QUADRENNIAL REPORT 2010 - 2013

Photos: Courtesy of MIVA

FACING THE CHALLENGE OF REFORMING THE SYSTEM TO SUSTAINABILITY

In MISSA's bi-annual report for FYs 2006-2007, the following questions were featured - "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 there be political and legal breakthroughs that will change the trend of tax compliance in the country?

Four years later, the answer emerged beyond doubt - The Fund faces an imminent danger of being fully depleted by 2022, or possibly earlier. The main cause was traced to the loopholes in the current Social Security laws that triggered benefits to uncontrollably surpass contributions at an accelerating pace.

- *collections flattened from FY's 2010 to 2013 at an annual average of $12.5 million while benefit payments continue to increase from $14.6 million in 2010 to $17 million in 2013; the effect was a enormous deficit of $13.1 million in just four years.*
- *$1 million was liquidated from MISSA's Time Certificate of Deposit from BOMI in FY 2010; In FY 2011, another $2 million was withdrawn from BOMI while $1 million was drawn down from its offshore investments, the first of its kind since 2002; Subsequently, more than $8 million was withdrawn again between FYs 2012 and 2013 - almost $13 million in four years.*
- *It is projected that in the next five years, another shortfall of $42.36 million will be incurred if the current trend continues and no legislations are enacted to correct the flaws and loopholes in the System. By 2022, total deficit will balloon to a staggering $81.02 million.*
- *As of October 1, 2011, the total accrued actuarial liability (AAL) of MISSA amounted to $287 million while the market value of Trust Assets was $69 million, resulting in an unfunded accrued liability of $218 million (or 77%).*

Exacerbated by weak economic growth and the swelling of the ranks of the unemployed, collection of MISSA taxes became a difficult challenge. It was imperative that MISSA start developing strategic plans to circumvent an imminent funding deficiency. Subsequently, management initiated cuts on its administrative expenses, investments were continuously diversified to ensure healthy returns, legal remedies were sought to collect delinquent accounts and stricter benefit administration was enforced.

Consequently, the Administration's doubled efforts gained positive results but were not enough to reverse the impact of the imbalance. This difficulty was further aggravated by the inability of a number of local governments, state-owned enterprises and government agencies to pay off their long-outstanding debts to MISSA which now amount to more than $13 million.

In answer to persistent calls for immediate action from MISSA, then RMI President Litokwa Tomeing and his Cabinet finally acted and approved the creation of the Social Security Reform Commission (SSRC) on September 13, 2010. This body was comprised of independent-minded and dedicated individuals with good track records and who have one common vision for the Marshall Islands Retirement Fund: Prevent its early demise and maintain financial stability. The SSRC responded immediately and started a series of meetings and brainstorming. But this period of optimism was short-lived. Due to a reorganization in the government, the commission ceased to exist.

Despite this distressing development, the Administration's resolve to carry on with its noble mission to save the Fund remained unyielding. Supported by facts and figures from studies conducted by its actuary and a local economist, MISSA persistently sought the attention of the RMI Government. Finally, 18 proposed amendments to the Social Security Act of 1990 were introduced to the Nitijela. Thus, Bill 43 also known as the Social Security Amendment Act, 2013 came to existence.

During the public hearings held in Majuro and Ebeye, it was evident that everyone shared a common understanding - that the Retirement Fund is on the brink of an untimely end and drastic reforms must be initiated to save it. Unfortunately, self-preservation and economic interest prompted the public to oppose the bill.

The need to extend the life of the Fund beyond 2022

Social Security is an integral part the entire RMI economy. More than 4,000 families receive SS checks every month. That's just between 20% to 25% of the country's population. And not all of those recipients are elders. These MISSA checks are the life line to hundreds of surviving spouses, children and disabled adults as well.

If no changes are made to the System and MISSA does not receive any financial help from the RMI Government, the economic and social repercussions of the collapse of Social Security in the country would be devastating. Senior and disabled citizens and survivors of deceased retirees will just be an additional burden to their poor relatives who once have been dependent upon these pensioners' source of livelihood in the past. And the money these beneficiaries used to spend before would no longer find its way into the RMI's consumer-driven economy.

The urgency to reform the System can no longer be ignored. The ramifications are too far reaching. ***Our social security system needs change - not tomorrow, BUT NOW.***

Our Mission

The mission of the Marshall Islands Social Security Administration is spelled out in the first paragraph, Chapter 1 of the Social Security Act of 1990: An Act…

"To establish for the people of the Republic of the Marshall Islands a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and surviving spouses and children of deceased workers would be ensured support after the loss of the family's income."

Our Vision

"We aim to safeguard and sustain the financial stability of the Retirement Fund by operating within the guidelines of the law, compliance to set policies and procedures, and adherence to the principles of good governance, transparency and accountability."

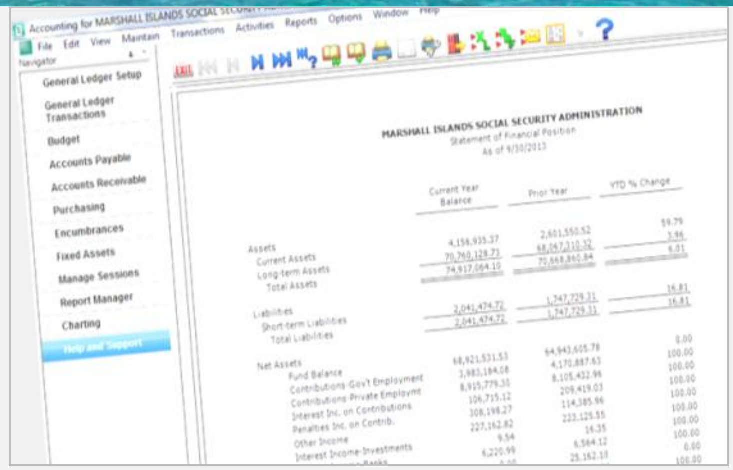
Our Corporate Culture

The difficult challenges faced by the Administration in the past decade have shaped up a new culture and redefined the character of what MISSA has become today. These led us to a new course and guided us on how to think, act and make decisions for the betterment of our organization.

- ***Making a difference***: creating a mindset of doing ordinary things extraordinarily well.
- ***Integrity:*** maintaining the public's trust by good example and adhering to consistent standards of conduct in our actions and decisions.
- ***Stewardship***: acting with an owner mentality and continuously protecting the public stake in our resources.
- ***Sustainability:*** meeting the needs of the present without compromising the ability of future generations to meet their own needs.
- ***Accountability:*** taking ownership to our actions by embracing a prudent spending and fund management philosophy .

THE FUND

"On September 20, 2013, the Nitijela Standing Co
first public hearing on Bill No. 43, also kno
was introduced by MISSA to provide for changes that will
loopholes, increasing contributions from 7% to 9%, and d
these amendments will cause depletion of the Fund within



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 or "the Act"), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (The Fund).

The Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family's income.

Additionally, MISSA is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program. Accordingly, MISSA established the Prior Service Trust Fund (PSTF) to account for activities under this program.

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.

Contributions to the Fund are governed by the Social Security Act of 1990, as amended, which imposes a tax on the quarterly income of every wage earner equal to seven percent of wages received. Maximum quarterly taxable wages are $5,000. Every employer is required to contribute an amount equal to that contributed by employees.

Retirement benefits are paid to every person who is a service insured or a fully insured individual as defined by the Social Security Act of 1990, as amended, has attained an age of sixty years and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. Eligible children who are not married and are not working may also receive benefits until eighteen or up until age twenty-two, if in school. Eligible children who became disabled before age twenty-two will continue to receive *ommittee on Health, Education and Social Affairs started its own as the Social Security Amendment Act, 2013. This bill lead to further financial stability of the Fund by removing decreasing benefits by approximately 22%. Failure to enact nine years as current contributions cannot cover benefits."*

CONTENTS

benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 1990, benefits are paid monthly and are computed as follows:

a) Pension element - 2% of index covered earnings, plus;
b) Social element - 14.5% of the first $11,000 of cumulative covered earnings in excess of $11,000 but not in excess of $44,000. The $11,000 and $44,000 bend points may be increased from time to time by wage index adjustments granted by the Board of MISSA.

The minimum benefit is $129 per month, effective October 1, 1995.

MISSA operates under the authority of a seven-member Board of Directors appointed by the Cabinet of the Marshall Islands.

On September 20, 2013, the Nitijela Standing Committee on Health, Education and Social Affairs started its first public hearing on Bill No. 43, also known as the Social Security Amendment Act, 2013. This bill was introduced by MISSA to provide for changes that will lead to further financial stability of the Fund by removing loopholes, increasing contributions from 7% to 9%, and decreasing benefits by approximately 22%. Failure to enact these amendments will cause depletion of the Fund within nine years as current contributions cannot cover benefits.

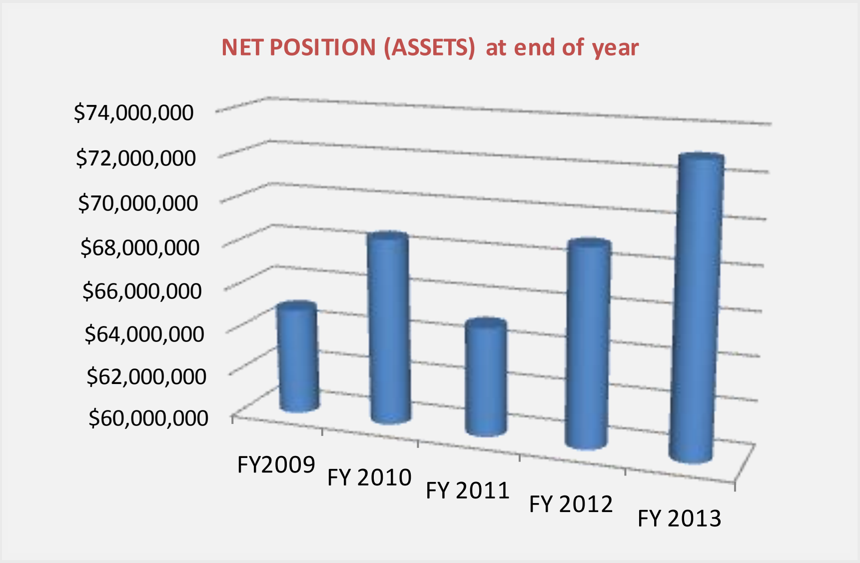
As of September 30, 2013, MISSA's total Net Assets held in reserve for future benefits amounted to $72.9 million.

Basis of Accounting:

MISSA is accounted for as a Fiduciary Fund Type – Private Purpose Trust Fund and prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

HIGHLIGHTS

CHANGES IN NET ASSETS (Audited)	FY 2013	FY 2012	FY 2011	FY 2010
CONTRIBUTIONS				
Private employers	$ 8,915,779	$8,105,433	$9,545,474	$8,816,591
Government employees	3,983,184	4,170,888	3,939,534	3,874,061
Penalties and interest	414,913	323,805	3,412,009	428,184
Total contributions	13,313,876	12,600,126	16,897,017	13,118,836
Allowance for doubtful accts.	-	(152,745)	(4,375,888)	
Net contributions income	13,313,876	12,447,381	12,521,129	13,118,836
OTHER INCOME				
Net investment income (loss)	8,044,065	8,252,479	(98,508)	5,490,636
Others	624,258	335,567	339,090	488,192
Total other income	8,668,323	8,588,046	240,582	5,978,828
TOTAL ADDITIONS	21,982,199	21,035,427	12,761,711	19,097,664
BENEFITS				
Retirement	10,585,297	9,813,768	9,253,952	8,501,345
Survivors	5,617,160	829,921	924,049	982,804
Disability	799,487	5,453,080	5,175,356	4,965,228
Lump sum	105,726	155,424	129,527	101,765
Total benefits	17,107,670	16,252,193	15,482,884	14,551,142
ADMINISTRATIVE EXPENSES	855,893	799,218	837,285	885,294
TOTAL DEDUCTIONS	17,963,563	17,051,411	16,320,169	15,436,436
CHANGE IN NET ASSETS	4,018,636	3,984,016	(3,558,458)	3,661,228
NET ASSETS, at beginning of year	68,969,546	64,985,530	68,543,988	64,882,760
NET ASSETS, at end of year	$72,988,182	$68,969,546	$64,985,530	$68,543,988



KEY PERFORMANCE INDICATORS	FY 2013	FY 2012	FY 2011	FY 2010
Number of wage earners				
Private sector	5,625	6,320	6,118	6,428
Government sector	5,054	5,272	5,126	5,060
Total	10,679	11,592	11,244	11,488
Number of employers				
Private sector	493	532	529	561
Government sector	48	48	44	45
Total	541	580	573	606
Number of beneficiaries				
Retirement	2,013	1,947	1,842	1,781
Survivor	2,021	1,993	1,994	1,986
Disability	178	185	205	222
Lump-sum	89	105	107	111
Total	4,301	4,230	4,148	4,100

Notes:

1. The government sector includes the RMI National Government, local governments, state-owned enterprises and agencies, and entities who have entered into partnership and joint venture with the RMI Government.

2. The number of wage earners represents employees and self-employed workers whose contributions were filed and paid in full by their employers as of the last quarter of the fiscal year. It excludes those whose contributions may have been deducted by their employers from their wages but not yet remitted in full to MISSA

3. The number of employers excludes those who failed to pay in full their quarterly returns as of the last quarter of the fiscal year, although they may have filed the quarterly returns or entered into installment agreements with MISSA .

MESSAGE OF THE BOARD CHAIRPERSON

"Fiscal years 2010 through 2013 were the most challenging period for the Administration in the past decade as we took decisive actions to keep the Marshall Islands Retirement Fund financially operational in the medium term while continuously seeking for other options to attain long-lasting viability for the future generation of retirees and their families."

Financial performance

I will only highlight a few of the many significant accomplishments of MISSA in the past four years as a more detailed review of the Administration's financial performance is presented in the succeeding pages of this report.

Contributions may have flattened over the past four years but I still consider this as a commendable achievement considering that it represents about 90% of what were currently due from our employers, wage-earners and self-employed workers. I attribute this feat to our hardworking tax compliance officers, tax auditors and legal counsel who continue to remain vigilant in their roles as tax enforcers for MISSA. I also wish to thank the RMI Government, through the Ministry of Finance, for their timely remittances of MISSA taxes.

Despite the difficult challenges faced by the Administration in the past four years, I am proud to say that all of our more than 4,300 old age and medical retirees and surviving families of deceased retirees continue to receive 100% of their benefits without interruption. Likewise, the 200 Marshallese beneficiaries of the Prior Service Trust Fund also continually received their benefits on time.

MISSA's investments both locally and offshore have performed remarkably well in FYs 2010, 2012 and 2013 with aggregate net gains of almost $22 million. These gains have provided MISSA with the additional lifeline to remain financially operational even in the short term. In FY 2011, the Administration incurred a net investment loss of $98,500.

Accountability and transparency

As advocates of prudent fund management, we spent our operating budget for administrative expenses sparingly, never exceeding 7.5% of our contributions in the past four years. By law, MISSA is allowed to spend as much as 20% of contributions for administrative expenses.

Since FY 2002, our external auditors have never raised any issues about questioned costs, material weaknesses in internal controls or significant impropriety in our financial statements as evidenced by the unqualified opinion they have issued in favor of MISSA in the last twelve consecutive years.

Social Security reforms

The weak economic condition in the country, compounded by a number of loopholes in the current social security laws, precludes MISSA from maintaining a long-lasting, financially viable system. With contributions not improving in the past four years and benefit payments continually increasing, it is extremely difficult for the Administration to maintain a positive cash flow without dipping into its Trust Fund.

Between FYs 2010 and 2013, drawdowns from the Fund amounted to $12.7 million. As reported by MISSA's actuary, the Marshall Islands Social Security Trust Fund will be fully depleted by 2022 unless there is a complete turnaround in the imbalance between contributions and benefits.

It is for these reasons that the I implore our citizens, traditional and government leaders to understand the urgent need to restore the financial health of the Fund by supporting Bill no. 43, also known as the Social Security (Amendment) Act, 2013.

To my fellow retirees and current MISSA beneficiaries, I know that the benefits you are currently receiving from the Administration represent a part of your household budget and that the enactment of Bill no. 43 will have a negative impact in your family's finances. However, bear in mind that this loss on your part will be a greater gain to your children, grandchildren and the next lineage after them who will someday, be the succeeding generations of

"As fiduciary caretaker of the Marshall Islands Social Security Trust Fund, the Board will remain vigilant, demonstrate diligent care in our decisions and actions, and adhere to the principles of good governance, transparency and accountability."

retirees and beneficiaries of MISSA, if the Retirement Fund remains sustainable much far beyond 2022.

Commitment of the MISSA Board

On behalf of the MISSA Board of Trustees, I would like to reconfirm our commitment to continue to uphold the noble mission of the Administration to establish for the people of the Republic of the Marshall Islands a financially sound social security system in the long term and will do everything within the authority given us to restore it back to stability.

Likewise, as fiduciary caretaker of the Marshall Islands Social Security Trust Fund, the Board will remain vigilant, demonstrate diligent care in our decisions and actions, and adhere to the principles of good governance, transparency and accountability.

Acknowledgment

During the past four years, the Administration underwent internal reorganization in its leadership. As one of the stewards of the Fund, I am honored to be part of the previous Board of Trustees chaired by Jack Niedenthal whose unwavering dedication to competently perform our fiduciary responsibilities transformed MISSA to what it is today, one of the high performing government institutions in the country and leader in accountability.

I also wish to take this opportunity to thank my incumbent co-directors for their support and collaboration to act decisively for our stakeholders, the MISSA Administrator and CEO who is the driving force behind the Administration's successes through the years, and MISSA's management team and their staff for their hardwork and dedication to achieve our goals.

In closing, I would like to thank our present and former government leaders and legislators. Our remarkable accomplishments in the past decade would not have been possible without their support and understanding. I hope that we will be able to count on their continued support and pray that they will seriously consider the urgency of what we have outlined during the public hearing on the Social Security (Amendment) Act, 2013.

Saeko Shoniber
Board Chairperson

MESSAGE OF THE CHIEF EXECUTIVE

"It is our ardent hope that the public and our legislators will realize that immediate and collective self-sacrifice is necessary to attain greater gain and long lasting benefits for the next generation of retirees and their surviving families."

The resilience of the MISSA Board to hurdle the challenges in the past four years and our management and staff walking the extra mile were the driving forces behind MISSA's achieving its medium term goals in the last four years:

[1] to collect at least 90% of current contributions due; [2] to meet benefit payments on time without exceeding the needed cash drawdowns; [3] to earn positive yields from its investments; [4] to bring administrative expenses to a minimum; and [5] to get the public and government leaders to know the deteriorating financial health of the Fund and understand the urgency to save it from untimely end.

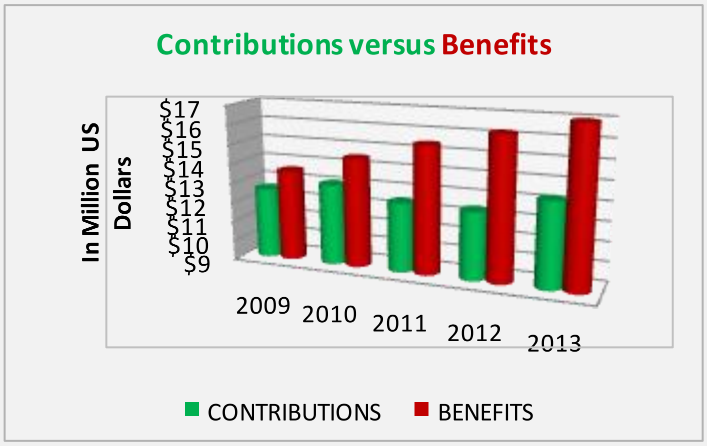
Financial Highlights: FYs 2010-2013

Contributions

Despite the difficult challenges brought about by a lump economy and growing unemployment in the country, our tax compliance department was able to hit its targeted revenues. Contributions recorded totaled $13.31 million, $12.45 million, $12.52 million and $13.12 million in 2013, 2012, 2011 and 2010, respectively, or an average of $12.85 million annually. Our average annual collection rate is approximately 90% of the total current contributions due every year in the past four fiscal years. Topping the list of employers is the RMI Government which represents 31% of the total contributions.

Benefits

In the past four years, benefits continue to increase steadily at a rate of 6.2% annually. In FY 2010, it totaled $14.55 million and subsequently, have ballooned to $17.11 million in FY 2013.



Investments

Except for a minimal net investment loss of $98 thousand in FY 2011, MISSA's local and offshore investments performed exceptionally well with $8.19 million, $8.25 million and $5.49 million net investment gains being recorded in FYs 2013, 2012 and 2010, respectively. These positive returns were the result of a diversified asset allocation coupled with favorable world market conditions and prudent management by MISSA's investment advisor, Investor Solutions, Inc. (IS). To date, an aggregate total of $38.14 million have been recorded as offshore investment gains since the Fund was transferred to IS in November 2002.

Local investments in the Bank of the Marshall Islands (BOMI) yielded positive returns as well with an aggregate total of $3.03 million being recorded as equity gains in the past four fiscal years. A total of $1.01 million cash dividends were also received between FYs 2010 and 2013.

MISSA presently holds 65,417 shares of stocks worth $10.99 million in the Bank of the Marshall Islands equivalent to a 35.4% interest. It also include 132 stock dividends received by MISSA in May 2013.

Administrative expenses

MISSA continues to manage its administrative expenses at sparing levels, spending an annual average of $844 thousand or 6.6% of net contributions. By law, *"With the present loopholes in the current System, it is most likely that the financial crisis that the Administration is facing will not subside, but rather, will continue to get worse. MISSA can never achieve its goals alone without the active support of all sectors."*

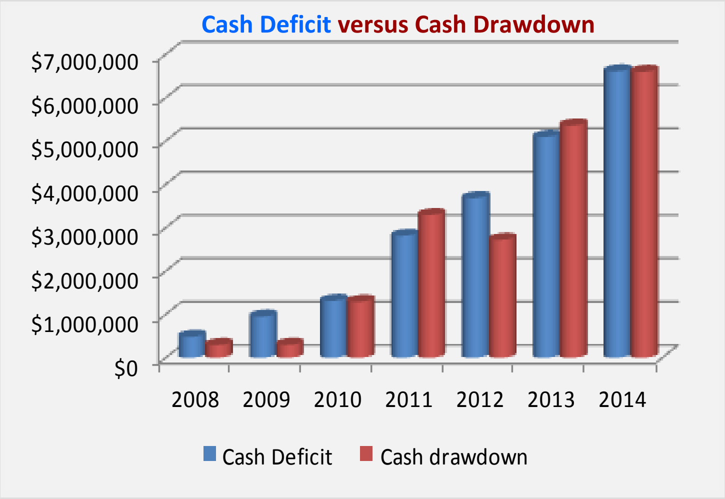
MISSA has an administrative expense ceiling of up to 20% of contributions per year. In a move to put tighter control to its operating expenses, MISSA has included in its proposed amendments under Bill no. 43, a provision that lowers the cap to 10% of contributions.

Net assets

Despite the net operating deficits incurred in the last four fiscal years, the net assets of MISSA have increased steadily. From $64.88 million at the onset of FY 2010, it grew to $72.99 million as of September 30, 2013. The increase was mainly due to the $21.7 million net investment income in the last four years reduced by the $12.7 million cash drawdowns from several Time Certificates of Deposit (TCDs) and offshore investments in the same period.

Cash Flow

With benefits surpassing contributions, MISSA incurred a cash shortfall of almost $13 million between FYs 2010 and 2013. In order to meet benefit payments on time, the Administration has to resort first to a series of withdrawals of TCDs at BOMI worth a total of $5 million between FYs 2010 and 2011. When the proceeds from the TCD withdrawals were used up, MISSA then dipped further into its offshore investments, drawing down a total of $7.7 million from FY 2011 until the end of FY 2013.



The next projected drawdown is likely to occur in February 2014 and will cost at least $1.5 million to cover benefit payments for February and March 2014.

Conversion to a new plan design

The current plan design was put into place when expected benefit payments were a fraction of the expected contributions. However, due to a maturing group of beneficiaries and decreasing workforce, the current design is no longer sustainable. After the review of other alternative plan designs made by MISSA's actuary, *the only viable option seems to be to dismantle the current system and convert to a new plan design like the defined contribution (DC) system.*

To continue the current level of benefits, current and future workers would need to contribute for many years with very little chance of ever receiving future benefits. Due to the decreasing workforce, and no clear indication of any changes to that trend, and due to the fact that many recipients have received benefits far exceeding their member contributions, drastic changes must be made to current benefits.

MISSA is currently liaising with the International Monetary Fund (IMF) to acquire the technical assistance needed to assess and develop a more sustainable model that will consider a full or partial conversion of the current social security system to a defined contribution system.

Collective self-sacrifice: losing something today for greater gain tomorrow

Meeting the needs of the present beneficiaries without compromising MISSA's ability to meet the needs of the next generation of retirees remains to be the medium term goal of the Administration. But with the present loopholes in the current System, it is most likely that the financial crisis that the Administration is facing will not subside, but rather, will continue to get worse. MISSA can never achieve its goals alone without the collective support of all sectors.

During the hearings in Majuro and Ebeye on the proposed

"Meeting the needs of the present beneficiaries without compromising MISSA's ability to meet the needs of the next generation of retirees remains to be the medium term goal of the Administration."

amendments (Bill No. 43), there was something in common among all those who spoke - they understood and acknowledged that the financial health of the Fund has reached a critical point. However, the thought of financial consequences and self-preservation prevailed in the minds of the public which kept them back from supporting the bill. Unfortunately, everyone has to face the grim reality that *immediate and collective self-sacrifice is necessary* in order to achieve a greater, long-term gain for the next generation of MISSA beneficiaries.

Future outlook

As members of the Nitijela take time to study Bill No. 43, the status quo of the system remains uncertain. With every day passing by without decisive action being taken, the depletion of the Fund becomes more imminent and MISSA seems helpless to change its course alone. Time is no longer on our side.

The Administration has been used to setbacks in the past several years which molded us to become resilient and more resolute to move on and succeed. *It is our hope and prayer that the people of the Marshall Islands and our government leaders will help us preserve the essence that forms the basic foundation of MISSA's self existence – the long lasting financial security of our current and future senior and disabled citizens, and their surviving families.*

For the mean time, MISSA is determined to push through with its plan to reach out further to the public to disseminate information about the social security reforms under Bill No. 43 and seek technical assistance toward the conversion of its current system to a more viable plan design like the defined contribution plan.

Our focus for the coming year

As the decision to reform the System is now in the hands of our legislators, we will continue with our drive to reach out to the public and ask for their understanding and support.

Moreover, Administration shall carry on with the same strategies that led us to achieve all of our medium term goals in the past few years. Our offshore investments will remain as diversified as before. We shall seek all legal remedies within the bounds of the law to address tax delinquency and enforce all internal controls that are in place to safeguard all our resources. We shall continue our strict administration of benefits and continue to seek technical assistance to convert the current system to a defined contribution scheme.

As always, MISSA shall strive to remain a paradigm of transparency and accountability. Utmost care and prudence shall always be in our minds in every decision we make and every penny we spend.

Acknowledgment

When then President Kessai Note constituted a new set of Board of Directors in early 2000, a new culture emerged that redefined the character of what MISSA has become

"It is our hope and prayer that the people of the Marshall Islands and our government leaders will help us preserve the essence that forms the basic foundation of MISSA's self existence - the long lasting financial security of our current and future senior and disabled citizens, and their surviving families."

today - a paragon of institutional integrity and front runner in accountability. There were changes in the composition of the MISSA Board in the past decade, but I am privileged to say that each of these members, past and present, had embraced and shared a common culture of prudent spending and fund management philosophy. Their resolve to protect the Fund, coupled with our management and staff delivering their own share, is the rationale behind MISSA's successes despite the difficult challenges we faced through the years.

The drawback brought about by cash shortfalls was alleviated by the consistent bi-weekly remittances of the national government, through the Ministry of Finance, and a number of court judgments in favor of MISSA. Further, despite the country's dismal economy, most of the major employers from the private sector have continued to carry out their quarterly obligations to pay MISSA taxes. Without this support from the Government and private sector MISSA would have made more drawdowns from its Trust Fund that will consequently contribute to a faster and earlier depletion of MISSA resources.

Lastly, I want to recognize and thank our present and past Government leaders and legislators who continue to put their trust and confidence in us. Their continuous support has allowed us to perform well and hurdle the arduous obstacles that we encountered in the past four years. Rest assured that the Administration will consider and exhaust all possible avenues to restore the financial well-being of the Marshall Islands Social Security Trust Fund and with the public and Government's support, prolong further its life much beyond its projected life expectancy of nine years.

Komol.

Saane K.Aho
Administrator

FIDUCIARY MANAGEMENT

INCUMBENT BOARD MEMBERS & ADMINISTRATOR

Seated from left to right: Francis Carlos Domnick, Saeko Shoniber, Saane K. Aho

Standing from left to right: Alfred Capelle (resigned), Ramona Levy-Strauss, David Paul, Brenda Alik-Maddison, Kayo Yamaguchi-Kotton

2012 - 2015

Saeko Shoniber - Board Chairperson

Francis Carlos Domnick - Vice-Chairman

Ramona Levy-Strauss - Board Member

Alfred Capelle - Board Member

David Paul - Board Member

Brenda Alik-Maddison - Board Member

Kayo Yamaguchi-Kotton - Board Member

Saane K. Aho - Administrator & CEO

2009 - 2012

John Niedenthal - Board Chairman

David Paul - Vice-Chairman

Maria K. Fowler - Board Member

Saeko Shoniber - Board Member

Jemi Nashion - Board Member

Fredly Mawilong - Board Member

Kunar Abner - Board Member

Saane K. Aho - Administrator & CEO

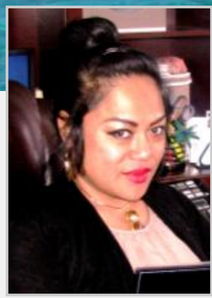
BOARD MEMBERS & ADMINISTRATOR: 2009-2012

Seated from left to right: Maria K. Fowler, Saeko Shoniber, David Paul

Standing from left to right: Jemi Nashion, Fredly Mawilong, Jack Niedenthal, Kunar Abner, Saane K. Aho

EXECUTIVE TEAM

CHIEF EXECUTIVE OFFICER



Saane K. Aho
Administrator & CEO

SENIOR CORPORATE OFFICERS — DEPUTY ADMINISTRATORS

Bill Joseph
COO & Deputy Administrator
for Retirement Fund

Raquel De Leon
CFO & Deputy Administrator
(Outgoing)

Avelino Gimao Jr.
CFO & Deputy Administrator
(Incoming)

MANAGEMENT TEAM

CORPORATE STAFF OFFICERS — DEPARTMENT HEADS

Amelia Timon
Finance Manager

Newton Matthew
Chief Accountant

Bryan Edejer
Tax Compliance Manager

Emlin Andrike
Clams & Benefits Manager

Mathilda Lanwi
Tax Audit Manager

Bernadette Lojkar-Kabua
Branch Manager, Ebeye

Ivy Langbata
IT Manager

STAFF

Almitha Clement
Tax officer

Pauline DeBrum
Admin. Assistant, Ebeye

Jackson Henry
Tax Officer

Rusin Jatios
Logistics Support - Ebeye

Diana Jekkar
Registration Clerk

Catherine Jibaiur
General Custodian

Rotis Jitiam
Tax Auditor

Priscila Joab-Baso
Cashier

Velma Kisino
Sr. Admin. Assistant

Ruthann Korean
Tax Officer

Brad Lamille
Tax Compliance Supervisor

Patrick Langenbelang
Logistics Support

Justin Lani
Representative, Off-island

Liston Lorrenij
Security Guard

Jenia Mijena
Admin. Asst./Internal Auditor

Rooney Milne
Tax Comp. Supervisor - Ebeye

Krystal Muller
Tax Auditor

Antonio Rear
Accountant

Stephen Tarbwilin
Claims & Benefits Specialist

Banner Tare
Security Guard

EMPLOYEE DIRECTORY

Saane K. Aho ....Administrator & CEO

RETIREMENT AND OPERATIONS DIVISION

Bill Joseph ....Deputy Administrator & COO

CLAIMS AND BENEFITS DEPARTMENT

Emlin Andrike....................Claims & Benefits Manager
Stephen Tarbwilin ....Claims & Benefits Specialist
Justin Lani ....Off-island Representative-Hawaii

ADMINISTRATION DEPARTMENT

Velma Kisino ....Senior Administrative Assistant
Catherine Jibaiur ....General Custodian
Patrick Langinbelang ....Logistics Support
Banner Tare ....Security Guard
Liston Lorennij ....Security Guard

EBEYE BRANCH OPERATIONS

Bernie Lojkar-Kabua...........Branch Manager
Rooney Milne..............Tax Compliance Supervisor-Ebeye
Pauline deBrum ....Administrative Assistant
Rusin Jatios ....Logistics Support

CORPORATE SERVICES DIVISION

Raquel De Leon.............................Deputy Administrator & CFO (outgoing)
Avelino Gimao Jr. ....Deputy Administrator & CFO (incoming)

FINANCE DEPARTMENT

Amelia Timon....................Finance Manager
Newton Matthew ....Chief Accountant
Antonio Rear ....Accountant
Priscilla Joab-Baso ....Registration/Treasury Clerk
Diana Jekkar ....Registration/Treasury Clerk
Ivy Langbata......................I.T. Manager

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

TAX AUDIT DEPARTMENT

Mathilda Lanwi ....Tax Audit Manager
Rotis Jitiam..................Tax Auditor
Krystal Muller..............Tax Auditor

INTERNAL AUDIT DEPARTMENT

Jenia Mijena ....Internal Auditor/Admin. Asst.

PERSONNEL & PUBLIC INFORMATION DEPARTMENT

Avelino Gimao Jr. ....Personnel/Public Information Officer

ORGANIZATIONAL STRUCTURE

Board of Directors

Administrator & CEO

Investment Advisor

Legal Counsel

Fund Custodian

Internal Auditor

Operations

Corporate Services

Claims & benefits

- Eligibility evaluation
- Benefit calculation & payment
- Verification of living beneficiaries
- Screening of continued eligibility for surviving families & non-citizens
- Medical reexamination
- Prior Service Trust Fund (PSTF)

Internal administration & operations

- Benefit file management
- Retiree allotments & insurance
- Building maintenance
- Procurement
- Logistics support
- Janitorial services & housekeeping
- Security

Ebeye branch operations

- Finance
- Internal administration
- Claims & benefits
- Customer service
- Tax compliance & collection
- Information technology
- Public & government relation

Controllership

- Corporate planning
- Budget
- Financial analysis & reporting
- Investments
- System, policies & procedures

Finance

- Accounting
- Payroll
- Non-benefit payments
- Asset management
- Treasury & cash management
- Customer service
- New member registration
- Benefit distribution
- External audit

Information technology

- System development
- Computer network operations
- Database management & security
- Hardware maintenance & procurement
- User training
- Website maintenance & development

Tax compliance

- Data entry
- New employer registration
- Payment plans & collection
- Employer records
- Legal referrals
- Tax assessments
- Employer information & file security
- Tax information awareness

Employer payroll audit

- Verification of payroll records
- Tax assessment

Human resource management

- Recruitment & termination
- Performance evaluation
- Pay plan & job leveling
- Training & development
- Rewards & employee benefits
- Succession planning
- Policy formulation & implementation

Public relation & information

- Reports & publications
- Public awareness

2010-2013 IN REVIEW

Despite MISSA's prudent fund management in the past decade, the depletion of its assets is imminent and accelerating fast. As early as 2008, contributions have flattened while benefits continue to increase uncontrollably. Between FYs 2010 and 2013, total benefits and operating expenses outpaced contributions by $15.4 million forcing MISSA to withdraw a total of $12.7 million from the fund to meet benefit payments.

To correct the imbalance, MISSA started developing strategic plans to correct this potential funding deficiency such as continued higher long-term investment returns, more rigorous tax collection, stricter administration of all retirement eligibility requirements and judicious spending. These collective efforts gained positive results and somehow, created a cushion to slow down the Fund's downturn. But the root cause of the problem is SYSTEMIC, compounded by stagnant workforce and weak economic conditions in the country. Thus, the financial health of the fund continually deteriorated.

The Social Security Reform Commission

On September 3, 2010, then RMI President Litokwa Tomeing and his Cabinet approved the creation of the Social Security Reform Commission (SSRC). The newly created team, comprised mostly of young leaders with impressive track records in their own fields, immediately convened and started a series of discussion with the MISSA Board and the Cabinet.

The new commission's main thrust was to focus on the following objectives:

I. To assess the financial condition of the Retirement Fund in conjunction with a comprehensive review of parts IV-VIII of the Social Security Act of 1990, as amended (MIRC Title 49 Chapter I).
   * Sufficiency of the 7% SS tax rate in light of the steady growth of benefits and stagnant workforce;
   * Cost analysis of various benefit programs (retirement, disability, survivors and lump sum);
   * Review of the soundness of investment strategy, advisors and potential for increasing investments in the RMI (locally vs. offshore); and
   * Work with MISSA management to suggest a possible percentage reduction in administrative expenses.

2. To provide recommendations to the Cabinet on amendments to the Social Security Act of 1990, as amended. Such recommendation will be accompanied with cost analysis of the changes and their financial impact on the Retirement Fund in the immediate and long term (first year of implementation and on-

"Currently the system is only 23% funded. This means that we currently have only $23 in assets for each $100 of liabilities. With future benefit payments constantly increasing and contributions remaining level, the funded status will steadily decrease until 2023 when the fund will be completely depleted."

ward).

* Specific amendments to provisions on contributions , investments, benefit offenses and penalties, etc.

3. To source out a feasibility study on converting younger workers to a defined contribution plan and design a Defined Contribution (DC) Plan with specific focus on:
   * a buy out scheme for younger workers (ie. Cashing out earned quarters from Retirement corpus and transferring dollar values in new DC plan);
   * establishing contribution and benefit scheme to new DC plan; and
   * providing an impact study on the retirement fund if migration of younger workers to DC plan occurs and remedial steps to prevent further losses in contributions to the retirement Fund in order to ensure its viability.

4. Public awareness campaign and engagement

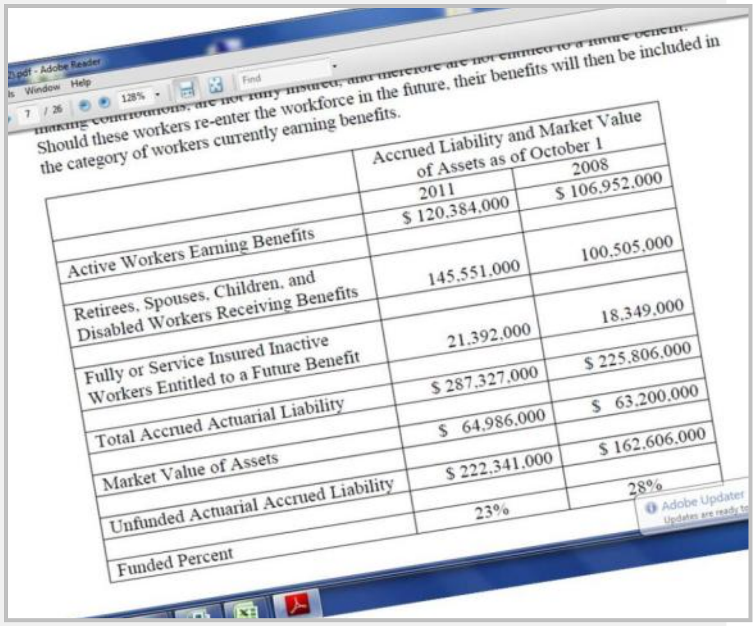
Unfortunately, the SSRC was short-lived. Due to a change in government leadership, it gradually ceased to function as a group. But this setback did not stop the Administration from pursuing its noble mission to save the Fund.

New Board of Directors

In March 2012, the Administration witnessed a major change in its internal leadership as it welcomed a new set of stewards to lead MISSA in its quest to continue to seek other options to ensure long-term sustainability of the Fund. Led by its new Chairperson, Saeko Shoniber, a three-term MISSA Board Member, the incoming fiduciary caretakers were set to strengthen further the strong foundation laid by its preceding Board of Directors which transformed MISSA to become what it is today - one of the best, if not the best performing government agency in the country.

Urgency to rehabilitate the Fund

On June 21, 2012, in a letter addressed to President Christopher Loeak and his Cabinet, the MISSA Administrator and Board of Directors reiterated the urgency of rehabilitating the Fund:



Should these workers re-enter the workforce in the future, their benefits will then be included in the category of workers currently earning benefits.

	Accrued Liability and Market Value of Assets as of October 1	
	2011	2008
Active Workers Earning Benefits	$ 120,384,000	$ 106,952,000
Retirees, Spouses, Children, and Disabled Workers Receiving Benefits	145,551,000	100,505,000
Fully or Service Insured Inactive Workers Entitled to a Future Benefit	21,392,000	18,349,000
Total Accrued Actuarial Liability	$ 287,327,000	$ 225,806,000
Market Value of Assets	$ 64,986,000	$ 63,200,000
Unfunded Actuarial Accrued Liability	$ 222,341,000	$ 162,606,000
Funded Percent	23%	28%

"Currently, the system is only 23% funded. This means that we currently have only $23 in assets for each $100 of liabilities. With future benefit payments constantly increasing and contributions remaining level, the funded status will steadily decrease until 2022 when the fund will be completely depleted. Once the assets are depleted, benefits will only be paid from each year's contributions. It is estimated that by 2024, contributions will equal only 45% of annual benefits."

"In order to stop the asset depletion, significant changes must be made to benefits (current and future), contributions, and early retirement and normal retirement ages. No one change can reverse the current depletion trend."

"The only other option that does not include benefit or contribution changes is an annual contribution or subsidy from the General Fund by the RMI Government of an additional $5 million per year, increasing by an additional $1 million per year after the 2013 Fiscal Year, in a manner that in FY 2014 the subsidy required will be $6 million, $7 million in FY 2015 and so forth."

"The only other option that does not include benefit or contribution changes is an annual contribution or subsidy from the General Fund by the RMI Government of an additional $5 million per year, increasing by an additional $1 million per year after the 2013 Fiscal Year, in manner that in FY 2014 the subsidy required will be $6 million, $7 million in FY 2015 and so forth."

Actuarial report and proposed plan study

The most recent actuarial valuation report, dated March 2012, indicated that as of October 1, 2011, the total market value of MISSA's assets was only $69 million while its Actuarial Accrued Liability (AAL) totaled $287 million, resulting to an unfunded AAL of $218 million or 77%. Fortunately, MISSA's net assets continue to increase steadily as a result of the positive yields from its local and offshore investments in FYs 2012 and 2013. These gains have provided a temporary buffer to MISSA as any decline in its assets will trigger the unfunded AAL to increase further.

The actuarial report revealed a very alarming fact. Unless changes to the current social security laws are enacted immediately in favor of MISSA and the weak economic condition in the country improves, the Fund will be completely depleted by 2022.

As operating deficits have continued to increase uncontrollably in recent years, MISSA engaged its actuary to perform a study on the long-term financial viability of the System. The study focused on changing the early retirement age of 55 to 60, normal retirement age of 60 to 65, deferring the earnings test to age 67, increasing the covered earnings (or the quarterly taxable wage ceiling) from $5,000 to $7,500, reducing benefits by 22%, increasing the tax rate from 7% to 9% for both employee and employer, increasing the number of quarters for retirement, including criminal penalties for violation of the Social Security Act and eliminating customarily adopted beneficiaries and other loopholes in the present system that have detrimental effect to MISSA.

The study further looked at the impact of the recommended changes on MISSA's cash flow and provides a 10 year projection of deficits and surpluses for the Fund. This study was presented to the Cabinet on November 9, 2012.

Economic Study

An independent study conducted by a local economist in early 2013 provided the following outlook on the RMI economy and its impact on the RMI Social Security System:

* Low contribution levels due to weak economic growth between 2004 and 2012 have not been high enough to offset the SS System cash flow deficit beginning 2008;
* Economic outlook remains bleak in the medium term due to the scheduled decline in Compact payments to the RMI until 2023 and the protracted recovery of the global economy;
* Real GDP to decline with unemployment rate to further rise between 2012 and 2023. Unemployment rate in 2012 was 47%.

These facts and figures were presented to the Cabinet in June 2013.

Social Security (Amendment) Act, 2013

Based on the actuary's report, the Administration finally came up with proposed legislations to increase revenues, reduce benefit payments and generate positive operational results. The bill was introduced in the Nitijela by Ministers Hilda Heine, Michael Konelios and Wilbur Heine and was known as Bill No. 43. The Nitijela's Standing Committee on Health, Education and Social Affairs (HESA) started its first public hearing in Majuro on September 20, 2013 and the second, in Ebeye on September 25, 2013.

OPERATIONS

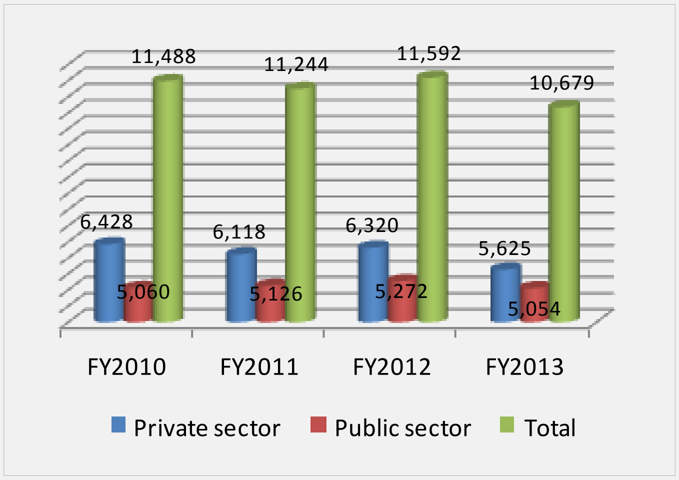
Membership

As of September 30, 2013, MISSA's estimated number of registered members is approximately 71,900 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.

Active Contributors

Between FYs 2010 and 2012, the number of workers and self-employed individuals whose tax contributions have been filed and paid almost flattened at an average of 11,440 individuals but at the close of FY 2013, it significantly went down to 10,679 resulting to a decline of about 8% from the previous fiscal year.

The reduction in the number of workers was not the result of their massive displacement but rather, was caused mainly by a number of private employers who experienced serious cash flow problems at the end of FY 2013 and opted to enter into installment agreements with MISSA to pay off their taxes. The contributions will only be credited to the individual wage earners after the total amount due for the quarter is paid in full.



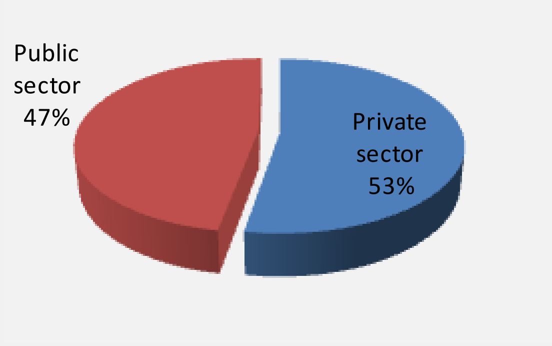
Employers and tax compliance

As of the quarter ended September 30, 2013, there are approximately 880 employers actively in operation: 800 are located in Majuro and the rest are in Kwajalein Atoll and other outer-islands. About half of the employers are small mom and pop stores employing one or two workers.

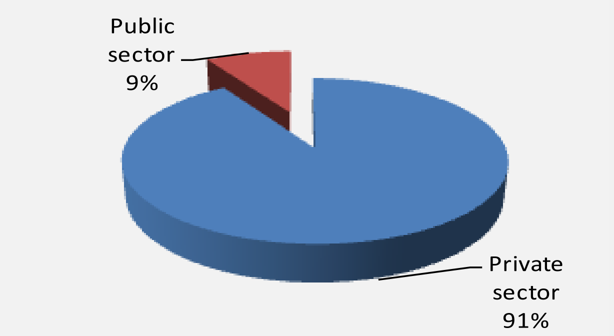
The RMI Government remains as the top employer, paying an average of $6.27 million annually (both retirement and health fund contributions) which represents 31% of total contributions being collected by the Administration.

Number of employers who filed and paid MISSA taxes				
	2013	2012	2011	2010
Private sector				
Private corporations	105	115	113	114
Joint venture & partnership	22	26	25	27
Self-employed	16	19	23	28
Sole proprietorship	318	336	330	358
Others	32	36	38	34
sub-total	493	532	529	561
Public sector				
National government	2	2	1	2
Local government	7	7	6	5
Government agencies	22	21	20	22
Joint venture & partnership	17	18	17	16
sub-total	48	48	44	45
Grand total	541	580	573	606

Composition of Wage Earners by Sector in FY 2013



Composition of Employers by Sector in FY 2013



"MISSA continues to enforce cost saving measures to bring down its administrative expenses to a minimum. These include freezing most of its employees' salaries and cutting down of unnecessary off-island trips in the past four fiscal years. "

Out of the 880 active employers, about 50% to 55% normally file and pay their quarterly dues on time, and their aggregate total comprise of about 90% of the total current amount due each quarter.

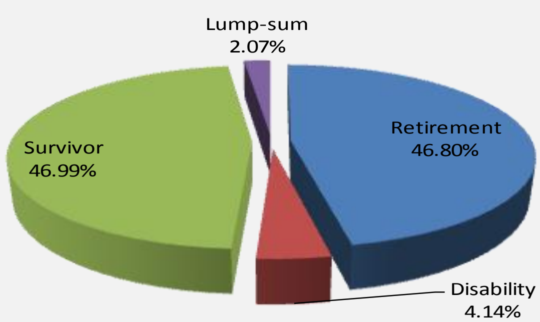
As of the end of FY 2013, MISSA has yet to collect more than $11.5 million from 19 local governments for long outstanding debts with the Administration while 6 government agencies and state-owned enterprises have unpaid dues amounting to more than $2.1 million. A number of these entities have been ordered by the high court to pay MISSA but they are currently in financial distress and are being subsidized by the RMI Government to remain operational.

Benefits

There was a steady annual increase of about 108 new beneficiaries in the past four fiscal years, or an average annual increase of 2.7%. This increase in the number of beneficiaries is much lower than the rate five years ago due to stricter administration of all retirement eligibility requirements that started in 2009.

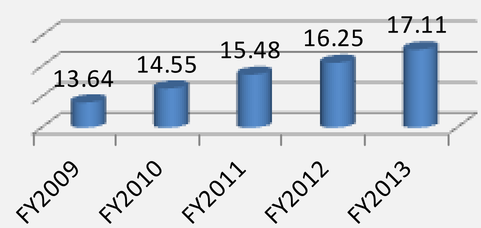
Number of Beneficiaries

Composition of beneficiaries in FY 2013

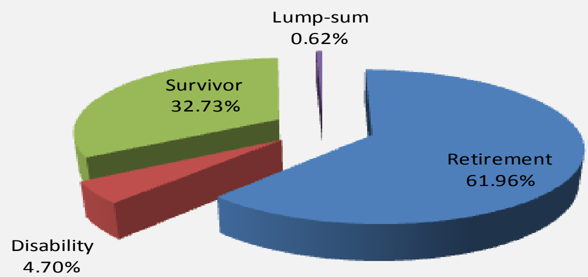


At the end of FY 2009, there were approximately 3,871 beneficiaries receiving an average of $1.2 million per month. By the end of FY 2013, it increased to 4,301 beneficiaries with average benefit payments of $1.4 million per month. This translates to an average annual increase of 6.2% in benefit amount in the past four years.

Amount of Annual Benefits in Million $



Composition of Benefits in FY 2013



"In the past four years, benefits grew by 6.2% annually but wage earners whose contributions were remitted by their employers to MISSA declined by 8% not as a result of unemployment but rather, was caused mainly by a number of private employers who experienced serious cash flow at the end of FY 2013 and opted to enter into installment agreements with MISSA to pay off their taxes. The contributions will only be credited to the individual wage earners after the total amount due for the quarter is paid in full. "

"Since the tax audit department was organized in 2006, about a hundred employers have already been audited, approximately $2.5 million worth of tax deficiencies discovered and $1.9 million collected. A dozen more employers are currently being audited."

Administrative expenses

MISSA continues to enforce cost saving measures to bring down its administrative expenses to a minimum. These include freezing most of its employees' salaries and cutting down of unnecessary off-island trips in the past four fiscal years. Thus, the Administration was able to maintain an average annual administrative expenses of $844 thousand or only 6.6% of total annual contributions. By law, MISSA has an administrative expense ceiling of up to 20% of contributions per year.

Ebeye Operations

Since 1987, MISSA operates a branch in Ebeye, Kwajalein Atoll which has successfully collected an average of about $4 million every year for both retirement and health Funds. These contributions primarily came from the 3 major employers in USAKA, Kwajalein comprised of Chugach Management Services, Kwajalein Range Services, Army & Air Force Exchange Services, and 3 in Ebeye that includes KalGov, KAJUR and Triple J. Their combined contributions represent about 20% of MISSA's total annual collections.

Tax Audit

MISSA's tax auditors were able to complement the Administration in generating the much needed cash as $540 thousand were collected between FYs 2010 through 2013 from the $0.89 million tax deficiencies discovered during their review of about 50 employers' payroll records. A dozen more employers are currently under audit.

Since the tax audit department was organized in 2006, about a hundred employers have already been audited, approximately $2.5 million worth of tax deficiencies discovered and almost $2 million collected.

Prior Service Trust Fund

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 governments of the Commonwealth of the Northern Mariana Islands, Republic of Palau, Federated States of Micronesia and the Republic of the Marshall Islands.

The Trust Agreement became effective on September 28, 1987 with 4,218 original beneficiaries of which 510 were from the Marshall Islands receiving an average of $36 each. In April 2006, the Fund was decentralized. Consequently, the administration of the Fund was transferred to the social security system of each of the four former members of the Trust Territory. The initial leftover share received by MISSA after the FSTF was decentralized amounted to $105,000.

Between FYs 2010 and 2013, a total of $546,805 additional funding was received by MISSA from the PSTF office in Saipan which was used to pay for retirement and survivor benefits worth $170,163 and $192,680, respectively.

"During the last PSTF Board meeting, a proposal was made to pay Cost of Living Adjustment (COLA) to all beneficiaries. The amounts being considered are $75 and $125 per beneficiary. The Board had seriously considered this additional benefit subject to availability of funds. The MISSA Chairperson, who is also a PSTF Board Member, supported this move and if the $125 COLA is approved, the 200 RMI beneficiaries will receive a total of 25,000."

As of the end of FY 2013, the Fund's balance amounted to $120,419 and is estimated to cover benefits and administrative fees until December 2014. At present, the Administration needs about $20,000 to meet its monthly PSTF benefit payments for 200 Marshallese recipients, plus 20% administrative fee that MISSA is entitled to.

During the last PSTF Board meeting, a proposal was made to pay Cost of Living Adjustment (COLA) to all beneficiaries. The amounts being considered are $75 and $125 per beneficiary. The Board had seriously considered this additional benefit subject to availability of funds. The MISSA Chairperson, who is also a PSTF Board Member, supported this move and if the $125 COLA is approved, the 200 RMI beneficiaries will receive a total of 25,000.

Investments

Local investments

MISSA presently holds 65,417 shares of stocks worth $10.99 million in the Bank of the Marshall Islands equivalent to a 35.4% interest. It also include 132 stock dividends received by MISSA in May 2013.

For accounting purposes, MISSA uses the equity method in recording earnings or loss in proportion to BOMI's earnings or loss since MISSA has more than 20% controlling interest in BOMI and is presumed to have a significant influence in the bank's operations.

Between FYs 2010 and 2013, MISSA has booked $3.03 million representing its equity earnings from BOMI for the past four years.

Currently, MISSA has three of its Board members and Administrator in the BOMI Board.

From FYs 2010 to 2013, MISSA received a total of $1.31 million cash dividends from BOMI, an average of $326 thousand annually.

The Administration also holds 3,000 shares of stocks at $10.00 par value from the Marshall Islands Service Corporation.

"Since November 2002 (when the management of the Fund was transferred to Investor Solutions, Inc.), a total of $38.1 million investment gains and net annual internal rate of return of 8.63% have been recorded by MISSA. As of September 30, 2013, the market value of MISSA's investments outside the country totaled $59.71 million."

Investments outside the country

On November 26, 2007, the MISSA Board adopted a revised policy statement wherein the Administration's total investment portfolio requires an allocation of 60% for equities and 40% for bonds.

All offshore investments are limited to no-load mutual funds, unit investment trusts, Exchange Trade Funds, close-end mutual funds, and other diversified marketable securities.

As fiscal year 2013 ends, news of the impending US Government shutdown depressed the world markets but not enough to wipe out significant gains in the earlier months. When the final report from its investment adviser was received, the Administration was able to breath a sigh of relief as the much needed lifeline from its offshore investments was attained - another gain of $6.8 million and net internal rate of return (IRR) of 12.24% was recorded.

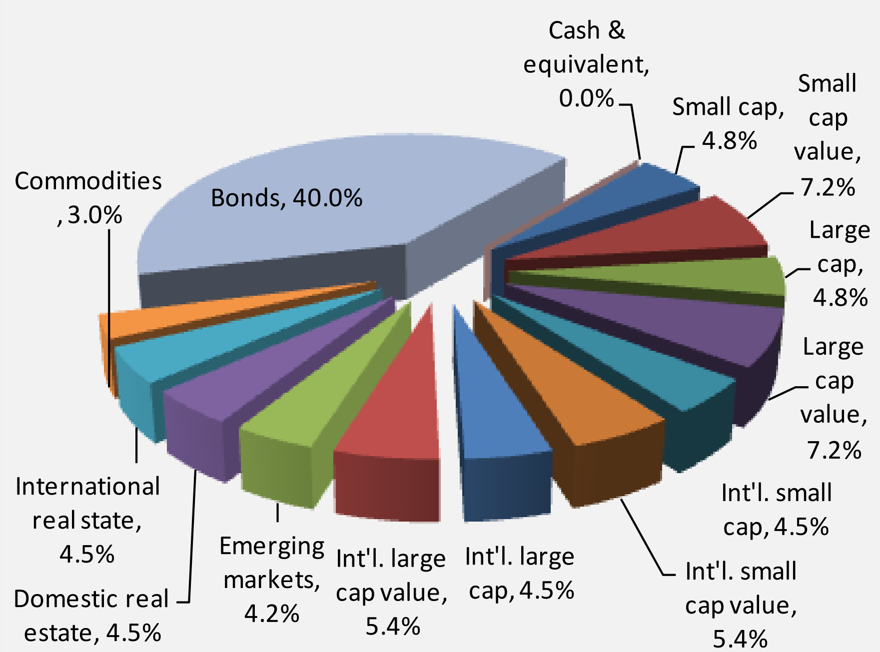
This exceptionally high-performing yield nearly equaled the $7.4 million gain recorded in FY 2012 and surpassed the $4.21million gain in FY 2010. In FY 2011, MISSA's offshore investments did not perform well as a net loss of $98 thousand was incurred.

The cumulative positive returns in MISSA's investments outside the country in the past decade is the key to the Administration's increases in Net Assets despite its drawing down of more than $13 million from the Fund from 2008 until 2013.

Since November 2002 (when the management of the Fund was transferred to Investor Solutions, Inc.), a total of $38.1 million investment gains and net annual IRR of 8.63% have been recorded by MISSA.

As of September 30, 2013, the market value of MISSA's investments outside the country totaled $59.71 million allocated as follows:

Description	Weight	Current value
Small cap	5.0%	$2,965,032
Small cap value	7.3%	4,336,212
Large cap	4.8%	2,852,825
Large cap value	7.1%	4,263,478
Int'l. small cap	4.7%	2,802,880
Int'l. small cap value	5.6%	3,330,167
Int'l. large cap	4.7%	2,790,326
Int'l. large cap value	5.3%	3,191,495
Emerging markets	4.2%	2,491,634
Domestic real estate	4.5%	2,675,037
International real state	4.6%	2,773,438
Commodities	2.8%	1,694,056
Bonds	39.4%	23,498,266
Cash & equivalent	0.1%	49,943
	100.1%	$59,714,790



Audited

FINANCIAL STATEMENTS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2013 and 2012, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. ... information, although not a part of the basic financial statements, is required by the Governmental ... Standards Board who considers it to be an essential part of financial reporting for placing the ... statements in an appropriate operational, economic, or historical context. This ... formation is the responsibility of MISSA's management. We have applied certain ... the required supplementary information in accordance with auditing standards ... United States of America, which consisted of inquiries of management about ...

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MISSA for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – DEFICIENCIES

We noted no matters related to control deficiencies involving MISSA's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

CONTACT US

Head Office
Contact person: Saane K. Aho, Administrator & CEO
Marshall Islands Social Security Administration (MISSA)
P.O. Box 175, Majuro
Republic of the Marshall Islands MH 96960
Tel: (692) 625-3101
Fax: (692) 625-4570
Mobile: (692) 455-1975
E-mail: missa3@ntamar.net

MISSA Board of Directors
Contact person: Saeko Shoniber, Board Chairperson
Marshall Islands Social Security Administration (MISSA)
P.O. Box 175, Majuro
Republic of the Marshall Islands MH 96960
Tel: (692) 625-3828
Mobile: (692) 455-5315
E-mail: saekoshoniber@yahoo.com, saeko@mecrmi.net

MISSA Ebeye Branch
Contact person: Bernadette Lojkar-Kabua, Branch Manager
Marshall Islands Social Security Administration
P.O. Box 5850, Ebeye, Kwajalein Atoll
Republic of the Marshall Islands MH 969670
Tel: (692) 329-3788
Mobile: (692) 235-0329
Fax: (692) 329-3902
E-mail: missa2@ntamar.net

Department Email addresses:
Benefits: missadeputy@ntamar.net, attn. of Bill Joseph, Deputy Administrator & COO
Corporate Services: missacfo@ntamar.net, attn. of Avelino R. Gimao Jr., Deputy Administrator & CFO
Finance: missafinance@ntamar.net, attn. of Amelia Timon, Finance Manager
Claims: missaclaims@ntamar.net, attn. of Emlin Andrike, Claims Manager or Mr. Stephen Tarbwilin, Claims & Benefits Specialist
Accounting: missaacctg@ntamar.net, attn. of Newton Matthew, Chief Accountant
Tax Compliance: missatax@ntamar.net, attn. of Bryan Edejer, Tax Compliance Manager
Tax Audit: missataxaudit@ntamar.net, attn. of Mathilda Lanwi, Tax Audit Manager
Information Technology: missait@ntamar.net, attn. of Ivy Langbata, I.T. Manager

Honolulu Liaison Office
Mr. Justin Lani
Off-Island Coordinator
1888 Lusitana St., Suite 201
Honolulu, Hawaii
Phone: (808)636-7849
Fax: (808)524-6499

QUADRENNIAL REPORT 2010 - 2013

Reforming the system to sustainability