



The Social Security Journal **Yokwe!**

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Public hearings on Social Security Reforms start

“The SS Act of 1990 is being amended to provide for changes that will lead to further financial stability of the Retirement Fund by removing loopholes, increasing contributions and decreasing benefits. Failure to enact these amendments will cause MISSA to run out of funds in 9 years as current contributions cannot cover benefits.”

The Nitijela 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. These hearings kick off a series of public meetings aimed to enlighten the people about the urgent need to save the Social Security Retirement Fund from early depletion. HESA is currently chaired by Senator Caios Lucky while the bill was introduced in the Nitijela by Ministers Hilda Heine, Michael Konelios and Wilbur Heine.

In her opening statement, Saeko Shoniber, MISSA Board Chairperson, stressed that time is of the essence and that an immediate action is imperative to save the Fund from an untimely end. She based her forecast on a report by MISSA’s actuary who, after conducting a thorough study on MISSA’s financial performance in the past several years vis-a-vis the current Social Security laws, concluded that the System will be fully depleted by year 2022, or possibly earlier, if the current economic trend in the country remains constant and the loopholes identified in the current Social Security laws are not corrected.

From FYs 2008 through 2013, total benefits and operating expenses exceeded contributions by more than \$14 million forcing MISSA to withdraw a total of \$13.26 million from the fund to meet benefit payments. Another \$42.36 million deficit is projected in the next five years if this trend continues and no change to the SS law is enacted.

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 cost cutting measures. MISSA’s efforts gained positive results but were not enough to reverse the impact of the imbalance.



The highlights of the amendments, also known as Bill No. 43, was presented by Saane K. Aho, MISSA Administrator. It include an increase from 7% to 9% of the retirement fund contributions for both workers and employers, an increase in tax base from \$5,000 to \$7,500 per quarter, change in normal retirement age from 60 to 65 and early retirement age from 55 to 60 and across the board decrease of 22% in benefits. A number of changes in the interpretation was also in-

(Continued on page 8)

Inside this issue:

What to know about Bill No. 43	2
MISSA bids farewell to Raquel, welcomes Amie & Ave	4
Mathilda & Crystal picked as PIF Liaison Officers	6
Net Assets up due to investment gains	7
Financial performance in FY 2013	7
Future economic outlook	9
4th Annual College and Career fair	11
Top 50 employers in FY 2013	12

MISSA earns another A+ rating from auditors

The Administration has once again earned an “unqualified” or clean opinion from its external auditors, Deloitte & Touche (D&T) for FY 2012. This is the 11th year in-a-row that MISSA earned this top rating, a feat that has never been replicated by any government agency in the country.

In simple words, MISSA was able to earn another clean audit because all of its financial records were complete, updated and made available to the auditors on time and free from any material inaccuracies or questioned costs and spending. Likewise, the auditors did not encounter any weaknesses or violations to MISSA’s internal control policies and procedures nor non-compliance to existing laws of the Marshall Islands.

During the most recent exit conference with MISSA’s Board of Directors, Chris Wolseley of D&T congratulated the Administration for its efforts to promote proper accountability and transparency in its financial records. He also made special mention to MISSA’s effective handling of the Retirement Fund and

(Continued on page 4)

Serving the public amidst local & global challenges



What to know about Bill# 43

Public hearings were held in Majuro and Ebeye on September 20 and 26, 2013, respectively, to discuss Bill No. 43, also known as the Social Security Amendment Act, 2013. This bill is aimed to amend 18 sections of the Social Security Act of 1990 to provide for changes that will lead to further financial stability of the retirement fund by increasing contributions, decreasing benefits and removing loopholes that trigger benefits to uncontrollably increase.

From FYs 2008 through 2013, total benefits and operating expenses exceeded contributions by more than \$14 million forcing MISSA to withdraw a total of \$13.3 million from the fund to cover for the shortfall. Another \$42.36 million deficit is projected in the next five years if this trend continues and no changes to the SS law are enacted. By 2022, accumulated deficit will reach \$81.2 million and consequently, nothing will be left from the Fund.

Actual Cash Flow & Drawdowns from 2008 to 2013							
Fiscal Period	2008	2009	2010	2011	2012	2013	Total
Total Inflow	18.8	19.2	19.8	20.1	19.6	19.0	116.4
Total Outflow	19.3	20.1	21.1	22.9	23.3	24.1	130.7
Cash Deficit	-0.5	-0.9	-1.3	-2.8	-3.7	-5.1	-14.3
Cash drawdown	0.3	0.3	1.3	3.3	2.7	5.4	13.3

Projected Contributions & Benefits In Million USD			
Fiscal Year	Contributions	Benefits & Expenses	Deficit
2014	12.5	18.5	-6.0
2015	12.7	19.3	-6.6
2016	13.0	20.3	-7.3
2017	13.2	21.3	-8.0
2018	13.5	22.4	-8.9
2019	13.8	23.6	-9.8
2020	14.1	24.7	-10.7
2021	14.3	25.9	-11.6
2022	14.6	27.0	-12.4
	121.8	203.0	-81.2

Another flaw in the system is the following:

As of October 31, 2011, out of 3,771 beneficiaries, there are 3,008 (or 80%) old age and medical retirees and surviving families who have already received at least 3x and up to more than 5X of what they have put up into the system.

Total Recipients - 3,771

Age	3X but not 4X	4X but not 5X	5X or more	Total
under 20	160	49	446	655
20-30	57	17	123	197
30-60	91	41	252	384
60-70	389	94	574	1,057
70-80	26	20	487	533
above 80	1	1	180	182
Total	724	222	2,062	3,008
% to total	19%	6%	55%	80%



This is the next generation of retirees and beneficiaries who may not have the chance to enjoy the same benefits that many recipients are enjoying now.

The following sections of the Social Security Act of 1990 are amended **effective October 1, 2013**:

- 103 - Interpretation (i.e. adopted child, adoptive parent, covered earnings, currently/fully insured normal/early/deferred retirement, self-employed worker)
- 119 - Powers of the Administration
- 122 - Payments out of the Fund
- 129 - Worker's contributions
- 130 - Employer's contributions
- 134 - Basic benefit formula
- 136 - Old Age Insurance Benefits
- 139 - The surviving child's insurance benefits
- 141 - The lump sum benefits
- 142 - Payment to non-citizens overseas
- 144 - The earnings test
- 148 - False statements and reports
- 149 - Failure to report
- 150 - Secrecy
- 151 - Examination and copying of records
- 152 - Mismanagement of Fund
- 153 - Penalties and interest; attorney and collection fees; and court costs
- 156 - Susceptibility of benefits, contributions, and funds to legal process or assignment

(Continued on page 3)



(Continued from page 2)

Note: For easy interpretation and understanding of the public, certain words and phrases were simplified and reworded and may differ from what were exactly written in the original bill submitted to the Nitijela. Changes to the current law are underlined and italicized.

Section 103 - Interpretation

- (d) **“Adopted/adoptive”** – means an adopted child or adoptive parent pursuant to law, and not pursuant to custom.
- (h) **“Child”** - a person’s natural adopted or step child; provided the worker’s parental rights have not been terminated by law, and not by custom.
- (k) **“Covered earnings”** – maximum taxable earnings per quarter is increased from \$5,000 to \$7,500 but only \$5,000 will be the basis in computing benefits.
- (m) **“Currently insured”** – beneficiary must have earned at least 6 out of the last 40 quarters prior to Oct. 1, 2013; and at least 20 of 32 quarters thereafter.
- (o) **“Deferred retirement”** – beneficiary must have met the requirements for normal retirement; age required is increased from 60 years and 1 month to 65 years and 1 month.
- (q) **“Early retirement”** – age required is increased from 55 to 60 years and beneficiary must be service insured.
Service insured means the beneficiary must have no less than 80 quarters of coverage.
- (r) **“Earnings”** – any salary, wage, bonus, tip, allowance or fee, but not including:
- i. payments made by the employer as a result of an accident or sickness of the worker (other than sick leave);
 - ii. reimbursement of medical or hospitalization expenses;
 - iii. payments made to or on behalf of the worker or his beneficiary from a trust or annuity;
 - iv. reasonable stipends paid to volunteers of religious organizations, NGOs; and schools;
 - v. reasonable sitting fees for board members and elected officials;
 - vi. earnings exempted by virtue of any international agreement to which the RMI is a party;
 - vii. reasonable per diem and travel allowances to the extent that they do not exceed any comparable Government rates;
 - viii. rental housing allowance paid to an employee, not exceeding \$3,750 per quarter provided it does not exceed three times the wages;
 - ix. any payment in the form of scholarship, fellowship or stipend made to any employee while he is a full-time, bona fide student at an educational institution;

What to know about Bill# 43

- x. earnings received by a minister of the gospel, or clergyman from a religious group or organization;
 - xi. earnings received by an employee for services performed or rendered in the capacity of a domestic or household employee for a private individual or family;
 - xii. reasonable session allowances for elected officials; and
 - xiii. payments made in cash, or any form other than cash, for casual labor not exceeding one week in any month of a quarter if the work is not performed in the course of the employer’s trade or business.
- (v) **“Fully insured”** means the beneficiary must have no less than 12 quarters of coverage prior to Oct. 1, 2003 and 20 quarters thereafter; provided that the maximum no. of quarters of coverage required shall be 38 prior to Oct. 1, 2013 and 40 thereafter.
- (ee) **“Normal retirement”** - beneficiary must be fully insured and attain the age of 60 years prior to October 1, 2013, and 65 years thereafter.
- (ff) **“Parent”** – a person’s natural, adoptive (no longer legally adoptive) or step parent; provided that parental rights have not been terminated by law and not by custom.
- (kk) **“Self-employed worker”** – a person who engages in trade or business, and is deemed to have earned the amount of earnings he actually converted to his own use or 75% of his gross revenue for that quarter, whichever is higher. (In the current law, self-employed worker is defined as a person deemed to have earned twice the amount of earnings paid to the highest paid worker reported by him within the quarter, or if there is no other worker, he shall be deemed to have earned within a quarter 75% of his gross revenue for the quarter.)

Section 119–Powers of the Administration

The Administration may prepare a quarterly report, using the Administration’s report form or a spreadsheet format, for any employer who fails to file the prescribed report within thirty 30 days after the Administration has notified him of his failure to file and may levy and assess on the employer the appropriate amount of contributions due; such assessment shall be presumed correct until it is proven incorrect by the employer; and such assessments may be amended by the Administration to correct any error.

Section 122 – Payments out of the Fund

- (3) Administrative expenses shall not exceed 10% of contributions per fiscal year (reduced from 20%)

Section 129 – Worker’s contributions

- (1), (d) Increased from 7% to 9%

Section 130 – Employer’s contributions

- (d) Increased from 7% to 9%

(Continued on page 5)



Chris Wolseley of Deloitte & Touche congratulates MISSA Board Chairperson Saeko Shoniber during the FY 2012 audit exit conference. The Administration once again received an unqualified opinion from its auditors, the 11th year in-a-row and a feat that has never been duplicated by any government agency in RMI.

(Continued from page 1)

bringing down its administrative costs to a minimum. From \$837 thousand in FY 2011, MISSA was able to reduce further to \$799 thousand its administrative expenses in the succeeding fiscal year, or only 6.3% of total contributions. By law,

MISSA earns another A+ rating from auditors

MISSA is allowed to spend up to 20% of total contributions for administrative expenses.

It is noteworthy to mention that since 2002, MISSA has always been on the forefront of a few government agencies whose financial statements were audited first by D&T. Normally, the audit requirements are completed and submitted by MISSA to its external auditors within the month following the close of the fiscal year and audit field work is completed the following month. For FY 2013, the audit field work was completed and all issues were cleared as early as the first week of November 2013. Subsequently, the initial draft of the final audit report was received by MISSA on December 5, 2013. The final audited financial statements are most likely to be released before the end of 2013.

In FY 2009, MISSA was able to set an unprecedented record in RMI history when it received D&T's final audit report dated November 12, 2009 or just 43 days after the close of the fiscal year. The same audit was also the earliest for a government agency within the entire Pacific region comprised of 13 APIPA member countries. Likewise, it was also the first time that a fiscal year audit has been included in the following January Auditor General's (AG) semi-annual report for the Nitijela.

The Administration was also praised by Chris for maintaining a strong internal control as there were no significant deficiencies noted in the course of their audit. This is a clear reflection of the competence shown by MISSA's CFO, Raquel de Leon and Deputy Administrator for Retirement and COO, Bill Joseph, who, together with their managers and staff, complied strictly with duly approved systems, policies and procedures of the Administration.

The final audit report also reflected an increase of \$8 million in MISSA's investments, which, according to Chris, has made a significant impact in the overall financial performance of the RMI Government.

MISSA bids farewell to Raquel, welcomes Amie & Ave

The Administration bids farewell to Raquel de Leon, MISSA's CFO & Deputy Administrator, who is moving back to the Philippines. During her more than three-year stint with the Administration, Raquel was instrumental in MISSA's maintaining a strong internal control over financial reporting and earning clean audits during her tenure. Before her departure, Raquel added another milestone to MISSA, being (again) the first in the country to have its audit for FY 2013 completed by Deloitte & Touche, less than two months after the close of the fiscal year. As of this writing, MISSA has received the initial draft of the final audit report which once again reflected an unqualified opinion or "clean audit", the twelfth year in a row since 2002.

The Administration likewise welcomes back Ave Gimao Jr. who worked with MISSA for nine years until 2011. Prior to being appointed as MISSA's CFO & Deputy Administrator in 2006, Ave was first assigned as Chief of Operations & Audit. He is the one who designed MISSA's present system of internal control, standard operating procedures and strengthened MISSA's personnel policies. He also established MISSA's external and internal audit in 2004. Aside from overseeing MISSA's corporate services, Ave's current responsibilities include assisting the Administrator in the ongoing social security reform drive of MISSA.

Another new member of MISSA's management team is Amelia Timon who will be taking over the accounting functions of Raquel. Amie is a Certified Public Accountant and held various managerial posts in Accounting and Finance in the Philippines. She brings with her more than 20 years of finance and accounting experience and holds a bachelor's degree in Business Administration, major in Accountancy. The oversight of



MISSA's accounting activities, including the Front Desk and Information Technology will be Amie's main responsibilities.

Amie is faced with a very challenging role. If one may recall, MISSA's accounting records in 2000 were unauditible for more than four years. But with a new set of Board Members and Administrator being installed in early 2000, the Administration was able to set a new direction to its accounting personnel then headed by Alice Sanchez, MISSA's former CFO.

Alice's team successfully responded with dedication and hardwork. A year later, MISSA's audited financial statements for FYs 1997 through 2000 were finally released. The consequent years were likewise noteworthy. Boosted by redefined accounting policies and procedures, and strengthened internal controls, MISSA was able to earn twelve consecutive clean audits from 2002 until 2013. This is a feat that is yet to be replicated by any government agency in the country.

This very high standard of excellence that was first set by Alice was also achieved by her successors, Sheryl Profeta and then, Raquel de Leon. With Amie's good track record, the Administration is confident that she will maintain, if not surpass, the same level of competence and performance of her predecessors.

Thank you Raquel for a job well done, and welcome aboard, Amie & Ave!



What to know about Bill# 43

(Continued from page 3)

Section 134 – Basic benefit formula

Pension element is decreased from 2% to 1.56% of indexed covered earnings (ICE).

Social element is decreased from 14.5% to 11.31% of the first \$11,000 of cumulative covered earnings (CCE), plus 0.55% (currently 0.7%) of CCE in excess of \$11,000 but not in excess of \$44,000.

Note: The effect of this change will be a 22% decrease in benefits across the board.

Pension Element means 2% of ICE whereby lower-paid and higher-paid workers receive the same proportionate benefit.

Social Element means that portion of the basic benefit formula described in Subsection 134(2) of this Chapter, whereby lower-paid workers receive a proportionately larger benefit than higher-paid workers.

ICE means the sum of all covered earnings for a worker or self-employed worker increased by cost of living adjustments subsequent to the date of said earnings.

CCE means the sum of all the covered earnings of a worker or self-employed worker.

Section 136 – Old age insurance benefits

(1) (a) “Early retirement” – age required is increased from 55 years to 60 years and beneficiary must be service insured.

(b) Normal retirement - age required is increased from 60 years to 65 years and beneficiary must be fully insured.

(c) Deferred retirement - beneficiary must have met the requirements for normal retirement; age required is increased from 60 years and 1 month to 65 years and 1 month.

(2) (a) The monthly amount of the early retirement, old age insurance benefit

shall be the basic benefit reduced by ½ percent for each complete month that the date of early retirement precedes the date the worker or the self-employed worker attains the age of 60 years prior to October 1, 2013, and 65 years thereafter but not less than the minimum benefit.

(c) The monthly amount of the deferred retirement, old age insurance benefit shall be the basic benefit increased by ½ percent for each complete month that the date of deferred retirement follows the date the worker or the self-employed worker attains the age of 60 years prior to October 1, 2013 and 65 years thereafter but not less than the minimum benefit.

Section 139 – Surviving

child’s insurance benefits

(4) *No change to the current law except in the interpretation of adopted child and adoptive parent.*

Section 141 – The lump sum benefits

The lump sum benefit is computed as equal to 80% of the worker’s life to date contributions *(Currently, it is 4% of the worker or the self-employed cumulative covered earnings.)*

Section 142 – Payment to non-citizens

(3) Any beneficiary who is not a citizen or national of the Republic, the Federated States of Micronesia, the Republic of Palau, or the United States, may elect to claim the lump sum benefit. *(Currently, a non-citizen is paid no more than 6 months of benefits while the beneficiary has been outside of the Republic.)*

Section 144 – The earnings test

If a beneficiary is, at the same time, in covered employment, he shall have his quarterly benefit reduced by one \$1.00 for every \$3.00 earned during that quarter in excess of \$1,000 (currently \$1,500), until such beneficiary attains 62 years of age prior to Oct. 1, 2013, and 67 years of age thereafter.

Section 148 – False statements & reports

Any person who attempts to defraud the Administration is guilty of a misdemeanor and shall be liable to a fine not exceeding \$1,000 and imprisonment not exceeding one year or any higher amount equal to double the pecuniary gain derived from the offense by the person, or equal to double the pecuniary loss suffered by the Administration from the offense. *(Current law considers the violation as “offense” and fine is not more than \$2,000 or imprisonment of not more than one year, or both.)*

Any corporation, unincorporated association, or limited liability company who knowingly makes a false statement or declaration, or falsifies any report to or record of the Administration in an attempt to defraud the Administration, is guilty of a misdemeanor and shall upon conviction be liable to a fine not exceeding \$10,000.00, or any higher amount equal to three times the pecuniary gain derived from the offense by the offender, or equal to three times the pecuniary loss suffered by the Administration from the offense. *(This provision is not provided for in the current law.)*

Section 149 – Failure to report

(2) Any employer or self-employed worker who fails to report and pay the social security taxes due, including penalties and interest, is in addition, guilty of a misdemeanor and shall be liable to a fine not exceeding \$5,000.00 and/or imprisonment not exceeding one year, or any higher amount equal to double the pecuniary gain derived from the offense by the person, or equal to double the pecuniary loss suffered by the Administration from the offense. *(Current law considers the violation as “offense” and fine is not more than \$5,000.)*

(3) For purposes of this Section, the terms “employer” and “self-employed worker” include any director, member, officer, employee, executive

(Continued on page 6)



Mathilda and Krystal selected as Liaison Officers during the 44th Pacific Islands Forum

Being a Liaison

Officer was a tough but very rewarding role. This is what Mathilda Lanwi and Krystal Muller felt about their experience during the 44th Pacific Islands Forum (PIF) that was hosted by the Marshall Islands on September 3-6, 2013 and held on Majuro.

Mathilda and Krystal of MISSA are two of several Liaison Officers who were assigned to assist the principal delegates of the PIF. The primary role of a Liaison Officer is a combination of being an usher, guide and personal assistant to the Heads of the Delegation of several Pacific Island and South-east Asian countries who participated in the forum.

Mathilda is a recipient of a People's Republic of China (PRC) - RMI scholarship grant back in 1992 and studied at the Language Institute of Beijing University where she earned a certificate in 1995. Her fluency of the Mandarin language made her



an ideal Liaison Officer for the PRC Delegation headed by Special Envoy Quangmin Li. "It was not an easy task but the Forum gave me the opportunity to learn new challenges and show the world how proud we are to host the 44th Pacific Islands Forum", she said.

Crystal was a perfect choice for the Palauan delegation headed by President Tommy Remengasau Jr. and his wife, as she personally knows the Paluan Leader being her father's (Minister Philip Muller) high school and college classmate.

She considers the seven strenuous days she spent with them as very worthwhile. Her schedule was so hectic as she has to conduct constant communication and coordination hourly or by the minute between the Palauan delegates and their counterparts. There were bilateral meetings going on every other hour and she was so proud to say that she was in between all these occasions making sure that every Palauan delegate is taken care of without a hitch.

What to know about Bill# 43

(Continued from page 5)

committee member, or agent of an employer or self-employed worker who as such is responsible for seeing that quarterly reports are filed or contributions are paid.

Section 150 – Secrecy

If a member of the Board or any employee of the Administration, provides information concerning a worker, self-employed worker, employer, or person receiving benefits under this Chapter that has come to his knowledge by virtue of his office or employment to anyone other than the worker, self-employed worker, employer, or beneficiary, he is guilty of a misdemeanor, unless such information is provided:

- for the purposes and functions of this Chapter;
- as required by an order of a court;
- as authorized by the Board; or
- pursuant to Section 160 of this Chapter.

A person guilty of an offense under this Section shall upon conviction be liable to a fine not exceeding \$1,000.00 and imprisonment not exceeding one year. (In the current law, fine is

not more than \$2,000 or imprisonment of not more than one year, or both.)

Section 151 – Examination & copying of records

Any person who fails to allow MISSA to examine and copy required records shall be guilty of misdemeanor and shall be liable to a fine not exceeding \$1,000 and imprisonment not exceeding one year. (Current law considers this violation as "offense" and fine is not more than \$5,000 or imprisonment of not more than one year, or both.)

Section 152 – Mismanagement of Funds

Any person who has a fiduciary relationship with the Fund and who is found to have mismanaged the Fund, whether by malfeasance or misfeasance, shall be guilty of a felony of the second degree and shall upon conviction be liable to a fine not exceeding \$100,000.00 and imprisonment not exceeding ten years. (Current law considers this violation as "offense" and provides for an imprisonment of not more than 15 years or a fine of not more than \$100,000, or both.)

(Continued on page 8)



MISSA's net assets up due to investment gains in FY 2013

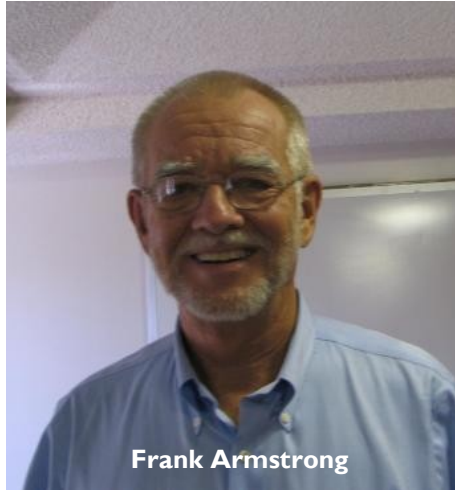
Fiscal Year 2013 ended with MISSA breathing a sigh of relief as its offshore and local investments fared exceptionally well during the fiscal year, gaining \$8.19 million and only \$201 thousand lower than the \$8.39 million gain in the previous fiscal year. These gains in the past two years created the much needed financial lifeline for MISSA as it also increases its funded accrued actuarial liability (AAL). The AAL represents the amount needed today to pay for all benefits earned as of today that are either already being paid or will be paid in the future.

As of October 1, 2011, the Administration's net assets stand at \$64.99 million while its AAL amounted to \$287.33 million. Thus, the funded AAL is only 23% which is lower than the funded AAL of 28% in 2008.

At the onset of FY 2013, MISSA was very confident that its investments outside the country will continue to put on more momentum in the coming months. As the first quarter of FY 2013 ends, this optimism came to reality as all asset classes gave positive results. Another \$1.6 million gain or an IRR of 2.79 was registered by the Administration.

The succeeding quarter was more fruitful as \$2.6 million gain was recorded anew, many thanks to Frank Armstrong of Investor Solutions, Inc., MISSA's long-time investment advisor. As he has advised, the Administration continues to hold widely diversified portfolio of equities and fixed income securities around the world. This strategy has given the Administration more than \$35 million in investment gains since Frank was hired in November 2002.

In the later part of the third quarter, the world market turned bumpy and MISSA investments were not spared by this turn-



Frank Armstrong

around. The loss of \$1.03 million for the month of June wiped out the modest gains in April and May, bringing a net loss of almost half a million dollars for the entire quarter.

Fortunately, the tide turned favorably again in August and September. Finally, the last quarter of the fiscal year registered positive results bringing a total of \$8.19 million gains for MISSA for FY 2013. This amount already includes the \$1.26 million positive returns from the Administration's local investments with the Bank of the Marshall Islands (BOMI) and Marshall Islands Service Corporation (MISCo), which likewise, performed exceptionally well.

As of September 30, 2013, MISSA's local and offshore investments totaled \$70.70 million, higher by \$2.68 million when compared from last fiscal year. This represent the biggest chunk of MISSA's net assets of \$72.87 million as of the same period. Had it not been reduced by the \$11.37 drawdowns in the last 3 years, the funded AAL would have significantly increased.

Everyone may wonder why MISSA gained more than \$16 million from investments in the last two years yet it still has to dip into its Trust Funds to get the cash needed to pay benefits.

Normally, the investment gains outside the country that MISSA earns are not received in the form of cash. They are merely increases in the current market value of investments, which, for accounting purposes, are booked as income. A decrease in the market value of investments is booked as a loss. Likewise, dividends received from offshore investments increase the value of MISSA investments but are not received in cash. MISSA only gets cash from the Fund when there is a drawdown which is normally triggered by a cash deficit.

MISSA's financial performance in FY 2013

(based on unaudited financial statements for the fiscal year ending September 30, 2013)

Despite the country's sluggish economy that forced a number of the country's top 50 employers to either partially pay or default in their current quarters, MISSA was still able to increase its revenues in FY 2013. This is attributed to the concerted efforts of MISSA's tax compliance officers, auditors and legal counsel who continuously sought all remedies, including legal action, to enforce MISSA's tax laws and regulations.

Based on unaudited figures and after including all collections until the quarterly deadline of October 10, 2013, contributions totaled \$13.31 million in FY 2013, higher by \$867 thousand or 7% when compared to the last fiscal year. It also surpassed the

approved budget of \$12.06 million.

Benefits maintained its spiraling trend with \$17.11 million being paid during the fiscal year, \$945 thousand or 5.85% higher than the \$16.163 million disbursed in the previous fiscal year.

With benefits and operating expenses surpassing total contributions, MISSA incurred another deficit of \$4.65 million during the fiscal year. To ensure uninterrupted payment of benefits, a total of \$5.36 million was drawn down from the Fund during the same period.

MISSA continued to impose tight control over its administrative

(Continued on page 10)



Public Hearings on Bill #43

(Continued from page 1)

cluded in the bill to correct certain loopholes in the current Social Security laws.

Once the bill is enacted, it is expected that the projected \$81.2 million deficit for FYs 2014-2022 will be fully covered by the \$109.2 million aggregate increases in contributions and decreases in benefits. By the end of FY 2022, MISSA will have an accumulated surplus that will extend the Fund's life by another 12-15 years. Although the amendments may look beneficial in the short-term, a deeper analysis shows a diminishing pattern that without any other further changes in the System and if the economic factors remain constant, benefits will again surpass contributions sometime beyond 2025. This will create an identical financial crisis as what MISSA is facing now. Thus, MISSA is also considering other alternative schemes, more particularly the conversion of the current social security system to a defined contribution plan which will ultimately ensure a more sustainable system in the long-term.

The schedule of the Nitijela hearing came a little earlier than what was expected by the Administration. So MISSA was not able to provide the complete details of the bill to the public at an earlier time. Consequently, MISSA started disseminating these information through newspaper publication and posted it in its own website www.rmimissa.org and also in www.yokwe.net.

As expected, there were negative reactions from the public who are apprehensive of the financial impact of the increases in MISSA taxes, considering the current bleak economy of the country. But it was evident that all of those who presented their personal views have one thing in common - they understood and acknowledged the deteriorating financial health of the Fund.

What to know about Bill# 43

(Continued from page 6)

Section 153 – Penalties & interest; atty. & collection fees; and court costs

This is a correction of a typographical error. (The word date was inadvertently written as late.)

Section 156 – Susceptibility of benefits, contributions, and funds to legal process or assignment

The Administration may off-set up to 80% of a benefit against any debt owed by the wage earner or beneficiary to the Administration.

(Under the current law, a beneficiary may assign his benefits in a manner prescribed by the Administrator.)

Effects of the Social Security Act of 1990 Amendments (In Million USD)

Amendments	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
1. Increase in tax rate to 9%	3.57	3.64	3.71	3.79	3.86	3.94	4.02	4.10	4.18	34.79
2. Increase in tax base to \$7,500/qr	0.94	0.96	0.97	0.99	1.01	1.03	1.05	1.08	1.10	9.13
3. Increase in normal retirement age to 65, early retirement to 60	1.30	1.61	1.93	2.20	2.44	2.63	2.77	2.82	2.96	20.67
4. Decrease in benefits by 22%	4.07	4.26	4.47	4.68	4.93	5.18	5.44	5.70	5.94	44.65
Total decrease in deficit	9.87	10.46	11.08	11.66	12.24	12.78	13.28	13.69	14.17	109.24
Deficit if no change in the system	(6.00)	(6.61)	(7.31)	(8.02)	(8.89)	(9.77)	(10.66)	(11.55)	(12.36)	(81.17)
Net effect of the amendments	3.87	3.85	3.78	3.64	3.35	3.01	2.62	2.14	1.81	28.07

Another concern raised was its impact on the budget for FY 2014 of Government organizations as it does not take into account the increased rate of contributions for MISSA taxes. It was also suggested that MISSA's financial health be perceived on a macro level, considering that several state owned companies are also struggling and in need of financial aid from the government.

A number of attendees during the hearing agree with the proposal that the RMI Government come up with a budget to subsidize MISSA in the short term until a thorough study of the implications of the amendments is completed and final changes are put in place. The Administration welcomes this idea but will continue to seek for more sustainable and long-term solutions like Bill no. 43.

The FSM Social Security Administration had the same financial dilemma several years back and was also in the brink of bankruptcy until amendments to their Social Security laws were enacted that made their Social Security System more sustainable. Their Fund was further strengthened after the FSM Government bailed them out with a \$1 million subsidy annually.

One of those who spoke had opposed the extension of the normal and early retirement age to five years. He cited that the life expectancy rate of the Marshallese has considerably gone down due to life-threatening non-communicable diseases that are rampant in the country and many of them may no longer live long enough to receive retirement benefits.

The Attorney General's Office is concerned with the proposed change on the eligibility requirement for customarily adopted children, citing that the RMI constitution mandates that the personal well-being of children, either biological or adopted legally or customarily, be protected. However, the Administration is seriously impacted by this provision. It is a wide-spread practice by aging retirees in the brink of death to customarily adopt their young grandchildren or relatives before they die. In effect, MISSA has to pay survivor benefits to these young children until they turn 18, or 22 if still in school.

The Administration is now planning to include in its massive public information campaign the use of the radio to disseminate the reasons why there is a need to amend the current Social Security System. Townhall meetings are also being scheduled in selected outer-islands. A reasonable budget was approved by the MISSA board so that the Administration can reach out to the hundreds of Marshallese living in Hawaii and selected states in the U.S. MISSA expects that in the next two to three months, the

(Continued on page 10)



Future economic outlook

What had been projected by MISSA's actuary in their 2011 report seems to be moving in the exact direction and MISSA alone appears helpless to deflect its course. With a sluggish private sector, fiscally ailing state owned enterprises and local governments owing millions of dollars to MISSA, the financial health of the Fund is likely to deteriorate further in the coming months without immediate intervention from the Government.

With \$12.1 million contributions and \$17.9 million benefits being projected in the coming fiscal year, MISSA braces for another rough sailing in the months ahead. This imbalance was prevalent since 2009 causing MISSA to withdraw its TCD at BOMI worth \$1 million in May 2010, the first in almost a decade. This started a series of withdrawals until the entire \$5 million TCDs at BOMI were exhausted. MISSA dipped further into its Trust Funds by drawing down a total of \$6 million from its off-shore investments between 2011 and 2013 to ensure that benefit payments remain uninterrupted. Another \$6 million cash shortfall is expected in FY 2014.

A study about the impact of the RMI economy on the country's social security reinforced the findings of MISSA's actuary. Despite the large infusion of cash since 2004 into the RMI economy through Compact grants and foreign aid, the economy has not been able to create the jobs needed to fuel economic growth. This low job growth coupled with rapid population growth caused unemployment rate to triple its 1980 figures to 47% by 2012 as more people entered the workforce between 1988 and 2012 actively searching for job without success. This triggered a mass exodus of a significant portion of RMI's labor force to the United States where higher-paying jobs await them.

Ironically, one local employer has reported recently that it has a capacity to hire 800 local workers in two shifts, but can hardly get 140 to show up on any

shift on any given day because of worker shortage. This is hurting the RMI economy and directly has impacted MISSA. Had these workers working in the U.S opted to stay in the country and find local employment, this would have translated to more domestic earnings which in turn will result to more social security contributions being collected by MISSA.

With the proposed changes to the Social

The proposed social security reforms were based on a study conducted by MISSA's actuary and cover a number of schemes to increase contributions and lower benefits, including criminal penalties for violations to existing social security laws and regulations. The main objective of this reform bill is to extend the life of the Fund but it does not warrant a safeguard against other economic risks and natural hazards. Unfortunately, the public seems to oppose these reforms for economic reasons.

Even if all of the proposed reforms are enacted into law, its positive effect will only last for another fifteen years. Consequently, benefits will again surpass contributions and then the Fund will gradually slide down. Thus, the Administration is determined to continue with its thrust to shift from its current social security system to the more sustainable defined contributions plan. MISSA is now seeking technical and financial assistance to pursue this more sustainable scheme.

The impact of the just concluded 44th Pacific Islands Forum hosted by the Marshall Islands still remains to be seen. The slow pace of global action to mitigate the effect of global warming continues to delay the much needed protection of thousands of square miles of marine life in the region where the economic development of Pacific island countries like the Marshall Islands is highly dependent.

On the positive side, the Administration's best hope for the coming months is another high performing yield from its investments outside the country. Although MISSA does not expect to duplicate its \$6.93 million and \$7.40 million offshore investment gains in FYs 2013 and 2012, respectively, it remains optimistic that modest gains will continue in the coming months and hopes for an early resolution to the impending U.S. Government shutdown and debt limit crisis.

On the other hand, MISSA remains upbeat and has no doubt that its equity investments in the Bank of the Marshall Islands (BOMI) and Marshall Islands Service Corporation (MISCO) will continue to bring in the much needed cash dividends as in the past several years.



Security Act of 1990 now with the Nitijela, the Administration's aim to prolong its life expectancy of nine years remains in limbo. All MISSA can do is seek public support through a massive information dissemination campaign in Majuro, in the outer islands and selected locations in the United States where the majority of Marshallese population is residing.



MISSA's financial performance in FY 2013

(Continued from page 7)

expenses which totaled \$856 thousand in FY 2013. This resulted to a savings of \$175 thousand or 17% from the approved budget of \$1.03 million. In the past decade, MISSA normally had an unspent budget of at least \$100 thousand annually. The actual administrative expenses in FY 2013 represent only 6.4% of contributions

which is way below the 20% ceiling mandated by law. Since 2002, MISSA's administrative expenses had never gone beyond 8% of contributions.

A number of local governments, government agencies and state owned enterprises continue to fail not only in their past due obligations but also in their current quarters as well, adding more to the more than \$13.5 million long outstanding debts these entities owe to MISSA. Most of these entities are facing financial difficulties and need government subsidies to remain operational.

MISSA's investments outside the country performed well during the fiscal year despite a rough sailing in the third quarter. \$6.93 million net investment gain was recorded in FY 2013, just \$467 thousand short of the \$7.40 million gained in the previous fiscal year.



As of the quarter ending September 30, 2013, 422 of the 880 registered employers in Majuro and outer islands filed and paid their quarterly contributions which translates to 48% collection rate. This collection rate may be considered low in terms of the number of employers but the brighter side of this is that the amount paid by the 422 employers represents 94% of the amount of total contributions due for the quarter. Further,

MISSA's collection rate is expected to increase to a more realistic percentage because a significant portion of the 887 registered employers may have been closed perma-

nently and need to be deactivated in MISSA's data-base.

MISSA's tax auditors were also able to complement the Administration with the much needed cash as \$134 thousand were collected from the \$466 thousand tax deficiencies discovered during their review of about 20 employers' payroll records in FY 2013. 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 \$1.9 million collected.

Public Hearing on Bill #43

(Continued from page 8)

public will be fully informed of what to know about Bill no. 43.

Over the last few years, there has been discussion about how best to change the System to make it more sustainable in the long-term. During the 2011 actuarial study of the Marshall Islands Retirement Fund, one of the viable options considered was to dismantle the current system and convert to a defined contribution system.

The core changes being recommended are as follows:

1. Effective immediately (upon passage of the law), suspend all benefits for any benefit recipient that has received over X times the employee contributions associated with their benefit.
2. For those that have not received X times employee contributions in benefits, they will continue to receive monthly benefits until they hit the multiple level.
3. All other current workers and inactive workers will receive their current employee contributions, accumulated with investment earnings and 7% of the taxable wage base con-

tributions, payable at age 60. Once the deficit is paid off, employer contributions can be allocated as well.

The current system was put in place with the hope that, eventually, the Marshall Islands would have an expanding workforce to support the promised benefits. That has not been the case, and based on the projected economy, will not be the case. In order to have a sustainable system, drastic changes must be made. The goal of a social security system is to provide for the retirement security of a population. Historically, that security has been provided in the form of a defined benefit system. Due to the future economic uncertainty in the country, a defined contribution system seems to be the most appropriate method to save for retirement income.

While the Administration is awaiting for the decision of the Niti-jela to act on Bill no. 43, it has started searching for consultants who had the experience and expertise in the conversion of a defined benefit scheme to a defined contribution plan. The Administrator has sought the help of the Asia Pacific Association of Fiduciary Studies (APAFS) to liaise with a number of session speakers and moderators of the annual APAFS conference to be held in Manila, Philippines in November. Interesting topics to be discussed in the conference will be the Actuarial Funding Basics for Social Security Systems, Public Employee Defined Benefits Plans and Retirement Income Planning.



MISSA joins 4th Annual College and Career Fair

Hundreds of students, members of the academe and representatives of several organizations, employers and government agencies gathered together at the International Convention Center during the 4th Annual College and Career Fair held on September 13, 2013. The event was organized by the Tilmaake Resources and Career Center of the College of the Marshall Islands in support of EducationUSA. MISSA was one of the selected employers invited to this occasion.

The goal of this fair was to provide different options to students who are interested in exploring career and vocational opportunities after graduation. This will also provide members of the academe with a chance to discuss admission, transfer and prevailing scholastic issues for continuing education. Further, this will support prospective employers like MISSA in matching current employment demands vis-à-vis the skills and competences acquired by graduating students in RMI.

The event was open to the general public with special invitations extended to high school and college students interested in seeking more rewarding career paths and opportunities. It is not only a job fair. It was a forum to meet future leaders, exchange ideas and discuss career trends that will benefit potential employees and their families.

Among the participants are college students are from the University of the Pacific (USP) and College of the Marshall Islands (CMI). Dozens of high students from the Marshall Islands High School, Seventh Day Adventist and Coop School also joined the fair. Private employers like BOMI, Bank of Guam, United Airlines, K & K Supermarket, RRE and NTA were also invited together with the Ministries of Finance, Education and Health. Representatives from the Japanese and U.S. Embassies were present during the affair.

With a bleak economy burdened by a 47% unemployment rate, the Marshall Islands has two tertiary schools, College of the Marshall Islands (CMI) and The University of the Pacific (USP).

CMI is a regionally accredited autonomous community college offering high school equivalency, community extension, student development, certificate, and associate degree programs in liberal arts & sciences, business administration, elementary

education, and nursing. The College serves primarily students from within the Micronesian region and is designated as the national post-secondary institution for the Republic of the Marshall Islands.

USP offers a wide range of academic programs and courses both at the undergraduate and postgraduate levels, as well as diploma and certificate level courses. Special one-on-one courses are also being offered, with resident and visiting teachers, including online tutorials.

The most common questions asked by the participating students were the required educational attainment, specific skills and competencies that they should have to land a job. In the case of MISSA, most of its managers and department heads have earned bachelor and associate degrees or at least high school diplomas. All of them rose from the ranks and acquired their managerial and supervisory skills from many years of hands on experience in their present and previous roles, including technical trainings and seminars conducted by professionals.

Computer literacy (i.e. MIP Accounting system, proficiency in Excel, Word and use of emails) is a basic requirement at MISSA for those doing accounting and clerical functions while its personnel in the Front Desk, Tax Compliance, Tax Audit and Retirement & Claims Division must be proficient in Fox Pro, the computer system being used for the Retirement Fund. MISSA's CFO and Finance Manager are CPA's and have long years of managerial experience in Accounting and Finance.

Except for the CFO and Finance Manager's posts, MISSA's current workforce of 31 employees is comprised of 29 Marshallese whose skills and competence were undoubtedly proven. This shows that local employees, even the undergraduates, if given the right supervision, training and motivation, coupled with sound policies and procedures, could also become efficient workers and perform at par with expatriate workers, or

even better than them.

MISSA's earning consecutive clean audits in the past twelve years likewise reflects how skilled and proficient their employees are in their respective posts - one of the reasons why MISSA is considered one of the high-performing agencies in the country.





Top 50 Employers in FYs 2013 & 2012

(includes Retirement and Health Fund Contributions)

		FY 2013	FY 2012			FY 2013	FY 2012
1	RMI Government	6,266,573	6,019,106	26	Marshall Islands Fishing Venture	122,042	155,821
2	Chugach Management Services, Inc.	1,883,315	1,837,046	27	EZ Price	119,385	112,964
3	BOMI	403,376	409,623	28	Triple J Marshalls, Inc.	114,836	107,637
4	CMI	705,578	700,873	29	EULG Support Program Fund	106,533	109,469
5	Kawjalein Range Services, LL	526,753	536,727	30	Enewetak/Ujelang Local Government	104,573	128,823
6	Kili/Bikini/Ejit Council	518,949	516,227	31	Anil Development, Inc.	100,146	119,438
7	PII	489,083	418,136	32	Army & Air Force Exchange Services	93,252	90,201
8	Kal Gov	488,527	91,271	33	Continental Micronesia, Inc.	88,061	81,744
9	MEC	476,690	600,239	34	RMI Ministry of Health	81,537	83,800
10	Air Marshall Islands, Inc.	447,024	35,000	35	San Juan Construction, Inc.	80,893	56,450
11	KAJUR	423,562	396,581	36	MWSC	79,912	109,470
12	NTA	355,429	366,801	37	RMI-USP Joint Educational Program	79,446	37,097
13	MalGov	348,186	888,413	38	Majuro Atoll Waste Co.	76,679	81,140
14	MIMRA	213,817	210,129	39	Alutiq Global Solutions, LLC	73,094	87,775
15	Pan Pacific Foods (RMI), Inc.	208,384	219,571	40	Majuro Do It Best	73,080	72,369
16	K & K/Pacific Marshalls	202,922	194,724	41	Assumption Schools	67,457	112,911
17	MIDB	175,189	154,289	42	US Embassy	63,077	57,780
18	RalGov	166,614	166,928	43	Majuro Cooperative School	61,041	47,776
19	Marshall Islands Resort	162,088	312,081	44	Majuro Ace Hardware	58,014	51,995
20	RMI Ports Authority	150,903	160,386	45	Pacific Basin-Payless	56,840	24,956
21	RRE	149,426	140,075	46	Utrik Local Government	53,841	60,274
22	Majuro Stevedore & Terminal Co.	146,977	140,103	47	D.I.Y. Enterprises, Ebeye	52,606	23,295
23	Marshall Islands Shipping Corp.	132,219	225,572	48	177 Healthcare Program	51,919	50,219
24	Tobolar Copra Processing Plant	123,276	92,183	49	Koo's Fishing Co., Ltd.	51,793	46,751
25	MISSA	83,863	81,906	50	RMI Postal Servie Authority	50,110	52,282
						17,208,890	16,876,169

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 For comments & articles, please write or fax to MISSA, P.O. Box 175, Majuro MH 96960, Republic of the Marshall Islands
 Tel: (692)625-3101 *** Fax: (692)625-4570 *** Email: missa3@ntamar.net
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