



Public Presentation

CINSF Act Review 2024

Agenda

- Introductions
- History and Background
- The Issues
- Rebalancing Roles & Responsibilities
- Strengthening Board Governance
- Income Tax & VAT
- Member Benefits
- Survey



History

The CINS Act 2000 was drafted in the late 1990s during a time that the Country had just been through a Financial Crisis, various reserves and insurance and pension funds had been taken, and there was very little trust in the Government. At the same time there was an exodus of Cook Islanders leaving for employment and opportunities in New Zealand.

The drafting of the CINSF Act 2000 reflected this by creating a Board outside of Government made up of Representatives of employers and employees, establishing a Trustee and placing members money under their protection, then empowering the Trustee to make all appointments and decisions for the Fund.

History

For the first 15 years the Fund operated under this mandate with the Trustee performing all the functions and the CINSF Board managing the collections and enforcement of the Act.

Over the past 9 years the Board have invested in securing highly skilled staff, investment education, improved governance, and risk management. As a result of this investment the Board began to identify opportunities to improve a number of areas of the Fund that would benefit members.

Implementing them has been difficult due to the roles and responsibilities structured in the CINSF Act.

Background

Considering the Funds history, the Board have looked to strengthen the overall management of the Fund with a focus on adding value to members.

Under the CINS Act 2000 and its amendments there are a number of areas that restrict the Board from making these improvements. It does not provide enough clarity to address changes in other relevant legislations such as Tax & VAT. Nor does it provide the ability to implement a robust selection process to appoint the best people to the Board.

Response from Crown Law has confirmed proposed Governance improvements and regulations cannot be added due to the design of the CINS Act 2000.

The Issues

In summary the issues to be addressed are:

- Rebalancing the Roles & Responsibilities between the CINSF Board and the Trustee.
- Strengthening the Governance of the Fund at Board level.
- Clarifying Tax and VAT for the Fund
- Member Benefits

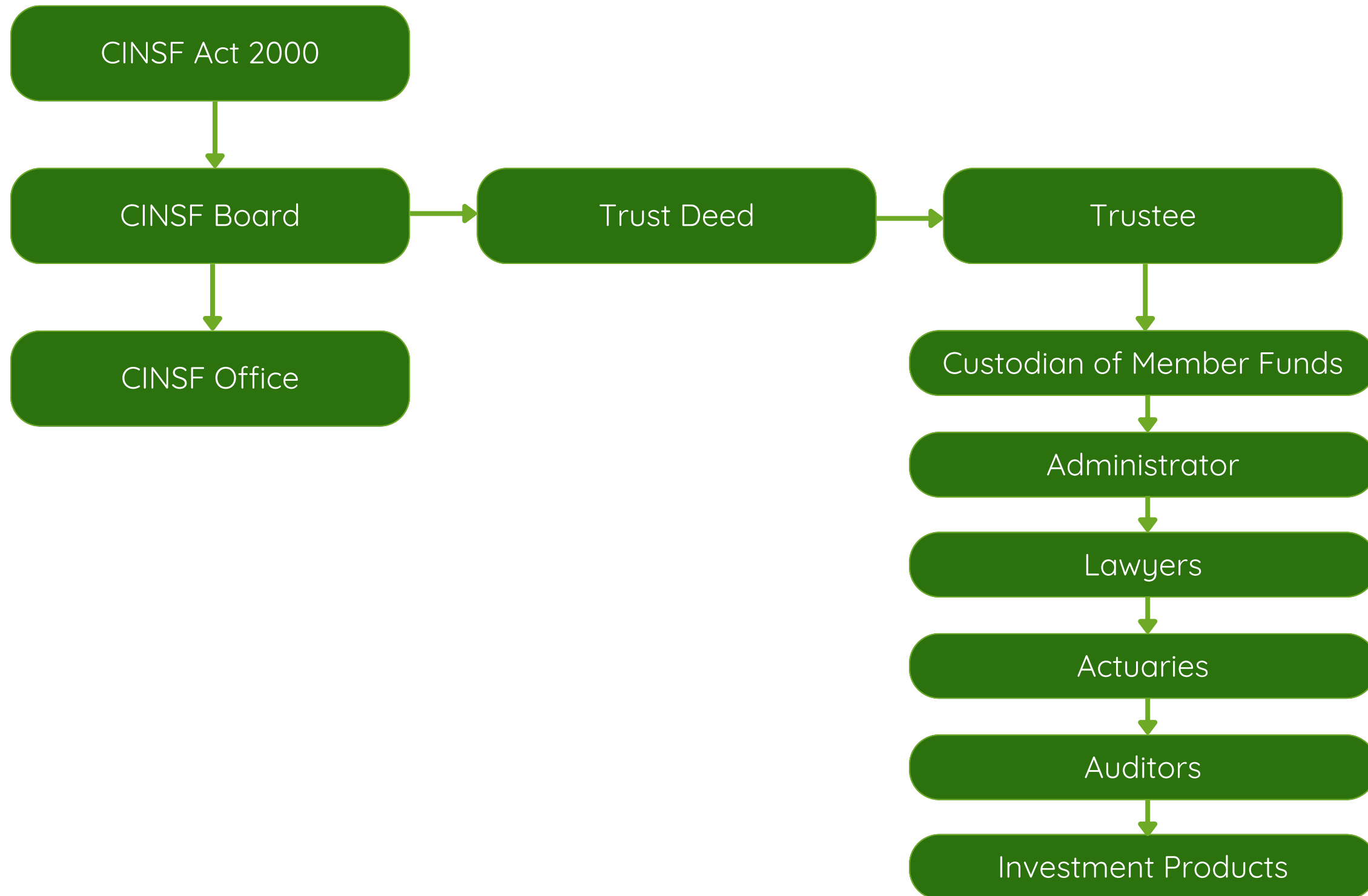
Rebalancing Roles & Responsibilities

2 independent reviews of the CINSF identified the imbalance of roles & responsibilities between the Board and Trustee and the risks to the Fund of having too much power in one.

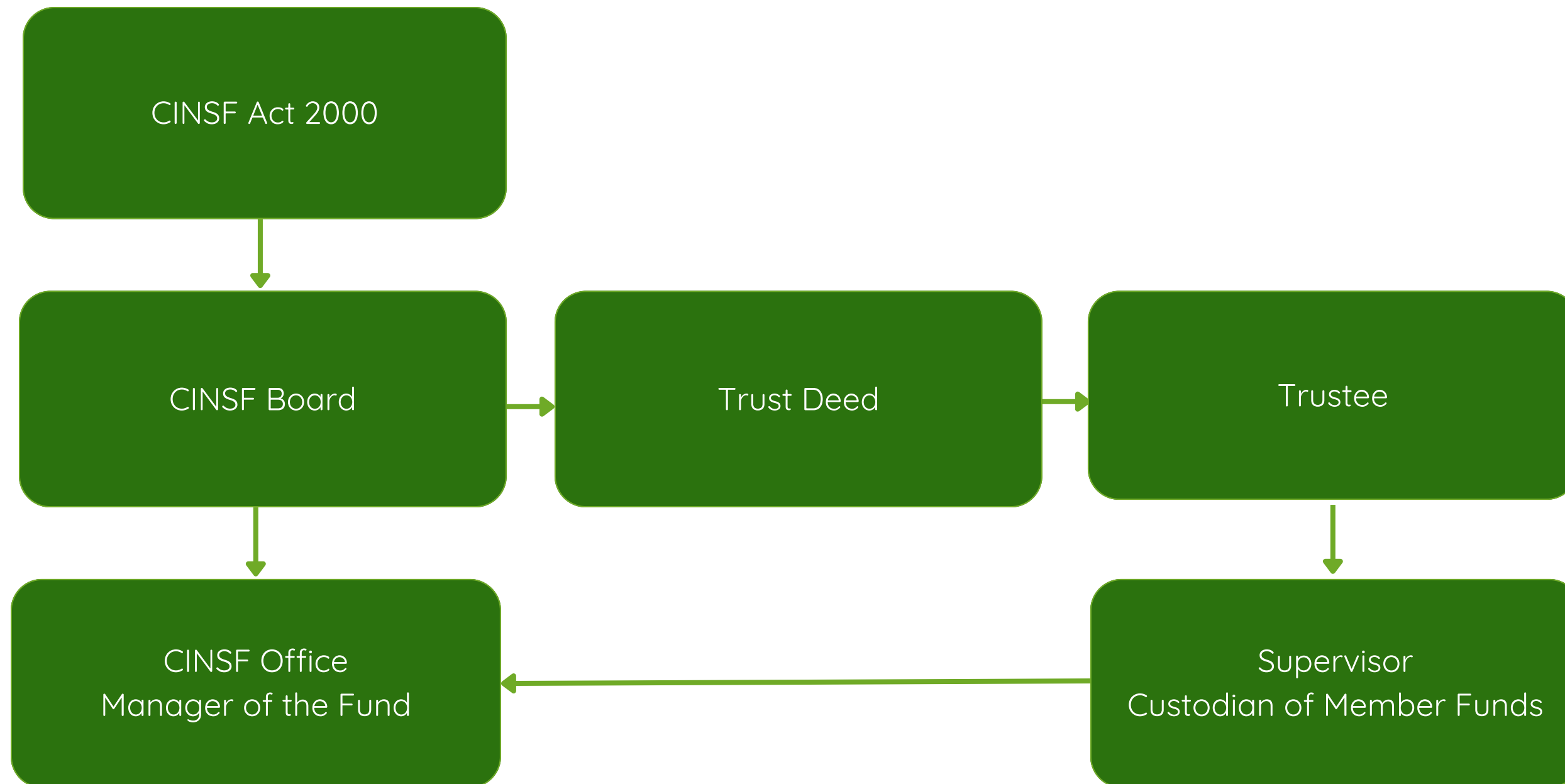
Each review recommended rebalancing them to model existing Funds under the NZ Financial Markets Authority.

Under this model the Trustee would remain independent, maintain protection of members Funds, and be responsible in a supervisory role. The Board would then be responsible for the management of the Fund and report to the Trustee.

Current Model



Proposed Model



Strengthening Board Governance

As the Fund continues to grow, presently over \$260million, so does the responsibilities and functions the Board are required to perform.

The CINS Act legislates 4 representative Board Members, and the ability for the Board to appoint additional Board Members. The CINS Act does not provide for the ability to establish a regulation to provide for a fit and proper persons test, nor a skills and experience requirement. This exposes the CINSF and our members to the risk of a Board Member being appointed without the skills & experience to manage this significant amount of members money.

Current Model

Members Representative
vote selection by members

Chamber of Commerce
Employer Representative
as nominated by the CoC

Additional Board
Members can be selected
by the Board

Non Chamber Employer
Representative expression
of interest selection by Board

Cook Islands Workers
Association Representative
as nominated by the CIWA

Proposed Model

New Regulation

- Fit & Proper Persons Test per FSC & Banking Act
- Qualifications, Skills & Experience Criteria
- Selection Panel and Transparent Process

CINSF Board

- 7 CINSF Board Members in total
- 5 Specialist Board Members
- 1 Member Representative
- 1 Employer Representative

CINSF Board

- Board appointment for term of 5 years
- Board Code of Conduct
- Board Performance Assessment
- Board Removal Process

Income Tax and VAT

The CINSF have recently been assessed by Cook Islands Revenue Management Division (RMD) for reverse charge VAT. This relates to components of the Fund that are engaged by the Public Trust in New Zealand.

Proposed changes:

- CINSF Act to include VAT exemption.
- The VAT exemption will be to address the reverse charging of VAT on the CINSF.

In reviewing this the CINSF Board also consider the fair treatment of income tax and have identified a component of a members contributions that should be taxed where an early withdrawal is approved.

Tax on Early Exits

A members contributions are deducted from their income after income tax is applied. A members contributions paid by the employer do not have income tax deducted. Members claiming an early withdrawal receive the employer contributions with no income tax applied.

Proposed changes:

- Introduce a withholding tax on the early withdrawal claims by members relocating permanently outside the Cook Islands.
- The withholding tax will only apply to employer contributions component.

By explicitly introducing a withholding tax on a members employer contributions for early exits, the Fund can align with its foundational principles as a non-profit entity focused on social security.

Member Benefits

Currently all the Member Benefits are held in the Trust Deed, and the Trust Deed can be amended by the Board subject to the Approval of the Trustee.

The Board seeks members consideration if the Member Benefits should be placed into a regulation that would add the requirement of Cabinet to amend such Benefits.

Proposal:

- Member Benefits to be placed into Regulation.

In addition to this the Board are considering an amendment to an existing benefit and also seeks member feedback on the current contribution rates.

Change to Pension Benefit

The existing Pension for Life Benefit and Pension Rates are structured to provide for all members based on the following inclusions:

- The pensioner is married
- The pensioners spouse is 10 years younger than them
- The pension payment continues for the life of the pensioner and then the spouse.

The Proposal is to provide an option to members retiring to select a Pension Benefit that is applicable to their personal situation. The Pension for Life and Pension Rates would then be adjusted and calculated differently for each option:

- A Pension Benefit for a married member.
- A Pension Benefit for a single female member.
- A Pension Benefit for a single male member.

Changes to Contribution Rates

The CINSF has maintained a contribution rate of 5% employee and 5% employer since the Funds inception.

The Board have from time to time debated and challenged if the contribution rates should be increased. The debate is split between the employer representatives and employee representatives on the Board.

To support an informed decision we seek to obtain responses through a survey, from both employers and employees on your views on the acceptable level of savings. The Board will then be able to then act on the results of the survey.



Changes to Contribution Rates

International research recommends contributions between 10%-15% to a pension scheme. The CINSF has benefits such as Critical Illness that pays out a lump sum equivalent to 1-2 years of contributions, from a members fund and reduces the long term outcome for a member at retirement. The CINSF also provides a Life Insurance benefit that is paid for from a members fund, this also reduces the long term outcome for a member at retirement. These reductions form part of the basis to review the contribution rates as follows:

- No change to the existing contribution rates
- Increase from 5% to 6% in 2025.
- Increase from 5% to 7.5% over 5 years at 0.5% per year.



