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Actuarial study: Benefits will exceed contributions each year through 2015 and possibly beyond

Based on current benefit provisions and tax rates, it appears that the total amount of benefits paid will exceed total employer and employee contributions collected each fiscal year though fiscal year 2015 and possibly beyond.

This gloomy scenario was the highlight of the most recent study conducted by MISSA's actuary, Pacific Actuarial Services, LLC.

This situation will make it extremely difficult for the Administration to gain any ground in its goal to reduce its unfunded Actuarial Accrued Liability (AAL) of $164.2 million or (80% of total AAL) as of October 2003 and increase the funded status of the system. In fact, if the dollar amount of earnings on trust assets is not sufficient to make up the difference between the benefit payments and collected contributions, the Administration may eventually be forced to liquidate trust investments to raise funds needed to meet benefit payment obligations.

To illustrate such gloomy situation: if there are no changes in the current benefit provisions, MISSA would need to increase in FY 2006 the employee/employer rate of contributions from the current 7% to 7.4% and at the same time withdraw $0.5 million from its Trust Fund, in order to pay off the estimated $11.1 million benefits for the current fiscal year.

This can develop into a very dangerous situation because as the amount of invested trust assets decreases, the associated earnings on these assets will also decrease, which will require that even more

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MISSA welcomes new Board Members

At its meeting on January 5, 2006, the Cabinet approved the appointment of Jefferson Barton and David Paul as new members of the MISSA Board, and the reappointment of Maria K. Fowler, Saeko Shoniber and Tommy Milne, effective January 21, 2006.


Jefferson Barton


David Paul

The Cabinet also approved the reappointment of John M. Niedenthal as Board Chairman and Cradle Alfred as Board Member effective March 17, 2006.

The two new Board Members took over the positions of Biram Stege and Suzanne Chutaro, whose three-year term as mem-

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Inside this issue:

Our Mission:

"to uplift the personal and economic well-being of the people of the Marshall Islands by providing them with long-term financial security in their retirement age or during disability".

MISSA to share info with other government agencies,

seeks stronger political will to address tax delinquency

Officials from the Ministry of Finance (MOF), Malgov, Kalgov, MISSA and the Attorney General's Office signed a Memorandum of Agreement (MOA) that would ensure a free flow of information between and among the said government agencies.

The MOA was the result of a prior initiative by MOF in consultation with financial specialists from the Asian Development Bank (ADB). The ADB consultants have been engaged by the RMI government to make a study and recommend ways to promote fiscal stability thru improving the internal revenue generation in the country.

The highlights of the MOA follow:

* The local government will require business operators and owners applying for a business license to first secure an employer identification number (EIN) and clearance from MISSA and MOF prior to issuance of new and renewal licenses;
* Information about existing, newly established and non-compliant businesses will be shared on a regular basis;
* Each agency will recommend for the cancellation, suspension or revocation of the foreign investment business or local license of non-tax-compliant businesses after written notifications were ignored;
* Upon request, MOF and MISSA will make available any relevant information related to audit of businesses.

Prior to the signing of the MOA, MISSA invited and sought the assistance and advice of the AG's Office, MOF and Malgov on how to address the problem of tax delinquency. Cited during the discussion was the case of a certain individual being paid about $30,000 a year by a government agency. But since that person is considered an independent contractor, no income and MISSA taxes were deducted. Considering that there were numerous independent contractors being paid by the same government agency, both MISSA and the national government have lost and will continue losing tens of thousands of dollars in gross revenue and social security taxes.

The case of illegal "loan-sharking" activities was also brought up. Common people, more particularly retirees receiving benefits from MISSA, fall prey to these usurious practices and have to pay exorbitant interest rates for their loans. Aside from not being licensed and charging beyond the interest rates set by law, these loan sharks have also not been paying gross revenue taxes to the government.

If the two cases cited above are analyzed, its effect to MISSA in terms of lost revenues is far less when compared to the government, as any additional wages beyond MISSA's $5,000 quarterly limit are non-taxable.

MISSA has already doubled its collection efforts in recent years, prosecuting and winning numerous cases in court. However, as nobody has ever been jailed or severely penalized for non-payment of taxes, ***employers may have been encouraged to continue to ignore MISSA demands***, including court orders, to pay their delinquent contributions to the Administration.

MISSA is seeking the support of the Nitijela and government agencies engaged in tax enforcement. Statistics showed that about 50% of employers are delinquent. Many of them have already been prosecuted and ordered by the court to pay but still refuse to do so. ***Without a strong political will and sense of urgency to introduce drastic reforms in the present legal system, tax delinquency will always be a chronic problem in the Marshall Islands***. Possibly, ***many people may now be thinking that taxation in the Marshall Islands is***

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Special committee starts review of retirement scheme,

considers Provident Fund system as alternative

Pursuant to a resolution by the Nitijela in October 2004, a special committee was appointed by the Speaker to review the Marshall Islands Social Security System, and look at other forms of retirement schemes as possible alternatives to the current social insurance system adopted by the Marshall Islands. One particular scheme commonly known as National Provident Fund system, is now being studied.

The present social insurance system was introduced in the Marshall Islands in the early 70's during the Trust Territory period and formalized by an act of the Nitijela, commonly referred to as the Social Security Act of 1990.

To date, however, there has not been any comprehensive review of the system to determine its efficiency, successes and failures with respect to the benefits and privileges to its contributors and their immediate families.

The MISSA Administrator, Saane K. Aho, welcomes this opportunity to seek alternative ways to improve the Administration's operations, establish fair and just benefit programs and strengthen the financial viability of the system, be it in the form of a modified social insurance scheme or the introduction of the National Provident Fund system.

As requested by the special committee, MISSA is now initiating a comprehensive review of other alternative schemes and have at its disposal the materials provided by the International Labour Office's (ILO) sponsored training and workshop on Social Security in Pacific Island countries held in Fiji a few months ago. The said training was attended by 22 line managers from the National Provident Funds of Fiji, Vanuatu, Kiribati, Papua New Guinea, Solomon Islands, Samoa, Tonga and the Marshall Islands Social Security Administration.

The ILO training materials are a good starting point and have a great value in assisting MISSA in the preliminary stages of the review, as they provide MISSA with a more comprehensive outlook of other social security schemes in the Pacific region.

Considering the significance of this undertaking, the Administration is very much aware of the daunting task of gathering additional reference materials on the specific legislations, designs, administrative structures and implementing guidelines of the National Provident Funds of the eight Pacific Island countries mentioned above.

The following information and statistics are excerpts from actual presentation materials gathered during the ILO training in Fiji:

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Methods of social protection

Social Insurance	Provident Fund	Social Assistance	Employer Liability	Universal
Financed by Contributions	Financed by contributions	Financed from taxation	Financed directly by employer	Financed from taxation
Pooling of risks and finances	Individual accounts	Redistributive	Individual employer provision	Redistributive
Benefits are prescribed by law	Contributions are prescribed by law	Benefits are discretionary		Benefits are flat-rate
Based on contribution history from employment	Based on employment	based on need		Based on residence

MISSA welcomes new board members

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bers of the MISSA Board ended on January 21, 2006.

Mr. Barton is currently the Secretary of Finance while Mr. Paul is connected with Mobil Micronesia and represents the private sector.

During the regular board meeting held on January 20, 2006, the members thanked Biram (2000-2006) and Suzanne (2003-2006) for their excellent job and invaluable contributions to MISSA during their tenure.

MISSA Board (standing from left): Tommy Milne, John M. Niedenthal, Saeko Shoniber, Maria K. Fowler and Suzanne M. Chutaro. Not shown are Biram Stege & Cradle Alfred.

Special committee starts review of retirement scheme

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Fiji National Provident Fund (FNPF):

Membership - open to membership above age 16 years. Members can continue to contribute voluntarily above age 65. As of June 30, 2005, there are 316,791 members, 26,694 of which are voluntary members. Expatriate workers have the choice to join or not within 3 months of starting work in Fiji.

Employers - 5,620, majority are retailers

Contributions collected in 2005 - F$245.68 million

Withdrawals by members in 2005 - F$181.09 million

Mode of payment - may be weekly, bi-weekly or monthly

Enforcement— FNPF employs 5 prosecutors, one bailiff and 16 inspectors

Surcharges- 2% per month on outstanding contributions

Interest earned by members in 2005 - 6.25% per annum

Benefits (withdrawals due to):

- Retirement at 55 years of age - pension, lump sum & part pension/part lump-sum, decided by member
- Medical retirement - partial withdrawal, full medical
- Education - for member and dependents, decided by member
- Housing assistance
- Disability - partial or total disability, decided by medical board
- Disaster/crisis - economic crisis (e.g. coups and natural disasters), decided by FNPF
- Funeral expenses - upon death of family member
- Migration - if member leaves Fiji permanently
- Marriage by female members
- Partial withdrawal

Vanuatu National Provident Fund (VNPF):

Coverage - compulsory to all public and private sector employees between ages 15 and 55 years; voluntary to self-employed persons and others who opt to join.

Contributions - 8% of gross wages with 4% paid by

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Actuarial study: Benefits will exceed contributions

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of the trust assets be sold in order to pay benefits.

Continued depletion of trust assets in order to pay benefits could eventually result in depletion of the trust fund and the result would be that without additional funds, MISSA could find itself in a position where it can no longer pay any benefits.

Until contributions are at least sufficient to cover benefit payment, the benefit structure should not be changed to allow for any increase in current or future benefits.

For the last couple of years, there is constant pressure to increase the level of benefits. To cite one particular example, a bill has been proposed to abolish the "Earnings Test" and is now being heard by the Nitijela. This proposed legislation has been adamantly opposed by MISSA and its Actuary, as it will aggravate the present unfunded AAL *(see related story on p.6)*.

At this point, it is most important that the Administration remains viable, and viable means that the Administration is able to meet its benefit obligations on a regular basis well into the future. Accordingly, any benefit increases should be matched with a means to pay for these increases. Should the Nitijela approve the abolition of the earnings test, this would amount to an unfunded mandate forcing the Administration to pay additional benefits without any additional source of funds to cover the increase.

"If there are no changes in the current benefit provisions, MISSA would need to increase in FY 2006 the employee/employer rate of contributions from the current 7% to 7.4% and at the same time withdraw $0.5 million from its Trust Fund, in order to pay off the estimated $11.1 million benefits for the current fiscal year.

The study also explored a proposal to allow the spouse of a deceased beneficiary who is currently col-

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The table below lists the projected future benefit payment through FY 2015 and the associated estimated tax rate applied to Covered Earnings that employees and employers would each need to pay so that contributions would not be less than total benefits paid each fiscal year. Presently, employees and employers each must contribute 7% of Covered Earnings. Covered Earnings are currently defined as the worker's gross earnings received each quarter but not in excess of $5,000.

Fiscal Year	Projected Benefit Payments (in millions)	Associated Estimated Tax rates Employers & Employees would each pay	Payments from the Trust (in millions)
2006	$11.1	7.4%	$0.5
2007	11.7	7.6%	0.9
2008	12.2	7.8%	1.2
2009	12.8	8.0%	1.6
2010	13.4	8.2%	2.0
2011	14.0	8.4%	2.3
2012	14.5	8.6%	2.7
2013	15.1	8.8%	3.1
2014	15.7	9.0%	3.4
2015	16.3	9.1%	3.8

Actuarial study: Benefits will exceed contributions

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lecting a benefit to continue to receive the benefit that was paid to the deceased beneficiary and also to allow the payment of retirement benefits as a single lump-sum payment. Both these proposals will most likely increase overall benefit payments.

Another assumption that was considered was the effect of a cap to the growth of benefit payments, if a maximum amount is established. This study ultimately explored the effect of the unfunded AAL, future benefit payments, and the associated required employer and employee tax rate such that contributions collected each year are not less than benefit payments, if there are no changes to the benefit structure and if the basic benefit were capped at $850.00 per month for future beneficiaries (benefits to those currently in pay status would be unchanged.) It is anticipated that current adjustments for early and late retirement that apply to the basic benefit would also apply to this cap. The study also explored the implications of immediately increasing benefits to all current beneficiaries by 4% and also if this 4% increase were only applied to current retirees both of which will add to the unfunded AAL and total benefit payments.

Actuary recommends to extend earnings test beyond age 62

Social security systems are generally designed as a financial safety net to provide minimum benefits to retirees, disabled personas and survivors of deceased workers who would otherwise have little or no income at all, and MISSA is no exception.


The MISSA Board listens as Mike Spaid (right), MISSA's actuary, presents the results of his study.

Because of this, MISSA incorporates an earnings test in order to reduce benefits to beneficiaries under age of 62 who have other income in excess of a predetermined threshold, which is currently $1,500 per quarter. This means that a beneficiary younger than 62 with not more than $1,500 earnings per quarter will receive his or her social security benefit reduced by $1.00 for every $3.00 earned in excess of the $1,500.00 threshold. The subsequent reduction in benefits to those who are not utterly dependent on social security to survive reduce the system's unfunded AAL from what it would be otherwise.

MISSA supports the notion that social security retirement benefits are designed to provide income to those who are no longer working and as retirees continue to work, those with large income are really not in need of social security benefits to sustain them. As the purpose of the benefits is to replace income that is lost when it is no longer reasonable to expect a person to be able to earn wages, there are no lost wages to replace when a retiree continues to work and earn wages.

If the law is changed in order to now exempt benefits paid prior to age 62 from the earning test, this will increase the unfunded AAL from its current level. Considering the Administration's continued focus on improving the funded status, any changes that increase the unfunded AAL must be seen as being counter to this

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Special committee starts review of retirement scheme

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the employee and 4% by the employer.

Membership - about 17,000 as of June 2005

Interest credited to members' accounts - 3% in 2004 and 2% in 2003

Benefits payable in the event of a member's:

- Attaining age 55
- Death
- Incapacity
- Migration

Solomon Islands National Provident Fund:

Benefits

- Early retirement at 40 years and normal retirement at 50 years of age
- Invalidity due to physical or mental incapacity
- Redundancy and unfair dismissal
- Emigration by non-residents with no intention to return
- Death of a member
- Urban and rural housing loan scheme
- Furniture loan scheme
- Pledging of members' two-thirds (2/3) contributions as loan guarantee with commercial banks

National Superannuation Fund of Papua New Guinea

Contributions - 13.2% of gross wages with 5.5% paid by employee and 7.7% by the employer (private)

Benefits:

- Unemployment - partial withdrawal allowed three months after being unemployed
- Immigration - applicable to non-citizens
- Death - paid to nominated beneficiaries
- Medical/disability - paid upon provision of medical reports from 2 recognized physicians
- Housing - member is eligible after 5 years of continuous membership; up to 60% of total contributions may be withdrawn. This can also be used as equity contribution to secure bank loans

Marshall Islands Social Security Administration.

Membership - covers all wage earners, including self-

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Actuary recommends to extend earnings test beyond age 62

goal.

However, considering the desire to improve MISSA's funded status, it is recommended by the actuary that rather than eliminating the earnings test, the Administration consider extending the earnings test to all beneficiaries regardless of the age in order to reduce benefits to every beneficiary with earnings in excess of the quarterly threshold of $1,500.00. "Extension of the earnings test to cover all beneficiaries will reduce the unfunded AAL and will have a positive effect on the funded status", the actuary said. This will also cause a catastrophic increase in new benefit payments, as more people at age 55 will be encouraged to retire.

What is an AAL?

Actuarial Accrued Liability or AAL, is the value of benefits of current and former workers that MISSA is obligated to pay as a result of present and past contributions. These individuals comprise of the following:

1. workers who are actively employed and contributing to the System;
2. Former workers who retired and are now receiving benefits, including survivors of deceased workers who have received retirement benefits; and
3. Former workers who are not receiving benefits and are no longer making contributions, but who are fully insured based on prior contributions.

As of October 1, 2003, MISSA's AAL was $205.75 million, while total assets amounted to $41.35 million only. Therefore, by taking away the total assets from the AAL, it becomes apparent the Retirement Fund has an unfunded liability of $164.20 million or an unfunded percentage of 80%.

With the excellent performance of its investments in 2004 and 2005, MISSA's total assets have increased significantly to more than $54 million as of December 31, 2005, thereby decreasing its unfunded AAL to a certain degree. However, the Administration has no reasons to be complacent. As benefit payments continue to surpass collections and delinquency reaching an alarming level, the grim possibility of MISSA facing

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Actuary recommends to extend earnings test beyond age 62

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a financial crisis is just at an arm's length.

The Administration, more particularly its Board of Directors, is very much aware of this situation and is exploring all options and strategies to increase revenues, control benefit payments and minimize operating costs to remain financially healthy:

* More delinquency cases are now being readied for referral to MISSA's Legal Counsel for prosecution in the high court;
* Additional Tax Auditors will be engaged to reinforce its present audit team in its relentless efforts to discover tax deficiencies by employers who have under declared the gross taxable wages of their workers;
* Tax Compliance Officers are now spending most of their time in updating employer records to determine how much each of the more than 400 delinquent employers owes to MISSA;
* Strict implementation of the earnings test is continuously being enforced;
* Birth and school records of children of deceased retirees currently receiving survivor benefits are now being thoroughly scrutinized as they may have already passed beyond the eligible age of 18 years, or 22 years if still in school;
* MISSA will hire a medical examiner to conduct reassessment of existing medical retirees every three years;
* Stiffer eligibility requirements on disability claims and determination process will be strictly enforced;
* Cost cutting measures are now in place while administrative expenses are restricted within duly approved budgets.
* The Board is closely monitoring and getting updates from MISSA's investment advisor and custodian regarding the performance of its offshore investments.
* The Administration is in constant dialogue with both national and local government officials to gain support to proposed legislations that will strengthen MISSA financial viability.

Special committee starts review of retirement scheme

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employed workers and expatriates working in the Marshall Islands

Taxable earnings - compensation of any kind, including salaries and wages, bonuses, tips, stipends, allowances or fees, paid by the employer to or on behalf of the worker in cash or in any other form, *but not including:*

* wages received by virtue of any international agreement (e.g. Compact of Free Association Agreement with the U.S. and Diplomatic Agreements)
* Compensation for sickness or accident
* Payment from trust or annuity
* Payment 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
* Housing (not exceeding $750 per month) and travel allowances
* All wages in excess of $5,000 per quarter.

Contributions:

	RF	HF
Employee's share	7%	3.5%
Employer's share	7%	3.5%

- ♦ RF - Retirement Fund
- ♦ HF - Health Fund

Average monthly RF collections - $0.91million
Average monthly benefit payments - $0.94 million
Average monthly admin. expenses - $70,000

Benefits:

* Early retirement at 55 years of age
* Normal retirement at 60 years of age
* Deferred retirement after 60 years of age
* Disability benefits
* Surviving spouse benefits
* Surviving children benefits (below 18 or 22 if child is in school)
* Lump-sum benefits

Medical retirees to undergo re-examination every 3 years,

stiffer disability determination process will be implemented soon

As provided for in the Social Security Act of 1990, at least once every three-year period, MISSA shall require a medical retiree to undergo a medical re-examination by a physician appointed by MISSA. If the re-examination indicates that the medical retiree has already recovered from disability, payment of his or her disability benefits shall be discontinued.

For purposes of proper interpretation, recovery from disability shall mean the beneficiary may once again engage in the performance of the duties performed prior to the determination of the disability.

However, if MISSA's proposed change in the interpretation of recovery is approved by the Nitijela, it will mean that the beneficiary may once again engage in any gainful employment, which may be the same or different from the last employment of the claimant before he or she became disabled.

John Vanderburg (2nd from left) and participants of the disability orientation

A disability handbook, which is a simplified version of the US Social Security Disability Handbook, is now being reviewed by the MISSA Board. This handbook, being a consultative examination guide, will provide physicians and other health care professionals with a clear and comprehensive understanding of the information a health professional can furnish MISSA to help ensure sound and prompt decisions on disability claims.

The handbook also incorporates numerous inputs from John Vanderburg, the Program Coordinator of the U.S. Social Security Disability program in the Pacific Region, who was invited last year by MISSA to conduct an orientation about how the U.S. disability program is administered.

MISSA is now considering the appointment of one chief medical examiner and another one as back-up (in case the chief medical examiner is not available) among the local doctors licensed to practice medicine in the Marshall Islands. The Administration has already budgeted a certain amount and will pay the medical examiner a reasonable fee on a per patient basis.

The main function of the medical examiner is to form a second opinion about the medical condition of a claimant.

Although the Administrator has the authority to approve or deny a disability claim, the recommendation of the medical examiner will still be the main basis of her decision.

One added information in the medical report that must be filled up by the attending physician and which will be reviewed thoroughly by the medical examiner, is the doctor's opinion about what the claimant can still do despite his or her impairment. This includes the individual's ability to perform work-related activities such as sitting, standing, walking, lifting, carrying, handling objects, hearing, speaking and traveling.

Furthermore, the claimant's education and work history, including latest earnings and other skills will also be taken into consideration.

The main reason for this new requirement is the probability that even if the claimant is no longer capable of performing his or her latest job prior to the impairment, he or she may still have another skill (not affected by the impairment) that may be used to find another gainful employment.

A person's work may be slightly or totally different from what he or she has been doing before the impair-

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Tax auditors find substantial tax deficiencies

The initial results of the audit being conducted in several private businesses revealed one thing in common: that they have been understating the gross taxable wages of their employees, more particularly foreign workers and even the employers' own salaries..

MISSA's Tax Audit team (from left): Brad Lamille, Elvie John, Mathilda Lanwi and Ave Gimao Jr.

Although the number of employers currently being audited is only about 1% of the total employers in the country, this finding already gave the Tax Auditors a more vivid picture of what to expect in case more employers are audited in the near future.

Since last year, MISSA Tax Auditors have been conducting payroll audits to determine the degree of employers' compliance to MISSA's tax regulations, establish the correct amount of their tax deficiencies, if any, and identify errors in employee information as reflected in their quarterly tax returns filed with MISSA.

Currently, there are more than 900 private and public employers actively in operation in Majuro and on Ebeye and about 1,600 more have permanently closed down or ceased operations. Records show that only about fifty percent (50%) of employers have been religiously filing and paying their quarterly contributions to MISSA. The other half who have not filed owe MISSA at least one quarter of contributions and are comprised mainly of local governments, private schools and small to medium sized retailers.

The audit finding indicates a trend that out of the 50% (about 450 employers) who have filed and paid to MISSA, at least 50%, or possibly 80% of them, may have understated the gross wages of one or more of their employees, to save on MISSA contributions (employer share).

Although it is still premature to speculate, it is very probable that these tax deficiencies may amount to millions of dollars, which, if collected, will provide MISSA with additional funds to remain financially healthy.

One of the difficulties encountered during the audit

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Medical retirees to undergo re-examination every 3 years

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ment began. It may also not be as hard to do and the earnings may be less as before. However, MISSA may still find that the work is gainful or substantial under its criteria. If the claimant is self-employed, MISSA will also consider the kind and value of his or her work, including participation in the management of the business, as well as the gross revenue of the business.

As most patients use the facilities of Majuro and Ebeye Hospitals for consultation, examination and laboratory/diagnostic tests, the medical report required by MISSA will still have to be prepared by their attending physicians. Medical reports from other private physicians licensed to practice medicine in the Marshall Islands and off-island licensed physicians and health care facilities will also be accepted by MISSA.

In the absence of sufficient medical evidence from the claimant's own medical sources, the medical examiner may request further examination or test to remove his doubts or uncertainties.

Tax Auditors...

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was the unavailability of payroll records. Although MISSA is authorized to review the records up to the last six years, employers tend to play ignorant of the 6-year statute of limitations just to avoid being audited. In one occasion, the Tax Auditors were even told by a certain employer that a fire had destroyed their records, but no such fire occurred.

Another common reaction noted from these employers was their insistence that MISSA should have advised them of their tax deficiencies right after they had filed their quarterly tax returns and not one to six years later.

Considering that MISSA receives about 500 tax returns being filed every quarter, it will be an impossible task for the handful of tax compliance officers of MISSA to immediately review these returns. In fact, just entering the names of employees (about 10,000) to the system takes at least two months to complete. By the time this task is completed, another quarter has passed and the next quarterly returns have to be entered again.

The said employers have also questioned about the 12% annual interest being imposed against them, saying that since it is MISSA's fault that their tax deficiencies were discovered late, then they are not obliged to pay interest.

As the audit progresses, employers subjected to audit were enlightened with more significant tax guidelines, like the following:

* An individual who engages in any trade or business is considered "self-employed" worker and is required to include his or her name in the quarterly tax return filed and paid to MISSA. If there are two or more self-employed workers, then all of their names must be included in the quarterly return.
* Being deemed to be both his or her own employer and worker, a self-employed worker is considered to have earned twice the amount of earnings paid to the highest paid worker reported within a quarter or *the earnings he or she actually received, whichever is higher*. In the absence of audited financial statements, actual earnings may be determined by considering the size of the business and the number of employees.
* If there is no other worker, the self-employed individual shall be deemed to have earned within a quarter, seventy five percent (75%) of the gross revenue for that quarter.
* Even if the employer considers a portion of his workers' pay as commission, transportation, bonuses and other allowances, these are still considered as taxable wages by MISSA. Further, housing allowances in excess of $750 per month or any amount on top of the free housing facilities provided by the employer to the worker will be treated as taxable wages.
* MISSA charges 12% interest per year on tax deficiencies from the time the contributions fall due until they are paid in full.
* The Administration is authorized to impose a penalty of up to 100% of the total principal contribution and interest due thereon. This authority is normally exercised if the employer concerned continues to ignore MISSA's demand to pay and the case is referred the Legal Counsel for court prosecution.

In a related development, three MISSA Tax Auditors and several staff from the Customs, Revenue and Taxation office of the Ministry of Finance attended a USDA Graduate School sponsored training held recently. The four-day training, which was focused on auditing businesses and self-employed individuals who have no records or whose records are inadequate, was facilitated by Charles Hester, CPA.

MISSA employs night watchmen to secure its premises

Lobwij Lorak

Bannar Tare

For about two months now, Lobwij Lorak and Banner Tare have been working on shifting schedules from 7:00p.m. to 7:00a.m., seven days a week, to secure MISSA premises. This move was the result of several cases of vandalism, theft of electricity and water and unruly behavior of persons under the influence of alcohol in the past.

2005...a successful yet challenging year

Despite the shortfall in collections last year, MISSA entered 2006 in sound operational and financial health.

The 2005 performance report from Frank Armstrong of Investor Solutions, MISSA's investment advisor, showed that MISSA's investments gained $3.85 million, yielding 9.84 net internal rate of return (IRR) which surpassed the global equity benchmark of 6.61.

Although this return is already considered by Frank as "amazing", the three-year performance from 2003 to 2005 yielded an awesome gain of $16.56 million or a net actual IRR of 66.21 (or 18.45 annually). This also surpassed the global equity benchmark of 46.99 and 13.70, actual 3-year and annual net IRR's, respectively..

With its investments generating overwhelming results, MISSA's total assets increased to about $58 million as of December 31, 2005 from $47.6 million at the beginning of FY 2005.

FY 2005 Financial & operational highlights:

* Total collections amounted to $10.99 million. Although MISSA did not attain its target of $11.53 million, it still surpassed FY 2004 collections of $10.98 million by just a very slight margin.
* Total benefits paid during the fiscal year amounted to $10.7 million.
* Despite the shortfall in collection, MISSA was still able to inject an additional $600,000 to its offshore investments. This is an indication of an effective cash management by MISSA.
* Other income (interest, dividends and fees collected) totaled $1.3 million, resulting to an increase of $0.22 million from last fiscal year.
* Administrative expenses amounted to $0.765 million, or only 7% of total revenues. By law, MISSA is authorized to spend up to 20% of total revenues. Due to tight budgetary control being put in place, the total budget of $0.808 million that was approved by the Board was not reached.
* The termination of the credit card and "payable through accounts" agreement between BOMI and Citizens Security Bank in February 2005 created a temporary inconvenience to about 162 MISSA beneficiaries living off-island, as they could no longer cash their BOMI benefit checks. In a few months, this problem was solved as all of these beneficiaries (except 8 who have not yet provided MISSA with the bank information needed) are now enjoying the Automatic Clearing House (ACH) facilities being provided by Bank of Guam.
* MISSA facilitated the retiree group life insurance agreement with Individual Assurance Company. This life insurance coverage enables the immediate family of retirees who pass away to collect $4,000 at a monthly premium of $30.33. To-date, there are already 632 retirees and surviving spouses enrolled in the program and 45 claims have already been approved and paid by IAC.

MISSA to share information

(Continued from page 2)

voluntary, and not compulsory.

Perhaps, if news will spread around that one of these delinquent employers is now in jail or his properties confiscated by the government, this mindset will virtually change. Hopefully, this will be the course of action that the government will take soon.

Closing quotes from MOF: "If not us, who? If not now, when? And if not together, then how?"

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