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PRESS RELEASE

FEEDBACK SOUGHT ON PROPOSED CHANGES TO THE CINSF ACT

The Cook Islands National Superannuation Fund (CINSF) is an important part of the Cook Islands policy on retirement income. This policy is a traditional three pillar approach consisting of:

- first tier – a basic universal pension provided to eligible Cook Islanders by either the Government of the Cook Islands (available from 60 years) or the Government of New Zealand (available from 65 years);
- second tier – income derived from a mandatory savings through the CINSF (available from 55 years); and
- third tier – income or wealth from voluntary savings through either additional contributions to the CINSF or some other form of retirement savings which are undertaken privately.

The Government is seeking feedback from all stakeholders of the CINSF on proposed changes to the CINSF which are aimed at improving outcomes for all members of the CINSF. The CINSF is a mandatory defined contributory superannuation scheme which aims to pay a final pension to a member which is determined on the value of the financial assets which a member accumulates prior to retirement.

The Government is seeking to make five changes to the CINSF – they are as follows:

- expanding the coverage of the CINSF to all employers and employees in the Cook Islands;
- providing for full portability of assets to recognised jurisdictions to which there are formal agreements, these should initially focus on Fiji and New Zealand;
- that members only be entitled to take employer and employee contributions and earnings after being away from Cook Islands for six months;
- reducing operational support to zero by 2019/20 so that the CINSF is totally independent of Government; and
- altering the composition of the Board to include greater technical capacity.

These proposed changes are aimed at achieving a number of objectives.

Firstly, further de linking the connection between the operations of the CINSF and the Government of the day. Secondly, expanding coverage so that no worker in the Cook Islands is disadvantaged in their retirement by not contributing to the CINSF. Finally, improving the options on what members are able to do with their accumulated savings and ensuring that they provide for an individual's retirement.

Recommendation 1 - Expanding Coverage of the CINSF to all employers and employees in the Cook Islands

Currently, two groups of employees are not covered by the CINSF. Firstly, those who have been exempted because of coverage through another scheme which people may have been contributing to at the time the Act came into effect. This exemption was provided to ensure that people who were in a beneficial scheme were not disadvantaged. (for example the New Zealand Government Superannuation Fund a fund which has now closed for public servants which provides for a defined benefit and requires the person to resign)

Secondly, those who are employed in a category of employment whose transition into the scheme, has been delayed. Currently, a number of employees are not covered by the CINSF and therefore miss out on the benefits of contributing the CINSF which are listed at Attachment 1.

The Government is proposing to have all employers in the Cook Islands (including the Pa Enea private sector) covered by the CINSF by 1 July 2016. Ultimately, the only people in an employment arrangement, who would be excluded, would be those workers who:

- are aged under 18 or over 60 years of age;
- were aged 55 when the Act came into effect and who elected not to be part of the Fund; and
- are in an existing fund where the cessation of contributions is not permitted (for example the New Zealand Government Superannuation Fund which covers around 250 public servants).

This proposed change would not require a change to the Act. It is proposed that all employers be registered by 1 July 2016.

Recommendation 2 - Provide for full portability of assets to recognised jurisdictions to which there are formal agreements, initially focusing on Fiji and New Zealand.

Recommendation 3 That members only be entitled to take employer and employee contributions and earnings after being away from Cook Islands for six months

On departure from the Cook Islands a member does not lose their asset (their money in the CINSF), it remains in the CINSF. A member can remain informed about the CINSF through the website, contacting the office. A member is also able to login to their account to view their balance and to update their contact details so that they receive timely and current information. The payment of the pension can be made both within the Cook Islands and out of the Cook Islands.

The CINSF Act currently allows a member to withdraw their contributions and associated earnings if they depart the Cook Islands prior to three years of employment in the Cook Islands. In such a case, the member can take their own contributions and the associated untaxed earnings and there is no requirement for it to go towards another type of retirement savings vehicle. The employer's contributions and earnings on behalf of the employee have gone back into the general reserve which has then been redistributed to other Members accounts.

The proposed change would allow for full portability of the member's total assets (that is the employee and employer contributions plus associated earnings) to retirement funds in other

countries which are similar in nature to the CINSF (in that they provide a savings vehicle for a person's retirement), for example, the Fijian National Provident Fund or a Kiwi Saver product.

For those workers who stay in the Cook Islands for a short period of time, they would still be required to contribute to the CINSF but the parameters for cash withdrawal from the CINSF would be reset so that if an employee ceases and departs the Cook Islands prior to six months they would be entitled to withdraw both the employer and employee contributions and associated earnings (which would attract a withholding tax).

Permanent departure from the Cook Islands can never be guaranteed. To minimise the opportunity for people to abuse the process a waiting period of six months would be required between the departure and the actual request for the cash. This will diminish the incentive for short term contracts to be signed and ongoing withdrawals occurring.

Once taken the member's account would be closed. If a person were to return to be employed in the Cook Islands they would then be required to re-join and commence contributions, any pension would be based on the amount that has been accumulated on the assets in the CINSF. To join the CINSF a person must have been employed in the Cook Islands. A person cannot join the CINSF unless they were employed.

If a worker was to take the cash on permanent departure the earnings on those monies and the employer contribution would be subject to a final withholding tax of 15 per cent apply to those monies when the employee finally departs the Cook Islands.

Recommendation 4 Reducing Operational Support to zero by 2019/20.

At the time of establishing the CINSF the government provided a significant proportion of the cost of administration, enabling members' contributions to go towards the investment pool and therefore be dedicated towards accumulating wealth for the member.

Operational support from government since November 2000 is estimated to have exceeded \$2 million.

The CINSF is at a stage now where earnings are contributing almost the same amount as the total of both employer and employee contributions. Whilst improved compliance and wider coverage may increase the level of contributions the earnings are coming on a large base and this trend is expected to continue.

This recommendation does not require any sort of legislative or regulatory process to occur.

It would remove an indirect financial link between government and the CINSF. The relationship would then be one based on being an employer contributing the CINSF, or the regulator through the Financial Supervisory Commission.

Recommendation 5 Alter the Composition of the Board

Currently governance of the CINSF is provided through the CINSF Board. Section 4 of the Act outlines the composition of the Board. It states that the National Superannuation Board would

permanently include the Financial Secretary (who for the time being would be a permanent member), as well as members (who are appointed for a period of three years) representing:

- the Cook Islands Workers Association (Anthony Turua);
- the Cook Islands Chamber of Commerce (Tatiana Burns);
- non Chamber of Commerce private sector employer (Heinz Matysik); and
- contributors (Anna Koteka)

Two issues arise from the current composition of the Board, these are, whether representation is appropriate and the technical capability of the Board. In terms of independence, it would be beneficial to have the Board represented by members of the scheme only.

The interests of the Board must be solely focused on ensuring the CINSF is managed legally, operationally, and in a financially robustly manner.

At the initial time of the CINSF being implemented there was a concern that losses would incur in the early years because of high administration costs in proportion to the funds involved, to this end the Government agreed that in the early years it would meet most of the administration costs and its contribution would reduce over the years as the funds increased.

At this stage of infancy the importance of having the Financial Secretary on the Board was important due to the significant resources relative to the balance of the CINSF which was being invested by the Crown for the establishment and administration of the CINSF.

In terms of dealing with the capacity issue of the Board membership, a skills matrix could be created, making explicit the expected skills which are necessary for the Board as a whole. The identification of skill needs would make the appointment process to the Board more transparent, and become a key feature to be reported on annually. Skills would include financial, legal, operational, and communication expertise. These skills can be found amongst members. If there are gaps then independent experts could be appointed also either to the Board or relevant sub-committees. It is proposed that an additional member be appointed to the Board following a recommendation from a process which has nominated someone through a skills matrix approach.

A further change should be made once the Government contribution ceases which would see the Financial Secretary replaced on the CINSF Board by a second independently nominated Director who would have also been through a similar skills matrix process.

These changes would require a modification to the Act.

Attachment 2 provides a summary of the CINSF.

Queries and feedback should be provided to Damien Beddoes by 30 November 2015. All feedback will be published unless a person requests it not be published.

[End]

10 November 2015

Attachment 1 – Current List of Employer Types Required to Contribute to the CINSF.

Accommodation	Electrical Suppliers and Services	Private Investigators
Accounting Services	Engineering	Private School
Advertising	Equipment Hire	Purified Water
Aid Funded Employers	Fire and Safety	Real Estate
Air Conditioning	Floor Covering	Real Estate and Developers
Airlines	Florists	Refrigeration
Antiquities	Gas Supplies	Rental Cars and Bikes
Architect	General Merchants	Restaurants
Backpackers	Government	Retailers
Bakery	Hostels	Roofing Supplies
Banks	Insurance	Secretarial
Barristers and Solicitors	Insurance Agents and Companies	Security Services
Beauty Salon	Jewellers	Self Employed
Broadcasting	Joinery	Sewing
Builders	Land Agents	Shipping Industry
Building Materials	Landscaping	Sign Writers
Building Suppliers	Legal Services	Stationery Supplies
Bus and Carriers	Liquor Supplies	Storage Facilities
Butchery	Marine Operators	Sub Contractors
Café and Bistro	Money Transfer	Supermarket
Chemists	Mortgage Brokers	Surveyors
Cinema	Motor Rentals	Takeaways
Cleaning Contractors	Motor Services	Tattoo
Clubs	Music	Taxis
Computer Sales	Newspapers	Telecommunications
Construction	Night Club Establishments	Towing
Consular	Non Government Organizations	Tradesmen
Consultants	Optometrists	Training Services
Cosmetic	Panel Beaters and Painters	Travel Agents
Craft and Souvenirs	Pearl Farmers and Distributors	Travel and Tours
Crafts and Souvenirs	Pest Control	Trust Company
Day Care	Petrol Supplies	Upholstery
Dental	Pharmacy	Village Shops
Dive Operators	Photographers	Waste Management
Doctors	Plumbers	Wedding Planners
Egg Hatchery	Printing Services	

Attachment 2 – Some Benefits of the CISNF

Significant tax benefits are provided to CINSF members, these include exemptions on income tax for the:

- employer contribution;
- returns inside the fund; and
- withdrawal and pension paid.

The CINSF also provides to members who are financial:

- life insurance equivalent to a year's salary (based on contributions made by the member);
- terminal illness (through the ability to claim early on life policy); and
- lump sum compensation (up to \$50,000) for major burns and dismemberment.

The CINSF ultimately provides to members

- a pension for life;
- a pension transferable to spouse on death and continues for his/her life; and
- an option for a lump sum 25 per cent withdrawal option on retirement.

CINSF members in receipt of a pension:

- will still have their accumulated pension funds invested; and
- pension funds remain owned by member and paid to spouse/family if not eligible for transferable pension.

CINSF members can also choose to have

- voluntary accounts (locked in savings till retirement alternative to bank savings) voluntary account which is paid out in full on retirement and remains tax exempt