

SUPERANNUATION AND
LIFE INSURANCE REVIEW
COMMITTEE (SLIRC)

TERMS OF REFERENCE

AUGUST 19, 2020

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Review of the Superannuation and Life Insurance Industries in Papua New Guinea (PNG)

Background

The *Superannuation (General Provisions) Act 2000* (the ‘Superannuation Act’) and the *Life Insurance Act 2000* (‘the Life Insurance Act’) were implemented in 2002 following a review of both the Superannuation and Life Insurance industries by a Task Force. In April 2002, the Task Force recommended a further review be conducted after a period of implementation of the Superannuation Act to determine the effectiveness of the new legislation.

Since the implementation of both Acts, the Superannuation industry has grown to K13.1 billion in total assets as at 31 December 2019, while the assets of the Life Insurance industry have also grown to K203 million in total assets as at 31 December 2019.

A second Task Force was established to review the effectiveness of the administrative and prudential regime established under the Superannuation and Life Insurance Acts and associated regulations in 2006.

A new Task Force has to be established to examine and make recommendations on specific areas of superannuation and life insurance including the taxation of these industries which have been identified by the industry and the Government warranting further examination.

Objective of Review

To examine specific areas of the superannuation and life insurance legal framework in order to:

- improve the effectiveness and efficiency of the superannuation and life insurance industries; and,
- ensure that the framework is consistent with the Government’s FSIDS 2018-2030.

Membership of the SLIRC

The SLIRC will be chaired by an independent expert on Superannuation and Life Insurance matters and independent individuals with experience in the relevant industry. The SLIRC will be supported by a Secretariat¹ to furnish a final report on the findings and recommendations. The SLIRC will not have any industry representatives for the purpose of avoiding any conflict-of-interest situation. Rather, the industry will be invited by the SLIRC to make submissions for the SLIRC to objectively review all

¹ The Secretariat will comprise of officers from the Bank and Department of Treasury

submissions before making its recommendations. The review is envisaged to be completed within 6 months, commencing 11 January 2021.

The following independent members of the SLIRC are well experienced in their various fields, including exposure in these industries,

1. Mr. Erastus Kamburi, Chairman
2. Mr. Peter Aitsi, MBE, Deputy Chairman
3. Lady. Aivu Tauvasa
4. Mr. Ian Balfour
5. Mr. S G Ventkramani
6. Sir Nagora Bogan, KBE

The SLIRC will be supported by a Secretariat that comprised of both the Bank and Department of Treasury (DoT) experienced Officers;

1. Mr. Peter Samuel – Manager
2. Mr. Luke Mongolap
3. Ms. Emmielyne Kusimbia
4. Ms Regina Okole(FSDS)
5. Mr. Paul Arutu (FSDS)
6. Mr. Sioni Ioa (DoT)
7. Mr. Gaisy Yalikiti (DoT)

Scope of the review - TOR

The review will be conducted in two parts concerning these industries;

- A. Specific matters concerning the Superannuation and Life Insurance Industries; and
- B. Taxation matters concerning the Superannuation and Life Insurance Industries.

PART A: SUPERANNUATION AND LIFE INSURANCE INDUSTRIES

Superannuation Industry

Consistent with maintaining and enhancing the reforms embodied in the Superannuation Act, the SLIRC will evaluate, report and recommend on the following specific terms of reference:

- **General Issue**

- **Outstanding Recommendations from Previous Reviews**

1. Follow up on previous Task Force recommendations which are still outstanding? *Refer to Appendix A*

- **Typological Errors**

2. Any typing, grammatical, spelling, numbering errors in the SGP Act be rectified

- **Minimum Capital Requirements for Licence Holder**

3. To reduce member and system risk, should a new prudential standard setting minimum capital requirements for licence holders be introduced? If so, at what level should the minimum capital requirements be set?

- **Enforceable Undertakings**

4. Would enforceable undertakings act as effective deterrent if introduced in the range of actions which may be taken by the Bank under the SGP Act?

- **Cyber Risk**

5. Should cyber risk be included in the SGP Act?

- **New Section 90A of the Super Act**

6. Should the new amendment, Section 90A of SGP Act – “*One Off Covid-19 Voluntary Withdrawal*”, be renamed as “National Emergency Voluntary Withdrawal”. The new Section 90A should be re-amended to make it inclusive of future National Emergencies (pandemic or act of gods):

- **Definition of the Unfunded Liability**

7. Should a new section be provided for to define what is unfunded liabilities and how these liabilities are to be paid to eligible exiting members?

- **Review of Retirement Age**

8. Should the current retirement age of 55 should be increased to a higher level? The mortality rates within the employed population are increasing with access to better health care and government services. The current retirement age of 55 enables people who are still capable of active employment and contribution to the wealth of the country to leave the workforce.

- **Adequacy of Provisions relating to Election to Transfer**

9. Is Section 85 – 89 of the SGP Act concerning Employers Contributions PART XV. – ELECTION TO TRANSFER adequate or should it be reviewed to make it clearer in terms of a merger between

a State-Owned Enterprise and a private company? Merger of two different employers contributing to two different ASFs.

- **Employer Contributions Compliance and Enforcement**

- **Mandatory Contribution and 3 Month Period**

10. Should compulsory superannuation be extended to all employees of any employer? What have been the consequences of the current three-month period which applies before contributions must commence to an Authorised Superannuation Fund(ASF)and is there a case for this to be removed?

- **Penal Rate of Interest**

11. Should the panel rate of interest be reviewed?

- **Definition of an Employee**

12. Should the definition of employee be more? Also clarify how superannuation would work for casual employments, probation & unattached employees.

- **Government Retirement Policy and Minimum Contributions**

13. Should the combined minimum level of member and employer-contributions of 14.4% be increased to meet the Government’s retirement objectives/policy? What effect does the leakage which occurs from housing advances and withdrawal during periods of unemployment have on determining the minimum contributions? What is the right balance to ensure people are saving an appropriate amount for retirement while meeting their day-to-day needs?

- **Adequacy of Penalty for Non-Remittance of Contributions**

14. Does the SGP Act have adequate penalty provisions to ensure that employers who do not contribute are dealt with effectively?

- **Non-compliance with Super Act**

15. Is there adequate deterrent effect included in the SGP Act for non-compliance and for late remittance of contributions? (Suggestion on amendment to *Schedule 4* on penalties: (a). if an employer is found to be guilty of non-compliance, penalties should be the penalty fine prescribed in the SGP Act or payment of outstanding contributions “whichever is greater” (b). Should the Bank be a general trustee for employees of Non-Complying Employers?)

What benefit would be derived by enabling the ASFs to have more power in accessing information from their registered employers.

- **Enabling ASFs with more Powers**

16. Whether the SGP Act effectively deals with penalties for non-compliance and late payment by employers who have not made contributions as prescribed by the SGP Act.

- **Enforcement Actions against Non-Compliance**

17. What benefits which would be derived by enabling the Bank to take effective action for non-compliance and in applying and enforcing the late payment penalties on employers and officers of employers who have not made contributions as prescribed by the SGP Act?

- **Supply of Bio-Data by Employers to ASF**
18. Should employers be required to provide minimum amount of bio-data to the Authorized Superannuation Funds (ASF)? Should penalties apply in the SGP Act if data is not provided?
- **Adequacy of Death Benefit Nomination**
19. Is the current administration by ASFs of binding death benefit nominations adequate?
- **Section 90 of the Super Act and the Adequacy of Contributors' Interest**
20. Does Section 90 of the SGP Act adequately address contributors' interest on payment of entitlements, especially on mental incapacitated persons and withdrawals due to continuous unemployment for 3 months?
- **Preferential Claims in the event of Liquidation of an Employer**
21. In the event of liquidation of an employer, should outstanding superannuation contributions rank above that of secured creditors?
- **Duty to recover Outstanding Contributions in the event of Employer Ceasing to Operate**
22. In the event of cessation of business operation, should outstanding superannuation contribution be pursued by the Bank or ASFs? Employer membership number deactivating process.
- **Protection of Whistle-Blowers under Super Act**
23. Does the current SGP Act provide adequate protection for whistle-blowers regarding employers who are failing to meet their obligations?
- **Retention of Employee Records by Employer**
24. Does the SGP Act adequately deal with retention of employee records by an employer?
- **Clarification of definition of 'contributory years' and 'employment period'.**
25. Should definition of 'contributory years' and 'employment period'.
- **Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF)**
26. Does the SGP Act adequately deal with AML/CTF?
- **Life Insurance**
27. Should ASF be able to provide life insurance to its members on an "opt- out" basis?
- **Ability to Effectively Supervise Investments**
- **Majority Shareholding in Invested Entities**
28. Should an ASF be able to take a majority position in, or outright ownership of, an entity in which it has invested?
- **Use of Subsidiary Companies to hold Assets of ASF**
29. Should an ASF be able to utilise "Subsidiaries" joint ventures for assets rather than holding the assets directly? Should an ASF participate in a Joint Venture (*Investee Company*) which has no

equity contribution from the other partner and what is the ideal criteria for an ASF entering into Joint Venture Arrangement?

- **Review of Section 74A and Section 8 of the Super Act.**

30. Review Section 74A (2013 Amendment) and also to align with Section 8.

- **Term Pensions**

31. Should members of an ASF be encouraged to take their accumulated benefit in the form of a term pension as an “opt-out” basis? If so, how can this be done? What minimum requirements should be required for an item to qualify as a term pension?

- **Fitness and Propriety**

- **Dealing with Resignation of Directors**

32. Does the SGP Act adequately deal with directors or officers of an ASF who resign or who are terminated before the Bank can make a determination on their fitness and propriety?

- **Director Appointment Process**

33. Does the current shareholder structure which enables the directors as trustee shareholders provides for a transparent process in which directors are appointed?

- **Access to Records when a Licence is Surrendered or Revoked**

34. Should officers of a licence holder which has surrendered its licence or had its licence revoked be required to retain the records of the licence holder for a period after the licence has been surrendered or revoked? Should penalties be applied to officers who fail to comply with this requirement?

- **Access to Accounts during Unemployment**

35. Should the release of benefits for members who are unemployed be allowed? If so, should the release be staggered over a number of years, requiring proof of continued unemployment, rather than as one lump-sum? Should the accumulated benefit be issued in the form of a pension on an “opt out” basis rather than as a lump-sum?

- **Housing Advance**

- **Housing Advance and Contributors Concerns**

36. Is the current Housing Advance administration under the SGP Act adequately addresses contributors concerns/ needs?

- **Definition of “principal place of residence/business”**

37. Definition of “principal place of residence” and “principal place of business”

- **Second Housing Advance**

38. Is the current provision for applying for a second housing advance adequate? (Section 90).

- **Penalties for Late Lodgement of Annual and Quarterly Returns to the Bank**
 39. Should a fine or late lodgement fee be imposed on an ASF by the Bank for late lodgements? Should the Trustee Board be required to disclose any such fines in the annual report to members?
 40. Should there be more clarity around the definition of returns?
- **Contributions by Employers to an Overseas-based ASF**
 41. Should employers be required to make all superannuation contributions to an ASF which is resident in PNG and authorised by the Bank? Should the exemption for non-residents remain?
- **Cost Recovery**
 42. This was raised in the two previous Task Force, however some of the issues and recommendations raised at that time were not resolved, hence the recovery of costs from industry for supervising the superannuation industry should be increased or decreased?

Life Insurance

Consistent with maintaining and enhancing the reforms embodied in the Life Insurance Act 2000, the SLIRC will evaluate report and recommend on following specific terms of reference:

- **General Issues**
 - **Typological Errors**
 1. Any typing, grammatical, spelling, numbering errors in the Life Act
 - **Enforcement Undertaking**
 2. Would enforceable undertakings act as effective deterrent if included in the range of actions which may be taken by the Bank under the Life Act?
 - **Exemptions for Overseas Placements**
 3. Should exemptions be included in the Life Insurance Act for placements of life insurance business offshore?
 - **Definition of Life Insurance**
 4. Would the definition of Life Insurance be made clearer due to ambiguity surrounding other life insurance products sold by general insurance companies?
- **Lodgement of Annual Reports /Returns**
 - **Alignment in Reporting Deadlines**
 5. Should the submission dates for the lodgement of audited accounts, Financial Condition Reports (FCR) and statistical returns be consistent?

- **Financial Condition Reports (FCR)**
- 6. Should there be a Prudential Standard prescribing minimum reporting and formatting standards for FCR? What should it include as a minimum?
 - **Penalties for Late Lodgement of Annual Returns to the Bank**
- 7. the Life Act be amended to provide a fine or late lodgement fee which can be imposed on the LH by the Bank for late lodgements?
- **Unauthorised Operations**
- 8. Are the prosecution powers and penalties captured in the life Act limiting the Bank to take action on unlicensed companies offering life insurance products?
- **Insurance Brokers**
- 9. The effectiveness of the Life Act in enabling the Bank to effectively supervise life insurance brokers.
- **Policy Holders Statutory Fund**
 - **Capital and Solvency Requirements**
 - 10. Are the current capital adequacy and solvency requirements included in the Life Act with regard to the statutory fund adequate?
 - **Risk Adequacy for Assets in the Statutory Fund**
 - 11. Should the assets in the statutory fund be discounted for risk before determining adequacy?
 - **Contagion Risks**
 - 12. Is there adequate separation of the assets utilised for the statutory funds from contagion risk in the event of adverse financial impact on the life insurance company?
- **Fitness and Propriety**
- 13. Does the Life Act adequately deal with directors or officers of insurance companies who resign or who are terminated before the Bank can make a determination on fitness and propriety?
- **Access to Records when a Licence is Surrendered or Revoked**
- 14. Should officers of a licence holder which has surrendered its licence or had its licence revoked be required to retain the records of the licence holder for a period after the licence has been surrendered or revoked? Should penalties apply to officers who fail to comply with this requirement?

- **Multiple Regulators**

15. Would be beneficial/benefits for policy holders, the insurance industry and the economy of PNG by having the licensing and regulation of both life insurance and general insurance consolidated under one regulator?

PART B: TAXATION ON SUPERANNUATION AND LIFE INSURANCE INDUSTRIES

SUPERANNUATION

1) TAXATION ON RETIREMENT BENEFITS

The tax treatment for retirement benefits is very complicated as detailed below:

- a) Normal concessional rate is applied – (on the interest and gratuity only).
- b) Tax Rate applicable to benefit payments are –
 - i) Concessional Rate of 2%;
 - ii) Concessional Rate of 8%; or
 - iii) Concessional Rate of 15%.
- c) Concessional Rate of 2% applies where the payment was –
 - i) Accrued prior to 1 January 1993;
 - ii) For contributions made by the employer for more than 15 years;
 - iii) For contributions made by the employer for more than 7 years, where the employee is no less than 50 years of age;
 - iv) For contributions made by the employer for more than 7 years, where the employee is subject to forced early retirement; and
 - v) Made as a result of the death or permanent disability of the employee.
- d) Concessional Rate of 8% applies when the years of contribution is not less than 9 years and not greater than 15 years. i.e. 9 – 15 years = 8%.
(Note that if the member is 50 years and over and had worked over 7 years, then he is entitled to a concessional rate of 2% as mentioned above).
- e) Concessional rate of 15% applies when the years of contribution is not less than 5 years and not greater than 9 years. i.e. 5 – 9 years = 15%.
(Note that if the member is 50 years and over and had worked over 7 years, then he is entitled to a concessional rate of 2% as mentioned above).
- f) Benefit payments to Defence Force Retirement Benefit Fund members:

- i) Under 20 years of service, tax would be same as above;
- ii) Concessional rate of 2% is applied on the 60% portion which is the state share if eligible for a pension (more than 20 years of service);
- iii) The annual pension apportioned into 60/40 which is the State and Fund portions respectively. The pension is subject to the income tax rule only for 60% portion which is the State share.
- iv) In accordance with the *Income Tax Act 1959*;
 - (1) If the pensioner has an annual income less than K10,00.00, pension is tax-free;
 - (2) If the pensioner's annual gross income is more than K10,000.00 but less than K18,000.00, pension is taxed at 22%;
 - (3) If the pensioner's annual gross income is greater than K18,000.00, pension is taxed at 30%; and
- g) And there is a tax of 2% on the benefits paid out if a member dies.

It is recommended that the SLIRC consider simplifying the current level of taxation on superannuation benefits which are taken as a lump-sum as the complications of the calculations are an administrative cost paid for by all members and are a serious operational risk due to the complexity of the calculations involved.

However, it is recommended that the overall taxation taken from lump sum retirement benefits not be reduced as an inducement to members to take their retirement benefit in the form of a compulsory pension.

2) TAX ON BENEFIT PAYMENTS IF A MEMBER DIES

Currently there is a tax of 2% on the benefits paid out if a member dies.

It is recommended that the SLIRC consider the benefits of removing the taxation on the benefits of a member who dies as it reduces the funds available to support the dead member's family and it raises little tax income.

3) COMPULSORY PENSIONS

The long standing weakness in the superannuation system is that members take the accumulated balance in their account on retirement as a lump sum. This lump sum is then rapidly dissipated to family and extended family members resulting in the member being unable to derive an income during their retirement.

The significant proportion of superannuation benefits which are taken as a lump sum also has a dampening effect on the level of post-retirement assets held within the superannuation system, and therefore reduces the overall level of superannuation assets held available for investment within the country by the superannuation industry.

If the superannuation system was changed to both mandate and encourage members to take their retirement income in the form of a genuine lifetime term annuity or lifetime pension instead of a lump sum, this weakness in the current system could be addressed. By pooling the retirement savings in a collective term annuity or lifetime pension scheme operated by the Authorised Superannuation Funds (ASF) in this country, the ASFs, which are residents in PNG and are authorised by the Bank of Papua New Guinea (Bank) would be able to pool the longevity risk where the assets, not needed and held in respect of those who die at younger ages, are made available to support continuing income payments, to those who live to a more advanced age.

There are significant benefits to both the members and to the economy of the country in forcing and encouraging retirement savings to be taken in the form of genuine term annuity or lifetime pensions rather than as lump sums. These additional benefits include:

- a) The member having a guaranteed income stream in retirement for either a fixed period – for example 15 years (a term annuity) – or until death (a life-time pension);
- b) The superannuation fund assets will be retained in the finance system rather than being immediately dissipated after a member retires. This pool of assets will provide the country with an additional pool of investible funds that offer the potential to generate wealth and prosperity for our economy;
- c) The requirement that the fund must be resident in PNG and be authorised by the Bank would ensure that the benefits remain in the country and are not transferred for the benefit of another country; and
- d) The creation of either term annuity or life time pensions to be provided by an ASF which must be resident in PNG and be authorised by the Bank will ensure that the

products are managed for the best interests of the members, are genuine and that the term annuity or lifetime pensions are actually paid and are not subject to poor investment or fraudulent practices. The Bank would have oversight of the pension divisions of each of the ASF and would introduce prudential standards to ensure adequate actuarial input and segregation of risks between the pension section and the accumulation section of each ASF.

It is recognised that the introduction of mandatory term annuity or lifetime pensions instead of the current lump sum option will be resisted by members as the members have become accustomed to taking their retirement benefits as a lump sum. However, the current lump sum option effectively means that the retirement savings are immediately dissipated apart from a very small number of well-informed members who have significant account balances and who use these balances to purchase term or lifetime annuity products from overseas.

The current *Income Tax Act 1959* provides that the income held by ASFs in what are called “Retirement Savings Accounts” (RSA) is tax exempt. However:

- i) there is currently no definition of what is an RSA;
- ii) failure on behalf of at least one major fund to adequately account for RSA assets and to claim the tax exemption – to the detriment of the members; and
- iii) failure on behalf of all funds to give the benefit of the tax free income on RSA assets to the members who have the RSA assets. Rather, if the tax benefit has been claimed, it has been spread to the benefit of all members.

It is recommended that the SLIRC consider recommending that all benefits above a certain threshold, say K20, 000, must be taken in the form of a term annuity or whole of life pension and that the income held in the ASFs for the payment of these pensions be tax free as currently applies to the RSA accounts. This would have the advantage of enabling the ASFs to provide a higher level of pension payments than would otherwise be the case if the income was taxed.

4) HOUSING ADVANCES

Currently, housing advances paid from members’ accounts balances held in ASFs to enable an employee to purchase his or her first home are not taxable at the date of the advance provided the cost of the property is K75, 000 or less.

It is recommended that the SLIRC review this threshold and consider removing it or moving it to a higher level which is more reflective of the actual costs of housing, and will not act as a

dis-incentive to people using the advances from the members' benefits to acquire what is arguably the single most important asset to enable a sustainable level of living and retirement.

5) CONTRIBUTIONS BY EMPLOYERS TO AN OVERSEAS BASED SUPERANNUATION FUND

Currently, an employer is not entitled to a tax deduction for contributions made to an overseas based superannuation fund.

It is recommended that the SLIRC does not change this as employers should be encouraged to make contributions to a superannuation fund which is resident in PNG and authorised by the Bank to generate wealth and prosperity for our economy.

6) TAX DEDUCTABILITY FOR EMPLOYER CONTRIBUTIONS

Whilst there are special rules for certain companies including life insurance companies, non-resident insurers, mining, petroleum and gas companies and ship-owners, the calculation of taxable income generally corresponds to accounting income and with regard to superannuation, the employer is permitted to deduct the employer's contributions to a fund which is a resident in PNG and authorised by the Bank. However, this deduction is currently limited to 15% of an employee's fully taxed salary or wages.

It is recommended that the SLIRC consider increasing the current cap of 15% to a higher level to enable an employer to obtain a tax deduction for employer contributions made in excess of 15% of an employee's fully taxed salary or wages to enable an employer to voluntarily increase the level of contributions being made for employee's to enable the employee's to accumulate adequate savings through their working lives to enable them and their families to live adequately in retirement.

7) TAXATION ON RESIDENT SUPERANNUATION FUNDS

The current tax on ASFs is summarised below:

- a) The taxable income of a resident superannuation fund is subject to a rate of tax of 25%;
- b) Dividends paid to a superannuation fund qualify for the dividend rebate and are exempt from dividend withholding tax if the fund is an ASF; and
- c) Where an employer's contributions to a superannuation fund exceed 15% of an employee's fully taxed salary or wages, the excess contribution is included as assessable income of the superannuation fund. Although, how the superannuation fund

is able to assess whether the employer's contributions exceed 15% of an employee's fully taxed salary or wages is difficult to comprehend.

Investment returns on superannuation assets are a significant contributor to the growth of the superannuation industry. The current tax rate of 25% on all superannuation fund income is an impediment to the rate of growth in superannuation which undermines the most important objective of superannuation which is to deliver an adequate income in retirement for the members of the superannuation funds.

The current tax rate imposed on the ASFs of 25% for contributions by an employer for contributions in excess of 15% of an employee's fully taxed salary or wages together with the lack of tax deductibility for such contributions for the employer also acts as an impediment and a dis-incentive to employers and to members making additional voluntary superannuation contributions, with the level of voluntary member contributions currently being negligible.

It is recommended that the SLIRC consider recommending the reduction in the rate of taxable income of a resident superannuation fund from the current 25% to a lower rate to make superannuation and superannuation savings an attractive form of investment and to assist in working towards its most important objective which is to deliver an adequate income in retirement for the members of the superannuation funds.

8) DOUBLE TAX TREATIES

Double tax treaties have been entered into with Australia, Canada, China, Fiji, Germany, Korea, Malaysia, Singapore and the United Kingdom although it is unclear whether Germany has ratified the treaty.

As the ASFs may have up to 35% of the total assets invested overseas, it is highly desirable that the rate of tax applied in the overseas jurisdictions is reflective of the level of tax applying to ASFs which are resident in PNG and which are authorised by the Bank.

In addition, it is recommended that the SLIRC recommends the extension of the double taxation treaties to the USA and into the new and emerging markets in the Pacific region and in Asia to enable the superannuation industry to diversify asset concentration risks beyond the current range of countries which have double tax treaties in place with PNG.

9) NON-CITIZENS

In general, non-citizens make their own retirement plans through overseas superannuation funds, investment schemes, or do without. As such this country misses out on the tax on the earnings of the employer and employee contributions which would have to be paid if the employers of all non-citizens were required to contribute to a superannuation fund which is resident in PNG and which is authorised by the Bank.

In addition, by not requiring that all the employers of all non-citizens contribute to a superannuation fund which is resident in PNG and which is authorised by the Bank, there is no encouragement for non-citizens to maintain their accounts in this country or to stay longer in the country.

It also makes it difficult for the Bank to determine if all employers are meeting their superannuation obligations under the Super Act if non-citizen employees are exempt.

To be eligible for a tax deduction, it is therefore recommended that all employers be required to contribute to an ASF which is resident in PNG and which is authorised by the Bank and those benefits can only be released by an ASF on proof of permanent departure from the country by the non-citizen.

10) INEFFICIENCIES AND ADDITIONAL ADMINISTRATIVE COSTS CAUSED BY EMPLOYERS PROVIDING INADEQUATE DATA

The failure of employers to provide adequate data to the ASFs to enable the contribution to be linked to the member results in “unallocated contributions”.

Unallocated contributions comprise approximately 140,000 member’s accounts or 28% of all member accounts. Unallocated contributions require the creation of “dummy accounts” within the superannuation fund administration platforms which represent a serious fraud risk with the superannuation system.

But more importantly, “dummy accounts” are a significant cost burden on the entire superannuation system.

It is recommended that where an employer fails to provide the prescribed minimum required bio-data with superannuation contributions, that the employer be penalised by not being able to claim the contributions as a tax deduction.

In addition, to reduce the “unallocated contributions” it is recommended that all employers be compelled to provide the Taxpayer Identification Numbers (TIN’s) for all superannuation contributions and that failure to do so would be punishable by a suitable penalty such as a fine and that the Internal Revenue Commission make a concerted effort to ensure compliance.

LIFE INSURANCE INDUSTRY

11) DEATH BENEFIT

Currently death benefit payments made by an authorised life insurance company are not taxed in the hands of the recipients.

It is recommended that this tax free status remain to encourage people to take out life insurance cover.

12) TAX DEDUCTION ON GROUP LIFE COVER

Currently companies that take out group life cover get a tax deduction as part of their operating expenses and this reduces their taxable income.

It is recommended that this deduction only be allowed where the group life cover is provided by a life insurance company which is resident in PNG and which is authorised by the Bank.

13) KEY MAN INSURANCE

Currently companies that take out “key man” insurance to deal with business interruptions if a key person dies get a tax deduction as part of their operating expenses and this reduces their taxable income.

It is recommended that this deduction only be allowed where the “key-man” insurance cover is provided by a life insurance company which is resident in PNG and which is authorised by the Bank.

Further, any payments made by a life insurer under such a policy are taxable in the hands of the company as normal income.

It is recommended that this tax treatment continue as it encourages employers to cover “key man” risk, but it recognises that the benefit from the policy is assessable income.

14) TAX ON INDIVIDUAL LIFE COVER

Individuals who take individual life cover do not get a tax deduction for the amount of the policy payments.

It is recommended that the SLIRC consider enabling individual taxpayers who voluntarily take out life insurance cover which is provided by a life insurance company which is resident in PNG and which is authorised by the Bank, to be allowed to reduce their taxable income to encourage individuals to acquire life insurance protection for themselves and their families.

15) LIFE INSURANCE PRODUCTS WITH A SAVINGS COMPONENT

Some life insurance products may be offered which include a savings component. At the moment the income on savings component of such a life insurance policy is taxed in the hands of the life insurer at the normal corporate tax rate.

The following recommendations are made with regard to such life insurance products provided by a life insurance company which is resident in PNG and which is authorised by the Bank:

- a) That the life insurer be required to maintain the assets held for the savings component of the life insurance product separately from the other assets of the life insurer;
- b) That the income on the assets held for the savings component of the life insurance product be either tax free or concessional taxed to encourage individuals to purchase such life insurance with an attached savings component;
- c) That the life insurers be required to credit to the policy holders account balance the full earnings net of whatever tax rate is determined as being appropriate by the SLIRC; and
- d) That the policy holders of such life insurance products be allowed to draw down on their savings component for the purpose of assisting with the home purchase or repairs in the same manner as applies to superannuation funds or using it as security for a loan to an Authorised Deposit-taking Institution for such purposes.

The benefits of accepting these suggestions are as follows:

- i) It would enable the life insurance companies to offer a life insurance product which had an attached concessional taxed savings component. This would aid penetration of life insurance and savings into the broader population; and
- ii) Enabling the savings component of such a policy to be accessed by the policy holder as a low cost loan for housing using the policy holders own savings would provide additional access to finance in the community.