump sum on retirement, and the balance as either a life annuity or an annuity certain, would need to be offered to meet general employee expectations & normal practice.*
c. Withdrawal benefits?	The more attractive the withdrawal benefits, the less the scheme encourages members to remain govt. employees.*
d. Death benefits?	Death benefits are vital to meet employee expectations.*
e. Life and medical insurance?	Life and medical insurance may benefit employees, but is not vital for them or the employer given other sources of cover.*

Scheme-Design Issues	Implications for Employer & Employee Goals
2 <u>Contributions</u>	
a. Employee contribution level?	The employee contribution level essentially can be set at whatever level the employee wishes, with the employer being indifferent to the level chosen.
b. Employer contribution level?	The employer's contribution level too can be set at whatever level the employer and employee agree upon, on the basis that the employer's contribution to a scheme is simply part of the employee's salary and would otherwise be paid out in cash as part of the employees' pay.
c. Timing of employer contribution?	Timing of the employer's contribution is not an issue, as it would be paid at the same time as the salary is paid.
d. Other employer subsidy?	No employer subsidy would be involved if any other costs relating to a defined benefit (e.g., scheme administration costs[4]) are either levied directly on the member, or netted out of gross investment returns. Otherwise the employer could subsidise the scheme administration costs.

* *Note*: This is the same as for a defined-benefit scheme.

3.1.3 Main Findings

The main findings of this review of defined-benefit and defined-contribution schemes may be summarised as follows:

- <u>New defined-benefit arrangements for government employees outlawed</u>: s.84B of the State Sector Act, with effect from 1 July 1992, effectively prevents State sector employers from providing defined-benefit scheme arrangements for their employees – apart from those who were already members of the Government Superannuation Fund.

- <u>Defined-contribution schemes only open to government employees now</u>: The only type of employer-supported retirement savings schemes now open to State sector employees are defined-contribution schemes (i.e., in the absence of a law change to amend s.84B).

- <u>Employee retirement saving schemes not a significant employment tool</u>: Employee retirement saving schemes generally seem unlikely to have a significant impact on employee decisions to join or leave an employer and, thus, be an effective tool for employers to use to attract or retain staff. This finding stems from the combined impact of several factors, notably:
  - *Voluntary membership*: As voluntary membership of such schemes is now the norm, existing or prospective employees can easily avoid involvement with any scheme

[4] "Scheme administration" costs here mean: (1) benefits costs (e.g., cost of processing benefit requests and paying benefits, and accounting for them) and (2) scheme costs (e.g., cost of creating trust deed, investment statements and prospecti, preparing financial accounts, annual reports, audits, and tax returns).

whose features are unattractive or unacceptable to them. Accordingly, scheme features need not affect an employee's decisions on employment.
  - *Higher pay instead of employer contribution*: With employees normally able to choose to receive a correspondingly higher current rate of pay in the hand - instead of employer contributions to an employee retirement saving scheme – employees are not financially disadvantaged by opting not to be a scheme member.
  - *Other investment options abound*: Any employee who chooses not to join an employee retirement saving scheme now has a wide range of other effective investment options available for channelling long-term savings. Not joining such a scheme, therefore, need not prejudice achievement of an employee's long-term saving goals.

- <u>Specific scheme features may be largely academic</u>: Employees' ability to avoid joining any scheme with unattractive or unacceptable features – without being disadvantaged - effectively makes such features impotent to achieve employers' goals. Lock-in and preservation provisions of a scheme may be cases in point.

- <u>Employee convenience served by flexible, attractive scheme features</u>: Employees may benefit from the convenience of joining an employee retirement saving scheme provided that it offers attractive features, including:
  - *flexibility* about amount, timing, and means of paying contributions;
  - *portability*: i.e., ability for members to take saving plan with them if they transfer to another employer; and
  - *choice of investment funds*: i.e., flexibility for a member to choose an investment strategy to suit his/her circumstances.

3.2 Main Scheme & Investment Management Issues

There are various ways in which an employer could help to ensure that a retirement saving scheme for its employees is administered cost-effectively, and its funds invested likewise. Such ways include:

- contracting out: contracting out scheme administration and investment funds management roles relating to an employee retirement saving scheme; and
- competitive tender: selecting the scheme administrator and investment funds manager(s) periodically (e.g., five-yearly) via a competitive tender process.

These sorts of issues are implementation issues that could be considered once the prior issues have been resolved, notably:

- Is any new scheme warranted? Is there any sound policy basis for the government to consider offering a new retirement saving scheme for its employees?
- If so, what design features should it incorporate?

4. Conclusions

The preliminary conclusion – after a quick review of the current position relating to employee retirement saving schemes available to government employees – is that there are no obvious compelling employment or social policy reasons for the government:

- to reopen the existing GSF scheme to new members; or
- to create a new defined-benefit type scheme for government employees.

A number of government organisations are offering defined-contribution schemes to their employees. Accordingly, it is unclear that there is any need for the introduction of any further such schemes at this stage. Indeed, if State sector employee participation in the current schemes is seen as too low, an alternative approach would be for State sector employers to promote the current schemes more actively through employee induction courses and publicity material.

Appendices

Figure 1

Employee Retirement Saving Scheme Design Issues

Yes

1. Scheme Type

1.1 **Defined Benefit**?

1.2 Defined Contribution? *Yes* See *Figure 2*

2. Membership

2.1 Voluntary or Compulsory?

2.2 Restrictions? - *e.g., government or dept employees only*?

3. Benefits

3.1 Definition of retirement benefit? - *e.g. formula relating retirement benefit to % of average annual base salary in say last 5 years prior to retirement*?

3.2 Form of retirement benefits? - *e.g., lump sum, pension /annuity, or combination*?

3.3 Indexation of pension? - *e.g. indexation of pension to say CPI or Av.Wage changes*?

3.4 Withdrawal benefits? - *n.b., these depend in part on vesting rules.*

3.5 Death benefits? - *e.g., life pension to surviving spouse, or annuity certain to estate*?

3.6 Life insurance cover?

3.7 Health and medical insurance cover during membership?

4. Contributions

4.1 Level of employee contribution?

4.2 Level of employer contribution? = *amount required to supplement accumulated employee contributions to pay defined benefits on withdrawal or on retirement (including pension for life of retiree or spouse).* ***This is an actuarial issue.***

4.3 Timing of employer contributions? - *e.g., periodic payment of employer contributions (based on regular actuarial assessment of employer's liability) to "fully fund" scheme, or "pay as you go"*?

4.4 Other employer subsidy? - *e.g., cost of scheme administration*?

5. Vesting Rules

5.1 Vesting period? – *i.e., period of membership before employer's contributions are fully vested in employee?*

5.2 Vesting schedule? – *i.e., progressive % of employer's contributions vested during the vesting period*?

6. Cessation of Membership

6.1 Rules for withdrawal from scheme? - *e.g., only on cessation of employment, or while still employed by govt. or dept.*?

6.2 Portability of benefits? - *i.e., transfer of employee's contributions plus vested employer's contributions to another registered superannuation scheme*?

6.3 Locking-in? - *i.e., denying a member access to savings while still a scheme member.*

6.4 Preservation? - *i.e., duty to preserve a member's retirement savings until retirement.*

6.5 Retirement Age?

Figure 2

Employee Retirement Saving Scheme Design Issues

1. Scheme Type

1.1 Defined Benefit? *Yes* → **See *Figure 1***

Yes 1.2 **Defined Contribution**?

2. Membership

2.1 Voluntary or Compulsory?

2.2 Restrictions? - *e.g., government or dept employees only*?

3. Contributions

3.1 Level of employee contribution?

3.2 Level of employer contribution?

3.3 Other employer subsidy? - *e.g., cost of scheme admin*?

4. Benefits

4.1 Value of retirement benefit? = *accumulated sum in employee's retirement savings account, including vested employers contributions by definition [**not an issue**].*

4.2 Form of retirement benefit? - *e.g., lump sum, pension /annuity, or combination*?

4.3 Withdrawal benefits? - *n.b., these depend in part on vesting rules*

4.4 Death benefits? - *e.g., life pension to surviving spouse, or annuity certain to estate*?

4.5 Life insurance cover?

4.6 Health and medical insurance cover during membership?

5. Vesting Rules

5.1 Vesting period? – *i.e., period of membership before employer's contributions are fully vested in employee*?

5.2 Vesting schedule? – *i.e., progressive % of employer's contributions vested during the vesting period*?

6. Choice of Investment Strategy

6.1 Investment fund choice? - *i.e., whether to allow members to choose an investment strategy to suit their preferences, by allowing each member to select <u>one</u> from several funds - each with a different strategy - as the vehicle for investing their defined contributions?*

7. Cessation of Membership

7.1 Rules for withdrawal from scheme? - *e.g., only on cessation of employment, or while still employed by govt or dept*?

7.2 Portability of benefits? - *e.g., transfer of employee's contributions plus vested employer's contributions to another registered superannuation scheme*?

7.3 Locking-in? - *i.e., denying a member access to savings while still a scheme member.*

7.4 Preservation? - *i.e., duty to preserve a member's retirement savings until retirement.*

7.5 Retirement Age?