Our Vision

That the people of the Marshall Islands are provided with long term financial security in their retirement age and during disability.

Our Mission

To safeguard and sustain the financial stability of the retirement fund by operating within the guidelines of the law, compliance to the set policies and procedures, and adherence to the principles of good governance, transparency and accountability.

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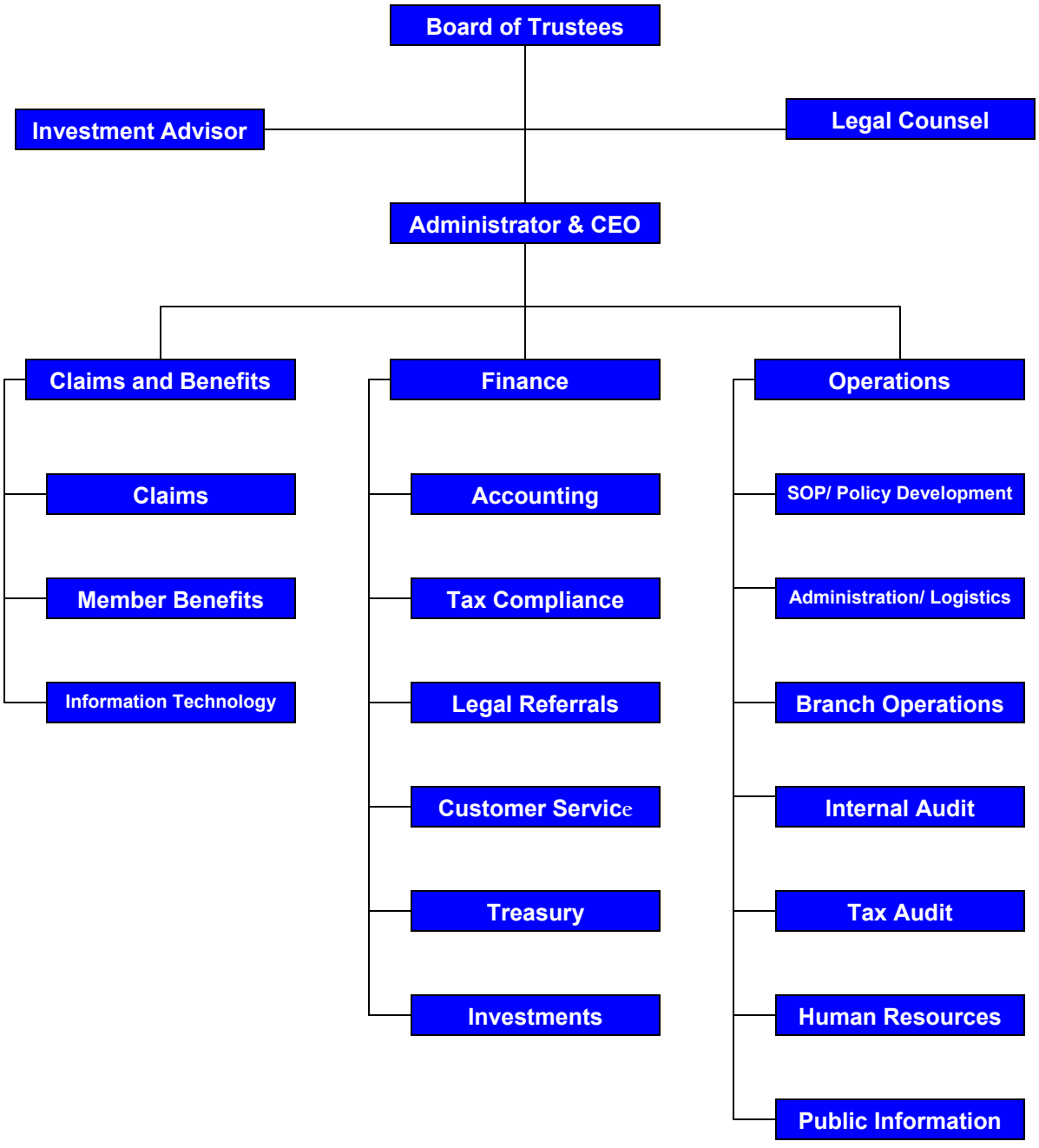
Appendix

Financial statements & independent auditors' report

"Now, we can proudly say that MISSA, an organization that has struggled for many years to put back social security on a sound financial footing, has lived up to its very simple mission: ***to continue to improve for the welfare of the people of the Marshall Islands.***"

MISSA Management and Staff

MISSA' s Organizational Structure



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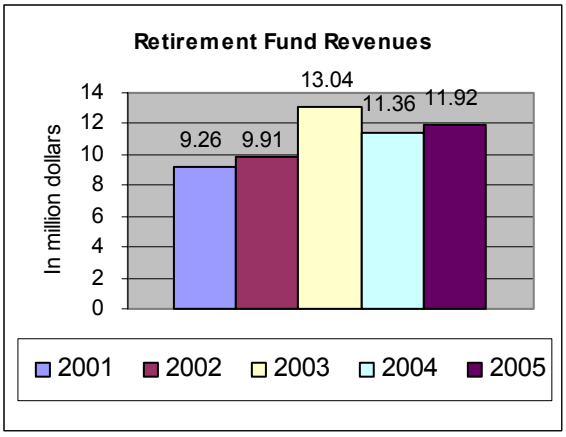
Years in Review

Fiscal Years 2004 & 2005 both ended with clear signs of much healthier and sound financial management than in recent years. Targeted tax collections and other revenues were attained as numerous delinquent employers came forward to avail themselves of the several payment options offered by MISSA, in order to avoid the high cost of litigation. Likewise, all benefit payments and operating expenditures were sustained within the approved budget, while MISSA's investments have consistently performed well, despite the present instability in certain parts of the globe.

Revenues from Retirement Fund contributions

Revenues in FYs 2005 and 2004 increased to $11.9 million and $11.4, respectively, and surpassed the collections in FYs 2001 and 2002 of $9.26 million and $9.91million, respectively.

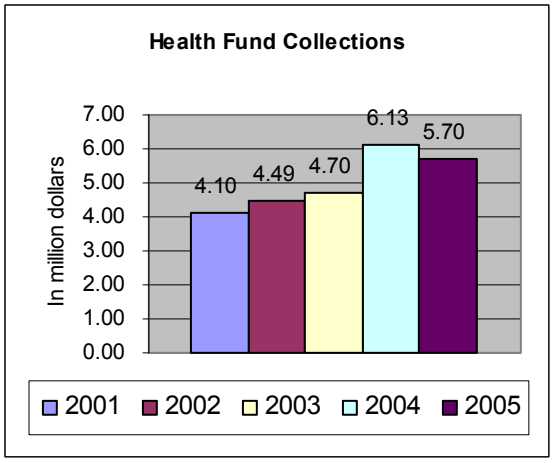
During the height of MISSA's massive collection campaign in FY 2003 directed against numerous delinquent businesses, including certain agencies of the government, revenues reached $13.04 million. $3.4 million of these represent delinquencies prior to FY 2003 which were booked only in 2003.



Collections from Health Fund contributions

Although the administration of the Health Fund was transferred to the Ministry of Health (MOH) in 2003, MISSA still continues to collect Health Fund contributions. However, these are no longer recognized as revenues and do not form part of MISSA's financial statements. In return, MOH pays 3.5% collection fees to MISSA on the first $4 Million collected annually.

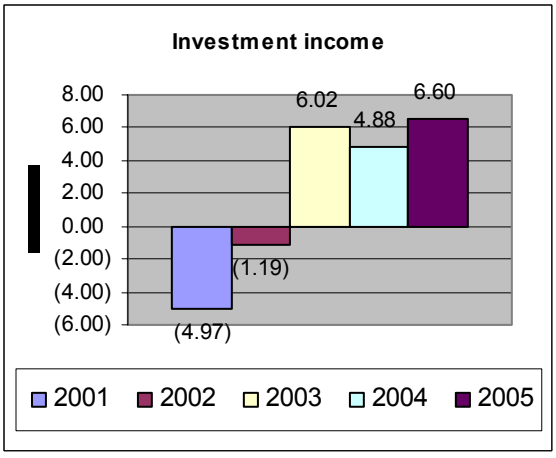
The collections in FYs 2005 and 2004 amounting to $5.7 million and $6.13 million, respectively, surpassed the collections in FYs 2001, 2002 and 2003 of $4.10 million, $4.49 million and $4.70 million, respectively.



Revenues from investments

As the world stock market rebounded in 2003, MISSA's investments also recovered from its slump performance in previous years. Because of the improving global stock market, MISSA's strict adherence to its investment policy of investing in no-load, low-cost mutual and exchange traded funds at a set asset allocation, and the low management fees charged by the new Investment Consultant and Custodian hired in November 2002, MISSA's investments were able to sustain its gains, despite certain global events that threatened the world economy.

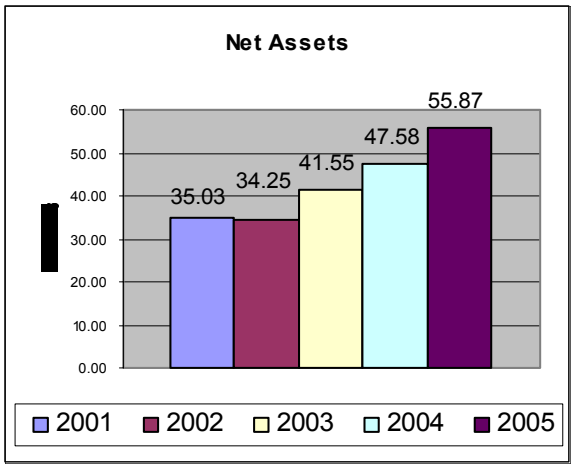
The September 30, 2004 report from MISSA's investment advisor reflected an annual investment gain of $4.88 million, or a net Internal Rate of Return (IRR) of 16.67%. Although the net IRR is lower than the 2003 IRR of 31.23%, it is still quite a stark contrast from the $4.97 million and $ 1.19 million losses in 2001 and 2002, respectively.



In FY 2005, MISSA's investment s performed consistently better, gaining another $6.6 million and an IRR of 18.9%.

Net Assets

The outstanding performance of MISSA's investments resulted to tremendous increases in its net assets valued at $55.9 million and $47.6 million at the end of FYs 2005 and 2004, respectively. Five years ago, net assets amounted to $35.0 million only.

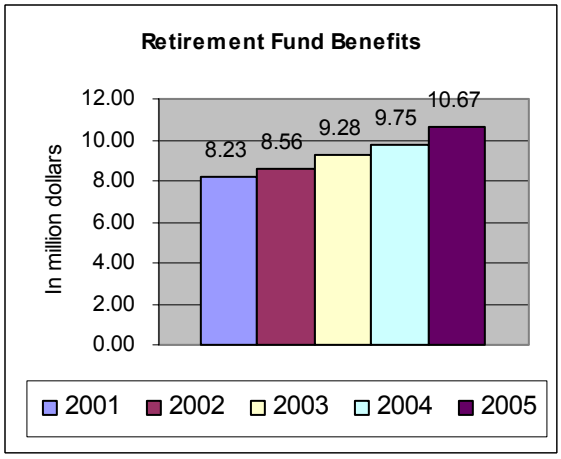


Cash management

The steady growth in tax collections in the last five years, estimated at 4% annually has successfully sustained the benefit programs of MISSA. This strong operating cash flow, coupled with control and efficiency, enabled the Administration to pay benefits on time, estimated at around $900,000 every month covering more than three thousand beneficiaries.

At the end of FY 2004, MISSA had a cash surplus of almost a million dollars which was subsequently invested through Fidelity Investments. Another $1.2 million cash surplus was invested in FY 2005.

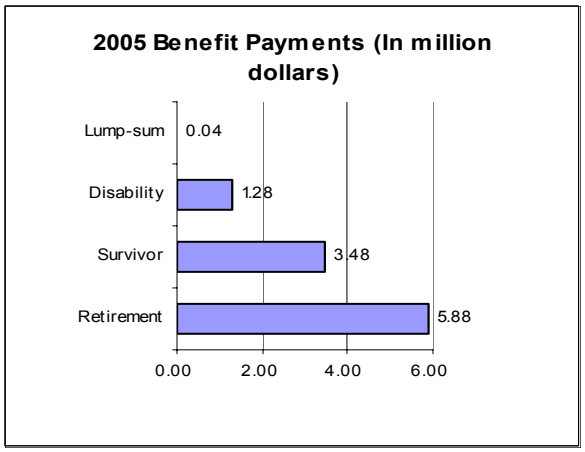
Retirement benefits



Retirement, survivor, disability, and lump sum benefit payments amounted to $9.75 million in FY 2004, or an increase of 5.06% from the $9.28 million paid in FY 2003. These also surpassed benefit payments in FYs 2001 and 2002 of $8.23 million and $8.56 million, respectively.

In FY 2005, it further increased to $10.67 million or 9.50% higher than that of 2004.

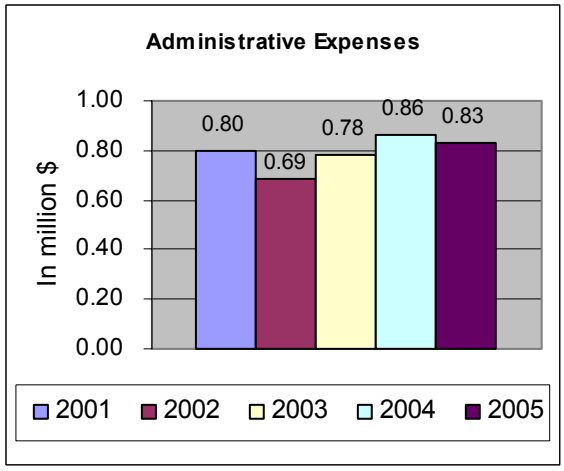
In the last five years, benefit payments have increased steadily at an average rate of 7% and have been sustained by the effective collection efforts of the Administration.



	(in million dollars)	
	2005	2004
Retirement	$5.88	$5.29
Disability	1.27	1.18
Survivors	3.48	3.25
Lump sum	0.04	0.03
Total benefits	$10.67	$9.75

Administrative expenses

In FY 2000, MISSA employed about 40 personnel and spent $1.55 million annually in salaries and operating costs or about 14.5% of the total revenues. At that time, the newly installed Administration noted that the organizational structure was over-staffed and numerous functions were dupli-



cated. Subsequently, individual job descriptions were updated, unnecessary positions eliminated and cross functions introduced. The annual salaries and employee benefits then gradually decreased and individual productivity maximized. The number of personnel was further reduced when the administration of the Health Fund was transferred to MOH in 2003.

In FY's 2005 and 2004, MISSA employed 26 personnel or 35% less than the total employees in 2000, and spent $0.83 and $0.86 million, respectively, in administrative expenses, or only 6.9% and 7.6%, respectively, of the total revenues. By law, MISSA is allowed to spend as much as 20% of the total revenues in administrative costs.

Actuarial valuation of System's accrued liabilities

The actuarial report released by MISSA's new actuary, Pacific Actuarial Services LLC, as of October 1, 2003, reflected an increase in MISSA's funded Actuarial Accrued Liability (AAL) from 16% in 2001 to 20% in 2003. The increase was greatly affected by the significant recovery of MISSA's investments from a negative return of –13.15% and –4.04% in FYs 2001 and 2002, respectively, to a gain of 11.24% in FY 2003. This resulted to an increase in the market value of MISSA's assets from $35.03 million in FY 2001, to $41.55 million in FY 2003. This positive return in FY 2003 and what appeared to be an improvement in the world economy means, that although a deficiency still remains, MISSA is now in a better position to pay current benefits into the future.

With respect to current and former workers who have contributed to the System, MISSA has an AAL of approximately $205.75 million as of October 1, 2003. Assets held cover approximately $41.55 million (or 20% of the AAL). The unfunded AAL is therefore, $164.20 million. In layman's term, AAL is the value of benefits of current and former workers MISSA is obligated to pay as a result of past contributions. These individuals comprise of the following categories:

- workers who are actively employed and contributing to the System;
- former workers who retired and now receiving benefits, including their dependents ; and
- former workers who are not receiving benefits and are no longer making contributions, but who are fully insured based on past contributions.

In as much as MISSA wants to increase benefit payments in the future, it also has to consider its future financial stability and sustainability.

In 2005, MISSA's actuary conducted a study on the effect on its unfunded accrued liability and estimated future benefit payments projected through fiscal year 2015 with the following assumptions:

- No changes were made to the system;
- The basic benefit was capped at a maximum monthly amount for future beneficiaries;
- Benefit payments to all current beneficiaries were immediately increased by 4% (this is what the present retirees are asking); and
- Benefit payments to only current retirees were immediately increased by 4%.

In addition, the actuary made an estimate of the combined employer and employee tax rate such that contributions collected each year will not be less than estimated future benefit payments through FY 2015. And finally, the study has explored and explained the issues associated with:

- Allowing retirees to receive their benefits as a one-time lump sum payment instead of a monthly annuity paid over their retired lifetime.
- Elimination of the current earnings test.
- Allowing a surviving spouse who is him(her)self receiving benefits to continue to receive benefits that were being paid to the deceased spouse prior to his/her death.

The results of the study, although alarming, gave the administration a more vivid look of the future. One scenario that was presented in the report was that by year 2015, MISSA would have made draw downs of about $21.5 million from its investments, to sustain all benefit payments with no changes to the present system.

Audit reports and findings

Deloitte & Touché has issued once again an unqualified opinion on the Administrations FYs 2004 and 2005 financial statements. MISSA has consistently earned this top rating in as many years since the incumbent Board of Directors and Administrator came on board.

Similarly, the auditors' report on compliance and on internal control over financial reporting for the same years revealed no audit findings. This simply means that the auditors found no reportable conditions that would indicate any misstatement in MISSA's financial statements or non-compliance to existing laws, generally accepted accounting principles, standards and practices. Further, all unresolved audit findings related to financial transactions attributable to previous administrations were totally cleared and accounted for.

Future economic outlook

The end of FY 2005 marked the 2nd year of the implementation of the amended Compact of Free Association between the Governments of the Republic of the Marshall Islands and the United States of America. MISSA's anticipation in 2004 for a significant rise in tax collections met with some reservations as the year came to a close. The realization of additional revenues by MISSA from multi-million dollar Compact funded construction projects has been rather slow and at times difficult to monitor.

The closure of certain locally-owned businesses negatively impacted total tax collections for the year as many local workers lost their jobs. The Health and Education sectors continue to face intrinsic challenges despite having the lion's share of Compact funds. Foreign assistance and aid from other governments, primarily Taiwan (ROC) and Japan, have been consistent and oftentimes a stabilizing factor in times of financial crisis.

On the other hand, the continued strong performance of MISSA's investments over the last few years in spite of global economic conditions provides a reliable forecast on MISSA's ability to increase its assets into the foreseeable future. Although a significant disparity still remains between the level of MISSA's assets at fiscal year end 2005 and the actuarial accrued liabilities of the retirement system, *MISSA remains confident in its ability to pay retirement benefits in 2006 and for some years to come.*

Executive Summary

General

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of Marshall Islands (RMI), was established pursuant to RMI Public Law 1990-75 (the Social Security Act of 1990), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund. On March 6, 1991, the Nitijela passed Public Law 1991-118 (the Social Security Health Fund Act of 1991), as amended, which directed MISSA to administer the Marshall Islands Social Security Health Fund.

On April 11, 2002, the Nitijela passed Public Law 2002-57 to repeal the Social Security Health Fund Act of 1991 and to transfer the administration of the Health Fund to RMI's Ministry of Health (MOH). However, the formal turn over did not take effect until December 1, 2002, with MISSA's Deputy Administrator for Health Fund and its entire Medical Referral Team being absorbed by MOH. For accounting purposes, all Health Fund collections starting January 1, 2003, are no longer reflected in MISSA's books. As part of an agreement with MOH, however, MISSA will still be responsible for the quarterly collection of Health Fund contributions. In return, MOH shall pay MISSA 3.5% collection fee every year on the first $4 million of the Health Fund contributions being collected by MISSA estimated at $4.2 million annually.

Principal provisions

· *Coverage* – Social Security applies to all employees working within the Marshall Islands and RMI citizens working outside the Marshall Islands, and include self- employed persons, with or without employees. It also applies to every employer doing business in the Marshall Islands, which is required to contribute an amount equal to that contributed by employees. Currently, the maximum taxable wages for employees is $5,000 per calendar quarter. In the case of self employed individuals with one or more employees, the tax is based on the actual wages or at twice the wages of the highest paid worker, whichever is greater, in the calendar quarter the employees whose earnings were reported. Self-employed individuals without employees are taxed based on their gross revenue per calendar quarter, which is multiplied by 75% to arrive at the gross taxable wages.

Exemptions - the following wages or payments received are exempted from MISSA taxes:

- all wages received by virtue of any international agreement
- income earned outside the Marshall Islands
- compensation for sickness or accident
- payment from trust or annuity
- payment not exceeding one week in any month of a quarter
- housing and travel allowances
- all wages in excess of the maximum taxable wages of $5,000 per quarter

· *Reporting period* – all employers are required to file the quarterly SS tax returns and pay the contributions within the ten day period following the end of each quarter ending on March 31st, June 30th, September 30th and December 31st. Reporting deadlines shall be: 1st quarter – April 10th, 2nd quarter – July 10, 3rd quarter – October 10th and 4th quarter – January 10th.

· *Contributions* – workers and their employers each contribute a percentage of their wages to the Retirement and Health Funds according to the following schedule:

Retirement Fund: 7% for wages paid from January 1, 2001 to present

Health Fund: 3.5% for wages paid from January 1, 2002 to present

Benefit programs

The Retirement Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would obtain a measure of financial security in their old age and during disability, and whereby surviving spouses and children of deceased workers would receive some financial support after the death of the worker.

Retirement benefits are computed on the Basic Benefit. The *basic benefit* is one-twelfth (1/12) of the sum of the pension element and the social element, where the pension element is two percent (2%) of indexed covered earnings and the social element is fourteen and one-half percent (14.5%) of the first $11,000 of cumulative covered earnings plus seven tenths percent (0.7%) of cumulative covered earnings in excess of $11,000 but not in excess of $44,000.

Retirement benefits

a. *Early retirement benefits* – to be entitled, the claimant must be: (i) service insured; (ii) have attained the age of 55; and (iii) have filed an application.

"*Service insured*" means having earned at least 80 quarters of coverage.

b. *Normal Retirement benefits* – to be entitled, a claimant must be: (i) fully insured; (ii) have attained the age of 60; (iii) have filed an application; and (iv) have not applied for and received early retirement benefits.

"*Fully insured*" means having earned at least one quarter of coverage for each year commencing after the later of (a) the year beginning after June 30, 1968 or (b) the year beginning after the worker attains the age of 21, and up to but excluding the year of the worker's retirement, disability or death, provided that a minimum of twelve quarters of coverage are required.

c. *Deferred retirement benefits* – to be entitled, the claimant must be: (i) fully insured; (ii) have attained the age of 60 and one month; (iii) have filed an application; and (iv) have not applied for and received early retirement benefits or normal retirement benefits.

· *Disability insurance benefits* – to be entitled, the claimant must be "*fully insured*" and "*currently insured*" and must be or have been unable to engage in the continued performance of his duties by reason of any medically determinable physical or mental impairment.

"*Currently insured*" means having earned at least six quarters of coverage during the most recent forty (40) quarters ending with the quarter of the worker's retirement, disability or death, whichever first occurs. Currently, the minimum disability insurance benefit is $128.99.

· *Surviving spouse insurance benefits* – the surviving spouse of a worker who is fully insured and dies is entitled to a surviving spouse insurance benefit of 100% of the "*basic benefit*", subject to the maximum and minimum survivor benefits, and subject to the earnings test. This is paid until remarriage or until death of the surviving spouse, whichever occurs first.

· *Surviving child insurance benefits* – each surviving child of a worker who is fully or currently insured and dies is entitled to a surviving child's insurance benefit of 25% of the basic benefit; provided, however, that the total monthly survivor's insurance benefits payable to both Surviving Spouse and the Surviving Children shall neither exceed the basic benefit applicable to the deceased wage earner nor be less than $128.99; and where more than one person is entitled to survivor's benefits, the payments shall be made to all such beneficiaries proportionately to the percentage of basic benefit due them.

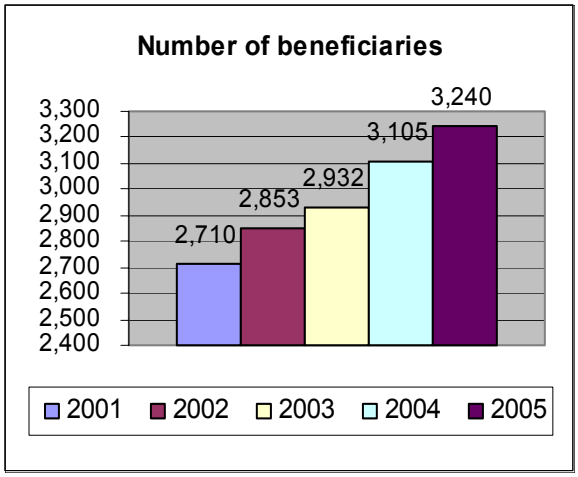
· *Lump-sum benefits* – if monthly survivor benefits are not paid or are stopped because all beneficiaries become disqualified as a result of death, remarriage, adoption, attainment of 18 (or age 22 if a bona fide student), or recovery from disability, a lump-sum benefit is due; provided that the benefits paid for under the wage earner's account are less than 4% of his CCE. The amount of lump-sum benefit equals the total CCE multiplied by 4% less the total monthly benefits already received under the wage earner's account.

Membership

As of September 30, 2005, MISSA's estimated number of registered member was approximately 52,000 individuals, comprised of active contributors, past contributors who may have died, retired or are no longer actively employed, foreign workers who left RMI permanently, students and survivors of deceased workers.

Beneficiaries

Since FY 2001, there has been a steady increase of about 100 to 150 new beneficiaries each year. At the end of FY 2004, there were 3,105 beneficiaries receiving an average of $0.844 million per month. In FY 2005, it increased to 3,240, with average benefit payments of $0. 909 million per month.



Prior Service Trust Fund (PSTF)

The PSTF is a U.S. funded program that provides benefits to Micronesians with five or more years of service with the Naval Administration or trust Territory Government prior to 1968. This program is controlled by a Trust Agreement between the U.S. Department of Interior and the four trust territory government s of the Commonwealth of the Northern Mariana Islands, Republic of Palau, Federated States of Micronesia and the Marshall Islands.

The trust agreement became effective in 1987 and to-date, more than $16 million in benefits have already been paid.

As of March 31, 2003, there were 237 Marshall Islanders receiving monthly benefits of about $8,527.00, at a monthly average of $36.00 per beneficiary. An additional 30 eligible members have yet to apply as they have not met the requirements.

On April 2004, John M. Niedenthal, MISSA's Board Chairman, started his term as Chairman of the PSTF. This was the result of a previous agreement that each PSTF Board Member shall act as the Chairman on a rotation basis. Subsequently in September 2004, PSTF officials met in Washington D.C. with U.S. Deputy Assistant Secretary Cohen and the Office of

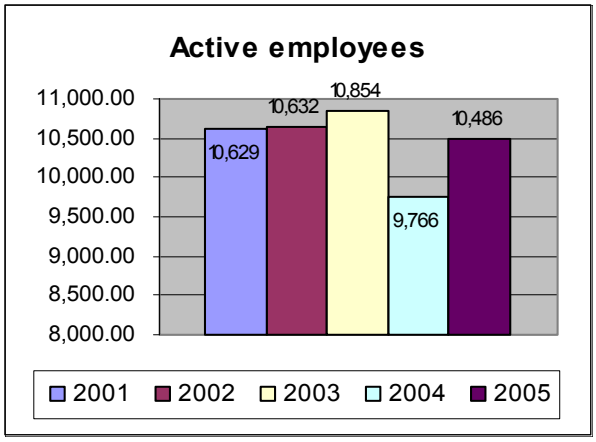
Insular Affairs. The meeting was a success as a grant for $1.6 million was awarded to the PSTF, which was used to bring the beneficiary payments up to date.

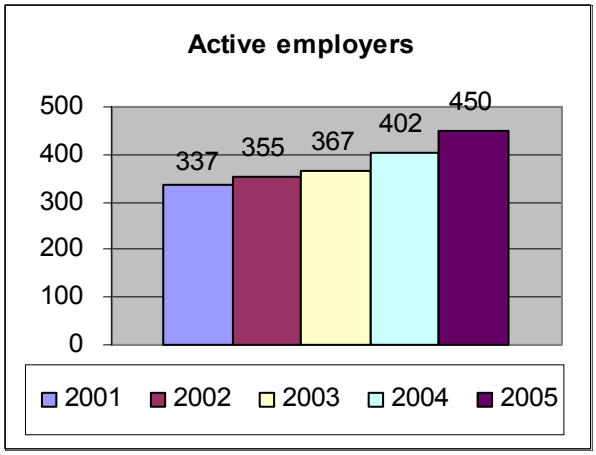
A portion of the fund amounting to $100,000 was granted as assistance fund for the decentralization of the PSTF effective October 1, 2005, which would cause the administration of the fund to be transferred to the Social Security System of each of the four former members of the Trust Territory.

The fund was subsequently decentralized in April 2006 and MISSA started administering the distribution of $105,000 leftover share it received. The fund is expected to last only until the end of 2006 and without additional funding from the U.S., the 237 current beneficiaries and another 30 eligible members who have not yet applied will permanently lose their benefits.

Statistical information on active contributors

The number of workers and self-employed individuals whose tax contributions have been filed and paid has increased steadily from 10,629 in 2001 to 10,854 in 2003. However, it decreased abruptly in 2004 as a result of the closure of the PM& O Tuna Loining Factory, whereby more than 600 employees were laid off. As most of these workers were able to find subsequent employment and new employment opportunities were opened, the number of active contributors increased by about 700 in 2005, but is still less than that of 2003.





The number of employers whose tax contributions have been filed and paid has also increased steadily increased from 337 in 2001 to 402 and 450 in 2004 and 2005, respectively.

Legislative changes

We have thoroughly reviewed the existing provisions of the Social Security Act of 1990 and noted certain areas of concern which will require closer attention and scrutiny, and if necessary, amend certain provisions that adversely effect MISSA's interests. In this regard, we would need the full support of the Nitijela in opposing any bill or any future legislation that would aggravate our present deficit and uncontrollably increase our unfunded Actuarial Accrued Liability (AAL)

To cite two particular examples, if the bill abolishing the Earnings Test and allowing a person entitlement to both old age and insurance and surviving spouse benefits at the same time are passed, the result will be a significant increase in MISSA's AAL. The effect of this will be detrimental to MISSA's financial stability.

On the other hand, we seek Nitijela's support of future bills that are more in line with the direction of a financially sound Social Security System. We believe that these legislations would lead to a more equitable and affordable benefit package for our contributing members and the people of the Marshall Islands.

Interest in the Bank of the Marshall Islands

On February 18, 1999, RMI fully repaid a loan and related interest, totaling $1.94 million, through transferring its ownership of 94,485 shares of the Bank of Marshall Islands (BOMI) stock to MISSA. Shortly after, 30,000 of these shares were sold to a third party that subsequently reduced MISSA's shareholdings with BOMI.

As of September 30, 2005, MISSA holds a 31% interest in BOMI and has received dividend income of $0.63 million since then.

During BOMI's 2004 and 2005 annual stockholders' meetings, MISSA's Board Chairman John M. Niedenthal, Board Members Saeko Shoniber and Biram Stege and Administrator Saane K. Aho were re-elected to the BOMI Board.

Effect of termination of banking and credit card relationship between the Bank of the Marshall Islands (BOMI) and Citizen Security Bank (CSB).

For several years, BOMI customers and depositors enjoyed the convenience of having their BOMI checks cashed and cleared thru CSB, as provided for in their "payable through accounts agreement". Likewise, VISA and Master Credit Cardholders have benefited from BOMI's credit card and merchant card relationship with CSB.

However, this facility has ceased with the termination of the said agreement effective February 15, 2005. This develop-

ment was brought about due to stricter US government regulation and laws to curtail money-laundering world-wide. US Banks faced multi-million dollar fines for having relations with non-US Banks that were not in line or not legally obligated to follow US laws. Such a threat of financial disaster was significant enough to cause the termination of the "payables through relationship" by CSB.

The cessation of vital services by BOMI had certainly caused immediate loss of major deposit accounts. This situation also threatened BOMI's financial stability and future growth. MISSA, being BOMI's major shareholder and customer, had a great deal of interest at stake.

Moreover, thousands of retirees and their beneficiaries whose source of livelihood depend mainly on their ability to cash and deposit MISSA's benefit checks on time at various banks within the Marshall Islands and in the U.S., were likewise seriously affected.

As a countermeasure, MISSA availed of Bank of Guam's (BOG) automated clearing house facility (ACH). To ensure that the beneficiary is able to receive every month, he or she must open a bank account with a U.S. bank and notify MISSA of the relevant bank account information. This will enable MISSA to make a wire transfer at the end of each month to the beneficiary's bank account. ACH is now being enjoyed by about 150 beneficiaries living off-island.

Change in investment policies

With the hiring of Investor Solutions, Inc. in 2002, MISSA has come up with an Investment Policy Statement (IPS) that establishes clear-cut guidelines on how its investments will be managed. After reviewing the long term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the asset allocation was set at 60% in equity and 40% in cash and bonds.

On a quarterly basis, each asset class in the portfolio is reviewed and re-balance measures consistent with the IPS are recommended. In FY 2004 and 2005, very minimal rebalancing was done. The IPS provides the required target allocations for each asset class and requires rebalancing if asset allocations deviate from the established amounts.

In September 2004, Investor Solutions, Inc. recommended an amendment to the IPS in order to invest 6% of the equity portion of the Social Security Retirement Fund in Real Estate Investment Trust (REIT) and 6% of the equity portion of the fund in commodities, in order to further diversify the investments of the fund and thereby reduce volatility. In November 2004, at MISSA's request, the Cabinet issued C.M. 169(2004) by which the Cabinet approved the use of any mutual fund company registered in the United States for investment purposes by MISSA. Subsequently, MISSA's Board of Directors approved the amendment to the IPS and a resolution was mailed to the Fund Advisor.

Filed but unpaid quarterly returns

After a thorough review of employer records that date back to 1980s, MISSA discovered several employers who had filed their quarterly tax returns but did not make any actual payments for the said quarters. Inadvertently, the said unpaid quarters were credited by MISSA to the individual employees, many of those have retired already and are currently receiving retirement benefits. As a result of these errors, these individuals are being "overpaid" by MISSA.

MISSA has already identified these employees and unposted (or removed) from the records the unpaid quarters as shown in their wage history. After recalculating their monthly benefits, MISSA was able to determine the correct amounts due them, the majority of which should have been less than what they have been previously receiving. Unfortunately, several of those affected ceased receiving any benefit, as these individuals lacked the required number of quarters to become eligible. More specifically, there were ***184*** retirees and survivors of deceased workers affected by this recalculation. ***160*** of them were given reductions in their benefit checks, generally between $50 to $100 per month, and ***24*** no longer received any benefits effective November 2004.

Collection of Health Fund contributions

On April 2002, the Nitijela of the Marshall Islands passed a bill allowing for the transfer of the Health Fund from MISSA to the Ministry of Health. However, the transition took several months and formal transfer was only finalized on December 1, 2003. In effect, MISSA will still be responsible for the collection of Health Fund contributions, which are then remitted to MOH, while the Supplemental Health Plan contributions are the responsibility of MOH.

In an agreement signed by the MISSA Administrator and Secretary of Health dated November 3, 2003, it was agreed that MISSA shall charge 3.5% collection fee every year on the first $4 million of the Health Fund contributions being collected by MISSA estimated at $4.2 million annually.

Ebeye operations

Since 1987, MISSA operates a branch in Ebeye which has successfully collected an average of about $3 Million annually. This represents about 20% of MISSA's total annual collections. The majority of Ebeye contributions came from Kwajalein Range System, the main contractor of the United States Army in Kwajalein Atoll (USAKA).

Public information

To successfully implement its outreach program and public information campaign, MISSA has published the first issue of its newsletter in July 2004 entitled *The Social Security Journal*

and shall continue to circulate it to the public, businesses and government agencies on a quarterly basis.

Just recently, MISSA became globally accessible as it launched its own website, www.rmimissa.org. A Marshallese claimant residing in the U.S. or anywhere around the globe and who wishes to apply for retirement, disability, survivor or lump-sum benefits, can now download the application form, fill it up, and send to MISSA's head office in Majuro for processing. This reduces processing time by as much as two weeks.

The new website contains useful information and resources related to MISSA, including tax guidelines and its benefit programs, and answers to frequently asked questions. Internet browsers may also find the latest update regarding MISSA announcements, changes in social security regulations and legislations, and current MISSA activities.

Development and upgrade of computer system

In 2003, the Technical Assistance Division Office of Insular Affairs, U.S. Department of Interior had provided a $215,000 grant that jointly financed the design, development, upgrade and modernization of the Social Security Programs currently operational and being shared by RMI, FSM and Palau. The three SS Systems awarded the contract to White Coconut Computer Services, it's long-time I.T. Consultant.

The new system has replaced the current MISSA software that was designed and placed into operation over 12 years ago, a program whose system architecture is outdated and may encounter difficulty operating on the next generation of computers. The main feature of the new program is the integration of the three systems, Cash Receipts Entry and Reporting, Delinquent Employer Tracking and Reporting, and Social Security Maintenance. Under the old system, the three systems were separate programs that share files. Moreover, a possible integration of the new system with the MIP-NPC Accounting software was considered. This interface shall ultimately link all financial transactions of MISSA to the General Ledger.

The new system became fully operational on July 2005.

Interaction with SS counterparts in the Pacific

To keep abreast with the current social security trends and practices, MISSA management maintains close ties and is in constant dialogue with its counterparts in the Pacific region, more particularly FSM and Palau. On July 2004, the MISSA Administrator, together with the Deputy Administrator and Tax Examiner met with their Palau & FSM counterparts in Koror, Palau. It was realized during the meeting that the three systems have so many things in common, more particularly on the problems relating to benefits and tax delinquency. The inter-sharing of ideas and brain-storming resulted to solutions and strategies that were identified by the group as priorities for improvement.

Subsequent meetings were then conducted, the latest of which was the 3rd Administrators' meeting in Pohnpei, FSM, in July 2006.

In late 2005, two MISSA employees were invited to attend a workshop on distance learning for social security in Pacific Islands countries that was also participated by line managers from the national provident funds of Fiji, Kiribati, Samoa, Solomon Islands, Vanuatu, Tonga and Papua New Guinea. The training is part of an International Labour Organization (ILO) project funded by the Netherlands Government.

Totalization agreement

Significant migration occurs among the workers of the Marshall Islands, Federated States of Micronesia (FSM), and the Republic of Palau (ROP). Under the Trust Territory Social Security System (TTSSS), this migration caused no concern because the workers paid a single tax and all work credits were combined to determine a single benefit. However, with the devolution of the TTSSS into the three successor systems, this is no longer the case. In the absence of an agreement, workers who migrate between these countries may become subject to the coverage and taxation of more than one successor system. Also, since the worker's work history is split among the successor systems, the worker may not accumulate enough credits in one, or even worse, in any of the successor systems in order to qualify for a benefit.

After several meetings between the Social Security Systems of Micronesia, it was decided that it would be beneficial for RMI citizens, as well as FSM and ROP citizens, to eliminate dual coverage and taxation and to permit the consolidation of work credits earned in all of the successor systems to determine the eligibility for and the amount of benefits to be paid by each system. This was made possible by the three governments entering into an agreement, referred to as *Totalization Agreement*.

In their meeting in Palau last July 2004, the Administrators of Palau, FSM and the Marshall Islands completed the final draft of the Totalization Agreement and which was then submitted to the Board of Trustees of the respective Social Security Systems for review and approval. Subsequently in mid-2005, the agreement was officially approved by the respective Presidents of the three countries.

The main highlights of the agreement are as follow:

- The worker must have attained at least age sixty (60) and at least twelve (12) quarters of contributions in at least one contracting country that is a part of the agreement. If less, he or she may be entitled to a lump sum payment that may be available from each agency under which the worker has earned quarters of coverage.
- The agreement will only apply to old-age retirement and does not cover survivor and disability benefits.
- The benefit will be pro-rated based on total contributions to each of the three systems
- Each of the three systems shall issue separate checks. However, if the amount is less than $10 in any entity, that entity will not make any payment.
- Only 80% of the benefit will be given.

Although both the legislative bodies of Palau and FSM have already passed the Totalization Agreement, the RMI's Nitijela is due to give its final approval in mid 2006 in order to make it enforceable in the Marshall Islands. The ratification of this agreement will bring the three countries one more step closer to a more comprehensive and beneficial social security package: that of a Totalization Agreement with the United States.

Transformation to other social security schemes

Since the enactment of the Social Security Act in 1990, there has not been any comprehensive review of the system to determine its efficiency, successes or failures with respect to the benefits and privileges to its contributors and their immediate families.

To address this issue, the Nitijela has appointed a special committee to review the Marshall Islands Social Security System and look at other forms of social security schemes as alternatives to the current social insurance scheme, more particularly the possibility of introducing a National Provident Fund. The Administration welcomes this opportunity to seek alternative ways to improve its operations, establish fair and just benefit programs and strengthen the financial viability of our system.

MISSA is now initiating a comprehensive review of other alternative schemes and have at its disposal the materials provided by the ILO sponsored training on Social Security in Pacific Island Countries held in Fiji in late 2005, which was attended by two MISSA employees. These materials are a good starting point and have great value in assisting MISSA in the preliminary stages of the review as they provide comprehensive outlook of other social security schemes in the Pacific Region.

Considering the significance of this undertaking, MISSA is very much aware of the daunting task of gathering additional reference materials on the specific legislations, designs, administrative structures, etc. Although so much was learned from the ILO training materials, there is still much information that would be needed.

The Administrator is scheduled to visit the Fiji National Provident Fund toward the latter part of 2006 for consultative discussions as its benefit programs are more comprehensive in structure than in other countries in the South Pacific. MISSA is confident that these consultative meetings will bring positive results that would ultimately lead to right decisions being made in the future.

MISSA would also make use of information about the national provident funds in other Pacific countries, in order to have a wider perspective of their similarities and differences.

Challenges

While it is the Administration's policy to give delinquent taxpayers the chance to enter into more affordable payment options to settle their tax obligations, certain employers remain adamant and continue to ignore MISSA's demands, and in some cases even ignore court orders. In the absence of more severe punitive provisions in our legal system imposing jail sentence for tax evaders, compounded by the lack of political will, MISSA has found it increasingly more difficult in exercising its full authority on tax enforcement.

Despite MISSA's strong performance in the last five years, the Retirement Fund is facing on-going challenges by the Nitijela with proposed legislations detrimental to MISSA. Although this political pressure continues to threaten the financial stability of the system, MISSA is determined to remain firm in its commitment to protect the majority.

Traditional and cultural practices prevalent among the people have also significantly influenced compliance to social security regulations, more particularly the very strong and close family ties in the community.

Statistics have shown that more than half of employers in the RMI are delinquent. Many of them have already been prosecuted and ordered by the court to pay but to no avail. Without a strong political will and sense of urgency to introduce drastic reforms in our present legal system, tax delinquency will always be a chronic problem not only to MISSA, but also to all tax governing bodies of the government.

MISSA's bill no. 45 was introduced into Nitijela several years ago which requires jail time for tax evaders, but the bill has since been tabled by the Nitijela. The reality is such that taxation in the Marshall Islands is becoming increasingly conceived by the public as voluntary and not mandatory . Perhaps, if just one of the many habitually non-compliant employers is jailed or his properties confiscated by the government, this mindset will certainly change. Hopefully, this will be the course of action that our legislators and the government will take soon.

Future outlook on sustainability

As FY 2005 ended, more drastic improvements in tax collection strategies, stiffer restrictions on eligibility requirements and more cost control programs would be introduced in

the coming fiscal year. MISSA will continue to keep abreast with current global practices, more particularly in line with the Social Security trends in the Pacific Region and the United States.

MISSA investments have already recovered from the period of recession and are expected to maintain the gains it enjoyed in recent years. The Administration's funded Actuarial Accrued Liabilities have increased from 16% in 2001 to 20% in 2003 and this trend is expected to increase its financial resources, thereby increasing its capacity to pay present and future benefits.

Officials from the Ministry of Finance (MOF), Majuro and Kwajalein local governments, MISSA and the Attorney General's Office signed a Memorandum of Agreement that would ensure a free flow of information between and among the different government agencies. The MOA was the result of a prior initiative by MOF, in consultation with financial specialists from the Asian Development Bank. The ADB consultants have been engaged by the RMI government to make a study and recommend to promote fiscal stability through improving the internal revenue generation in the country.

MISSA's Tax Auditors are currently reviewing payroll records of certain employers covering the last five to six years of their operations and significant amount of tax deficiencies have been discovered from these audits. About forty to fifty of these employers are scheduled to be audited annually. MISSA expects to recover millions of dollars in lost revenue as a result of these audits.

We have thoroughly reviewed our existing policies and procedures regarding eligibility requirements, more particularly on disability benefits, and are now performing a more comprehensive and intensive process of evaluation and requiring more solid evidence of eligibility before approval is given.

MISSA is in close and constant consultation with the Marshall Islands Retirees Association, through its Officers and Board of Directors. Several town hall meetings have also been conducted in the past, including Ebeye retirees, that tackled key issues like retiree group life insurance program, celebration of the annual Retirees' Day, Earnings Test, and proposed changes in legislation.

The renewal of the Compact of Free Association between the Marshall Islands Government and the United States Government provides assurance of significant growth in the local work force, and more particularly in the areas of infrastructure development (i.e. the rehabilitation of Amata Kabua International Airport and construction of school buildings in the outer islands) and other improvement projects throughout the country. Other financial assistance from foreign governments is also expected to continue thereby further strengthening the local work force. This significant development will create numerous employment opportunities which would further translate to more contributions to the Marshall Islands Retirement Trust Fund.

Despite the events in other regions of the globe that threatened the world economy and the uncertainties that certain local businesses are facing, the incoming year still looks promising for MISSA. With the support that the President of the Republic has shown for the last five years and the backing of the Nitijela on present and future legislations that are in line with the direction of MISSA, we are very confident that the Administration will sustain its growth and benefit programs for the people of the Marshall Islands.

Our Long-term commitment

As our FYs 2005 and 2004 audit report showed, MISSA has continued its quest to safeguard and sustain the financial stability of the retirement fund by:

- operating within the guidelines of the law;
- strict and consistent compliance to the set policies and procedures; and
- Adherence to the principles of good governance, transparency and accountability.

The Capitol Building is Majuro's prime landmark and has stood as a symbol of long-lasting partnership between the Marshall Islands Government and the Marshall Islands Social Security Administration.

"With the support that the President of the Republic has shown for the last five years and the backing of the Nitijela on present and future legislations that are in line with the direction of MISSA, we are very confident that the Administration will sustain its growth and benefit programs for the people of the Marshall Islands."