

PARLIAMENTARY DEBATES
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Council and the services that are being provided, that is not the fault of the workers, or of the bus drivers, or of the service people.

Roger Sowry: Whose fault is it?

PAUL SWAIN: It is definitely not the fault of the workers, because they have entered into agreements and this Government will take those agreements away from them.

The House divided on the question, That the Local Government Amendment Bill (No. 2) be now read a third time.

	Ayes 42	Anderson	Gerard	MacIntyre	Rogers	Armstrong	Grant
McLauchlan	Shipley	Banks	Gresham	McTigue	Sowry	Bradford	Hancock
Marshall	Thomas	Burdon	Hasler	Maxwell	Thorne	Cliffe	Hilt
Munro	Upton	Cooper	Kimber	Neeson	Whittaker	Creech	Luxton
Neill East	McClay	Reeves	Tellers:	Falloon	McCully	Revell	Carter
Fletcher	McIntosh	Richardson	Ryall				

	Noes 21	Blincoe	Dunne	Matthewson	Wilde	Caygill	Elder
Moore Clark	Gregory	Robertson,	H.V.R. Cullen	Hunt	Swain	Tellers:	
Dalziel	Kelly	Tapsell	Braybrooke	Davies	Maharey	Tirikatene-	Sullivan
Tennet							

Majority for: 21

Bill read a third time.

GOVERNMENT SUPERANNUATION FUND AMENDMENT BILL (No. 2)

Second Reading

Hon. WYATT CREECH (Minister of Revenue): I move, That this Bill be now read a second time. This Bill reflects a Government decision made in December last year to defer closure of the Government Superannuation Fund general scheme for a year to allow the Government to put in place new superannuation arrangements for its employees.

The Bill is small, consisting of very few clauses, but it is important for what it does. Its purpose is to make two changes to the Government Superannuation Fund Act. First, the fund's general scheme---that is, the scheme to which most State servants such as teachers, people who work in the Department of Health, and people who work in the Ministry of External Relations and Trade, the education sector, and so on belong---will now be closed to new members from 1 July 1992, rather than from 1 July 1991 as at present.

Secondly, the current Act, which this Bill repeals, requires the Government to have commenced funding the scheme's future liabilities as they accrue from 1 July 1991. The Bill alters that and provides that the present system whereby the Government's share of the cost of the benefits as funded on a cash-flow basis---that is, when the benefit is paid---will be allowed to continue. In short, this Bill will allow the continuation of the status quo for the Government superannuation fund.

It will remain, as it has been for many years, a pay-as-you-go scheme. The Bill has been welcomed by the contributors to the scheme and it also has the advantage of providing a lead to the private sector on the principle of putting in place superannuation arrangements. It was of some concern to myself and to the Government that the previous policy, which will be repealed by the Bill, would have resulted in most public servants having no access at all to superannuation arrangements. One

25 June 1991 (sitting extended to 28 June 1991)

department that had come close to setting up a superannuation scheme was setting up a scheme that, in my view, would have been significantly more costly for the Government in the long term than the kind of scheme that the Government should contemplate. That is because the previous Government's policy was to allow employers to go ahead and set up their own schemes, presumably with the intention that employers would fund any subsidy that they chose to put into the schemes from efficiencies gained within the department.

The extension of the closure date is covered in the amendments in clause 2. I repeat that the reason that the Government took that decision is that it believes that New Zealanders should save for their own retirement and that the Government has an obligation to ensure that arrangements are in place to enable its own employees to achieve that objective. The previous Government's system of giving individual departments the authority to set up their own schemes but not requiring them to do so, and closing the old scheme to new entrants from 1 July 1991, would have left a very bare territory in relation to replacement arrangements.

At the time that I became Minister two Government departments had already informed their employees that they would not be setting up a scheme at all. By the time this Bill was announced as policy several more departments had joined that list. Some of them had a real problem---in particular, the education sector. Until such time as individual boards of trustees became employers of their own staff the Secretary for Education was listed as the employer for the purposes of Government superannuation. Under the original arrangement it was planned that that period would last for 6 months, but as a result of the Government's decision to defer the introduction of bulk funding that period would have had to have been extended. However, the Secretary for Education had announced that she would not put in place a scheme for her employees. Opposition members might not think that that is serious, but from the Government's point of view it is, especially as we look ahead to the future. It is a serious weakness not to have superannuation arrangements in place and that lack could contribute to New Zealand being an undersuperannuated nation in the early part of next century.

Very little progress has been made in thoroughly considering the issues that would be involved in the closure. An example of what I am referring to is the fact that no work had been done on establishing transfer values for people should they choose to shift the value of their investment in the Government superannuation fund to a replacement scheme. Over the period that the Government has been considering this matter I have become more convinced than ever that the decision to defer the closure and to examine the whole Government superannuation fund, not just the general scheme, is the correct decision. It will enable the special schemes to be reformed along proper and modern lines to have in place for State employees an appropriate, adequate, and modern superannuation fund that allows portability yet will give them the opportunity to save for their retirement.

The Government does not believe that the previous Government came up with the right answers when it considered this very complex question, because it did not consider the broad field of the Government superannuation fund. The Government thinks that an appropriate framework that will be far more satisfactory than the scheme proposed by the previous Government can be put in place to meet the needs of State employers and employees. Such ideas as having one central scheme can provide significant economies of scale. The member for St. Albans shakes his head. I tell him that the Government has had advice from the private sector that indicates clearly that that will be achieved without in any way diminishing an individual employer's opportunity to be flexible in the arrangements provided.

It is also necessary to consider the ways in which the fund is managed. Over the years a considerable amount of money has been accumulated in the Government superannuation fund. It also has a large,

unfunded liability. It is the Government's view that if arrangements are put in place so that the accumulated funds can earn a better rate of return than unfunded liability, which will rest on the shoulders of future taxpayers, can be diminished to a significant extent. Future generations of taxpayers will thank us for seeing that those funds earn a better rate of return.

The final point that I would make about the first part of the Bill is that before the election the National Party made a commitment to State employees that it would consult them on their future superannuation arrangements. I have renewed that pledge since the Government has made this decision. I am sure that people will appreciate that they will now have some consideration given to their views in relation to superannuation arrangements. I have not detected a lot of opposition to the decision to extend the closure date, or to the idea that replacement arrangements should be put in place for the entire fund, not just for the general scheme. So we will have a completely reformed Government superannuation arrangement in a year's time.

The amendments in clauses 3 and 4 deal with the way in which the Government funds its subsidy as an employer. There has been more debate on this particular issue. As I have said, at present the Government pays its share of the cost of benefits to the members of the fund when they retire and take their benefits. For many years the Government has not funded its liabilities as an employer as they have accrued. This has been an appropriate method to adopt on the scheme, for now, because the Government inherited it from the past. Employers in private schemes fund their subsidy, or most of it, with a defined-benefit scheme such as we have here. Obviously, for employers to calculate their subsidies they need to value actuarially what the benefits will cost and to do that calculation every 4 or 5 years to ensure that the level of funding that goes into the scheme is appropriate.

Those employers with private schemes fund their subsidy generally at the same time as the employees make their contributions in order to provide employees with the security of knowing that even if the employer company or business fails their benefits will be safe. That is what is meant by a fully-funded scheme, but that does not actually apply to the Government superannuation scheme. It need not, because it is unlikely---

Hon. David Caygill: Because we're in Government.

Hon. WYATT CREECH: Maybe the member for St. Albans thinks that the Government will go broke, but I am quite certain that there will be a Government in many years' time. Funding the scheme adds nothing now to contributors' security. It is simply not necessary to do that to meet that security requirement. It is also not necessary to fund the scheme to meet the requirements of the Public Finance Act or of a system of accrual accounting such as is implied by that Act. I read with interest a letter from the member for St. Albans to the Minister of Finance in which concerns were raised about this matter. With accrual accounting we are talking about financial reporting requirements and not financing requirements. That is the very clear and important distinction in relation to what accrual accounting does. We should know what is being done and it should be reported to us, but it is not part of accrual accounting to have cash flows follow on from that. It is a clear and distinctly different part; that is what cash accounting is all about.

I noted the comments made by the member for Dunedin West in the news media about this in relation to the 1991 Budget. I assure the member that, as far as I was concerned, when this decision was made it was my view---and it remains my view---that a pay-as-you-go scheme should be allowed to peter out on that basis and should be replaced by a fully-funded scheme. That is an important distinction.

Hon. Clive Matthewson: It doesn't peter out; it gets worse.

Hon. WYATT CREECH: I have seen those figures, but I do not believe that the graph tells the whole story. I can explain it to the member if he wishes, but it would require a whiteboard and a lot of calculations.

Hon. Clive Matthewson: Well---

Hon. WYATT CREECH: I have seen the graph, but I do not accept the value that the member puts on it.

Hon. Clive Matthewson: That's what Treasury puts on it.

Hon. WYATT CREECH: I realise that, and in relation to this matter I think that Treasury has not given the Government the quality of advice that I would have expected. In considering this matter, Treasury's view has been somewhat different from my view for some time. I agree with the point of view that a replacement scheme should be put in place, but I look with a rather jaundiced eye at the exaggerated comment about what this unfunded liability involves to existing taxpayers. I say that because it represents a present net value of a future stream of liabilities that will be played out over a period of up to 70 years. In that particular case it is hard to look at that as an obligation of current taxpayers when at present they are meeting the costs of pensions that were accrued many years before. That is what a pay-as-you-go scheme is all about. It would be just as appropriate to look at that as an unfunded liability in the way in which it has been constructed, when it represents about 2 percent of the annual cost of salaries paid to State sector employees in New Zealand.

Hon. Clive Matthewson: Will the Minister again be introducing that by Order in Council?

Hon. WYATT CREECH: I shall address that issue in a moment. I shall finish this particular point. It is as inappropriate to look at that as an unfunded liability that hangs on us as, in my view, it would be to look at future costs incurred in the health system in the same light. We know that costs will be incurred in relation to people's health, but we do not have to fund that now when there is a pay-as-you-go health system.

Hon. Clive Matthewson: But this is where the Minister's putting it off.

Hon. WYATT CREECH: On the second issue that is being raised about whether it should be done by Order in Council I was actually surprised that the select committee wanted to move that particular provision. I am not against it, but it just transfers to the Executive a power and a right that I thought that Parliament would have preferred to keep for itself. It does not actually alter the position at all. It may be seen as a message---

Hon. Clive Matthewson: No, it's a message to the Executive that that's what Parliament wants it to do.

Hon. WYATT CREECH: If it is seen as a message I do not think that that message will be loudly or clearly heard because all it actually does is to transfer the right to make a decision away from Parliament to the Order in Council process, and that leaves it entirely with the Executive. I was surprised, too, because my colleagues on the select committee have long defended the principle that Parliament should be the final arbiter in such matters rather than the Executive. Since it does have financing obligations, I should have thought that it would be appropriate to refer the issue to Parliament at any time should a Government decide to make that change. Who knows? In 5 years' time it might be very appropriate, depending on the number of people who have chosen to make transfers to new schemes. That could put a very different light on the picture from the one that we have now.

It might be appropriate for a Government to look at a different form of winding up what remains of the Government superannuation fund. At some future time---it may be 20 years, it may be 40 years or it may be 5 years---we will be looking at a very different creature from the one that we are looking at now, once the Government superannuation fund is closed---by closure I mean to include the special schemes that constitute about 30 percent of it. Although I am not against the closure, I will not oppose it.

Hon. Clive Matthewson: Will the new schemes be funded?

Hon. WYATT CREECH: The new schemes will be fully funded---I have no doubt about that. The Government will move to fully fund a scheme, probably along the lines of the template that was introduced in the original Government Superannuation Fund Act. The difference is that the Government will put all---

Hon. Clive Matthewson: What's the logic?

Hon. WYATT CREECH: The logic is that we are talking about new contributors to a completely new type of scheme. This is a pay-as-you-go scheme. My point is that it is appropriate to let that scheme peter out in the normal way that it would when it has no new members and has transfer rights to allow people to move to new schemes. Those transfer rights have not yet been worked out. I remind the member for Dunedin West that very little work had been done on them, but I do not think that that logic is inappropriate.

Hon. Clive Matthewson: It doesn't start to peter out until the year 2016 with no new contributors.

Hon. WYATT CREECH: It depends on how many people transfer out of this scheme and into new schemes.

Hon. Clive Matthewson: Then they go into a fully-funded scheme.

Hon. WYATT CREECH: It will be the Government's point of view I am sure---

Mr DEPUTY SPEAKER: Order!

Hon. WYATT CREECH: As we are having a debate of this kind it is probably better that we do converse almost in this way because we are talking about a technical subject. I imagine that a lot of people who are listening to this would regard it as a good cure for insomnia. My own view is that transfer values---I stress that the Government's policy is not yet entirely determined on this---should be in the form of IOUs to people to be paid out as a pension. I do not think that it is reasonable to pull forward on to the present generation of taxpayers a huge liability.

Hon. Clive Matthewson: I'm not talking about that. I mean from that point.

Hon. WYATT CREECH: If one wants fully funded transfer rights any replacement scheme that the Government puts in place will be fully funded; there is no question about that. However, existing members will not be in that scheme; it will apply only to new people who join the State sector and who choose to join the scheme and to take advantage of some real benefits that this scheme does not have. For example, if people do not live long in their retirement they will probably not get back the contributions that they have made. There are many reasons to reform the scheme, and the Government will do that.

Hon. DAVID CAYGILL (St. Albans): I was interested to listen to the Minister. Although the Bill is small and the Opposition does not intend to vote against it, it is important. Although some of what the Minister said may have a tendency to induce insomnia in some people, I think that what he said is

important. Perhaps I could help to focus the attention of members a little on the Bill by saying that the most significant thing that it does through the amendment in clause 4, is to assist the Government with its forthcoming Budget to the tune of \$210 million. The Bill improves the Government's deficit by \$210 million above all of the figures that have been issued as projections so far. All of the estimates of the deficit forecast---at the change of Government; at 19 December; or, indeed, the figure as at April that the Minister of Finance issued just a week or so ago---are improved by \$210 million by the measure, which explains---

Peter Gresham: Did you include it in your Budget?

Hon. DAVID CAYGILL: Yes, the Labour Government did include the figure in its forecasts.

Hon. Wyatt Creech: After you were out of office.

Hon. DAVID CAYGILL: No, it was not after the Labour Government left office. It was because we had passed legislation requiring us to transfer from the employing departments of State the contributions that they pay across as employers. Those contributions are paid into the Consolidated Account, whereas Parliament had previously said that those contributions should be paid across to the Government superannuation fund from 1 July 1991. That procedure is now being reversed by the amendments in clauses 3 and 4, and there cannot be any doubt about the reason that the Government wants to do that.

The question over which the Minister of Revenue was differing with the Opposition is, basically, whether that should happen at all---whether it should happen at some future date or not at any time--and that is the difference between us, if I follow his arguments. The Bill as introduced would have lifted the Crown's obligation permanently. The Minister of Finance might say---as she did say privately to me---that she hoped that at some stage in the reasonably near future the Crown would be able to take the employers' contributions out of the Consolidated Account and hand them directly across to the Government superannuation fund, making it, in effect, a fully-funded scheme.

However, I am intrigued that the Minister responsible for the Government superannuation fund has a different idea of the matter. I do not accept his arguments, and I want to explain why. I should like him to think about the matter a little further. I think that it all hangs on why the Crown has decided--and I am pleased that in this respect at least we seem to have bipartisan agreement---that any future superannuation arrangements will be fully funded. Why is that preferable to the pay-as-you-go scheme that we have at present? If that is a bipartisan principle, whatever else we are doing--- [Interruption.] The Minister says that he agrees with that. Why is that important? Let me repeat the rationale for a fully-funded scheme that I offered at an earlier stage of the debate, and, I think, from an interjection that the Minister made at the time, that he agreed with it.

In my view the major reason that the Crown should not be running pay-as-you-go schemes, but should move to a fully-funded scheme---such as those that the private sector almost overwhelmingly operates---is because it is far too easy for contributors to abuse the Government's position. It is far too easy for contributors to take advantage of the fact that it is extremely unlikely that the Government would fail financially and be unable to meet its obligations. It is almost inconceivable that the Government, which is able to tax, would not be in a position to meet the ultimate requirement to pay those benefits. But that advantage that the private sector schemes do not have---even those of the largest companies---does not belong to the contributors. It is not an advantage that those schemes should be able to mine or to capture. [Interruption.]

The Minister said that he is different; that the Government would never allow that. The National Party has been in Government for more years than any other party over the past 50 years.

Hon. Wyatt Creech: A nil wage rise.

Hon. DAVID CAYGILL: The Government can thank the party that finally got inflation down to single figures for that. I do not think that we should allow the debate to be diverted to that kind of contention. Frankly, I think that the Minister might privately concede, at least to himself, that all Governments have from time to time found themselves conceding benefits and advantages in relation to the Government superannuation fund that the private sector could not begin to match. My purpose is not to criticise past governments for the funds that the fund has.

Overall, it is an odd mixture. While there are benefits that governments have conceded in the past that---I think, wrongly---the private sector could not begin to match, on the other hand the scheme has features that are not particularly attractive. It is an odd scheme that best suits civil servants who will serve the public for most of their careers. One of the more obvious problems with the schemes at present is that they do not suit well those who are likely to spend only a short space of their overall career in the Public Service, which is a practice that has become more prevalent in recent years.

It may be appropriate, and we may come to the view that an unfunded scheme is dangerous, that it carries some risks, that it is not appropriate, that we should have a fully-funded scheme, and that it is therefore appropriate that the Government superannuation fund should be closed off---if not now, then at least in no more than a year's time away. We seem to be agreed about that timing. The only difference between us then is whether, having closed off the Government superannuation fund, the Government should thereafter seek, as soon as it is fiscally able to do so, to change it to a fully-funded basis in relation to the future liabilities to the people who remain. I think that the Government should do that for exactly the same reason as that for which it should close the scheme.

The Minister said that it is possible that so many people will have left the Government superannuation fund within 5 years and sought to transfer to new schemes that the whole picture will have changed. That is an interesting thought, and it may be right. However, that thought shows a great deal about how easy it might be to arrange more attractive schemes. I put this point to the Minister. If he is right that within 5 years the Government superannuation fund will really cease to exist then there is no danger in fully funding it. There is no great issue involved; it is not a big hurdle to overcome.

However, what if that is not the case? What if it continues for another 20 years, 30 years, or more? As the Minister said, the scheme could potentially exist for 70 years. If one takes the case of a young civil servant, a clerk, joining the scheme now with 40 years' career in front of him or her and 20 or 30 years of healthy retirement beyond that, the scheme could conceivably exist for another 70 years.

Hon. Wyatt Creech: Marrying a spouse 15 years younger.

Hon. DAVID CAYGILL: We can all dream. The scheme may well exist for quite some time, during which time the thousands of contributors who continue to belong to it are entitled to go to the Government and seek to have their benefits upgraded. Goodness knows, those who have already retired altogether from the Government service are not silent about their desire to have their benefits upgraded. They have ceased to pay in anything at all. But the Minister of Revenue will have learnt already how energetic the Government superannuitants fund can be in pressing its claims for yet further benefits.

If those who have already retired completely have not given up seeking further benefits from the Government, even though they have passed the point at which they can conceivably contribute, what about the people who are still contributing? It is open-ended, and the Minister may well say: ``I

wouldn't give away anything improper. My colleagues wouldn't do that.". So long as the scheme is unfunded future taxpayers are being exposed to the possibility that the Crown's unique ability to pay out of tax on the never-never, at some time in the future, is used to the improper advantage of Government civil servants. I am, though, proud to have worked with many of them and I applaud the jobs that they do.

I believe that it is proper that Government departments provide superannuation. There is a principle there that ought to be stated. But, on the other hand, I do not believe that chief executives should be legally required to provide it, because that again begins to tilt the balance to one side rather than to leave the matter to be determined on the basis of even-handed negotiations, as I think it should be. It is the view of the Opposition that the deferment of the closure of the fund is unnecessary and that there was sufficient time to have put in place alternative arrangements. If the Government now says: "Well, that didn't happen." then that is largely the Government's fault. I say that in all seriousness.

The legislation providing the template was enacted by the previous Parliament before the election. The basic rules had been established. The State Services Commission published guidelines for chief executives---when, last September? If I recollect the advice that was given to the Finance and Expenditure Committee, more detailed guidelines were published last September. I do not doubt that many chief executives dragged their feet. I do not doubt that for a moment.

I am not saying at all that the Minister is personally responsible for the delay. I have no doubt that many chief executives believe---and they may well be correct---that the case for their departments having superannuation schemes has not been made out adequately by the people who choose to negotiate on behalf of the work-force. Parliament should not be overly hasty in this matter. The matter is one that should be negotiated industrially. As I said before, it would be good for departments to offer superannuation but I do not think that it should become a legal obligation. That is a matter that should be pursued industrially.

The postponement of the closure of the fund for a year actually takes an awful lot of heat and pressure off people. There is every chance that in a year's time we will be very close to repeating ourselves, except, of course, that that would be fairly embarrassing for the Government, but that alone is probably the only real pressure on the Government. Other than that, I am persuaded that enough pressure is being placed on the Government to have this matter concluded.

There is perhaps only one other matter raised by the Minister responsible for the Government Superannuation Fund, relating to clauses 3 and 4, to which I want to respond. He expressed slight puzzlement as to the reason the Finance and Expenditure Committee had agreed to the Bill's containing an Order in Council procedure that will enable the Executive to choose the timing in future of the point at which the employer contributions are paid---not to the Consolidated Account, but to the Government superannuation fund directly. The point was well made by way of interjection by the member for Dunedin West, that as the Bill stood originally, clauses 3 and 4 amounted to an absolute repeal of that obligation. Parliament was expressing no view about the matter other than by implication the view that it was quite happy for employers' contributions to be collected from the departments as employers, but paid directly into the Consolidated Account.

The Opposition, at least, was not happy with that. We do not think that that is correct. The view of the Minister of Revenue in that respect differs from the view expressed privately by the Minister of Finance. The Opposition does not believe that it was right to leave this matter open-ended with no indication from Parliament as to what we expected. We sought to have a finite date established and I wrote to the Government to suggest that perhaps 1994, being another term of Parliament away, might

be a satisfactory date. The Minister replied to me along an interesting line, bearing in mind the argument advanced by the Minister of Revenue.

The Minister of Finance said that she was not happy with the suggestion of 1994 because she hoped that it would be possible for the Government to be paying the employer's contributions before that date---not into the Consolidated Account, but directly into the Government superannuation fund---but she was not yet in a position to name the date, and I understand that---one Budget at a time; the current one is probably more than enough for her at the moment!

In bearing in mind the Minister's indication that it was not the principle that she was opposed to but just a difficulty in timing, we came up with the compromise that we now see in the Bill that is before the House. I hope that it is approved by the House because, at least by approving the modified versions of clauses 3 and 4, the House will express its desire for the employer's contributions to be paid, not into the Consolidated Account for the benefit of the Crown on a book transfer, as it is at the moment, but across to the Government superannuation fund, which would have a real fiscal impact. We cannot name the date when that should happen, and whilst it is usual for Parliament to name a specific date on which a law will begin---and in this instance the reason we cannot do that is that it is a fiscal issue---it does not affect any of the rights of contributors. That is purely a matter of accounting, but it is a matter of accounting on which the House is able to express a principle by setting out in law what we expect to happen and leaving the date to be determined by the Government---as most Budget dates are.

The Minister of Revenue is not quite right in one other matter. He said that the Order in Council would be a matter entirely for the Executive. That is not so. If an Order in Council is finally brought down, then, being a regulation, it would be reviewable by the Regulations Review Committee of this House. I cannot quite imagine the circumstances in which that matter would get in front of that committee, but it is not strictly the case that the House could not inquire into an Order in Council made pursuant to those clauses. I believe that that could happen.

I therefore support the Bill in its amended form. It is a compromise. The best thing would not have been to defer the closure of the fund but to have left it closed for this year and to have had the accounting measures adopted by the House last year remain in force. Second-best would have been to name a specific date that the House could have approved. But since neither of those matters is acceptable to the Government we have a measure that at least preserves the correct principles---namely, a fully-funded superannuation scheme and money collected by employing departments being paid across to the Government superannuation fund as soon as this Government can finally get its fiscal house in order.

PETER GRESHAM (Waitotara): The Government recognises that this is a small Bill. There are only four clauses to it. The Opposition has stated its intention to support the passage of the legislation, and we appreciate that. It could well be thought that, at this stage, it is not worth while making many more points about it. There does not seem to be contention. There does not seem to be the need to drive home riveting arguments to refute the points of view put forward by Opposition members or ours to them. However, the matter involved is important. It is important particularly to about 100,000 people who are either contributors to the scheme at present or who are receiving benefits from it.

It is important that the House canvass the reasons that the Bill has come before it, and exactly what it is doing. The reasons that the Bill has come before the House are set out succinctly in a joint statement made by the Ministers involved before the introduction of the Bill, and its operative clause is the deferral by 1 year of the closure of the Government Superannuation Fund general scheme. The

Minister said that the deferral of closure had been made primarily to enable a review to be undertaken of all Government Superannuation Fund schemes---including schemes for the police, prison officers, and members of the armed forces---and to enable replacement schemes more attuned for today's needs to be put in place. It is most important for those people involved in the schemes that adequate time be given for replacement schemes to be put in place.

I draw the attention of the House to a further sentence, which states that a process for the review of the schemes for members of Parliament, let it be said, and the judiciary, to be undertaken by the Higher Salaries Commission, will also be initiated. Those are important matters, and of wide public interest.

Clauses 2 and 3 of the scheme put in place that delay of the process. It was interesting that the select committee should receive submissions supporting the proposal to delay the closure of the scheme from the New Zealand Council of Trade Unions, the Government Superannuitants Association, the Public Service Association, the Combined Early Childhood Union of Aotearoa, and various educational unions. Those were the only submissions received by the select committee, apart from one submission made by an individual who wanted to raise the age of entry. Therefore it was logical that the Bill be supported by both parties represented in the select committee.

So much for the delay of closure of the scheme by 1 year. I believe that there is an interconnection between that delay and clauses 3 and 4, which provide that the proposed commencement of annual sums to institute a fund to cover the future commitments of the Government superannuation fund be delayed. The member for St. Albans devoted most of his speech to trying to establish the point that it was incorrect for the Government to delay the instigation of the funding provisions for the future commitments of the Government Superannuation Fund schemes.

I am prepared to support the principle of funding---of providing a funded scheme. I believe that that is correct. I support the legislation introduced by the Labour Government deeming that that should be so. By the same token, I believe that it is appropriate that the Government has the right to decide when that should commence. It is significant that the commencement of funding be delayed because the time of closure of entry to the scheme is being delayed. Who knows what will happen during the next year? My colleague the Minister of Revenue has made the point well that we do not know in what shape the scheme will end up, what transfers might be made from it, and what the entries may be during the next year. For that reason, if for none other, it would be inappropriate at this stage to commence the funding provision.

Another point is that, if the honourable member for St. Albans, who was a Minister of Finance in the Labour Government, feels so strongly that a funding provision should be instituted for the Government superannuation fund schemes, why did he not do that during the 6 years in which the Labour Government was in office? From 1984 to 1990, if my memory serves me correctly, the Labour Administration enjoyed the unusual privilege of governing for two terms. Why did the Labour Government not take steps during that time to do what the member for St. Albans espouses so enthusiastically this morning? It had 6 years in which to do it, but it delayed doing anything, virtually until its death knell. At the time that this came into place it was patently obvious to everybody that the Labour Government would not be administering the coffers during the period in which the payouts it had proposed would be made. So I say that when the member for St. Albans weeps for the delay in the instigation of the funding scheme he weeps crocodile tears.

The member referred to the select committee's amendments governing the introduction of the funding scheme, and I supported him in the select committee on that matter. It is important to note

that the decision of Parliament had been made that a funding system should be instituted. It is appropriate for the present Administration to decide when that funding should commence. It is appropriate that the funding not be commenced until the scheme is closed and the position much more definite. It is appropriate that the House should not lose sight of the fact that that decision was made, and there was a compromise to enable it to be reintroduced by Order in Council.

The remaining matter was timing, and that matter lies principally in the hands of the Executive. I believe that that is the correct way to deal with it. There is little point in taking the time of the House unnecessarily on a matter that both sides support, although I should like to refer to one other issue. Mention has been made, particularly by the member for Dunedin West, of a Treasury graph. I suggest that that graph is somewhat misleading about the future effects, and the Minister of Revenue referred to the technical matters. The graph simply makes no allowance for the delayed requirement for money. It makes no allowance for the present-day use of funds to be provided later.

Be that as it may, it appears that both sides agree on the Bill. I have noted the comments made by the member for St. Albans. I believe that I have answered the point, and I ask Opposition members who follow me to be prepared to say why, if they consider it to be such a good idea to introduce an annual funding basis for the Government superannuation fund, the Labour Government did not do that when it had the opportunity.

Hon. CLIVE MATTHEWSON (Dunedin West): The member for Waitotara started his speech by saying that he felt that there was no particular contention about the Bill, and the way in which he continued showed that there is no particular contention between him and the Opposition. He said that he supported the up-front funding of a liability that is incurred. He said that he supported the principle that one should not put on to future generations the payment of a liability entered into now. He said that he supported the select committee's amendment included in the Bill as reported back. If that is so, and if all Government members are in the same position, there is no contention on the matter between the Government and the Opposition.

However, I want to make sure that it is understood that, if the Minister of Revenue does not understand the message that Parliament is delivering by passing the Bill in its amended form rather than its introduced form, there is contention. The Minister should understand that we are not passing over a decision to the Executive but sending a clear message to the Executive. Parliament is sending a very clear signal to the Executive that the present position would be desirable, that it does not agree with the Bill as introduced, which repeals the current position for ever, and that it does agree that there should be up-front funding of the liability. That is what the select committee thinks. That is what it is recommending that Parliament pass.

Hon. Wyatt Creech: Don't they think that the Government should decide this?

Hon. CLIVE MATTHEWSON: Let me clear that matter up. The message is this: the select committee thinks that the Government should fund its liabilities when it incurs them; that it should not put them off. The Minister shakes his head, and that worries me. I tell the Minister that that is the message that Parliament is delivering by supporting the amended form of the Bill being passed today---if it is passed---rather than the Bill as introduced.

The select committee agrees with the principle of funding a liability when it is incurred. It has received the message that the Government will have its Bill passed and so the matter will be put off for ever. The select committee said that the best it can get out of the Government is to send it a message that it wants the Government to fund its liability when it is incurred, but the committee accepts that the Government will not agree to that this year, for fiscal reasons. The committee is

saying to the Government: "We give you the power to decide yourself to do it, and we give you that power because then you'll do it as soon as you're able.". That is the Opposition's understanding of what has been achieved in conversations between the Minister of Finance and the member for St. Albans---namely, that the Government will do it as soon as it is able. And Parliament is saying: "OK, we'll give you the power to do it as soon as you're able because that's what we think you should do."

The Opposition thinks that it should be done now but it accepts that it does not have the numbers to get that through Parliament, so it has to accept second-best. It has to accept that the Government will do it when it is able, because that is the best that the Opposition can get. It knows that for fiscal reasons the Government will not do it this year. So if the Minister does not understand that fact, some contention remains. If he does understand it, we are OK.

I shall refer briefly to what the Bill does. It has two features: the first is that it puts off the closure of the Government Superannuation Fund scheme and allows people to join the scheme from 1 July 1991 to 30 June next year. It does so because the replacement schemes are not yet available. For that reason the Opposition does not think that it is inappropriate that the closure of the fund be delayed for a year.

The select committee received---from memory---five written submissions. Those submissions were happy with the Bill, but they all referred to that provision. It is regrettable that new schemes have not been negotiated, because they will suit Government employees better. As the Minister mentioned, the current scheme can be very bad for those who die quite soon after retirement because they lose their rights to what they paid in.

Ms Gail McIntosh: They lose their life as well!

Hon. CLIVE MATTHEWSON: As well as losing their life, they lose their right to their money. It is very bad. Clearly there is a place for schemes that allow more of a lump sum payment on retirement.

Hon. Wyatt Creech: Or death.

Hon. CLIVE MATTHEWSON: Yes, indeed. There is also a desire that schemes should be much more portable than the Government Superannuation Fund scheme. Such portability would be advantageous to Government employees. Those schemes should be negotiated---indeed, it would be better if that had been done by now, then we would not have to pass this Bill. But that has not been done, and we might as well face reality. In those circumstances the Opposition is not too unhappy about the delay, but it hopes that it will not have to do the same next year. Before I talk about the second feature I want to make sure that everyone is clear about the current practice---namely, that Government departments are funded for payments made on behalf of employees who are in the Government Superannuation Fund scheme. They immediately pay those funds back into the Crown account---the Consolidated Account.

Hon. Wyatt Creech: They go through the Government Superannuation Fund scheme.

Hon. CLIVE MATTHEWSON: Yes, but they end up in the Consolidated Account. The current legislation requires that that practice will change from 1 July so that the funds are stuck in the Government Superannuation Fund scheme and do not get paid into the Consolidated Account. The Bill as introduced would have repealed the current legislation, and thus would have ensured that the current practice continued so that the funds were paid into the Consolidated Account. We have to understand that all of that has no effect on current or prospective members of the Government Superannuation Fund scheme. They will receive their payout as contracted. They will make their payments in and they will get their payments out. But what it does affect is the Government's fiscal position, because the

funds are paid into the Consolidated Account and if the current legislation were proceeded with the money would go into the Government Superannuation Fund scheme and would be recorded as a payment made by the Government out of its accounts, or, more correctly perhaps, a payment that it does not receive at present.

The effect of that is that the Government's Budget deficit---to be presented in a month's time---will be \$210 million better off than it would have been. That is the only reason that has been given for the Bill. The Government's deficit will be improved by \$210 million this year. That is undeniable, and it is the only reason that has been given for the Bill. In a month's time the Government will present its Budget, which will look \$210 million better because of the passing of this Bill today under urgency. When members opposite were in Opposition they promised that a National Government would balance the Budget in 3 years' time but they did not say that it would be done by changing the law---by changing the rules. The people thought that a National Government would balance the Budget by exercising more restraint on spending or by raising extra income---probably by restraining spending. They did not realise that members opposite had up their sleeve a scheme for reducing the deficit by \$210 million by changing the rules---did they? The Minister is lost for words.

But that is not the main point. My concern is not that members opposite said something, and are doing it in a way that the public did not expect---although I remark on that---my concern is the effect of the introduction of the Bill, because not only does it reduce the Government's commitment by \$210 million this year---

Hon. Wyatt Creech: It doesn't reduce the commitment.

Hon. CLIVE MATTHEWSON: It does not reduce the commitment, but it means that the Government does not fund the liability, and puts it off until the future. The commitment is still made but the cash is not produced. So it is an unfunded liability instead of a funded liability.

Ms Gail McIntosh: But it hasn't been funded in the past.

Hon. CLIVE MATTHEWSON: That is correct, but I shall come to that in a moment. I shall explain what it does: it does not reduce the liability but it wipes out the funding of it. The implication is that the liability is put off until the future. That is the part that I do not like.

Ms Gail McIntosh: That's not right.

Hon. CLIVE MATTHEWSON: Of course it is. If the Government does not fund the liability now, it has to meet it in the future. [Interruption.] If the member for Waitotara does not agree with me perhaps I should quote from a Treasury paper received by the select committee on which he sat. That paper states that there will be an increase in the pressure on fiscal balance in earlier years when the liability is accruing, but that pressure will reduce in later years when the benefit is payable. That is what would have happened, and that is what has now been reversed. The reverse is that pressure on the fiscal balance is reduced now and increased later. What is that if it is not putting off today a liability that will have to be met in the future? That is exactly what it is.

Mr Max Bradford: Tell us what it is in money terms.

Hon. CLIVE MATTHEWSON: I shall do that. The total amount of the liability that we are putting off now is \$210 million and the total amount of the liability that will need to be funded in 2011 is \$700 million. When the Budget is presented in 2011 the Minister of Finance will have to find more than \$700 million because \$200 million is not being funded today.

Ms Gail McIntosh: In 2011 dollars, not 1991 dollars.

Hon. CLIVE MATTHEWSON: The member for Lyttelton interjects and shows that she does not understand the graph. I am talking about today's dollars, not dollars of the day, and in 20 years' time \$700 million will have to be found because the liability is not being funded now. Opposition members do not think that that is a good thing, and neither does the member for Waitotara, who said so in his speech. He does not think that it is a good thing because if the liability is not funded now it will have to be paid later.

Peter Gresham: That's what the Labour Government did for 6 years.

Hon. CLIVE MATTHEWSON: The National Government that was in office before the previous Government did it for 9 years, the Labour Government before that did it for 3 years, and the National Government before that did it for about 15 years. It has been done for a long time, but that does not make it right. The fourth Labour Government did not fix it until the end of its term because it had a lot of other things to fix. It had to fix the problems caused by "think big"; it had to overcome a deficit of 7 percent of gross domestic product; and it had---apart from the wage and price freeze---inflation of about 20 percent, as well as controls on interest rates. Yes, the member remembers that; he is smiling quite a lot. Improvements in the infrastructure had to be made, and the State Sector Act and the Public Finance Act, together with many other reforms, needed to be introduced. The reform of the Government superannuation fund was not considered to be the most important reform that needed to be undertaken, and the Labour Government did not get around to undertaking that reform until it had been in office for about 5 or 6 years. I make no further excuses. However, it needed to be done, and it was done, and the fact that it was not done by previous Governments is no excuse for not doing it now.

The Minister of Revenue said that funding now is not necessary for security or accrual accounting provisions. He may well be right, but the reason for funding the scheme now is that a liability should be funded when it is incurred so that future generations do not have to pay for a liability that this generation has incurred. The Minister himself said that he favoured funded schemes when replacement schemes are introduced, so he must be saying that he favours funded schemes rather than unfunded pay-as-you-go schemes. Opposition members are not suggesting that people who transfer into the scheme should be funded back to the day that they joined the Public Service, which might be 40 years ago. I personally agree with the Minister that the IOU method should be adopted on the transfer. We cannot pick up the sins of the past and try to fund them backwards, but that is a different matter from saying that the liability will be funded from now on. The Minister has said that replacement schemes will fund the liability, and by saying that he has shown quite clearly that he favours the principle of funding the liability as it occurs. I cannot understand why he would favour that principle for new schemes but not existing schemes when it could easily be done by not passing the legislation or by picking up the provisions of the existing legislation by Order in Council when the Government feels that it should be done.

Opposition members have no argument about the closure of the scheme, but do not approve of the repeal of the existing legislation, which requires the Government to fund its liability as it is incurred. However, we accept that we would lose if we were to vote against it. The member for St. Albans and the Minister of Finance came up with a formula for an amendment that was accepted by the select committee. It is included in the Bill that was reported back, and will be voted on today. It states that the Government, by Order in Council, could turn over the Bill and revert to the current legislation by requiring itself to fund the liability for the Government superannuation fund as it accrues. The message that the select committee intended to give Parliament, that must be understood when we vote, and that the Minister of Revenue must accept, is that it believes that the liability should be funded as it is incurred. It believes that the payment should be made into the Government

superannuation fund, not from the fund back into the Crown account, because that would mean that a burden is not placed on future taxpayers. The message is that the Government must do that as soon as possible.

Ms GAIL McINTOSH (Lyttelton): First of all, I shall reiterate what previous Government speakers have said. The Government is not changing anything, but is going back to the status quo. The fund has been in existence for about 60 years, and has always been a pay-as-you-go scheme. It has never been fully funded. When the Labour Government realised that it had no hope of being re-elected, out of the blue it decided to change the scheme and to place a burden on the incoming Government. That burden will amount to \$210 million this year. Everyone will admit that a fully-funded scheme is the best scheme to have, but the pay-as-you-go scheme has operated for 60 years, so why change it?

Hon. David Caygill: Because we're closing the scheme.

Ms GAIL McINTOSH: Yes, we are closing it. In 1988, the Government Actuary estimated that the liability totalled about \$8 billion. Three years later it is anybody's guess what it will be, but some estimates put it as high as \$11 billion. The \$210 million that will not be committed to the scheme this year as a cash payment is less than 2.5 percent of the liability. It is not material, so why change something that has been in force for 60 years as a pay-as-you-go scheme? We are concerned that today's taxpayers should not be loaded with the costs of the past and the present.

The date of closure has been deferred for 1 year because the Government thought that Government departments, which use the fund, would have had time to set up their own schemes. When the original closure date of 30 June 1991 was included in the Bill, the intention was to replace it with a number of schemes, but, in practice, that has not happened. We have now given Government departments another 12 months to allow people who use the scheme to find replacement schemes. Obviously they will be considering fully-funded schemes, and it is good that both sides of the House support that.

We all acknowledge that we have to save for the future. I think that future schemes will also have to have an element of portability, because the days have gone when Government employees stay in their jobs for a long time, which is one reason that the Government superannuation fund has such a large liability, because people have not moved around and cashed up on their schemes as they go.

The previous speaker briefly explained the unfunded liability. Each year the Government's contributions always covered the difference payable in a particular year and the amount that was funded from members' contributions. That arose from three different areas. So, to me, the accounting system has not even been very logical, because under the scheme the Government's contribution for members of Parliament and the judiciary has always been the difference between the benefits payable in a year and the amount of the member's contributions in that year; whereas, the total contributions for members of the armed forces, prison officers, and police officers have always been paid into the Crown's bank account, and in latter years when the benefits were payable, the Government has always been required to finance the difference between the benefits payable in that year and the proportion that can be met from the member's contributions. That explains the liability.

I reiterate that accrual accounting is only a financial reporting requirement; it is not a financing decision. The deferral of the payment out of this year's Budget of an estimated \$210 million to the Government superannuation fund is only a cash entry. It makes no difference to the liability that the Government accepts that it has. If matters had gone ahead as it was intended and the scheme had become fully funded---which is practically impossible---it would have added nothing to the

contributors' security. The fact that contributors are paying into a Government superannuation fund will give them much more security than they would ever receive from a private superannuation fund.

I should like to conclude by saying that it is good that the Opposition will not be opposing this amendment. That should result in shortened debates, because all the speakers are just repeating what previous speakers have already said. The other point that I should like to pick up on is the one made by the previous speaker about why the Labour Government did not deal with this matter much earlier in its term of office. Members opposite said that they had been too busy fixing what were perceived as problems left by the previous National Government. However, in that time members opposite also managed to cause the Bank of New Zealand and the Development Finance Corporation fiascos, so I think that they were busy.

ELIZABETH TENNET (Island Bay): Although the Bill is small, it contains some quite important provisions. It defers for 1 year the closure of entry to the superannuation fund for people employed in the Government Service. The last day of entry was to have been 30 June 1991, but that has now been deferred to 30 June 1992. In addition, under clause 4 the Bill repeals the provisions that would have come into force on 1 July this year that would have required the Government to fund as it accrued the future liabilities of all superannuation schemes provided for under the Government Superannuation Fund Act.

Members have heard many words on this issue, and therefore I do not intend to take my full 20 minutes either. However, I want to say that allowing for the deferment of the scheme for a further year to allow new entrants for another year to come into the Government superannuation fund is reasonably understandable knowing that Government departments had some difficulty in establishing their alternative superannuation funds. It is a reality that many Government departments have been through huge changes. There have been big shake-ups of just the accounting systems within those departments. Therefore, it is reasonably understandable that that deferment has been requested. I am also aware that that deferment has been supported by many unions that have members working for different departments. The deferment will allow a longer period for negotiations for the new schemes.

In my opinion, the big impact of this Bill is the Government's delaying the funding of the future liabilities of the Government superannuation fund, and that is stated in clause 4. It is delaying the fiscal responsibility that the Government needs to stand up to and be aware of and is delaying its requirements in the funding for the Government superannuation fund. We know that the unfunded liabilities under this scheme stand at between \$9 billion and \$11 billion. That is a huge sum of money that the Government has to come to grips with and that it has to fund eventually, whether now or by future generations---our children and our grandchildren.

When members opposite were in Opposition they said that they supported the need to face that reality and they supported the legislation that was going through the House at that time. Yet now that those members are in Government and in a position to implement the decision, they are sliding away from it. That is quite scandalous because they are fiddling with the books for this year's Budget deficit.

This year's unfunded liability is worth \$210 million, and it is obvious that the Government does not want to put that into its books at this stage because of the projected Government deficit and the fiddling of its books in that area. That could be reasonably understandable from the Government's point of view when it is trying to deal with its Budget deficit, but the Government is not facing the reality of the unfunded liability that is sitting there, and is merely delaying the impact of having to face up to the issue.

Ms Gail McIntosh: Why didn't the Labour Government do it in its last 6 years in office?

ELIZABETH TENNET: The Labour Government did deal with the issue, although it is accepted that the legislation came into the House in the latter part of its 6-year term. Members should recall the many discussions on the issue at the time, and the intense negotiations that occurred between the Government and the union movement that represented Government employees.

Members should recall the bitter divisions at the time in the community about this issue, and also that, certainly in the earlier part of the Labour Government's term, there was a reasonable lack of understanding in the community at large about the kind of liability that the Government faced. It was not until the latter years that it knew what that liability really represented.

The Labour Government dealt with the issue. It became a difficult one to deal with. It did involve a lot of acrimony, particularly between the union movement and the Government at that time. I ask members opposite to recall that point, because the Labour Government did face up to the issue. It worked through it and came up with the appropriate legislation. By delaying Government funding of that future liability the present Government is saying: "Don't do it today, do it tomorrow.". It is a real maana complex.

Ms Gail McIntosh: For 60 years!

ELIZABETH TENNET: Does that make it right? I also ask the member to consult her colleagues, because we have heard in today's debate that the Government supports the need to fund that unfunded liability and to take all that funding into account, yet the member says that it has not happened for more than 60 years, and therefore, that makes it right. Reference has been made to a graph that was put before the select committee, and I want to refer to that graph because it does show what the impact will be very dramatically. It shows that the Government superannuation fund liability starts at about \$210 million that would be required to be paid. Under the legislation that the Labour Government passed that unfunded liability would have been taken into account, and would have been put into the Government books. It shows that over time the unfunded liability basically diminishes, and, whilst it is a large sum of money, it is, in fact, a diminishing amount and therefore can be dealt with reasonably. However, the National Government's decision to introduce this little Bill that we are dealing with now shows that, whilst the unfunded liability is not on the books for this year and there will probably be a similar amount for next year and the next few years, the reality is that by the year 2011---which is about 20 years away---the amount of money the Government will have to find to pay out the benefits for those in the Government superannuation fund will rise to \$700 million. That will last from the years 2011 to 2016 and it will then slowly diminish. We are therefore talking about enormous sums of money, which the Government will have to find at that time.

The Government and New Zealanders will either have to face up to the issue now or put it off and let the next generation deal with it, and goodness only knows how it will be able to afford to do that. That is why this little Bill is really a scandalous little piece of legislation, because it is allowing the Government to get off the hook of facing up to its fiscal responsibilities and the long-term responsibilities that it knows it has to face up to at some stage.

I find it rather ironic that when the National Party was in Opposition it supported the need to face up to that future liability, and it said so, and it actually says so now. But it says, "Don't let's deal with it this year or next year, let's put it off, then deal with it.". It rather reminds me of the decision that the Government made in relation to the Taxation Reform Bill (No. 3) when trying to face up to the issue of the land agents' commission sales. In an election promise the National Party stated that it would fix the position in the legislation, but the legislation was delayed and now that the Bill has been

passed without the provisions the Government has announced: "Well, maybe we won't fix it after all. It's not an urgent priority." So it goes on! I expect that that position will apply to this legislation, as well. Basically, the Government has put this issue into the too-hard basket, yet Government members say that they are the tough guys around here, they are the ones who are facing up to the problems of this country and to the realities of its fiscal position, yet they are scuttling away with a \$210 million unfunded liability, which should be provided for, and putting it off to another day. I do not think that that is good enough.

The other provision that the Bill makes is to face up to the issue of this unfunded liability. That has been provided for through an amendment that the member for St. Albans moved in the select committee. He went into some negotiation on it with the Minister of Finance. It is to his credit that we now have an amendment to the Bill that provides for an Order in Council mechanism to deal with the movement to the unfunded liability and to face up to that issue. It is to the credit of the member for St. Albans that he did that, and I really wonder why the Government did not look to that, too. It is obvious that it does want to face up to this problem at some stage, but it will not deal with it this year or next year.

However, the Government says that it is an issue that will eventually have to be dealt with, and I suppose that it has accepted a softening of its position to allow this to be actioned by an Order in Council. I think that the member for St. Albans should be given a good pat on the back for that. He has done the country a good service. He did try to have 1994 written in as the date when this matter would be provided for. That was quite important because it is very likely that by 1994 we will have a Labour Government. Therefore the member is saying that a future Labour Government---the Labour Government-in-waiting---would be prepared to look at that unfunded liability and to pay for it. He is saying that a future Labour Government will deal with it and will be prepared to put it on to the statute book.

Mr Max Bradford: Another promise.

ELIZABETH TENNET: That is what the amendment states. If Government members are so confident that a Labour Government would not want that, why did they not accept the amendment in relation to 1994? I think that they should think about that. They did not accept it. They slid out of it. However, they did accept a lesser compromise, on which the member for St. Albans was able to get agreement, through the Order in Council mechanism. The message that has come through to Parliament is that the Government---and it applies to any Government---is expected to face up to the reality of unfunded liability. We want the Government superannuation fund to be set up as a stand-alone fund to provide for its own financing and not for it just to be a pay-as-you-go scheme, with the fund effectively dipping into the Government coffers for the benefits that have to be paid at the time of the retirement of a public servant.

I think that there is agreement that it does need to be set up as a proper fund, but this Government has slid out of deciding when that will occur and has, unfortunately, adopted the maana principle. As has been stated, Opposition members will not oppose this Bill, but we do hold some concerns about the provisions in it and we do wish that the Government had been a little tougher in its decision-making and had allowed for the fiscal responsibility that it is so keen to tell us about at every possible opportunity.

Mr MAX BRADFORD (Tarawera): This Bill is supported by both sides of the House. No doubt that was made easier by the proposed change to clause 3, which allows for Government activation of the funding of the Government superannuation fund at some time in the future. I think that that is a

practical solution to an issue about which there will be some argument. I do not think that anybody in the House would argue against the principle or the desirability of fully funding superannuation schemes. The difficulty, I guess, for any Government is to decide when to do that, when for most of the life of that scheme it has been on an unfunded basis. What we would be asking the taxpayers to do to fund that scheme now is, effectively, to pay twice in order to cope with the problem in the future. Based on some of the comments that Opposition members have made, their mad dash for the moral high ground leaves me somewhat bemused.

Hon. David Caygill: Cynical rather than bemused would describe that member.

Mr MAX BRADFORD: Opposition members are saying cynically that somehow or other the Government is wrong to continue with the rules for the application of the process under the Government superannuation fund for a short period into the future. I should have thought that, if the moral high ground had been part of the world that Opposition members wanted to occupy, they would oppose this Bill, because it is somewhat contradictory for them to say that the Government is doing the wrong thing, particularly by extending the process of beginning the recovery or the funding of the scheme, and to vote for the Bill at the same time. The House has never been noted for its total objectivity---nor for its sanity, from time to time. I want to talk about an issue that was raised by the member for Island Bay, who I do not think understands the Treasury chart. The matter was also raised by the member for St. Albans. They both made great play---

Elizabeth Tennet: I raise a point of order, Mr Speaker. I see a great flush of Government members coming into the House. There was no quorum.

Mr SPEAKER: Order!

Mr MAX BRADFORD: Thank you, Mr Speaker. That was an irrelevant interruption to what will be an excellent speech, which Government members have all come back into the House to listen to and will stay for. I do appreciate that it was drawn to the attention of the House.

[The question having been raised by the member for Island Bay and the bell having been rung, Mr Speaker declared that a quorum was present.]

Mr MAX BRADFORD: A larger audience! I am pleased that the member for Manawatu has come to listen to debate on this issue. Before I was so rudely interrupted I was drawing attention to some points made by the member for St. Albans and the member for Island Bay. They attempted to pull the wool over the public's eyes on the issue of the so-called chart. Somehow or other those members are trying to tell the public that taxpayers will have to make a much greater payment under this scheme. Those members are wrong. Although they were invited to address the issue of what the net present value of the two streams of payment would be, neither of them would answer that. Quite simply, whether one funds the scheme fully or funds it on a pay-as-you-go basis---which is the basis the scheme has operated under for about 60 years---the same time-value preference for that money applies. In a sense, under one or other of those streams of payment, taxpayers are being asked to pay essentially the same amount of money. I would not want the House or the public to be left with the impression that the Opposition wants---that somehow or other the steps taken by the Government mean that taxpayers will pay more in the long run. That is not true.

What is more, I point out that the chart that has been so liberally spread around the House is probably wrong. The costs will be less because of the basic assumptions that have been adopted. During the select committee hearing the committee was presented with figures that are assumptions, I would have to say, after some rigorous questioning of the officials from Treasury, some of whom

seemed to be reluctant to release them. It was discovered that some of the assumptions that lie behind the charts leave something to be desired.

I make particular reference to the assumptions that relate to the future inflation rate, which is assumed to be considerably higher than the Government's objective for that rate. It has been assumed for the purposes of the charts that through the period 1993 to 1997 and thereafter New Zealand will be facing an annual inflation rate of 4.5 percent a year. It will not be so, because that rate is not the Government's objective. The Government has an inflation rate objective of 0 to 2 percent, as the House well knows---and, indeed, it is an objective that the previous Government had adopted. That very fact will reduce the cost to the taxpayer.

Also in the chart---and I wonder whether this tells the House something about how the Public Service sees itself---is the assumption behind the cash flow that the annual Public Service salary increases that will be part of the Government superannuation fund will vary from 8.7 percent a year at their highest down to 5.5 percent. Those rates are related to the underlying inflation assumption, but that also means that the costs that are embodied in those charts are far higher than they should be.

I point out that the combination of those assumptions---which are far too high in terms of the Government's objectives---and the net present value basis means that the taxpayer will be paying less than the amount the Opposition would have the public believe.

The member for Island Bay touched upon the change made in the select committee that, I freely admit, was suggested by the member for St. Albans. It was a helpful change to the legislation. It was not earth-shattering by any means, but it was helpful to the process of ensuring that at some appropriate time in the future New Zealand can begin funding the Government superannuation fund. It shows the practical and sensible approach that select committees can take in dealing with issues that may appear to be small, but that in fact have a significant implication for future Government funding. I am pleased to hear that, in spite of the high moral ground that the Opposition would have itself adopt on this issue, it is helpful that the Bill is supported by members on both sides of the House.

Bill read a second time.

In Committee

Bill reported without amendment.

Third Reading

Hon. WYATT CREECH (Minister of Revenue): I move, That this Bill be now read a third time. A third reading is usually an opportunity to comment on events that have occurred during the Committee stage of the Bill. I have to say that the Committee stage of this Bill was notable for the speed with which it was conducted, and that the Opposition should perhaps be complimented on its constructiveness in this case.

There are a number of points in relation to the Bill on which I will comment. Although the Bill is small it does make quite a significant change. I think that it represents a change in direction that could be brought out and commented on more---that is the question of the commitment of the authorities to ensure that people have made sound superannuation arrangements. My big fear of a continuation of the policy that was inherited from the previous Government was that departments would not have put superannuation arrangements in place at any stage. I think that exposes a generation of New Zealanders to having inadequate provision made for their retirement.

I did note one point that has been raised---that is, that there is a danger with an unfunded scheme that it is too easy for Governments to agree to provisions that they will not have to face up to. I think that there is an element of reason in that point. I do not want to make this an overtly political point, but since this Government has been in office it has turned back one provision that was put in place just before the election that would have improved the benefits of retired members who receive pensions from the Government superannuation fund. That provision was to lift the limit of the free zone from \$500 to \$1000 before indexation came in.

When those people entered into that scheme they clearly knew the conditions under which they were entering that scheme. They have been pressing Governments for a long time to agree to improve a condition over and above that under which they had been accepted when they entered the scheme. Of course, I know that when they entered that scheme we were living in times in which inflation was not the big issue that it has become. None the less, it was true that many people in private schemes were unable to make that adjustment because they were unable to press the Government.

There is one other feature of the Government superannuation fund that I hope any future replacement arrangement has no part of. It is that the Government superannuation fund is entirely the creature of statute rather than of deed. Problems of that kind would not arise if it were the creature of deed. There might be more confidence amongst those people who are the beneficiaries of the scheme to expect that the benefits and terms that were set out when they entered the scheme would be delivered to them. Another feature of the Government superannuation fund that I think is an unattractive feature, although we hear claims that it is a very generous scheme, is that it is designed, if one likes, for a person who will have a 40-year career in the State sector. Frequently, and more so in the future, people will not have careers of that length. For this reason the scheme has been seen to be not gender-neutral because women especially can have a career structure that includes a significant break from the work-force. During that time they lose any employer vesting because they do not serve out the time that is needed in order to qualify for it. Therefore, if people change their career 4 times and spend only 10 years in any particular scheme, employer vesting actually limits portability. That is something that must be looked at for the future.

The third point I want to make, whether this is a brilliant scheme or not---and I keep reading publicity in the news media that states that it is brilliant when it does not take into account the negative aspects of the scheme---is that no annuity is certain in it. If a person has a very short span of retirement after contributing to the scheme for a lifetime the estate gains no benefit from the fact that all of that money is set to the side. I should like to think that in a replacement scheme we can cope with that. One of the problems I see with the present legislation proposal for a replacement scheme is that each individual State sector employer can put in place a scheme of his or her own design. In the education sector, theoretically that could lead to 3500 employers unless education boards of trustees were to agree voluntarily to put in place a replacement scheme. We have heard a lot of arguments about the differences between schools. I think that there is a justifiable fear that some schools that happen to be better endowed will use more attractive superannuation arrangements as a way to attract better teachers to come and stay in their particular school. The member for St. Albans waves his head, but I think that past experience indicates that superannuation can be used for just that purpose. I think that that feature, too, will mitigate against portability.

The final reason that I think that an umbrella scheme for the State sector has some merit is that, when an individual department has a locked-in, trust deed set-up, superannuation scheme, we will continually need to make machinery-of-Government changes should any change or restructuring be contemplated in any particular department. That is another element that must be unravelled. That particular problem would be overcome if there was a common scheme of some kind for the State

sector that allowed individual employers some flexibility. A lot of issues need to be sorted out in this matter, including the issue of transfer values. I intend to see that the Government takes advantage of this year to have all of those issues sorted out so that before a replacement scheme is put in place people know the position and know what their replacement scheme will be.

The other issue that has generated a considerable amount of comment is the question of the funding arrangements for the scheme. I have no doubt that a replacement scheme should be a fully funded scheme, but I have a lot of doubt about whether it is sensible to convert a pay-as-you-go scheme into a fully funded scheme. That is the difference between what is done when one starts from a bare slate and what is done when a policy is picked up that has been in place for 50 or 60 years. I think that the issue is quite simple. It is a mistake immediately to convert a pay-as-you-go scheme to a fully funded scheme, because that means that this generation of taxpayers is being asked not only to fund its own contributions to the retirement section of the superannuation to which employers contribute, but also to fund contributions that have been made over the last 40 years and that were not funded at that time.

Hon. Clive Matthewson: That means that no debt is ever paid off.

Hon. WYATT CREECH: It does not mean that at all. It does not mean that we do not pay off any debt at all. It is not debt; it is an unfunded liability. I make the point to the member for Dunedin West that I do not think that I have ever heard a valid argument offered for converting a pay-as-you-go scheme into a fully funded scheme.

I think that it is quite valid to say that we should stop doing that, let it naturally run out, and replace it with a much better scheme for the future. [Interruption.] It is one view of the matter. As I have made clear before, I do not actually accept that view. I think that there are many more complications in it than the graph shows. [Interruption.] I have already said to the member for Island Bay that I do not accept that; there are many more complications in it that are not being taken into account.

The final point that I make is that the amendments made by the select committee are intended to send a message to the Government---at least, that is the view of Opposition members of the select committee. Government members of the select committee seemed to regard it as a more convenient way of dealing with this particular issue in the future should the Government so choose. They certainly felt that the entire choice would remain, and continue to remain, with the Government of the day, should it want to make that conversion. The advantage of that particular change was that the legislation would remain in place should the Government choose to use it---the clauses were not written out. That is the reason that it was left as it was.

Hon. DAVID CAYGILL (St. Albans): Mr Speaker---

Hon. Don McKinnon: Tell us what happened in the Committee.

Hon. DAVID CAYGILL: The Opposition decided that there was not any point in debating the Committee stage, and it did not. The Opposition has sought to be constructive about the measure, partly because the matter is technical and also because it is, in our view, very important. I am sorry that some of the speeches made by Government members during the second reading did not quite catch that flavour. I simply want to reply to a couple of points that the Minister made. Some of his comments in the third reading struck me as a little curious in that they related neither to what was in the Bill nor to what was said about it. [Interruption.] I do not object to that, because the matter is important.

What the Minister did say---and it goes to the heart of the Bill---is that he is not persuaded that we should try to convert a pay-as-you-go scheme into a fully funded scheme. He accepts, as we all seem to, that the current scheme should be replaced by a fully funded scheme. However, inasmuch as the current contributors to the general Government superannuation fund will be able to continue to contribute in the future if they want to do so while they continue to work for the Government, we may well have a pay-as-you-go scheme for another 40 years or so. I am sorry that we have not yet convinced the Minister. Let me tell him again that other members on his side appear to be convinced of that. I appreciate that it is the Minister of Revenue who is in charge of the legislation, but the Minister of Finance, for one, seemed in my discussions with her to believe that there is merit in converting the pay-as-you-go scheme, even after it has been closed off, to a fully funded basis.

Let me put again to the Minister the major argument that I think holds here, and I shall use a comment that he made a moment or so ago as evidence in support of it. The problem is that, although the pay-as-you-go scheme is closed to new entrants, there will still be tens of thousands of members who, if they choose to stay in the fund, will belong to it, will continue to pay into it, will have an interest in the level of benefit, and are most unlikely to accept the current level of benefit as being sufficient for another 40 years.

The Minister said that there is a problem with the scheme in that it has a statutory base. I think that is right; I think that is a problem. I agree with the Minister's view that it would be much better if Government superannuation were established by deed so that people could see that its fundamental basis in law is contractual. It is not statutory. Parliament's ability to legislate should not be relevant at all---or it should be no more relevant than is the case with private sector superannuation. I think that the Minister is absolutely right about that. However, the fact is that we have a statutory scheme. We have that kind of statutory scheme because it has suited contributors to have a statutory scheme, much as it may have suited the Government as an employer. Just as has happened in the past, contributors have come to the Government and said: "It won't cost you very much. The costs will be spread over many years in future. This is a small part of your overall liabilities as Ministers so the benefits can be adjusted a little."

Let me give the most obvious example of that. Why is the Government superannuation fund indexed against inflation---ahead of the private sector in terms of time and, indeed, ahead of the private sector in the sense that most private sector schemes still do not have that? Why did that happen? It happened because the Government was the employer, and the cost being spread out in the future through a pay-as-you-go scheme was not apparent; it registered, if it registered at all, as a contingent liability. I know that the Minister does not agree that that is the right term to use.

Hon. Wyatt Creech: It's an unfunded liability.

Hon. DAVID CAYGILL: It is an unfunded liability and I think that it is also contingent. But never mind---it is certainly an unfunded liability. I do not think that the problem will disappear purely because we close the fund. It may diminish, but it will not disappear.

Let me give the House one example to reinforce the point---the point that the Minister gave. People from the Government Superannuitants Association who have ceased to contribute still come to the Government and say: "Our benefits are inequitable. We want to have them adjusted."

Hon. Wyatt Creech: We said "No".

Hon. DAVID CAYGILL: The Government said "No" this time; that is fine. Government members are great heroes. We thought that there was a case in fairness as between the particular group of civil

servants who had already retired and who had had their benefits only partially indexed---yet their benefits are now being dramatically eroded---and the later group of civil servants who, by virtue just of the accident of time, were getting a benefit that was more fully indexed. The contribution rates were not very different between the two groups. We thought that there was a case in fairness. I am not arguing that the Government is wrong to say ``No" on that last \$500. I think that the Government is wrong, but that is not the point I am making.

Let me give a completely different example to illustrate the point that I am making. Bearing in mind what the Minister said about the lack of benefit to spouses and the lack of annuity provisions, he may well take the view in the future---or his successor may take the view---that Government superannuitants are right about a quite different claim that they have made repeatedly that their spouses are treated inadequately. If the Government comes to the view that that position needs to be adjusted, in fairness those who have already retired will not increase their contributions; they cannot. Not so much money is involved in that. So that may be a little exemption or a little flexibility. However, it would be at a cost to future Governments and future taxpayers, because it is a pay-as-you-go scheme so the cost is spread out in future.

I hope that the Government will think again about the matter. I hope that it will see fit, when fiscal conditions permit, to move to a fully funded scheme for the future, at least. After all, we are not talking about the whole liability; we are talking only about the future liabilities of the general scheme. I agree that the scheme needs to be reviewed. I also agree that the review should extend to the special compulsory schemes. I hope that the Minister will give further thought to whether compulsion is really necessary.

Finally, I hope that the Minister will not commit an error that I would regard as very significant in being overly enthusiastic about having just one scheme or one basic model. The template that the previous Government approved, and Parliament endorsed, sets some guidelines. They may not be sufficient. It may be that further guidelines need to be built in. But that is not the same thing as the Government's basically having one scheme available for its civil servants. As I listened to the Minister I had the feeling that that is what is in his mind.

He gave the schools as an example. Of course it would be crazy to have each school with its own superannuation scheme, and technically that could happen because of the way the law is written at the moment, but nobody seriously thinks that that is likely. What might well happen is that we end up with three or four different schemes---different companies offering different schemes to boards of trustees, and some would choose one and some would choose another. I see nothing wrong with that.

It may very well be that the private sector is coming to the Minister and saying that the Crown can use its combined buying power to best advantage if there is just one scheme available, and I will bet, in saying that, that they are also saying: ``And we are confident that we can do that best; better than any of our competitors." I do not accept it. [Interruption.] Well, maybe they are not saying that yet but I fancy that that is what they really have in their minds. I think that the Crown will make a grave error if it sets up only one scheme. Some degree of competition and flexibility will be better both for the civil servants involved and for the Crown.

Bill read a third time.

The House adjourned at 11.43 a.m. (Friday).