The construction of the International Conference Center on Majuro in 2007 brought in tens of thousands of dollars worth of SS contributions.

CONTENTS

FINANCIAL HIGHLIGHTS

In Million U.S. Dollars

	2007	2006	2005
CONTRIBUTIONS			
Private employees	$ 8.12	$ 7.49	$ 7.97
Government employees	4.01	3.64	3.70
Penalties and interest	0.38	0.31	0.25
Total contributions	12.51	11.44	11.92
OTHER INCOME			
Investment income	7.63	5.37	7.60
Others	0.38	0.41	0.27
Total other income	8.01	5.78	7.87
BENEFIT PAYMENTS			
Retirement	6.43	6.00	5.88
Disability	1.17	1.26	1.28
Surviving children	0.86	0.86	0.79
Surviving spouses	3.13	2.81	2.68
Lump sum	0.06	0.09	0.04
Total benefit payments	**11.65**	**11.02**	**10.67**
ADMINISTRATIVE EXPENSES	1.02	0.90	0.83
NET INCREASE IN ASSETS	7.85	5.31	8.29
TOTAL INVESTMENTS	60.90	53.51	48.20
NET ASSETS	$69.03	$61.18	$55.87

Preparing for the next generation

What will the Marshall Islands Social Security Retirement Fund look like over the next 30-50 years? Will there be enough money to meet the operating requirements of the fund? Will their be political and legal breakthroughs that will change the trend of tax compliance in the country? How will information technology impact MISSA's operational efficiency? How can we better our services to our beneficiaries and continue to remain as the top-performing government agency in the country?

These are the kinds of questions that teams of financial managers, tax officers and auditors, claims and benefits specialists, I.T. professionals and the rest of us at MISSA are addressing today.

Seven years ago, the then newly installed Administrator and Board of Directors of the Marshall Islands Social Security Administration were faced with a grueling task that during that time seemed unachievable - to put back social security on a sound financial footing.

A BETTER ORGANIZATION TODAY

Today, MISSA is a stronger and more financially stable organization than ever, and we are determined to improve further for our beneficiaries and the people of the Marshall Islands.

Over the last seven years, the public have seen the remarkable transformation of an organization that has gone through serious financial distress in the past, and the results are evident:

* Contributions grew almost two-folds, from $6.5 million in FY 1999 to $12.5 million in FY 2007, while benefits increased from $11.02 million last fiscal year to $11.65 million;
* Our net assets are up by 73%, now valued at $69 million;
* MISSA's funded accrued actuarial liability rose almost two-folds, from 15% in 1999 to 29.5% in 2006, and is continuously growing over the years;
* Investment gains in the last 5 years totaled $26.7 million, with an annual average net internal rate of return of 15.84%.
* Benefit payments averaging $1 million monthly are consistently met on time and continuously been enjoyed by more than 3,400 beneficiaries.
* Administrative expenses were consistently kept at sparing levels and within the approved budget, not exceeding 8% of total revenues. By law, MISSA is allowed to use up to 20% of total revenues in administrative expenses.
* We have never made a single withdrawal from our trust fund in seven years. Instead, we generated cash surpluses which were subsequently invested;
* The MISSA Board of Directors, Management and staff continue to gain the trust and admiration of the public for their continuous quest for accountability good governance and transparency;
* MISSA earned "no audit findings" from its external auditors in the last six (6) consecutive years, not to mention the unqualified opinion they gave to our financial statements year after year.
* Our redoubled efforts to collect more contributions through house to house visits, payroll audits and legal actions have significantly improved tax compliance, although still way behind the targeted level of 90%;
* Our employees, who are always on the forefront of all our successes, have earned recognition for their operational efficiency and dedication to their jobs. This is a clear reflection of good leadership and effective supervision;
* We became much closer than before to our regional counterparts, the FSM and Republic of Palau Social Security Administrations, and with our collaborative efforts, have made considerable progress in improving the social security system in Micronesia.

# of beneficiaries

Since FY 2001, there has been a steady increase of about 100 to 150 new beneficiaries each year. By the end of FY 2007, there were 3,400 regular retirees, disabled workers and surviving spouses and children receiving an average of $1.0 million worth of benefits per month.

Currently, MISSA's estimated number of registered members is approximately 59,307 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.

Despite the Administration's unfunded actuarial accrued liabilities of 70.5% amounting to $146.47 million as of October 1, 2006, MISSA has consistently paid on time its monthly benefits as they fall due and generated enough cash surplus for additional investment.

Why are we different... over the years?

LEADING BY EXAMPLE

The MISSA Board is dedicated to protecting the reputation of the Administration and maintaining the public's trust by adhering to consistent standards of conduct in its actions and decisions.

When it was installed in 2000, the first thing the incumbent Board did was to immediately cut their own travel budget to only provide for the travel of one Board Member from Ebeye to attend board meetings in Majuro. During the last seven years, the MISS Board has not held a single board meeting outside of its own boardroom in Majuro.

CODE OF CONDUCT

MISSA employees are constantly provided with information, verbally and in writing, about working conditions, employee benefits, acceptable conduct in the workplace and how the Administration generally relates to the employee. It is the hope of management and the Board that by providing the employees with such information, not only will it allow for an environment conducive to both personal and professional development, but ultimately, lead to the efficient operation of the Administration.

PEOPLE MAKE THE DIFFERENCE

MISSA continues to earn recognition for its monumental turnaround to financial stability, good governance, service quality and public satisfaction.

Our people, from the Board of Directors to our lowest ranking staff and their immediate families who remain supportive through the years, are responsible for these high honors. They are, and always will be, our greatest assets. However, our successes in recent years will never be a reason for us to stop looking for ways to improve an already-strong organization. We will continue to move on toward further successes until each beneficiary, present and future, will enjoy the benefits he or she truly deserves.

We have and will always make sure that our people have leading-edge tools that will further enhance customer service, tax compliance, equitable distribution of benefits and financial excellence in the coming years.

BEST PRACTICES IN THE REGION

Work globally, think locally. This variation on a well-known theme is apt for MISSA's long-lasting collaboration with neighboring social security systems in Micronesia and other Pacific island countries. We have certainly benefited from this regional strength by adopting certain concepts and best practices we learned from such alliance.

ADEQUATE INTERNAL CONTROLS

The "no audit findings" earned by MISSA from its external auditors in the last six years, not to mention the unqualified opinion MISSA received from year-to-year, is a glaring reflection that MISSA embraces a very basic accounting principle - that ACCOUNTABILITY CAN NEVER BE ACHIEVED WITHOUT STRONG INTERNAL CONTROLS.

and getting better

FACING CHALLENGES WITH RESOLVE

A number of proposed legislations continues to put at risk the system's financial viability. If passed, these bills would widen the gap between MISSA's current total assets of $69.5 million and estimated future liabilities of $220 million, or unfunded future liabilities of $150.5 million (about 68%). These increasing pressures from certain members of the Nitijela threaten the young generations of Marshallese who may not have the chance to receive benefits from the system in the future.

These challenges, coupled with attempts by certain parties and individuals to make use of the retirement Fund for non-benefit payment purposes have been adamantly opposed by the Administration.

It is MISSA's belief that it can only deepen relationships with its beneficiaries and contributing members by focusing on the majority and not on the interest of the few - and then aligning its goals with theirs to make both parties succeed.

PRUDENT INVESTMENT PHILOSOPHY

The MISSA Board has continuously embraced a prudent investment philosophy that set out the investment management procedures and long-term goals of MISSA's investments. It also recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns.

The very strong performance of MISSA investments was the result of one of the Board's best decisions since it was installed in 2000 - the hiring of a new investment advisor (Investor Solutions, Inc.) and an independent custodian (Fidelity Investments IBG) in late 2002.

Frank Armstrong, founder and CEO of Investor Solutions, Inc. is the man behind MISSA's investments growing almost 250% in just a span of five years.

From $23.7 million in late 2002, MISSA's offshore investments grew to $53.9 million as of September 30, 2007 and yielded an actual net internal rate of return (IRR) of 103.89% or a total investment gain of $26.7 million in five years.

INTENSIFIED COLLECTION

The continual and persistent house-to-house visits being conducted by our Tax officers and extensive payroll verification by Tax Auditors have resulted to significant discovery of unreported and under-reported taxable wages estimated to reach millions of dollars.

GOVERNMENT SUPPORT

The continuous support of the Government and the absence of political interference in MISSA operations have always been a key factor in MISSA's successes since the incumbent Administrator and Board were installed in 2000.

The majority of the lawmakers from the Nitijela have also consistently supported MISSA and is expected to continue its backing of present and future legislations that are in line with the direction of MISSA.

FACING CHALLENGES WITH

The Administration has been faced with a number of proposed legislations that have been the center of discussion in the Nitijela in the past several years, and to date, have not been resolved yet.

For years now, MISSA has remained firm in its opposition to the passage of several bills that the Administration considered detrimental to the viability of the Social Security Retirement Fund. If approved, it may cause a considerable increase in benefits that will ultimately put the next generation of beneficiaries at risk of not getting back in part or in full their rightful benefits.

Bill# 23–Social Security (Funeral expenses amendment) Act, 2003

This bill was introduced on September 10, 2004 aimed to amend Section 140 of the Act by inserting additional provision immediately following subsection (3) that will obligate MISSA to make available immediately the maximum sum of one thousand dollars ($1,000) from the Retirement Fund to assist in defraying the costs associated with funeral arrangements for a deceased wage earner. Such amount shall be deducted from the total sum of benefits payable to the surviving beneficiaries of the deceased wage earner.

Bill# 50–Social Security (Surviving spouse & old age benefits amendment) Act, 2005

This bill was introduced on February 16, 2005 aimed to amend Section 135 of the Act in order to allow beneficiaries who may be entitled to old age benefits and surviving spouse benefits to receive such benefits at the same time. Section 135 currently prohibits beneficiaries who may otherwise be entitled to receive more than one type of benefit under the Act, from receiving more than one type of benefit at the same time, and requires the beneficiary to elect the benefit to be paid out. This bill proposes however to exempt persons who may be entitled only to old age benefits and surviving spouse benefits from the prohibition and to allow such beneficiaries to receive these two benefits.

Bill# 57–Social Security (Repeal of Earnings Test) Act, 2003

This bill was introduced in 2003 aimed to abolish the following provision under Part VI, sections 135 (2), 136 (2), (3) and (4), 137 (2), 140 (1) and (2):

> *"For recipients of retirement benefits who are under 62 and are working, the benefit amount shall be reduced by $1.00 for every $3.00 earned in a quarter in excess of $1,500. The adjustment in benefits will be applied as soon as practicable following the quarter in which the earnings were made and reported. No adjustment is made for claimants who have attained the age of 62 years."*

On October 24, 2006, the original bill was further amended, which intends to increase the Earnings test threshold from $1,500 per quarter to $5,000 per quarter.

Bill# 104–Social Security (Amendment) Act, 2006 - Removal of disability re-examination

This bill was introduced on August 11, 2006 aimed at doing away with the current requirement under the Act that persons receiving benefits under Section 137, submit to periodic medical examinations as and when required by the Administration. The amendment limits the requirement for a medical examination or evidence of that nature only at the time of application for benefits and removes the Administration's ability to call for further evidence in the case of persons receiving benefits under Section 137.

Bill#114–Social Security (Amendment) Act, 2006 - Amendment in the number of benefits and lien for contributions

This bill was introduced in October 16, 2006 aimed to delete Section 135 (1) and the inclusion of a new provision which will allow a person to receive more than one (1) type of benefit as specified in Section 136 through 139 of this Chapter or more than one benefit of any type. Currently, the legislation does not allow a person to receive more than one type of benefit a a time, or more than one benfit of the same type.

This bill also proposes to amend Section 158, in order to remove the priority which the Social Security lien has over other liens. This means that the lien which the Administration holds over property of a delinquent or self-employed worker no longer has priority, but like other liens, will depend on the date on which the lien was first registered.

Bill# 129–Social Security (Amendment) Act, 2006 - Amendment of lump-sum benefit

This bill was introduced on October 23, 2006 aimed to amend Section 141 Subsection (1) of the Act. Currently, if a worker or self-employed worker is permanently unable to work due to old age, illness, physical disability or some other reason, and that worker is not entitled to other benefits in Sections 136-139 (old age insurance benefit; disability insurance benefit; surviving spouse/parents insurance benefit; and surviving child's insurance benefit), that worker is entitled to four percent (4%) of his or her cumulative covered earnings. Cumulative covered earnings is the sum of all of the covered earnings of a worker or self-employed worker, or the total amount of contributions by both the worker and the worker's employer.

This bill seeks to change the entitlement under Section 141(1) so that if the worker is not entitled to the other benefits referred to earlier, he or she will be entitled to 100% or the full amount of that worker's own contribution into the Fund. This entitlement is to be paid in one lump sum payment.

UNYIELDING RESOLVE

Saane K. Aho

"Since the appointment in early 2000, the MISSA Board of Directors has made it a policy to oppose any bill or legislative amendment to the social Security Act of 1990, as amended, which will serve to increase the amount of benefits paid to retirement and survivor beneficiaries."

In MISSA's most recent actuarial valuation of the RMI Retirement Fund, the Actuary noted that MISSA is not in any position to increase any of its benefits due to the growing "unfunded liability" of the system. As of October 1, 2006, which was only a little more than a year ago, the actuarial accrued liability (AAL) for MISSA totaled $207.65 million. For this same period, MISSA's assets totaled only$61.18 million. Subtracting the toal assets from the AAL as of that date results in an unfunded liability of $146.47 million or 70.5%.

It is very critical that the RMI Government is aware of the fact that the unfunded liability will continue to grow and will be worsened if ANY bill will be passed that will cause an increase to benefits currently allowed under the law. The Actuary, in fact, recommended that NO increase in benefits be made until such time that our assets increase significantly over time.

The RMI Social Security Administration is the WORST of the three (3) Social Security Administrtions in Micronesia in terms of its funded percentage of 20% as of October 1, 2003. But because of the exemplary performance of the Administration and the consistent gains of its offshore investments, MISSA's net assets grew significantly over the years and we are now only second as of October 1, 2006.

The MISSA Board, its Management and Staff have all worked very heard and diligently to bring MISSA's administrative costs to a bare minimum in our hope that one day, the retirement Fund can increase benefits for all retirees and survivors.

Our administrative expenses are consistently at 7%-8% of total revenues. It remains our hope that the RMI Government continues to support us in the coming years, especially with a 7% increase in benefit payments every year. For FY 2006 and 2007, MISSA paid out $11 million and $11.5 million, respectively, in benefits.

Other areas that we feel obliged to comment on are as follows:

*On Bill# 23 - Who will fund this additional amount given that the Retirement Fund is not in the financial position to pay out additional benefits? Also, there is no guarantee that a deceased retiree will have a surviving spouse and/or children to payoff this debt if it were to become a liability of the survivors

* On Bill# 50 - in reviewing the accrued liability in relation to the worker's and beneficiary's nearest age, it is also apparent that the liability significantly increases starting age 45 and continues on until age 60. The unfunded liability will increase if the value of future benefits earned is greater than the contributions received to pay for those benefits and this could occur if the large benefit increases are granted.

* On Bill# 57—Social Security retirement benefits are designed to provided income to those who are no longer working and, as retirees continue to work, those with large incomes are really not in need of social security benefits to sustain them.

* On Bill# 104 - Removing MISSA's authority to conduct medical re-examinations, as necessary, will mean that an individual with a short-term disability will be entitled to receiving benefits for an entire lifetime and even after the individual has fully recovered from his/her disability. Giving permanent medical retirement to an individual who is no longer disabled is unfair and is an act that cannot be justified to the taxpayers who are the future beneficiaries of the system.

The amount of taxes paid to MISSA by current medical retirees as of August 2006 totaled $833,537 versus $2,732,748 in total benefits received as of the same period. This means that the current group of medical retirees has collected in excess of $1,899,410 above the amount of taxes that they contributed during their working years.

Addressing the growing delinquency problem

*The rigorous collection efforts we exerted in the past several years coupled with legal actions and payroll audits have increased tax revenues significantly. But the current compliance level of about **60% remains at critical point** and is still way below our target of at least 90%.*

The main cause of delinquency in the country is the continual failure of certain local governments, religious and educational institutions, and small private businesses on their tax remittances which has now reached an alarming level. A continuation of this trend in the coming year would require MISSA to take on more drastic measures to ensure that a reasonable balance between revenues and expenditures is maintained.

MISSA is currently recruiting an In-house Lawyer who, together with our Legal Counsel, are expected to intensify legal actions against chronic non-paying employers who have adamantly defied our demands to pay.

As local and regional partner

The Administration successfully hosted the 4th Annual Social Security Administrator's Conference that was held on Majuro from November 28 through December 2, 2007. The Administrators and a number of senior managers of the Republic of Palau Social Security Administration (ROPSSA) and FSM Social Security Administration (FSMSSA) participated in the said event.

The idea to have an annual conference among the three Freely Associated States (RMI, ROP and FSM) was brought up sometime in 2003 when the three systems received a grant from the US Department of Interior for the purpose of upgrading and modernizing the social security software program (FoxPro V8) then currently being shared by the three systems.

During that time, the Administrators and several managers of ROPSSA and FSMSSA met with MISSA management in Majuro to finalize the request for proposal from qualified I.T. professionals to complete the project.

Subsequently, the contract was awarded to White Coconut Computers, a Saipan-based computer company which is also the company that wrote and developed the old program being shared by the three systems.

The upgraded and modernized version became fully operational in July 2005 and was followed by a series of hands-on training facilitated by the programmers themselves. From that time on, MISSA, ROPSSA and FSMSSA have become ever closer through sharing of information, common problems encountered, strategies and other operational issues on information technology, finance and accounting, claims and benefits and tax compliance.

The following year, the second conference was held in Palau where the trio completed the final draft of the totalization agreement between and among the three countries. The purpose of the agreement was to allow a person who has worked in two or all of the three countries, to consolidate his SS contributions to each of the three systems to become qualified for retirement benefits. The agreement was later approved by the Presidents of the three republics.

Last year's conference was hosted by the FSM Social Security System and was held in Pohnpei. The main agenda was the enhancement of the upgraded FoxProV9 computer system that the three systems shared. Since the upgraded version became operational in 2005, computer users have identified flaws in the system that need to be corrected and certain features enhanced.

In this year's conference, MISSA adopted the theme: "The Advancement of Social Security through Collective Thinking and Integrated Technology." This refers to the collaboration among the three systems in terms of information sharing, operational efficiency and the ongoing enhancements on the Retirement Fund computer system.

The continuing cooperation and team effort by the three systems have brought a significant milestone on the group as problems encountered by one system were immediately anticipated by the other systems, and corrective actions were easily introduced.

Transformation to other social security schemes

We have already taken the first step in search of other forms of social security schemes as alternative to the current social insurance scheme, more particularly the possibility of introducing a National Provident Fund.

In late 2006, the MISSA Administrator, together with Senator Maynard Alfred, head of the Nitijela special committee tasked to review MISSA's retirement program and look for alternative schemes, met with officials of Fiji National Provident Fund (FNPF) and the International Labour Organization (ILO) in Suva, Fiji.

Both talks were successful. FNPF committed to share operational and financial information that MISSA may need in the future while the ILO Director indicated their ability to provide technical and professional support. It is noteworthy to say that since the Marshall Islands is now officially a member of the ILO, they are also willing to provide financial support for the project.

MISSA has continually met with top officials from Customs, Revenue and Taxation Office of the Ministry of Finance, the Labor Office, Ministry of Foreign Affairs and Local Governments, to tackle various issues about tax compliance. The collaboration among these agencies is very critical because the Administration feels that there is a need to redefine and implement clear-cut tax laws that are parallel and in congruence to existing labor and immigration laws.

Our group agreed to meet regularly in the future and with our collective efforts, we expect to address and resolve long-pending tax issues that will ultimately enable MISSA, the RMI Revenue & Taxation Office and Local Governments to implement its tax authority to the fullest.

FOCUS FOR 2008 AND COMING YEARS

- **Intensified collections thru legal actions and payroll audits**
- **regulated benefit payments**
- **best practices in information technology**
- **more prudent investment policies**
- **strengthened internal controls**
- **more improved customer service**
- **collaborative discussions with neighboring social security systems**

Although our collections have increased significantly in recent years, the steady increases in benefits over the years have caused great concern over the Retirement Fund's ability to pay benefits in the coming years. This has forced the Administration to focus on two very fundamental but highly critical areas:

1. Revenue generation through:

- *increasing taxes;*
- *increasing taxable wage ceilings; and*
- *implementing employer payroll audits*

2. Indirect and direct reduction of benefit payments through:

- *comprehensive verification of living beneficiaries;*
- *medical re-examination of disabled retirees;*
- *screening of continued eligibility for dependent children and non-citizens; and*
- *Continue the full implementation of the Earnings Test provision of the Social Security Act.*

MISSA was for the most part successful in implementing all of the above actions, except for increasing taxes and increasing taxable wage ceilings as they were met with unfavorable responses from certain local employers and the general public.

The methodical and aggressive audit of employers has resulted to hundreds of thousands of additional tax dollars for MISSA. Although the audits proved successful, they were not enough and MISSA coupled its efforts with plans to reduce benefit payments through a comprehensive and systematic review process which was conducted successfully in four stages mentioned above. The positive outcomes of the these processes are evident in the slowing down of the benefit growth rate since last fiscal year, as compared to previous years (2% in FY 2006 versus 6 to 8% in previous years).

MISSA will continue to give delinquent employers the opportunity to meet their obligations through amicable settlements and affordable payment plans. But if necessary, we will use all possible legal means and powers vested to MISSA by the Social Security Act of 1990 to collect the several millions of dollars that remain outstanding over the years.

Our Tax Officers will continue to remain visible on the field through continuous house-to-house visits and surveys. This strategy has proven very effective in the past as it has not only enabled us to identify non-registered and non-paying employers and workers, but has also given us the chance to disseminate information about MISSA's tax regulations and benefit programs.

Despite the shaky world market and uncertainties in the U.S. economy, our offshore investments are moderately doing well. Upon the advice of our Investment Advisor, we have revised our Investment Policy Statement (IPS) which is now a slight deviation from the previous IPS approved by the Board in 2003. Although there were changes in certain asset allocation, our investments are still as diversified as before and expected to maintain the gains it enjoyed in the past five years.

We have invested and will continue to follow the best practices in

Audit of employer payroll records

*Since our Tax Audit Department was created in late 2005, MISSA has uncovered more than **$1.2** million worth of tax deficiencies (including health fund taxes) from 30 employers and recovered about **$813,500**. These additional revenues brought a sigh of relief to the Administration as it compensated for the cash shortfall that the Administration was expecting as a result of the imbalance between its tax collections and benefit payments.*

Our auditors are now also in constant communication with their counterparts from the Ministry of Finance, in a concerted effort to bring together whatever resources both audit teams have. These include the sharing of audit findings and other information related to payroll taxes.

Interest in BOMI and MISC

During the annual stockholders' meeting and election of Members of the Board of Directors held in 2007, the stockholders of the Bank of the Marshall Islands (BOMI) have once again re-elected MISSA Board Chairman Jack Niedenthal, Vice-Chairman Tommy Milne, Board Member Saeko Shoniber and Administrator Saane K. Aho. Mrs. Aho was also re-elected as Board Secretary, a post she held since 2003.

MISSA's membership to the BOMI Board began in 2001 with three members and then was increased to four in 2003. This was the result of the acquisition of MISSA of 32% ownership of BOMI in the late 1990s.

On February 19, 1999, the RMI Government fully repaid a loan and related interest, totaling $1.94 million, through transferring its ownership of 94,485 shares of the BOMI stocks to MISSA. Later, 30,000 of these shares were sold to a third party that subsequently reduced MISSA's shareholding to 31%.

In August 2005, one of BOMI's shareholders sold MISSA 200 of his BOMI shares as partial payment to his outstanding social security obligations.

Since MISSA acquired ownership of BOMI shares, the Administration received annual dividends from BOMI amounting to about $1.2 million already. As of September 30, 2007, the shares at BOMI are valued at $6.9 million.

MISSA also holds 3,000 shares of stock, at $10.00 par value, in the Marshall Islands Service Corporation (MISC).

Aside from MISSA's stock ownership, the Administration also has $4.3 million of Time Certificate of Deposits at BOMI which earns 5.5% interest per year. However, certain sectors are apparently of the opinion that this could be better invested locally but outside of BOMI. However, the MISSA Board believes otherwise.

Whenever MISSA deposits funds at the bank, the bank, in turn, lends these funds out to the community at an interest rate of about 18% per year. When BOMI makes a profit from the use of these funds, MISSA also benefits. If MISSA were to withdraw these funds from the bank, not only would the bank suffer, but also MISSA, and especially the residents of the Marshall Islands and the business community.

An even more important point has been considered by the MISSA Board. MISSA's payments to beneficiaries and operating expenses are expected to exceed its revenues. The TCDs represent MISSA's short-term reserves and will be utilized to ensure that MISSA has enough cash reserves available for uninterrupted payments to the retirees and other beneficiaries of the Retirement Fund. Therefore, the TCDs at BOMI are one of MISSA's most important assets and will only be withdrawn to pay the retirees and beneficiaries.

Future economic outlook

The Administration is full of optimism as the new fiscal year unfolds. The recent opening of the newly constructed International Convention Center, a $5 million facility generously offered to the RMI Government from the ROC Taiwan Government, was timely as it provided the venue for the second Taiwan Pacific Allies Summit which was held in Majuro. The classy facility that was constructed in just seven months not only created a significant employment opportunity for local workers but also injected thousands of dollars to the Social Security Retirement and Health Funds.

Another significant event that is expected to bring more job opportunities to the Marshall Islands and additional social security contributions is the opening of Pan Pacific Fishing (RMI), Inc., a tuna loining plant, on Majuro in early 2008. The 500 or more local workers that will be employed during the initial operation are expected to overshadow the more than 600 local workers who were laid off when the PM&O loining plant closed its operations permanently in late 2004. MISSA used to collect an average of $0.34 million a year from the said tuna loining plant.

A new bank opening up early next year will not only bring employment opportunities but, as reported in a local newspaper, "will promote fisheries, copra production and low-cost housing opportunities." These developments will ultimately translate to more workers getting hired and relatively, more social security contributions for the Administration.

The second phase of the rehabilitation of Amata Kabua International Airport has already begun and the construction sector has continued to gain momentum in recent years. This trend will certainly help boost the economic development in the country.

The continual and persistent house-to-house surveys being conducted by MISSA's Tax Officers and payroll audits by Tax Auditors have resulted to significant discovery of unreported taxable wages. Many of these employers have entered into payment agreements. However, certain non-cooperative employers have remained problematic.

Collections in Ebeye-Kwajalein also seem to improve significantly. With the assistance of MEC, KAJUR has remained current in the past two quarters. With the signing of a payment plan, MISSA is guaranteed to collect about $250,000 from the said company in FY 2008.

MISSA investments have rebounded in September from a lackluster performance in the previous two months and are expected to continue to provide a reliable forecast on MISSA's ability to increase its assets into the foreseeable future.

Lastly, MISSA enjoys the continual support of the RMI government through the Ministry of Finance, which has consistently paid its social security contributions on time.

With all of these in mind, MISSA remains confident in its ability to pay its beneficiaries in the coming years.

July first of every year has been declared "Retirees' Day" as tribute to all retired senior and disabled citizens who have served the Marshall Islands in various capacities in the government and private sectors.

Chairman's Report

January 31, 2008

His Excellency Litokwa Tomeing, President
Republic of the Marshall Islands

Honorable Jurelang Zedekia, Speaker
Nitijela of the Marshall Islands

Honorable Members
Nitijela of the Marshall Islands

Dear Sirs and Madam,

On behalf of the Board of Directors of the Marshall Islands Social Security Administration, I am pleased to present this Bi-annual Report covering our organization's activities for fiscal years of 2006 and 2007

Since 2000, the MISSA Board of Directors has remained steadfast in its quest to maintain our three main goals for our mission to keep Social Security financially sound:

* To be fully auditable and accountable.
* To increase revenues via the institution of aggressive tax collection policies mandated by the Social Security Act.
* To drastically decrease expenses and streamline the operation of the Administration.

The Board would like to compliment MISSA Administrator Saane Aho and her staff for helping us uphold all of our goals for our organization, and more importantly, for the people of the Marshall Islands.

As this report will show, our previously stated goals have again been achieved:

* MISSA remains fully auditable and accountable. For the fiscal years 2006 and 2007, there were no findings in our audit for the Social Security system.
* MISSA revenues continue to be maintained at high levels, from a low of $5.51 million in 1999 to $11.44 million in 2006 and $12.24 million in 2007.
* MISSA expenses have decreased from $1.55 million in 1999, or 14.5% of total revenues, to $0.90 million in 2006 and $1.02 million in 2007, or only 7.9% and 8.0% of total revenues, respectively.

As an organization, we pledge to work to maintain and to continue to improve MISSA for the welfare of the people of the Marshall Islands. It is important to note that Social Security benefit payments now total nearly $1 million per month, and that one-third of the revenue we collect goes to fund the RMI national health care plan.

In closing, I would like to thank the families of the MISSA Board members, administration and staff for supporting us over the past year. Without their patience for and understanding of the long hours that we have put in for the people of the Republic, none of our successes would have been achievable.

Sincerely,

Jack Niedenthal
Chairman of the MISSA Board

The MISSA Board

John M. Niedenthal
Chairman 2003-2009
Vice-Chairman 2000-2003

E. Tommy Milne
Vice-Chairman 2003-2009
Member 2000-2003

Saeko Shoniber
Member 2000-2009

Maria K. Fowler
Member 2000-2009

Cradle Alfred
Member 2000-2009

Jefferson Barton
Member 2006-2009

David Paul
Member 2006-2009

As provided for by the Social Security Act of 1990 (the Act), the MISSA Board shall consist of a Chairman and six other members appointed by the cabinet from among persons who are not members of the Nitijela. The composition of the Board shall be as follows: (a) one person who is a retiree, (b) one worker, and (c) five other persons.

In the event of the absence or inability to act, or of the suspension under Section 111(4) of a member of the Board, the Cabinet may appoint a person to act as a member of the Board during the absence, inability or suspension.

In making appointments to the Board, consideration shall be given to the adequacy of geographical representation and representation of employers and workers from both the public and private sectors.

FIDUCIARY RESPONSIBILITY

The primary role of MISSA's Board of Directors is to oversee how the Marshall Islands Retirement Fund is managed to serve the interest of the majority of our beneficiaries and their families.

As the steward of the Fund, the Board practices prudent fund management by keeping the growth of its operating and administrative expenses at sparing levels. Prior to FY 2000, administrative expenses used to represent at least 14.5% of the total revenues or about $1.6 million annually.

With the cost cutting measure adopted by the Board since 2001, the Administration was able to reduce administrative expenses to just an average of 7% of total revenues or about $0.875 million annually in the past five years.

Gone are the days when unnecessary travels and extravagant board meetings were held off-island or in the outer islands. In an unprecedented move two years ago, the Board even proposed to reduce the 20% cap in administrative expenses to 10%. This was supported by former Health Minister Alvin Jacklick who subsequently introduced a bill to have it approved. To-date, the bill is awaiting Nitijela's approval.

CHALLENGES

The Board has adopted corporate governance principles aimed at ensuring that all the Members are independent from third party intervention and pressure, be it political or personal in nature.

This self-determination to decide and act on what the Board believes is best for MISSA and its beneficiaries earned the full admiration of the public but were constantly met with challenges and opposition by certain individuals.

TRANSPARENCY

The Board has put more emphasis on ensuring that the Marshall Islands Retirement Fund is transparent and complies with disclosure requirements. It understands the importance of keeping all beneficiaries, contributors and the public fully informed of relevant developments to avoid negative perception often based on unfounded information.

To introduce public awareness, the Administration has used a local newspaper to publish real time updates about most recent financial developments, negotiations and other information that the public should know.

CORPORATE GOVERNANCE

The MISSA Board held 10 and 8 meetings in FYs 2006 and 2007, respectively. Each of these meetings was attended by at least four Members to form a quorum. The Board has focused on the areas that are significantly important to current and future beneficiaries - the growth of the retirement fund in general, and increasing tax compliance, equitable distribution of benefits, controlling costs and expenses, operational efficiency by management and staff, and proposed legislations affecting MISSA, in particular.

At least on a quarterly basis, the Board receives briefings from MISSA's Administrator, Senior Managers and Legal Counsel on a variety of operational and administrative issues including: financial performance, tax collections, claims and benefits, branch operations, information technology, human resources and legal updates.

Administrator's Report

January 31, 2008

To the Beneficiaries, Contributing Members, and the People of the Marshall Islands,

It is with great pleasure that I present you with the Marshall Islands Social Security Administration's Bi-annual Report for FYs 2006 and 2007.

The main theme of our report, "We prepare your tomorrow today", focuses on the essence that form the basic foundation of MISSA's self-existence – financial security of its members and their families in their old age or during disability.

Over the years, I have had the privilege of being a part of an organization that has struggled against all odds and have successfully evolved to what it has become today – a much stronger and more financially stable organization than ever. This report is a testimony of what the Administration has accomplished in the last two fiscal years.

For FYs 2006 and 2006, the audits of MISSA's financial statements have once again received unqualified opinions and no questioned costs or findings by our external auditors. The Administration's efforts to further strengthen its policies on internal controls and procedures, revamp its collection efforts and restructure its operations has continued to bring in increased retirement fund collections for FYs 2006 and 2007 of $11.44 million and $12.51 million, respectively. Although annual benefit payments have continued to also increase from $11.02 million in 2006 to $11.65 million in 2007, MISSA has been successful in maintaining its administrative expenses at sparing levels of $0.90 million in 2006 and $1.02 million in 2007. MISSA's net assets also have continued to grow from $61.18 million in 2006 to $69.03 million in 2007. Likewise, MISSA's investments have consistently performed well which, coupled with improved collections and controlled costs and expenses, increased the funded accrued actuarial liability (AAL) from 20% as of October 1, 2003 to almost 30% as of October 1, 2006.

As we look ahead into the future, MISSA will continue to focus on improving its partnerships with key leaders in the government and community as well as counterparts in the Pacific region to develop new strategies and legislations to address sustainability issues and to further improve services. MISSA's next actuarial valuation is due in 2009 and we hope to increase further our funded AAL.

With the unwavering support and guidance of the MISSA Board of Directors and the dedication and hard work of MISSA's management and staff, MISSA was again able to ensure the accountability of its financial records, improve its financial condition, and effectively manage its operations and benefit programs for the people of the Marshall Islands.

In closing, I want to recognize and thank MISSA's Board of Directors, management and staff and their families, for their selfless dedication, hard work and support over the years. I want to also thank President Litokwa Tomeing, his Cabinet, the Nitijela and the people of the Marshall Islands for the opportunity to be of service.

Lastly, let me reiterate our theme for this report – "We prepare your tomorrow today". Social security issues have now gained a new urgency and we at MISSA feel that *TIME IS OF THE ESSENCE.* With your continuous support, we will face and overcome all difficult challenges that will come along the way to protect your future TODAY.

Kommol im jeramman nan aolep!

Saane K. Aho
MISSA Administrator

Administrator

Deputy Administrators

Claims & Benefits

Administration

Ebeye Branch

Information Technology

Accounting & Treasury

Tax Compliance

Tax & Internal Audit

Management and Staff Directory

Administration

Saane K. Aho .... Administrator & CEO
Velma Kisino .... Administrative Assistant & Internal Auditor

Retirement and Operations Division

Bill Joseph....................... Deputy Administrator & COO

Claims & Benefits Department

Emlin Andrike .... Claims Manager
Joseph Hesly .... Claims & Benefits Specialist

Administration Department

Tenia Kaiko .... Senior Administrative Asst.
Glenn Joshua............... Lofgstics Support
Catherine Jibaiur .... General Custodian
Banner Tare................. Security Guard
Joseph Joshua .... Security Guard

Branch operations-Ebeye

Harden Lelet .... Ebeye Branch Manager
Bernadette Lojkar .... Tax Compliance Supervisor
Rooney Milne .... Administrative Assistant

Corporate Services Division

Avelino Gimao Jr. .... Deputy Administrator & CFO

Finance Department

Sheryl Profeta .... Finance Manager
Newton Matthew .... Chief Accountant
Antonio Rear .... Accountant

Customer Service/Treasury Department

Dorcas Watak .... Cashier
Priscilla Baso .... Registration Clerk

Information Technology Department

Joe Wottokna .... I.T. Manager
Ivy Langbata .... I.T. Clerk

Tax Compliance Department

Bryan Edejer................ Tax Compliance Manager
Brad Lamille................ Tax Compliance Supervisor
Almitha Clement .... Tax Officer
Ruthann Korean .... Tax Officer
Jackson Henry .... Tax Officer
Peter Anjain .... Tax Officer
Rotis Jitiam .... Tax Officer

Tax Audit Department

Vacant.......................... Tax Audit Manager
Elvie John .... Tax Audit Supervisor
Mathilda Lanwi .... Tax Audit Supervisor
Stephen Tarbwilin .... Tax Auditor
Rosemina Libokmeto... Tax Auditor

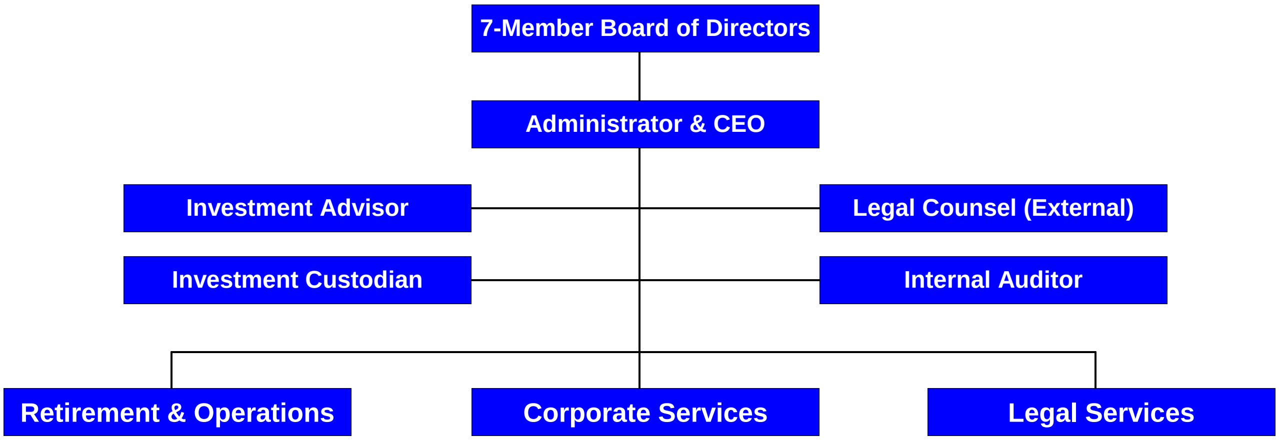
Human Resources Department

Avelino Gimao Jr. .... Personnel Manager

Legal Services Division

Vacant .... In-house Attorney

Organizational Structure



Claims and benefits

* Eligibility evaluation
* Benefit calculation and payments
* Retiree allotments
* Verification of living beneficiaries
* Screening of continued eligibility for surviving spouses, children and non-citizens
* Medical re-examination
* Prior Service Trust Fund (PSTF)

Administration & internal operations

* Administration
* File management and security
* Building maintenance
* Procurement
* Logistics support
* Housekeeping
* Retiree life insurance
* Security

Branch Operations

* Finance and administration
* Claims and benefits
* Customer service
* Tax compliance and collections
* Branch information technology

Finance

* Accounting
* Payroll
* Non-benefit payments
* Asset management
* Treasury
* Customer service
* New member registration

Corporate planning and financial strategy

* Budget
* Investments
* Cash management

Information technology

* System development and maintenance
* Computer network and operations
* Database management and security

Tax Compliance

* Data entry of contributions
* New employer registration
* Collection
* Employer records
* Legal referrals

External Audit

* Verification of employer payroll records
* Tax assessment and collection

Human resource management

* Recruitment and training
* Performance evaluation
* Employee development
* Policy formulation

Public relations and information

Legal opinion
Advisory
Legal documentation
Prosecution

* Delinquency

Collection

* Referrals
* Promissory notes
* Court judgment

Consultants

Investor Solutions, Inc. .... Investment Advisor
Frank Armstrong
3250 Mary Street, Suite 207
Coconut Grove, Florida, U.S.A.

Fidelity Investments IBG .... Investment Custodian
Joseph Derickson
P.O. Box 770001
Cincinnati, Ohio, U.S.A

Law Offices of David Strauss .... Legal Counsel
Atty. David Strauss
P.O. Box 534, Majuro
Republic of the Marshall Islands

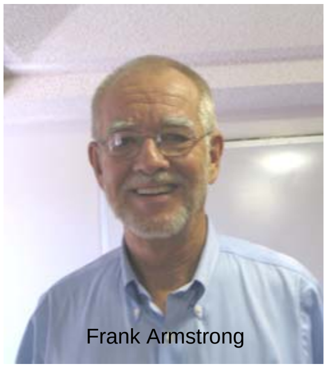
Law Offices of Dennis Reeder .... Conflict Attorney
Atty. Dennis Reeder
P.O. Box 205, Majuro
Republic of the Marshall Islands

Deloitte & Touché LLP.......................... External Auditors
Chris Wolseley
P.O. Box 1258
Majuro, Marshall Islands

Software Specialties .... I.T. Consultant
Jill Derickson
PMB 364 PPP, P.O. Box 10000
Saipan MP 96950-8900

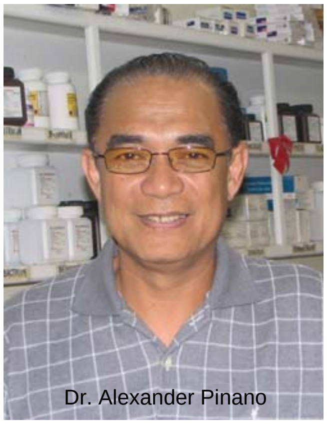
Pacific Actuarial Services .... Actuary
Joe Nichols
3213 W. Wheeler St., Suite 382
Seattle, Washington, U.S.A.

Majuro Clinic .... Medical Examiner
Dr. Alexander Pinano
Delap, Majuro
Marshall Islands


Frank Armstrong


David Strauss


Jill Derickson


Dr. Alexander Pinano

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

Θ *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.

Θ *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*
* *reasonable housing and travel allowances*
* *all wages in excess of the maximum taxable wages of $5,000 per quarter*

Θ *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
December 31st

Θ Reporting deadlines shall be:

1st quarter – April 10th
2nd quarter – July 10,
3rd quarter – October 10th
4th quarter – January 10th.

Θ *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, 2007, MISSA's estimated number of registered member was approximately 59,307 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 2005, there were 3,240 beneficiaries receiving an average of $0.909 million per month. In FY 2006, it increased to 3,278, with average benefit payments of $0. 913 million per month. As of September 30, 2007, there are 3,330 beneficiaries receiving average monthly benefit payment of $0.962.

Statistical information on active contributors

The number of workers and self-employed individuals whose tax contributions have been filed and paid has 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 gradually the following year. As of September 30, 2007, it totaled 11,253 and is expected to increase further with the opening of the Pan Pacific Fishing (RMI), Inc. in early 2008.

The number of employers whose tax contributions have been filed and paid has also increased steadily to 524 and 604 in 2006 and 2007, respectively.

Ebeye operations

Since 1987, MISSA operates a branch in Ebeye which has successfully collected an average of about $3.5 Million annually for both retirement and health Funds. This represents about 20% of MISSA's total annual collections. The majority of Ebeye contributions came from Chugach development Corporation and Kwajalein Range System, the main contractors of the United States Army in Kwajalein Atoll (USAKA).

In late 2007, contributions by the two main contractors in Kwajalein decreased by almost 10% as a result of manpower reduction. If this trend will continue, it will have a significant effect in MISSA's cash flow.

FINANCIAL HIGHLIGHTS

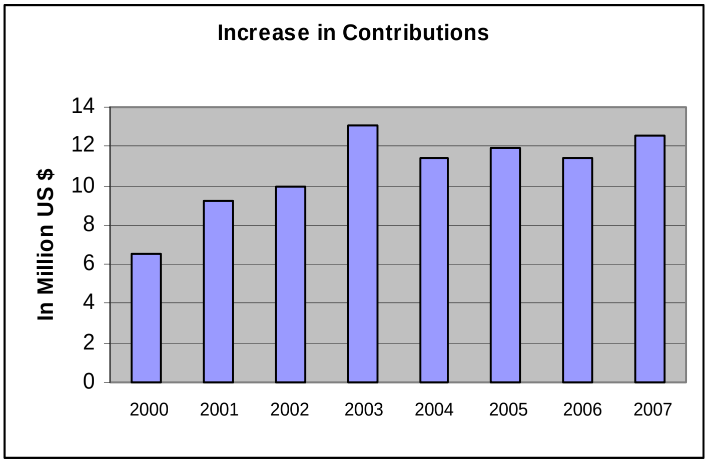
Fiscal Years 2007 & 2006 in Retrospect

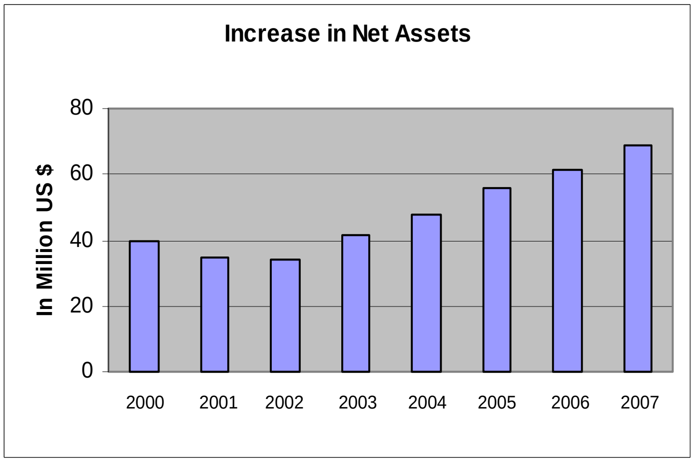
Fiscal years 2007 and 2006 came to pass with MISSA methodically implementing corrective efforts to bridge the widening gap between the continual rise in benefit payments and the leveling off of collections to maintain the financial viability of the system.

- Total recorded contributions for FYs 2007 and 2006 amounted to $12.5 million and $11.4 million, respectively, which are 9.6% higher and 4% lower than the previous year, respectively.
- The main revenue drivers in the last two fiscal years were the consistent bi-weekly remittances of the RMI Government, court judgments in favor of MISSA and vigorous collection and audit efforts by our Tax Compliance Officers and Auditors.
- There were also collections of $0.3 million both in FYs 2006 and 2007 from promissory notes by employers who voluntarily availed of our payment plans and payments from certain government agencies and businesses ordered by the court to settle their obligations with MISSA.
- Effective cash management by MISSA resulted to cash surpluses of $0.3 million both in FYs 2006 and 2007 which were subsequently invested.
- The market value of MISSA's investments has increased by 13.19% and 10.56% in FY's 2007 and 2006, respectively and is worth $65.2 million as of September 30, 2007. This includes shares of stocks and time certificates of deposit held at BOMI amounting to $11.2 million;
- Dividends received in FYs 2007 and 2006 amounted to $1.6 million and $1.2 million, respectively and were subsequently rolled over or re-invested; and
- Interest from TCDs totaled $0.2 million for both fiscal years.
- MISSA's net assets are valued at $69.0 million and $61.2 million as of September 30, 2007 and 2006, respectively, reflecting an increase of 9.5% and 12.83%, respectively, from the previous fiscal year.
- Other income earned from administrative fees for Health Fund collections and other fees amounted to $0.38 million and $0.41 million in FYs 2007 and 2006, respectively.
- Retirement, disability, survivor and lump-sum benefits amounted to $11.7 million in FY 2007 or just 5.7% from the previous fiscal year, while in FY 2006, it totaled $11.0 and increased by just 3.3% from last fiscal year.
- Administrative expenses amounted to $1.0 million and $0.9 million, in FYs 2007 and 2006, respectively, or only 8.0% and 7.9% of total contributions, respectively. By law, MISSA is authorized to spend up to 20% of total revenues for administrative expenses.

Mary Sheryl Jane Profeta
Finance manager

"The main revenue driver in FY's 2007 and 2006 is the consistent bi-weekly remittances of the RMI national government which remains as the top contributor to the Marshall Islands Retirement and Health Funds, with contributions amounting to $5.83 million and $5.66 million, respectively."





Health Fund

On March 6, 1991, the Nitijela passed Public Law 1991-118 also known as the Social Security Health Fund Act of 1991, as amended, which directed MISSA to administer the Marshall Islands Social Security Health Fund.

From that time on, workers and their employers each contribute a percentage of their wages to the Health Fund according to the following schedule:

- 2.5% for wages paid From Oct. 1991 to Mar. 1997
- 3.5% for wages paid from Apr. 1997 to Dec. 2000
- 2.5% for wages paid from Jan. 2001 to Dec. 2001
- 3.5% for wages paid from Jan. 2002 to present

On April 11, 2002, the Nitijela passed Public law 2002-57 to repeal to the Social Security Health Fund Act of 1991and to transfer the administration of the Health Fund to RMI's Ministry of Health (MOH). However, the formal turnover did not take effect until December 1, 2002, with MISSA;s Deputy Administrator for Health Fund and the entire Medical Referral Team being absorbed by MOH.

For accounting purposes, all Health Fund contributions collected by MISSA starting January 1, 2003 were no longer reflected in MISSA's books. As part of an agreement with MOH, however, MISSA will be responsible for the quarterly collection of Health Fund contributions. In return, the MOH pays MISSA 3.5% on the first $4.0 million collected each year as administrative fees.

Health Fund contributions collected by MISSA in the last 5 years:

2003	$3.95 million
2004	$6.49 million
2005	$5.70 million
2006	$6.00 million
2007	$5.85 million

Prior Service Trust Fund

The Prior Service Trust Fund (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 governments 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 of benefits have already been paid.

As of September 30, 2007, there were 239 Marshallese receiving monthly benefits of about $10,000, at a monthly average of $39 per beneficiary. An additional 16 eligible members have yet to apply as they have not fully met the eligibility requirements.

In 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 per year.

In September 2004, PSTF officials met in Washington D.C. with U.S. Deputy Assistant Secretary Cohen and the Office of ther 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.

As of September 30, 2007, MISSA has only $31,141 in reserve for PSTF but this is not even enough to cover the 20% administrative fees due to MISSA estimated at almost $37,000 and another $60,000 receivables that have accumulated prior to its decentralization. In 2006.

On September 2007, MISSA decided to put on hold all PSTF benefit checks pending receipt of additional funding from the U.S. Government. Currently, MISSA needs at least $10,000 per month to sustain the payment of 239 Marshallese PSTF beneficiaries.

The PSTF Board of Directors is composed of the Administrators and Board Chairmen of the Social Security Systems of the former members of the Trust Territory Social Security System.

Actuarial Report

Michael Spaid
Pacific Actuarial Services LLC

"Because the current funded percentage indicates that the trust fund has only 29% of what it should have to cover all benefits earned as of the valuation date, this increase in the funded percentage should not be used to justify immediate benefit increases."

The most recent valuation report presented to the MISSA Board of Directors by Michael Spaid of Pacific Actuarial Services, MISSA's actuary, showed that the Administration's total accrued liability is $207.65 million as of October 1, 2006.

Subtracting the market value of MISSA assets worth $61.18 million as of the same date results in an unfunded liability of $146.47 million or 70.5%. Thus, the funded liability is 29.5% which is almost double that of 16% as of October 1, 2001 and 46% higher than the 20% funded AAL as of the October 1, 2003 valuation.

The accrued liability, (also sometimes referred to as the actuarial accrued liability or AAL) represents the current value of benefits already earned, or accrued, as of the valuation date including benefits currently in pay status. The funded percent is an indication of how well funded the Administration is at any point in time with respect to benefits already earned.

A funded percent of 100% would indicate that the Administration's liability for benefits already earned was fully funded by current trust assets. A funded percent of 25% would indicate that current trust assets were only great enough to cover 25% of the benefits already earned. The greater the funded percentage, the better funded the Administration is with respect to benefits already earned.

The deficiency is calculated as the unfunded AAL further reduced by the estimated value of future employee contributions in excess of that needed to fund future benefits and expenses.

The 2003 valuation assumed that the minimum benefits, indexed covered earnings (ICE), bend points, and maximum taxable wages would increase by 8% every five years. This valuation does not anticipate any future increases because the last increase in ICE was in 1994 and currently there are no anticipated increases in these items.

If, as in the 2003 valuation, this valuation were to assume an 8% increase in the minimum benefits, ICE, bend points, and maximum taxable wages every five years, the total AAL as of October 1, 2006 would be $227.08 million. However, because this valuation assumes no increases in these items, the total AAL as of October 1, 2006 is $207.65 million.

* *"ICE" means the sum of all covered earnings for a worker or a self-employed worker increased by cost of living adjustments granted under Section 147 of the SS act of 1990, as amended, subsequent to the date of said earnings.*
* *"Bend points" means an amount, used in the basic benefit formula in Section 134 of the SS Act of 1990, as amended, at which the formula percentage for cumulative covered earnings above the amount is less than the formula percentage for cumulative covered earnings below the amount. Currently, the bend points are eleven thousand dollars ($11,000) and forty-four thousand dollars ($44,000) of cumulative covered earnings. Thereafter, the bend points may be increased by the MISSA Board pursuant to Section 147 of the SS Act of 1990, as amended.*
* *"Covered earnings" means the worker's or self-employed worker's gross earnings during any quarter subject to a maximum of $5,000 and is that amount of earnings upon which the worker, the worker's employer and the self-employed worker makes contributions to MISSA.*

In addition, the estimated value of future employee contributions in excess of that needed to fund future benefits and expenses was $65.23 million as of October 1, 2006. Once this is subtracted from the unfunded AAL of 146.47, this means that the deficiency is $81.25 million. The deficiency represents the value of benefits already earned that are not covered by existing assets and are not anticipated to be covered by expected future contributions.

The unfunded accrued liability is greatly affected by the level of trust assets which, in return is affected by the investment performance of the trust. The trust experienced a positive return for FY 2006 of 10.39%. Fluctuations in investment returns can by themselves increase or decrease the unfunded AAL by millions of dollars. This positive return for FY 2006 means that although a deficiency remains, MISSA is able to pay current benefits into the near future.

The funded percent as of October 1, 2006 is 29.5%. However, if the October 1, 2006 valuation were to incorporate the same 8% increase in the minimum benefits, ICE, bend points, and maximum taxable wages every five years as the prior valuation did, the funded percent as of October 1, 2006 would have been 26.9%.

Unfunded Accrued Liability and Funded Percent

The accrued liability represents the liability of the Administration for benefits already earned including those in pay status as well as benefits earned as of the valuation date for workers who are earning future benefits. One can think of this liability as the amount needed today to pay for all benefits earned as of today that are either being paid or will be paid in the future.

This determination of the accrued liability does not include former workers who are no longer contributing to the Administration and are not fully insured and therefore, are not entitled to a future benefit. Should these workers re-enter the workforce in the future, their benefits will then be include din the category of workers currently earning benefits.

Comments and suggestions by the actuary to control and reduce the unfunded accrued liability

It is highly desirable to reduce the unfunded AAL in order to further improve the funded status. While the funded percent has increased from 20% to 29% from the 2003 to the 2006 valuation, it is important to note that the two-percentage points of these increase resulted from the elimination of the assumed future increases in the minimum benefits, ICE, bend points and maximum taxable wages. Because the current funded percentage indicates that the trust fund has only 29% of what it should have to cover all benefits earned as of the valuation date, this increase in the funded percentage should not be used to justify immediate benefit increases.

Accrued Liability by Worker's and Beneficiary's Nearest Age

Nearest age	Accrued Liability
20	$ 3,893,000
25	1,740,000
30	4,831,000
35	9,423,000
40	16,113,000
45	22,963,000
50	30,347,000
55	39,601,000
60	34,608,000
65	22,550,000
70 & older	21,584,000
Total	$207,653,000

Comparative Accrued Liability & Market Value of Assets as of October 1

Accrued Liability For:	2003	2006
Workers earning benefits	$120,978,000	$ 99,713,000
Retirees, spouses, children, and workers receiving benefits	73,640,000	94,660,000
Fully insured inactive workers entitled to future benefits	11,129,000	13,280,000
Total accrued liability	$205,747,000	$207,653,000
Market value of MISSA assets	(41,549,000)	(61,179,000)
Unfunded accrued liability	$164,198,000	$146,474,000
Funded percent	20.2%	29.5%

The ultimate goal of the Administration must be to remain viable and with this in mind, steps need to be taken to insure that income will support the level of benefits provided.

In order to improve MISSA's funded percentage, the actuary recommended that the Administration may want to:

* consider implementing a maximum benefit to limit the size of the benefit that may be earned. The maximum benefit could be set at 90% to 100% of the worker's greatest covered earnings or greatest ICE during the worker's most recent past 20 to 40 quarters, or the maximum can be a set dollar amount, just as the minimum benefit is a set dollar amount;
* Consider revising the current benefit formula which can produce very large benefits in relation to an individual's earnings for low-wage earners. If this is done, the existing formula could be frozen as of the date of the change and the new benefit formula could be applied to future benefits to be earned.
* Consider combining a maximum benefit with increasing the age at which a fully insured worker is eligible to retire, which is currently 60 (workers who have made at least 80 quarters of contributions are eligible for reduced early retirement benefits commencing at age 55). Unreduced retirement benefits could be made available to fully insured workers born before a certain date at age 60 (no change here) and others born after that date would see their retirement age increase from 60 to 61, 62, 63. 64, and 65, depending on their date of birth. Increasing the retirement age, combined with a cap on the maximum benefit that may be paid can reduce the accrued liability and increase the funded percent. An increase in the retirement age like this was implemented by the US Social Security System some years ago.
* It may also be prudent to extend the earnings test beyond age 62. Social Security retirement benefits are designed to provide income to those who are no longer working and as retirees continue to work, those with large incomes are really not in need of social security benefits to sustain them.