

PROPOSED CHANGES TO EXPATRIATE SUPERANNUATION

DATE: Friday 24th September 2004

Purpose

Superannuation for expatriates is now included under the Act. This has implications for business and could be seen as an impediment. The purpose of this paper is to seek amendment to the Act to

- Remove the compulsory aspect to expatriate superannuation in favour of voluntary contributions and
- Create greater flexibility to superannuation for Members who transfer to their country of domicile.

Background

The current law in relation to expatriate superannuation can be summarised as follows

- Section 10(2) allowing expatriates to seek exemption from mandatory contributions if non citizens are contributing to a superannuation fund in a foreign country – Superannuation (General Provisions) (Amendment) Act 2002
- Regulation 4 allows for a five-year phase in period before expatriate superannuation becomes compulsory. This means that expatriates do not have to compulsorily contribute until June 2007 – Superannuation Regulation 2002 and
- Section 90(2) on withdrawal an expatriate must wait twelve months from departure before access to entitlements and
- Currently expatriates with benefits accrued to 31 May 2002, can withdraw these benefits immediately on departure - Section 19 (b)

Analysis

Most expatriates have some form of superannuation

Most expatriates arrive in Papua New Guinea as a paid employee of a foreign company or government body/program. To this group of expatriates, the general rule is that superannuation requirements are met by the company within the expatriates' salary package. The superannuation is remitted to the employees country of domicile.

Cost to business of expatriate superannuation high

Another group of expatriates work for local firms and these people may or may not be covered by superannuation. The expatriate is in most cases is paid well above the local population and the cost can equate to at times above 50 times the average Papua New Guinean formal private sector salary of K7,500.

The cost to business of employing an expatriate is usually a large component of the companies' total wages & salary bill. On top of the normal costs of employing an expatriate there will be additional costs of employment through superannuation soon to become effective under the Act. This will add approximately 9% to the on cost of employing an expatriate. It could be well argued that the expatriate is already comparatively well rewarded and is in a financial position to make his or her own requirements on superannuation if so required.

Issue No 1

Compulsory superannuation for expatriates should be abolished

This paper recommends that the current compulsory superannuation for expatriates to be effective June 2007 be abolished in favour of voluntary superannuation with the employer/expatriate being able to opt out of the system. To this end we recommend that Section 10(2) be abolished with a new section “ In the case of employees who are non – citizen, contributions to an Authorised Superannuation Fund are voluntary.”

Similarly Regulation 4 should be abolished, as a phase in period of expatriate superannuation becomes irrelevant if we abolish compulsory superannuation for expatriates

Issue No 2

Change to access of benefits for expatriates permanently leaving Papua New Guinea

For expatriates permanently departing from Papua New Guinea, two issues are relevant for reconsideration by the Taskforce

Creating consistency in the legislation between foreign workers and Papua New Guineans on withdrawal

- Currently expatriates who permanently leave PNG have to wait 12 months before they can receive their benefit. There appears to be no ability to receive part pension payments after three months of unemployment. The recommendation is that the Section 90(2) be abolished putting expatriates who voluntarily contribute to an ASF on an equal basis with Papua New Guineans on withdrawal of benefits.
- Currently expatriates with benefits accrued to 31 May 2002, can withdraw these benefits immediately on departure - Section 19 (b) The aim of the Act should be to treat expatriate and Papua New Guinea workers equally. Therefore this section should be repealed in favour of all workers having the same rules for withdrawal after three months under the hardship provision or the stated 12 months of unemployment or permanent departure.

Giving expatriates the flexibility on leaving Papua New Guinea the option to transfer benefits to a licenced Fund in the country of domicile

- Similar a new section is required that states “An expatriate can access entitlements immediately on leaving Papua New Guinea if the withdrawal benefit is being transferred to a licenced Superannuation Fund in the country of domicile and the payment is made in favour of the licenced Superannuation Fund in the country of domicile.”

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