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Papua New Guinea

Review of the Social Security System: An initial assessment



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1. Introduction

This report aims to review the current social security and social protection in Papua New Guinea and to look at options for improving and extending their effectiveness and coverage. The particular focus is on the two main contributory social security systems, the private sector National Superannuation Fund (NASFUND), and the Public Officers Superannuation Fund (POSF). However, the report also examines other aspects of the current social protection system in Papua New Guinea.

In the framework of the ILO project 'Sub-regional initiative on social security for the Pacific island countries', the report was prepared by ILO consultant David Preston following a mission to Papua New Guinea in February 19-24 of 2006.

This report¹ has been organized as follows. Chapter 2 reviews the demographic and socio-economic aspects of the country. Chapter 3 analyses the existing social security systems. Chapter 4 develops feasible options of extending social security coverage for both the formal and informal economy workers. Chapter 5 summarises the main findings of the report and sets up suggested follow-up actions. Two annexes supplement the report.

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2. Background

2.1 Country overview

Papua New Guinea is the largest of all the Pacific Island countries. Its territory which covers of 462,840 square kilometers, includes the eastern half of the large island of New Guinea, plus a number of other island groups. Its neighbours are Indonesia to the west, Australia to the south, and most other Pacific Island countries to the east and north.

All of the territories of Papua New Guinea lie in the tropics. However, there are significant climatic differences between the mainly hot and humid coastal lowlands, the cooler interior highlands, and the oceanic islands. Administratively the country is divided into 20 provinces, each of which in turn consists of a number of districts.

At the time of the 2000 Census the size of population was 5,190,786, including 19,238 non-citizens. However, as the population growth rate between the 1990 and 2000 census dates averaged 3.2 per cent per year, the current population is probably approaching the 6 million mark. Population density however is low, and in 2000 averaged only 11.2 persons per square kilometer. At the time of the 2000 census 86.9 per cent of the citizen population lived in rural areas, and only 13.1 per cent in urban areas. However, 56.7 per cent of the small non-citizen population lived in the urban areas.

Ethnically the population is overwhelmingly composed of indigenous Melanesians, with very small minorities of European, Asian and other origins. About 800 different indigenous languages and dialects are spoken in the country. The administrative language of the central government is English, which is also the main business language. Most spoken communication between different linguistic groups is in Pidgin. At the 2000 census 96 per cent of the citizen population classified themselves as Christians. Roman Catholics and Lutherans were the two largest Christian groups

The population age structure is very young. The median age of the citizen population in 2000 was 19.7 years, with 40 per cent in the 0-14 years age group. Only 2.4 per cent were aged 65 or above. Life expectancy at birth is estimated in the World Factbook at 62.7 for men and 67.2 for women.

The average household size is relatively large, and is often of an extended family form. In 2000 the average citizen household averaged 5.4 persons. In urban areas this was 6.5 persons, and in the National Capital District which encompasses Port Moresby the average was 6.9 persons. The higher urban figures reflect the impact of migrating relatives and friends moving from rural areas and staying with established households in the urban areas.

The composition of citizen households in Papua New Guinea was as follows:

Table 1. Household composition

	%
Head of Household	18.4
Spouse	14.6
Own children	45.3
Step/Adopted children	3.3
Other Relative	17.0
Non-relative	1.4
Total	100.0

Source: 2000 Census National Report. (Table 2.3.)

At the Census date 90.9 per cent of the citizen households indicated that they owned their own house. Ownership is lowest in the urban area, being only 62.3 per cent in the National Capital District. This lower urban figure seems to be linked to the migration of people to areas where they have no traditional land ownership claims. By housing type, 75.5 per cent lived in traditional dwellings. As most dwellings are small, the number of persons per room averaged 2.2 in the year 2000.

Literacy rates are low but have been rising reasonably rapidly. Between 1990 and 2000 the literacy rate of citizens aged 10 years and above rose from 45.1 to 56.2 per cent. For males the literacy rate in 2000 was 61.2 per cent, and females 50.9 per cent. Literacy in English was 40.4 per cent, in Pidgin 45.2 per cent, and in indigenous languages (known collectively as Tokples) literacy was 41.7 per cent. Of these 5 per cent were literate in Motu, the largest indigenous language. However, there may be problems in maintaining the upward momentum in literacy, as in the 2000 Census only 50.9 per cent of the population aged 5 to 29 indicated that they had ever been to school.

2.2 Economic context

Most of the population of Papua New Guinea are engaged in subsistence or semi-subsistence activities in rural areas. However, the bulk of the measured GDP is produced in the commercial or market sectors of the economy. In effect a modern cash economy of mining, export crops, some manufacturing or processing, and private and government services employing a minority of the population coexists with the rural subsistence and semi-subsistence economy which still engages most of the population. The dual nature of the PNG economy has significant implications for the types of social security provision which are feasible. GDP per capita in U.S dollars at official exchange rates is under \$1,000, though the World Factbook estimates a much higher figure in purchasing power parity terms. However, the real meaning of this calculation is not clear since a high proportion of GDP is generated in the mining and oil sectors where income is mainly in the form of corporate profits.

The estimates of Gross Domestic Product (GDP) prepared by the National Statistical Office indicated that of a GDP at current prices of 11,568.6 million Kina in 2002, about 90.1 per cent came from the market sector, and 9.9 per cent from the non-market sector. However, if 1998 relative prices and values were used the non-market components would have been estimated at 19.5 per cent of GDP. Some of the explanation for the differential estimate may be the high rates of price inflation in the market sector up the beginning of the current decade. In effect the current price structure in PNG has comparatively high prices for goods and services of the type which enter international trade, or are part of the modern economy, and comparatively lower prices for products characteristically produced by the subsistence economy.

By sector the National Statistical Office estimate of the percentage composition of 2002 GDP was as follows:

Table 2. GDP composition by sectors

	%
Agriculture, Forestry and Fishing	38.3
Mining, Quarrying and Petroleum	18.6
Manufacturing	6.3
Electricity, Gas and Water	1.7
Construction	8.6
Wholesale and Retail Trade	6.4
Transport, Storage and Communication	1.6
Financing, Insurance, Real Estate, Business Services	3.5
Owner Occupied Dwellings	1.0
Community, Social, and Personal Services	11.7
Other	2.5
Less Imputed bank service charge	- 0.2
Total GDP	100.0

Source: National Income, Expenditure and Production 1994-2002. (Table 18.)

Of the major sectors, only the Agriculture, Forestry and Fishing sector has a substantial traditional component. The non-market component of this sector was 29 per cent of the output of this sector in 2002. For most other sectors (except the value of owner occupied dwellings where it was 43.3 per cent) the non market component was negligible or at least not counted.

In current price terms the GDP in 2002 had the following composition:

Table 3. Expenditure on GDP, 2002

	%
Government Consumption	7.5
Private Consumption	72.6
Change in Stocks	1.8
Gross fixed Capital Formation	19.6
Gross National Expenditure	109.4
Exports of Goods and Services	44.8
Less Imports of Goods and Services	-54.2
Gross Domestic Product	100.0

Source: National Income, Expenditure and Production 1994-2002. (Table 1.)

Of current private consumption only 13.3 per cent was calculated as coming from the non-market sector. However, as noted above this estimate reflects the structure of relative prices used for 2002 calculations.

The figures also demonstrate the high relative importance of the external trade sector for the economy. The major export sectors such as mining and oil production are capital intensive, and employ relatively little labour, which in turn affects the composition of income flows. The National Statistical Office estimates of GDP in 2002 were as follows.

Table 4. GDP income allocation, 2002

	Million Kina	%
Compensation of Employees	2,259.7	19.5
Operating Surplus		
Market Component	6,249.2	54.0
Non Market Component	1,367.9	11.8
Consumption of Fixed Capital	690.2	6.0
Indirect taxes	1,004.2	8.7
Less Subsidies	2.8	---
 Gross Domestic Product	 11,568.6	 100.0

Source National Income, Expenditure and Production 1994-2002. (Table 1.)

Economic growth has been slow and irregular in most of the recent period. The National Statistical Office estimated that real GDP was relatively unchanged between 1994 and 1999. Since population grew rapidly in this period, this implies falling real output per head. More recently the minerals boom seems to have given some extra impetus to the economy. However, a prolonged period of poor economic performance has had consequences in reducing the ability of the government to fund education and health services and infrastructure development.

2.3 Balance of payments

For a number of years PNG has had a structural deficit on exports and imports of goods and services, including the impact of high remitted profits. This deficit has been covered by capital inflows and external aid. More recently the mineral commodities boom has seen some strengthening in the short term balance of payments.

PNG exports are dominated by mineral products and oil, plus some other primary products, mainly tropical agricultural products such as palm oil and coffee.

Table 5. Export composition in 2004

	Million Kina	%
Mineral Products		
Crude Oil	1,852.2	
Gold	2,779.5	
Copper	1,544.2	
Sub total including other	6,007.5	73.1
 Agriculture and Other		
Palm oil	438.7	
Coffee	283.8	
Cocoa	218.0	
Other	747.5	
Sub total	1,688.0	20.6
 Forest Products	 459.5	 5.6
Marine Products	58.2	0.7
 Total	 8,213.2	 100.0

Source: Bank of Papua New Guinea Quarterly Economic Bulletin March 2005. (Table 10.6.)

2.4 Employment

The 2000 Census indicates that the employment sector comprising those in formal wage employment represented only 10.4 per cent of the employed citizen labour force. Those classified as being in subsistence employment were 67.4 per cent, and the unemployed 2.8 per cent. The exact composition of the other 19.6 per cent is not clear from the Census summary. A small percentage would be employers and self employed professionals and tradespeople. Most of the rest would seem to be involved in the informal cash economy. An estimate by some officials was that about 13 per cent of the labour force in total could be classified as being in the formal economy, with the other 87 per cent being either subsistence or semi-subsistence producers, or involved in various ways in the informal cash economy.

Of the small non-citizen population, 68.3 per cent of those economically active were in wage employment. However, for citizens resident in urban areas a relatively similar 64.2 per cent were in also wage job employment. In contrast in the rural areas only 5.7 per cent were in wage job employment.

The bulk of those in employment in PNG are thus in the informal economy. This latter grouping in turn comprises two main and partly overlapping groups.

Firstly, there is a large group consists of traditional subsistence and semi subsistence farmers and fishermen in rural areas. To some extent part of this group is involved in some cash generating activities through the sale of produce. Rural dwellers live mainly on land held in traditional ownership, of which grouping they form part. Most of the group is more accurately described as being involved in semi-subsistence rather than pure subsistence. The 2000 Census assessment of agricultural activities which involved 2,248 thousand people recorded that 61.5 per cent of production was for own use, while 38.5 per cent was produced for cash. Those engaged in producing Cocoa, Coffee, Rubber, and Oil Palm produced most of these products for cash sale. In contrast 84.5 per cent of production of vegetable and root crops, 82.7 per cent of livestock, 81.4 per cent of fishing and 75.5 per cent of poultry production was for the producer household's own use.

Secondly, there is a smaller but rapidly growing group of people who are involved in the informal cash economy. This group is mainly located in the cities and towns of PNG, and its members are often housed in squatter settlements which have been expanding on the fringes of urban areas. While mainly part of the cash economy, this group often also involves itself in subsistence activities, notably the planting of gardens when there is accessible land. Squatting may take place on publicly owned land, or on land belonging to traditional owners. Hence, the squatters have no security of residence in the land they are occupying.

Existing social security and social protection programs are concentrated largely on workers in formal employment. For those outside formal employment the main source of social protection is informal and comes from shared land ownership and from membership of extended family and Wantok groups. A Wantok is a kinship, linguistic, and socio-cultural grouping whose literal meaning is "One talk," reflecting 800 different languages and dialects spoken in Papua-New Guinea. Migration to urban areas is placing some strain on the Wantok system.

3. Review of the existing social security schemes

3.1 Social security for the formal employees

Formal social security in PNG for people in wage and salary formal employment comprises a mix of contributory and employer liability schemes of the following form:

(1) Retirement

Compulsory contributory retirement benefit schemes apply in the public sector and for private sector enterprises with 20 or more employees. The two major funds are:

- The National Superannuation Fund (NASFUND) for private sector employees
- The Public Officers Superannuation Fund (POSF) for public sector employees.

In addition, there is a separate fund for the military known as the Defence Forces Retirement Benefit Fund (DFRBF). At present it is understood that all but one of several smaller private schemes covered by mandatory contribution provisions have merged with NASFUND or are negotiating to do so. More details on the two main funds are set out in separate sections.

(2) Work injury

A Work Injury Compensation Insurance Scheme covering enterprises with 10 or more employees is funded by employer premiums paid to insurance companies. This covers medical treatment, and a scale of compensation payments linked to the degree of injury. In the case of death a flat rate amount of 25,000 Kina is payable. Small employer compliance with the requirements of the Act is problematic.

Apart from lump sum compensation for work injuries, there are no invalidity benefits, and no formal rehabilitation schemes. Members declared medically unfit for further employment can withdraw their accumulated balances from the superannuation funds.

(3) Sickness

Mandatory employer provision of sick pay is legislated for in the Employment Act. Up to 9 days of paid sick leave applies, with provision to accumulate unused credits for up to 3 years. Some employers provide more than the mandatory level of paid sick leave, though again small employer compliance is an issue.

Apart from paid sick leave, there is no cash sickness benefit.

(4) Maternity

Paid maternity leave of 12 weeks is provided in the public sector for qualifying permanent staff. However, 6 weeks of this has to be taken from accumulated sick leave entitlements, or else is unpaid. In the private sector only unpaid leave is provided for, though some employment agreements provide for paid maternity leave.

(5) Unemployment

There is no unemployment benefit. However, job losers with NASFUND and POSF balances who are still unemployed after 3 months can begin to draw down their account balances and

after a year can withdraw the balance. In practice, this is the largest ground of withdrawal from the two funds.

There are some retraining and trade training and testing schemes which some of the unemployed may access. There is also some provision of special employment on schemes such as road repairs, though there does not seem to be any formal link between this and job loss.

3.2 Other basic services

(6) Health

Health and medical services must be paid for, even in public facilities, though the charges do not cover the real costs of providing these services. Treatment for T.B, malaria, and HIV/AIDS is provided free. Otherwise part charges of various levels apply for treatments.

There is currently no social health insurance scheme, though some people are members of private health insurance schemes. These have had a somewhat checkered history in PNG, with some prominent scheme closures or failures.

(7) Education

Primary and secondary education must be paid for, and the cost of these fees is a heavy burden on many household budgets, particularly because of the large family sizes in PNG. This is despite the fact that the Education Department estimates that around 80 per cent of education costs are in fact met by the government.

(8) Housing

Housing is a major problem in urban areas. In rural areas people build their own housing on traditional land, using mainly local traditional materials. However, in urban areas both land acquisition and the cost of building modern style housing are major problems.

Land title acquisition is often a problem because of the issue of traditional ownership, and the banks and financial institutions will only lend to those who both have title and appear to be good credit risks. This classification excludes a high proportion of the urban population. The Housing Commission now owns only a limited rental housing stock (much was sold off), and now plays a very minor role in housing provision.

Both NASFUND and POSF lend money for deposits against the security of accumulated member account balances. This money goes to the banks and other financial institutions, which advance the rest of the money on mortgage. Proof of land title or right to occupy traditional land is a prior requirement. Once a loan has been made members must increase their Superannuation Fund contribution rate by 2 per cent to cover debt service and repayment.

3.3 The National Superannuation Fund (NASFUND)

(1) Key features of NASFUND

The National Superannuation Fund (NASFUND) was set up as successor to former National Provident Fund, which operated from 1980 to 2000, but virtually collapsed due to poor

governance and financial mismanagement. The organization was reconstructed under the National Provident Fund (Financial Reconstruction) Act 2000. The new replacement NASFUND scheme was subsequently set up, and was finally incorporated in 2002 as a company under the Companies Act, with much more stringent provisions for good governance. It took over the previous role of the National Provident Fund.

The transition involved difficulties for both employee members and their employers. NPF member account balances transferred into NASFUND were written down by 15 per cent, while employers had to make additional contributions of 2 per cent a year between 2000 and 2004 to help rebuild the asset base.

Contribution rates in 2005 were 5.5 per cent of covered earnings for employees, and 7.7 per cent from their employers. These rates are to be phased up to 6 and 8.4 per cent respectively over the next several years.

Despite its name, NASFUND is actually a defined contribution cash accumulation scheme with individual member account balances. A lump-sum retirement benefit, representing the sum of employee and employer contributions plus accumulated earnings, is payable from age 55. Some funds may be accessed for other reasons.

The governing body of the Fund is the Board comprising 7 nominated directors representing shareholder members drawn from employer and union groups, plus two other members selected for their expertise by the nominated Board members. There are no government directors on the Board.

The nominated Board composition represents the following shareholder organizations

- Employers Federation of PNG
- PNG Trade Union Congress
- Manufacturers Council of PNG
- PNG Banking and Financial Institutions Workers Union
- Rural Industries Council of PNG
- Chamber of Mining and Petroleum
- PNG Chamber of Commerce

Of the two independent members selected by the shareholder members of the Board, one has a union background, and the other is an independent financial expert.

A number of the NASFUND functions are contracted out. Aon Consulting provides the Administration, while Capital Securities undertakes the Investment Management. Rental collection on the Deloitte Tower is undertaken by LJ Hooker, while Tower Management is carried out by Ashton Brunswick.

NASFUND has seen a rapid growth of membership, including some from mergers. The 58,673 NPF active contributing members of 2001 had become 79,233 NASFUND active contributing members by 2005. Employer membership rose from 925 in 2001 to 1,123 in 2005. An interesting trend is that a number of employers with fewer than the statutory 20 members have now signed up.

In the figures which follow the 2001 figure represent the situation as taken over from NPF. Membership is active contributors, and excludes inactive accounts.

Table 6. NASFUND key statistics, 2001-2005

Year	Employer Membership	Employee Membership	Net Assets million Kina	Net Profit After Tax
2001	925	58,673	267.505	15.884
2002	945	65,199	326.317	33.487
2003	981	71,534	444.460	53.022
2004	1,014	71,505	522.426	53.458
2005	1,123	79,233	748.425	160.145

Source: NASFUND as published in The National, Feb 17, 2006.

It should be noted that the membership statistics cover active contributors only. There are also estimated to be around 180,000 currently inactive accounts in the fund. Many of these may reactivate if members find new jobs which require superannuation contributions. In other cases the balances continue to accumulate earnings until they are drawn out.

At the beginning of the NASFUND setup, profits distributed to member accounts were less than the rate of inflation, which was then running at over 10 per cent a year. The high growth in profits since then (including unrealized capital gains on assets held) has allowed profit allocations to members to substantially outpace inflation, which has since fallen to low single figures.

Table 7. NASFUND profit and interest rates, 2001-2005

Year	Net Profit Rate After Tax %	Credited to Member Accounts %
2001	8.4	7.0
2002	13.68	8.75
2003	16.05	12.50
2004	13.57	14.50
2005	32.83	29.00

Source: NASFUND

Of the unallocated profits a 4 per cent of assets reserve pool is held, while 3.8 per cent of the high 2005 profits were put into a provision for death benefits for members. This is still to be made operational pending negotiations with the Bank of PNG which is the regulator.

(2) Withdrawals from NASFUND

Despite the theoretical organization of NASFUND as a retirement benefit scheme, most withdrawals are actually for other purposes. The two big uses of NASFUND balances are for Unemployment, and for funding Housing. Only 0.8 per cent of withdrawals involving 3.1 per cent of funds are actually used for retirement.

Table 7. Member withdrawals from NASFUND in 2005

	No of cases	Amount (000 Kina)	% of cases	% of Amount
Unemployment	25,147	41,301	87.5	64.3
Disability	93	871	0.3	1.4
Emigration	1	14	-	-
Death	308	2,081	-	-
Retirement	243	1,993	0.8	3.1
Housing advance	2,897	17,348	10.1	27.0
Transfer	64	642	0.2	1.0
Total	28,753	64,250	100.0	100.0

Source: NASFUND

This pattern is unusual for a retirement benefit fund. It reflects the fact that no unemployment insurance scheme exists, while housing is a critical issue for urban dwellers. In effect the pattern of use of funds has evolved to meet the currently otherwise unmet needs of contributing members.

Another factor is of course the age structure of the population. There are proportionally few elderly people in PNG, and more people die before the retirement age of 55 is reached than last the distance to age 55 in wage and salary employment. A significant recent factor has been the rise in deaths from AIDS. Other people exit formal wage employment and return to village life before 55, partly in order to retain claims to traditional land.

At present if a member resigns or becomes redundant they must wait three months to begin partial fund withdrawals, and a year to access all their funds. Earlier access was requested. Against this, easier access would mean earlier use of funds and less preserved for retirement. This issue needs to be discussed further between Fund Management and Unions. However, longer term the better option would be to set up contributory short term unemployment insurance covering say the first three months of unemployment.

(3) Savings and loans

NASFUND also operates a savings and loans bank in adjunct to its main business. This aids members to save for other purposes, such as paying school fees.

In the course of consultation, trade union representatives raised the concern on the tax treatment of Superannuation Fund withdrawals. Members see themselves as being double taxed or taxed at excessively high rates on eventual fund withdrawals. Some of these concerns seem to relate to past practices, as the current tax treatment now seems to be more favourable. Also, the institution of tax free Retirement Savings Accounts gives more flexibility to fund members.

While NASFUND was complimented for its recent newspaper fact sheet on its accounts and business situation, the unions wished to see a more regular information to all members on the business affairs of the two Funds, and their implications for members.

3.4 The Public Officers Superannuation Fund (POSF)

(1) Key features of POSF

The Public Officers Superannuation Fund (POSF) is the public sector counterpart of NASFUND. It is also a defined contribution cash accumulation scheme, and operates under similar empowering legislation to NASFUND.

POSF has a six-person Board of Directors. This comprises the Managing Director, two government appointees nominated respectively by Treasury and the Department of Personnel Management, two PNG internal independent directors, and one independent non resident director from Australia. Directors have to be vetted by the Bank of Papua New Guinea and certified as fit and proper persons before they can be appointed. POSF also has an Audit and Compliance Committee, and a Membership Committee made up of representatives of the main public sector trade unions, plus two members of the Board.

Membership numbers are currently around 80,000, or about the same as in NASFUND. Membership turnover tends to be less because most of the members are permanent staff of the Government services and public sector organizations. However, there are also significant numbers of casual and temporary staff in the public sector who are not members of POSF. One estimate was that casual employees in central and local government may number 10,000 though no actual tabulation is available.

For a number of years the Government has not paid the full amount of its employer contributions into POSF along with employee deductions. Instead, it only paid an estimated contribution requirement when the member retired. Since 2004 the Government has started to phase its employer contributions up to the required level. However, the estimated value of the unfunded employer contributions is currently 1.2 billion Kina.

In the public sector the employee contribution rate is 6 per cent, and the notional government employer contribution rate is 8.4 per cent. Only half of this current contribution rate was paid in 2004. Government's current contributions are scheduled to phase up to full current contributions levels over the next several years. The proportional payment is scheduled to be 75% of current contribution liability in 2006 and 2007, and 100% by 2008. This still leaves unresolved the issue of the accumulated unfunded liability, which will continue to grow significantly in the 2006 and 2007 years until the full current contribution rate is paid. Thereafter the unfunded liability would grow in line with the earnings rate on member contributions unless government made extra contributions to pay off the accumulated liability.

The unfunded past contributions have an impact on government employee members who wish to borrow for housing. The 60 per cent advance of accumulated contributions and interest is only on their own contributions, and not on the total amount due including employer contributions as in NASFUND. Hence, only lower sums can be borrowed against member contributions.

(2) Earnings credited to POSF member accounts

POSF interest earnings allocations to members have less fluctuated than in the case of NASFUND. However, for a number of years these earnings were outpaced by inflation. More recently, earnings have risen as inflation has fallen, and members have received large real increases in their balances.

Table 9. POSF interest and inflation, 1998-2004

Year	Interest Credited	Headline Inflation
	%	%
1998	12.5	21.8
1999	13.0	13.2
2000	10.0	10.0
2001	10.0	10.3
2002	10.0	14.8
2003	19.0	8.4
2004	15.5	2.4

Source: POSF Annual Report 2004 (Page 9.)

(3) Use of funds by members

In POSF, unemployment is the major reason for the withdrawals of funds, and deaths exceed regular retirements. However, the ratios are less marked than in the case of NASFUND, as proportionally fewer government staff leave employment each year, and more stay in employment till retirement age. Also, housing advances are smaller in proportion to assets and cash flow.

A noticeable characteristic of the POSF statistics is that average amounts of withdrawal per member are much higher than in NASFUND. This reflects both higher average earnings and longer average duration of employment in the public sector. Total POSF member exits in 2004 at 2,314 were equal to around 3 per cent of membership. This low ratio can be expected to rise in the future as more public sector staff reach retirement age, and the expected increase in redundancies will also add to the total. This is a future funding pressure which POSF will need to meet.

Table 10. Member withdrawals from POSF in 2004

	Number	Amount (million Kina)
Unemployment, Resignation, and Redundancy	1,257	34.6
Retirement and Terminated Medically Unfit	449	27.4
Death	608	10.0
Sub Total Member Exit Payouts	2,314	72.0
New Housing Advances	n.a.	3.2
Total		75.2

Source: POSF Annual Report 2004 (Pages 14 and 31).

The improvement in earnings and increased payment of employer contributions by the Government has taken some of the current financial pressure off POSF. Up till 2002 the combinations of low earnings growth, rising member withdrawals, and delayed payments by government had put POSF in a position where its nominal assets were growing less than inflation, and a rising percentage of earnings was needed to fund member withdrawals. Improved earnings have resulted in improved financial balance, and member withdrawals for exit purposes are less than the 2002 peak.

Table 11. POSF member gross exit payouts, 1998-2004

	Million Kina
1998	37.9
1999	80.2
2000	52.2
2001	76.8
2002	89.3
2003	64.0
2004	74.2

Source: POSF Annual Report 2004 (Page 9.)²

It is understood that Government public sector restructuring plans may involve more redundancies in 2006-07. This could increase the number and level of claims on the fund.

(4) Insurance

POSF does not operate health insurance for members. Unlike NASFUND it also does not run a savings and loan branch, and is not considering a death benefit. However, it is considering instituting a Life Insurance option for members.

(5) Retirement Savings Accounts

POSF has instituted Retirement Savings Accounts. These are accounts into which members can transfer all their after tax accumulated benefits on withdrawal. These can then be drawn down in a programmed or variable manner rather than taken as a cash lump sum.

3.5 Harmonisation of POSF and NASFUND

A possible future policy is to merge POSF and NASFUND into one organization. In principle this could entail some administrative cost savings. It would also make somewhat easier movement between public and private sector formal employment, though there is an existing ability to transfer member balances between funds.

The administrative expenses of POSF in 2004 were 21.968 million Kina, with another 7.726 million Kina in investment expenses. Staff employed numbered 95. Net assets held were valued at 1,034.2 million Kina. Contributions received were 78.7 million Kina, including member contributions of 44.6 million, and employer (mainly government) contributions of 34.1 million.

The total expenditure of NASFUND in 2004 amounted to 9.185 million Kina. Staff employed numbered 59. Net assets were valued at 522.4 million Kina. Contributions received were 83.2 million Kina.

While the two organisations have similar active membership levels, NASFUND has lower net assets reflecting the lower average earnings and higher turnover rates of its active members. The difference in asset levels would be much greater again if the Government had paid its unfunded liability to POSF. Under these assumptions, POSF assets would have been more than four times the NASFUND level rather than twice the level as at present.

² It should be noted that page 11 of the POSF Annual Report text refers both to 72 million Kina of member exit payouts, and 74.2 million Kina of gross payouts. The reason for the difference is not specified.

For POSF exit payments in 2004 of 74.2 million Kina were equal to 7.2 per cent of assets. For NASFUND the equivalent figure of 33.9 million (excluding housing) was equal to 5.5 per cent of assets. This lower ratio is at first glance somewhat surprising given the higher turnover rate of members in NASFUND. It reflects the rapid recent growth of membership since the NPF reconstruction. There are also balances left in the Fund by currently inactive members.

On the POSF side an older average membership age and much longer periods of contribution, and higher income pushed up the value of average withdrawal amounts. In 2004 retirement payouts averaged 61,024 Kina per member in POSF as against 5,806 in NASFUND. For unemployment (including resignation and redundancy) the POSF payout average 27,526 Kina as against 1,514 Kina in NASFUND.

Comparing the two funds, POSF has a relatively mature long service membership structure, now moving into a higher payout phase, and NASFUND is a “younger” and still rapidly growing fund where average payout entitlements are still low and rapidly accumulating. POSF would appear to need its extra scheduled contributions from government if it is to keep up with its growing future payout obligations. In contrast NASFUND under normal conditions can expect to accumulate a substantial net asset for a number of years ahead provided job loss rates amongst members are not too high.

Both funds have moderate expense ratios. For NASFUND administrative expenses of 9.2 million Kina were 1.91 per cent of weighted average assets. This ratio has dropped from 2.38 per cent in 2000 as net asset levels have built up.

POSF quotes its administrative expense ratio as 1.5 per cent, down slightly from 1.6 per cent in 2000, though up from the 1.3 per cent of 2003. The 2004 figure includes two years levy totalling 2.3 million Kina from the BPNG. Spreading this figure between the two years would result in expense ratios of 1.4 per cent in both 2003 and 2004. The 14.5 million Kina administrative expenses figure used for the 1.5 per cent calculation however excludes 7.5 million Kina in life insurance provision under the Fund’s self insurance, and rejected claims by underwriters for previous years. If this figure is added to the administrative expense, the total amount is 22 million Kina, and the administrative expense ratio in 2004 would have been 2.3 per cent, or 2.2 per cent if the double year figure for the BPNG levy is split between the two years.

Considering the much higher client turnover in NASFUND, and the similar size of total membership, NASFUND seems to have the somewhat leaner administrative cost ratio. A combined operation could probably run with a lower composite administrative expense ratio.

The two funds have a similar purpose and similar types of accumulating obligations arising from a common defined contribution structure. POSF has a small residual obligation in the form of defined benefit pension payments for members who left the fund prior to 1991. However, these entitlements can be segregated from other business and separately funded by Government, and in any case the numbers of former members so eligible will decline over time as older retirees die off.

There are some differences in current or proposed associated benefit packages between the two funds:

- NASFUND is proposing to offer a death benefit funded from reserves
- POSF is proposing to instate (or reinstate) a life insurance option
- NASFUND has an associated savings and loan facility for members.
- POSF is instituting retirement savings accounts where member net retirement balance can be drawn down in stages rather than taken as a lump sum

These issues need to be worked through in any merger negotiations. However, they are not insuperable obstacles to a merger. For instance, current employee and employer contribution rates of the two funds are different, but these should be merged to the same rates by 2008

A much more fundamental problem is the unfunded liability of the government towards POSF. This is currently 1.2 billion Kina – a sum which is larger than the present total assets of POSF – and still growing. This is a potential threat to the viability of POSF. A combined organisation should not take over this unfunded liability. Hence, active negotiations on any future merger should not take place until the PNG Government has made firm arrangements to pay up all of the unfunded debt owed to POSF and its members.

An intermediate step would be to negotiate a schedule for the PNG government to pay these obligations. This could perhaps begin from 2008 when the current actual contribution rate is scheduled to phase up to the legal contribution level. It would be important to ensure that real compensation was paid in cash or in assets valued at market values. It would undermine the financial integrity of POSF and any combined fund if, for example, “compensation” simply took the form of transfer of government stock bearing less than market rates of interest.

Another possible obstacle to merger would be the Management Board composition of any merged entity. Employer and member reluctance to join up with any fund could grow if there was seen to be any dilution of the independence of Board management, which is seen as a strength of each organization at present.

Trade unions wish to see a larger worker representation on the Boards of POSF and NASFUND. They also considered that this would lead to more focus on issues of concern to workers, such as housing loans and the setting up of health insurance. At the same time there was no desire for a greater Government presence in the direction of POSF.

It should be noted that the management of the existing funds did not see much advantage in merging the two funds. Their views are summarized as follows:

- The current situation is working well, with good governance and financial management in both funds.
- Competition at the margin between the two funds has led to some useful product differentiation to the benefit of members. This should continue.
- The real current priorities are different, for example taking steps to extend the coverage of the working population.
- The problem of Government unfunded debt owed to POSF needs to be resolved.

4. Options for extending social security coverage

4.1 Expanding coverage of the existing social security schemes

Within the formal employment sector, the combined active membership of the various superannuation funds amounts to around 6 to 7 per cent of the economically active population. It ought to be possible to raise this total by several percentage points by extending mandatory coverage to new groups in the formally employed labour force.

- In the private sector this could be done by gradually reducing the size limit of enterprises required to insure their employees with NASFUND or other providers. Currently only enterprises with 20 or more employees are required to register. In stages, the limit could be dropped to 15 staff members (currently under consideration), then to 10 and later to 5 staff. Similarly, the requirements to provide Work Injury insurance could be dropped from the existing 10 staff to a lower number.
- In the public sector the option is to extend compulsory membership of POSF to cover casual staff. The government should pay employer contributions in respect of these casual staff. One way to do this is to require casual staff employed for more than say 3 months to join the scheme. In fact, many so called “casual” staff in central and local government have been employed for many years, though they do not meet current criteria for classification as permanent staff. There may be round 10,000 casual employees in central and local government, though no accurate figures currently exist.

4.2 Extending the scope of social security benefits

A second approach for those in formal employment is to extend new types of cover to deal with priority contingencies.

(1) Health insurance

Health insurance is probably the number one priority in the short term. It was raised as a major concern by the Public Employees Association, and also by the Trade Union Congress representatives. The TUC representatives commented that many people were already paying for private medical insurance, but were not very satisfied with the service or coverage they got. A more comprehensive scheme where all the money collected was spent on Health services for members was suggested.

Current publicly provided health services are under-resourced, and the cost of paying for anything more than basic treatment is a significant budgetary consideration for many people. Also, many medical specialities are simply not available in PNG, leading to requirements for medical evacuation abroad. These are all issues a health insurance scheme could address for members. However, the past experience of PNG with a number of health insurers has been somewhat checkered, and this reality needs to be factored into policy development.

The extension of compulsory contributory health insurance to formal employed persons would have several potential benefits:

- Insured members would be able to pay for significant medical bills

- More resources could be injected into an under-resourced health sector, to the benefit of insured members.
- To the extent that some existing services provided to members from public facilities were diverted to supply by private health providers, capacity would be freed up in the public health sector to help the uninsured majority of the population.

Several options for providing compulsory health insurance could be considered.

- Compulsory insurance with existing health insurers, along the lines now applying to Work Injury Insurance. The insurers would collect premiums and pay claims in a similar fashion. Some type of certification system would be needed to verify the eligibility and financial viability of insurers wishing to provide Health Insurance to those requiring compulsory insurance.
- The setting up of a single Social Health Insurance Fund, the approach now being adopted in Samoa.
- A composite arrangement, with membership of a central Social Health Insurance fund being the default option for those who do not insure with another qualified health insurance company. This option involves employers designating the health insurance company they wish to insure with, or otherwise paying premiums collected into a central Social Health Insurance fund.

A further variant lies in the way premiums are collected. An option is to use the existing superannuation funds (mainly NASFUND and POSF) as collection agents since they have existing premium collection facilities and contacts with employers and members. If this option were used, further options would then be either:

- Passing on the contributions to Health Insurance Funds designated by contributors
- Passing contributions to a single Social Health Insurance Fund
- Contracting with existing or new health insurance providers for health insurance cover for the covered groups of contributors. This could be done with a tender process.
- Setting up their own health insurance business.

The last option is the most difficult, since health insurance is a complex business which requires a significant degree of specialist expertise. This expertise has not always been demonstrated by some of the past health insurance providers, as evinced by the past failure of some providers. The first and third options are administratively simpler to set up since they use existing institutions. The third option (tendering for provision by Health Insurance companies) is compatible with either retaining this option or eventual development of a Social Health Insurance fund. It should also allow some economies of scale in negotiating premium structures.

(2) Unemployment insurance

Drawing down superannuation funds balances as sources of saving to cover the contingency of unemployment is currently the major single use members make of both NASFUND and POSF. This is a case of institutions evolving to meet previously unmet social needs. Unfortunately, this use of retirement funds has the side effect of reducing eventual savings available for retirement provision or invalidity.

The strength of demand for unemployment relief suggests that PNG should consider eventually setting up unemployment benefits. Calculations for a number of other Pacific Island countries involved in the social security project indicated that short term unemployment benefits could be set up and funded with contributions of between 1 and 3 per cent of salary or wage. The exact figures required depend on the level of the benefit as a

percentage of previous wages, the duration for which the benefits are payable, as well as the rate of unemployment.

Preliminary discussion with unions however indicated some wariness towards the idea of any extra mandatory contributions deducted from wages. More focus was given to earlier access to superannuation fund member balances.

It is suggested that the option of contributory unemployment insurance benefits be discussed further with employers and unions to identify priorities in relation to other social security options.

(3) Paid maternity leave

Paid maternity leave currently exists in the public sector, although the level of paid leave (6 weeks paid plus up to 6 weeks from accumulated sick pay entitlement) is less than set out in the two ILO conventions, which provide for 12 and 14 weeks paid leave respectively at payment rates equal to at least 50 per cent of previous pay. Some private sector employers also provide paid maternity leave, but these seem to be a small number of employers.

A social advance which would be supportive of greater gender equality would be to extend mandatory paid maternity leave to the private sector. Calculations done for the five Pacific Island countries in the initial social security study (Fiji, Kiribati, Samoa, Solomon Islands, and Kiribati) indicated that paid maternity leave at two-thirds of salary could be funded by levies ranging between 0.27 and 0.63 per cent of salary. As PNG has a very high birth rate, and relatively short periods of continuous employment in the private sector, its costs would tend to be at the high end of the range for the countries studied. However, the cost of a pooled fund would probably still be under the equivalent of 1 per cent of salaries and wages for men and women workers combined.

Paid maternity leave is usually regarded as an employer responsibility. It should be noted that ILO conventions advise against making paid maternity leave an individual employer liability. This has the effect of making pregnant women liable to dismissal to save costs, and employers with staffs made up mainly of younger women to be financially vulnerable, especially if they are small scale employers.

Instead, the ILO recommends pooling responsibility amongst employers. In the case of the private sector, this is best done through payment of premiums into a central fund, which in turn would pay out the maternity leave payments. This function could be added fairly easily to the role of the existing superannuation funds, notably NASFUND, who have existing contribution collection arrangements, and the necessary member data to calculate and pay entitlements. In the public sector the government could continue to act as its own social insurer for its own employees.

When the issue of contributory paid maternity leave for the private sector was raised with TUC officials they considered that employers should pay for this. Another possible option suggested was that this should be covered by compulsory health insurance if this was instituted.

Employer representatives reserved their position on the issue and noted that for employers the total level of employer contributions for a variety of purposes was the issue because of its effects on costs.

(4) Retirement pensions

Neither POSF nor NASFUND offer pensions to their members, though POSF has instituted Retirement Savings Accounts to allow programmed or periodic withdrawals rather than cash lump sum payments.

The lack of retirement pensions for formal economy workers is a serious long term problem. At present the retirement system for those exiting formal employment is built on the supposition that most people will return to their village of origin, build a simple house, live a rural lifestyle, and be absorbed back into their extended family and Wantok which will provide for their support as they become aged and infirm. This is still the majority reality in PNG. TUC officials noted that their members currently preferred lump sums, as this allowed them to use the money to meet a variety of needs, such as constructing a house back in their home area in retirement.

Over time this pattern will become less realistic as generations of urban born people grow up, and connections to the rural Wantok erode. The long run consequence of absence of pensions (and the evidence elsewhere in the Pacific that lump sums are quickly spent) will be the development of an increasing group of destitute older people.

One of the options for formal economy workers is to set up a pension system in place of or in conjunction with lump sum withdrawals. This would involve retiring members converting part or all of their retirement lump sum into a pension which would be paid until their death. This option would involve Superannuation Funds calculating an actuarially equitable pension purchase factor, and converting lump sums into periodic payments. If some form of indexation is required to cover future inflation, the initial pension payment would have to be adjusted down accordingly. A proper actuarial study would need to precede any determination of pension purchase factors.

However, realistic pension levels are likely to require longer periods of accumulation of retirement savings. In turn this implies later retirement ages than the present 55 years. In most developed countries the trend is towards pensionable retirement ages of around 65 years, though in developing countries 55 years is common. For the present time the idea of higher retirement ages this is not well integrated with PNG working life and retirement patterns, nor with often short adult life expectancy. Hence, raising the eventual retirement pension age may have to be a longer term consideration rather than a short term policy objective.

In the short term a full or partial pension option could be developed by POSF and NASFUND. POSF may be the place to start since its much larger member balances allow a more substantial pension to be purchased. Also, the spreading of payouts over a longer period may be a better fit with the POSF profile of an ageing contribution base.

(5) Social use of superannuation investments – housing loans

A major problem for many urban dwellers is the cost and availability of housing. Both union groups raised this issue, and suggested that a greater proportion of superannuation fund investments should go into member housing loans.

Certainly, this is an option for the two superannuation funds, though a shift into more housing lending could slightly reduce net asset growth. However, this will depend on the performance of the PNG economy. In the recent past the Funds have achieved large capital gains on commercial property and equity investments because of inflation. Under a low inflation environment, this magnitude of gains would not recur long term, and housing lending at market interest rates would look comparatively better or at least of similar financial value.

NASFUND currently has the larger housing lending profile, but could potentially lend more for this purpose. POSF has a low proportion of member funds lent or withdrawn for housing

purposes. Its ability to expand housing lending or housing withdrawals of member balances would be greatly enhanced if the Government paid over its accrued liability of currently unpaid employer contributions.

Expanded housing lending would still have to be within boundaries of creditworthiness. The issue of a possible impact of more housing lending on the rate of profit and the interest rates credited to member accounts under different economic scenarios should be discussed fully with employee representatives to ensure that a shift into more housing lending is what the majority of members want.

4.3 Issues in extending social security for workers in the formal employment

PNG is in a situation where resource limitations mean that careful consideration will need to be given to priorities for expanding the scope or coverage of formal economy social security. The fiscal limits government faces, and the greater unmet needs in the informal economy imply that expanding social security in the formal economy will have to be done on a contributory basis. In turn this has to be paid for by employers and workers.

By 2008 formally employed people in larger enterprises will be paying 6 per cent of their wage or salary in contributions to Superannuation Funds, and their employers 8.4 per cent. In addition employers have to pay for workplace injury insurance, and some other employment related costs such as sick pay. In this context there is probably only room for one new contributory program in the next several years.

Health insurance is probably the highest priority, although this needs to be clarified with unions and employers. Other options for discussion about relative priorities are:

- Short term unemployment insurance
- Paid maternity leave in the private sector

Of the other issues raised in this report in relation to formally employed people:

- The school fees payment problem for regular income earners may be most easily approached through a savings deduction facility such as is now provided by NASFUND. For low income and informal economy people different approaches may be needed.
- Extension of the coverage of the existing social security institutions can be progressively achieved by successively reducing the enterprise size required to enroll their employees. Over the next decade the present 20 employee limit could be successively lowered to 15, then 10, and later 5 employees.
- For work injury cover compulsory insurance could be dropped from 10 to 5 employees once the phasing for Superannuation is under way.
- POSF could begin work on developing an optional full or part pension option for its retirees based on actuarial estimates.
- Housing funding needs could be met to a larger degree by the two Superannuation Funds putting more of their investment portfolio into this area. For public sector employees the situation would be eased if Government pays its accrued liabilities contributions to POSF. This would immediately expand the member account balances which form the basis of individual housing borrowing ability. It would also provide POSF with the cash flow to fund increased housing lending.

4.4 Options of extending social security for workers in the informal economy

Formal social security currently covers only between 6 and 7 per cent of the labour force in PNG. Those covered are essentially that part of the formally employed population who are permanent public sector employees or employees of medium and larger private sector enterprises. Even extending existing cover to include additional groups of those formally employed may raise the proportion covered by only a few percentage points. At most the coverage ratio could be pushed up to around 13 per cent through employment-linked contributory systems, though a 10 per cent target may be more realistic in the medium term.

For the 87 or so per cent of the population in the informal economy other approaches need to be considered. It is helpful to look at those in the informal economy in terms of two main groupings. These are the semi-subsistence rural dwellers, and the mainly town and urban dwellers involved in the informal cash economy.

(1) Semi-subsistence rural workers

The majority of the population of PNG are semi-subsistence rural dwellers, with currently more focus on subsistence production for their own household use rather than production of products for the cash economy. However, they have some involvement in the cash economy. Cash receipts may come from sale of produce, intermittent casual or migratory employment, remittances from relatives in town, land compensation claims, and other sources. Cash expenditures cover purchases of some modern consumer goods and services, and payment of health and education expenses.

As a group the rural dwellers currently have limited formal social security needs. Traditionally owned land is available for cultivation, housing can be built from traditional materials, and strong extended family and Wantok networks create a risk pooling pattern which deals with most current needs. However, in three areas they are particularly vulnerable;

- The provision and cost of health services
- The provision and cost of education
- The impact of natural disasters or civil conflicts

Natural disasters come intermittently and cannot usually be predicted in advance. Because they affect whole communities, they overtax the ability of extended families and Wantoks to cope. Hence, this is a natural area for government involvement and response, albeit of an intermittent nature in any given year.

Education and Health Services are a different matter, as the need is ongoing. For the rural sector the problem in health services for example has three key components:

- The geographic availability of services is limited, and many people are distant from any but the most basic health care;
- The existing services are under-resourced in personnel, equipment, and supplies
- Health charges are a heavy burden for people with little cash income.

Somewhat similar issues arise in the Education sector, which reflects in low participation rates in Education.

These are not issues which can be solved quickly. They require long term development and the building up of infrastructure. In turn this will require greater Government spending on

Health and Education services. Most of the rural semi-subsistence cultivators do not have sufficient cash income to pay for the additional resource inputs needed.

(2) Workers in the informal cash economy

A somewhat larger set of problems exists for the people who are now involved in the informal cash economy. While some are effectively self-employed rural producers involved in cash cropping or other income earning pursuits based on traditionally owned rural resources, a very large component comprises recent migrants to urban areas and towns who do not have regular wage employment. These people involve themselves in a variety of income earning activities to make ends meet.

This group also have problems in funding health and education costs, though actual facilities are usually more accessible. Also, while they have somewhat more cash income than semi-subsistence rural people, they must outlay more cash for food, housing, and other costs. Also, long term links to Wantok and traditional lands may erode over time.

Key current social protection needs for this group include:

- The cost of Health Services
- The cost of Education
- Housing
- Employment
- Retirement Provision

(3) Health services

The PNG Government may not have the financial resources to extend adequate free health care to the whole population. Compulsory Contributory Health Insurance, if it goes ahead, will cover only formal economy employees.

An option is to introduce some degree of extra subsidization for the very poor amongst the informal economy. This could, for example, take the form of health cards for the urban poor which would entitle them to free or low cost treatment in public facilities for a specified range of health services.

(4) Education

Many of the urban informal economy workers will need training and education for their children if they are to avoid becoming a permanently disadvantaged underclass.

Again, cost is the key problem, since the geographic availability of schools is less of a problem than in the rural areas. If free basic schooling is not affordable for the PNG government, addressing the issue may require selective subsidies or scholarships for children from poor families.

(5) Housing

This is the most difficult social issue for urban informal economy workers. Only some of them are likely to be able to meet the criteria of financial institutions for housing loans. By default, a high proportion of people in this group who have no town relatives able to provide accommodation end up living in shanties in squatter settlements. These areas may also lack adequate power, water supply, sewerage, and refuse disposal.

In the end government may have to provide more housing assistance for this group. Possibilities include:

- Government leasing housing section on long term leases to allow more people to construct their own housing with security of title.
- Government rental housing
- Government funded loans or grants, as in Fiji.

The second and third options are currently constrained by limitations in government financial resources. The first option which would help some people should be more easily feasible.

(6) Employment

The instability of incomes for informal cash economy workers is a problem. Some of the issue is dealt with by resource sharing amongst extended families and Wantoks. In other cases members of this group without livelihood can return to their rural villages of origin. However, there will inevitably be a growing group for whom these options are not available.

It is currently unrealistic to provide unemployment benefits for this group. Most could not afford to pay for contributory unemployment insurance, and Government resources have other priorities.

More realistic options would seem to include:

- Special employment on infrastructure development or maintenance projects. This would involve payment of minimum wages for people undertaking work such as roadbuilding and repair.
- Skills training for employment. One obvious area is in skills related to the building trades if a larger housing construction programme gets underway.

(7) Retirement provision

Longer term the issue of retirement income provision will arise for many in this group, though the demographic age structure indicates that the main current needs are those of adults and children.

Longer term PNG may have to consider either a low rate universal pension along the lines of the Kiribati scheme (a low rate pension at age 70), or means tested social assistance along the lines of the Fiji Family Assistance Scheme. However, this is not yet the immediate social protection priority for PNG.

5. Summary and the way ahead

Papua New Guinea needs to establish a feasible policy and implementation strategy to extend social security coverage. In the short term options for expanding the scope of these programs and the proportion of the population covered relate mainly to the workers in the formal employment sector. In these areas a contributory approach involving employers and employees is the feasible option. In the longer run the larger unmet needs of the informal economy would require an expansion of government expenditure on social programs such as health and education, and the infrastructure to support them.

A number of options are developed for the formal employment economy which represents 13 per cent of the labour force. For the formal sector feasible options for the next few years are:

- Expanding coverage of the existing contributory superannuation systems to larger groups of workers in the private and public sectors
- Adding a new program of social security benefit in the medium term. Health insurance seems to be the highest priority. Other priorities are paid maternity leave in the private sector and short term unemployment insurance.
- The Government progressively paying over its unfunded liability owed to the Public Officers Superannuation Fund
- The Superannuation Funds increasing the share of their resources going into Housing Loans and Member Account Drawdowns for Housing purposes.

Because a large portion of the population are involved in the informal economy and live on a semi-subsistence basis, there are currently rather limited options for extending formal social security protection to the majority of the population.

For the population involved in the informal economy, the priorities are health, education, housing, and employment. The fiscal problem is how much the Government can subsidise, since most in the informal sector lack the financial resources needed to pay for increased facilities and services.

For any future follow-up actions, the following points need to be taken into consideration.

General

- In the medium term, a large proportion of population is likely to work in the informal economy, with a low cash income available to the households. The fiscal constraints facing the Government will limit the resources allocated to publicly provided social protection.
- However, there are prospects for extending the extent and labour force coverage of contributory social security amongst the formally employed part of the labour force.
- Further, in the next few years the most priority program can be added to the existing provision, and that careful consideration will have to be given to the relative priorities of the several options for which there is a clear social need.

Retirement benefits

- A majority of the funds accumulated in member accounts in NASFUND and POSF are drawn on for reasons of unemployment, job termination, and the funding of housing rather than retirement.
- For workers in formal employment there is an increasing need for a regular cash income rather than a lump-sum. POSF and NASFUND should develop options for

payment of pensions on an actuarial basis as a partial or full conversion of the lump sums.

- In the long run PNG may have to consider a tax funded pension or social assistance scheme for destitute older people, particularly in urban areas.

Work injury

- Work Injury Insurance currently covers only enterprises with 10 or more employees. The Government should lower this threshold in order to extend cover all workers with employer-employee relationship.
- The Government should provide rehabilitation of those suffering from work injuries or occupational diseases.

Paid maternity leave

- There is a high need of extending paid maternity leave to workers in the private sector, in line with ILO conventions.
- A feasible option is a pooled funding system financed by employer levies. This could be done either by a separate new agency, or by NASFUND acting as an agent for the collection of premiums and the payment of claims.

Unemployment insurance

- Unemployment and job termination are the main reasons for the withdrawals of retirement funds from NASFUND and POSF. In the event of unemployment, unemployed workers should have easier access to retirement funds to meet the immediate cash need.
- In the medium term, PNG should consider setting up short term contributory unemployment insurance benefits to meet this financial need, and to assist in greater preservation of retirement funds for retirement purposes. One option would be for NASFUND and POSF to act as agents in the operation of such a fund.
- For unemployed and destitute people in the informal economy, a practical option to consider is the use of tax-funded special employment on the construction and maintenance of infrastructure such as roads.

Health

- In view of the difficulties in the availability of health services, and the problems many households have in paying for health care, the government should consider the introduction of a compulsory contributory health insurance system for workers employed in the formal employment sector.
- It should be noted that provision of health insurance cover to low income workers is likely to require a government subsidy.

Education

- The cost of school fees is a significant financial problem for many households, and is one of the reasons for the low school participation of children in PNG
- For people in regular formal employment, saving to pay these fees is probably the most realistic option. NASFUND already has such a savings option, and that some of the professional association in the public sector also have savings institutions
- POSF should consider to offer its members a regular savings option.
- If the government cannot afford to fund free basic education, it will need to consider some form of scholarships or fees remission for children from low income families if universal education is to be achieved.

Housing

- An increased housing loans by POSF and NASFUND would contribute towards easing the housing problem in the urban areas of PNG
- The ability of POSF to undertake increased housing lending would be enhanced if Government paid its currently unfunded employer contributions to POSF.
- In relation to people employed in the urban informal economy who are often congregating in squatter settlements, the Government will need to consider new initiatives to increase the supply of land for building purposes and the financing of housing construction.

POSF and NASFUND

- NSAFUND should develop plans for the progressive lowering of the threshold for compulsory enrolment of employees in a Superannuation Fund from the current limit of 20 employees to lower levels which extend coverage to more workers.
- POSF should include casual employees in its coverage.
- In the longer run it may be possible to save administrative costs by merging NASFUND and POSF into one institution.
- The government should develop concrete plans for the payment of the accrued unfunded employer contributions to POSF.

Annex 1. Terms of Reference

Under the supervision of the Director of ILO Suva, and technical guidance and backstopping of the Chief Technical Advisor (CTA) the Consultant will perform the following Tasks:

1. Review the existing social security system provided by the National Superannuation Fund (NAS Fund) which was formerly the PNG Provident Fund, and the Public Officers Superannuation Fund (POS Fund).
2. Compare the two Funds' complementarity and competing roles and recommend the best way of operating social protection system of PNG considering the cost benefit effects.
3. Review the scope and opportunities of improving productivity and efficiency of Social Protection system of PNG.
4. Review and recommend the scope of expanding social protection coverage to greater number of people and its possible impact on existing social security systems.
5. Take into consideration the existing level of coverage and contribution and what options are open for future development.
6. Submit a report to ILO after reviewing the social protection system of PNG with possible options and recommendations.
7. Any other activities needed for the successful completion of this TOR.

Annex 2. List of persons consulted

Department of Labour and Industrial Relations

Mr David Tibou	Secretary, DLIR.
Mr Martin Kase	Deputy Secretary
Mrs Evanelia Kini	First Assistant Secretary, Corporate Services
Mrs Maria Lovaga	A/FAS Labour Standards
Mr Meli Kiving	A/Controller National Apprenticeship and Trade Testing Board
Mr Ken. Kennedy	A/Principal Policy Development Officer
Mr Richard Samuel	A/Director International Labour Affairs Division
Mr Peter Pokana	Acting Director National Tripartite Consultative Council

Papua New Guinea Trade Union Congress

Mr Ayang Melan	President, PNGTUC.
Mr John Polume	
Mr Murray Paiva	Secretary, PNG Nurses Assn.

Employers Federation of Papua New Guinea

Mr John Jeffery	President, EFPNG
Mr Tau Nana	Executive Director, Industrial Relations
Ms Florence Willie	Legal Counsel, Member Services Director
Ms Shirley Maladina	

National Superannuation Fund

Mr Rod Mitchell	Managing Director
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Public Officers Superannuation Fund

Mr Leon Buskins	Managing Director
Mr Wayne Smith	General Manager, Corporate Services

National Aids Council Secretariat

Dr Ninkama Molya	Director
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Department of Education

Dr Joseph Pagalio	Secretary
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Department of Personnel Management

Mr R Vagi	Deputy Secretary, Operations
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Public Employees Association

Mr Michael Malabag	President
Mr Didiulosi Boshen	General Secretary