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Actuarial report not promising but better than projected

MISSA's Actuarial Accrued Liability (AAL) as of October 1, 2008 totaled $225.8 million while total assets amounted to $63.2 million. With $162.6 million (or 72%) being unfunded, this simply means that if the social security program in RMI is stopped in October 1, 2008, MISSA can only pay for 28% of all benefits due on that date. In 2001, the Administration's funded AAL was only 16% as assets were valued at $35 million while AAL totaled $218 million.

The most recent actuarial valuation report presented by Pacific Actuarial Services, MISSA's actuary, does not look promising but considered better than what the Administration projected.

According to the actuary, MISSA's AAL as of October 1, 2008 totaled $225.8 million while total assets amounted to only $63.2 million. The imbalance resulted to an unfunded AAL of $162.6 million or 72%. Therefore, the funded AAL is only 28%.

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

This determination of the accrued liability does not include former workers who are no longer contributing to the Administration and are not fully insured (those with at least 38 quarters of coverage) and therefore, are not entitled to a future benefit. Should these workers re-enter the workforce in the future, their benefits will then be included in the category of workers currently earning benefits.

On October 1, 2001, MISSA's AAL was estimated at $218 million while assets held at that time were valued at $35 million (or 16%) of the AAL. Although this condition indicated that MISSA may be unable to meet its future benefit obligations, the Administration has already started developing

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Will the Marshall Islands Retirement Fund be able to pay these future generation of beneficiaries when the time comes? *A positive answer to this question can only be made possible if MISSA will get continuous support from the RMI Government thru enactment of legislations in line with MISSA's long term goals and full compliance by employers to existing tax rules and regulations.*

Inside this issue:

MISSA opposes Bill# 50

On March 9, 2009, another proposed legislation (Bill# 50) was introduced in the Nitijela to repeal Sections 103(q), 136(1)(a), 136(2)(a)(c), 13 6(3)(4) and 144 of the Social Security Act of 1990 (The Act).

The bill seeks to remove the early retirement benefits in order to enable a worker or self-employed worker to be fully insured to the amount contributed at the normal retirement age of 60. It will also eliminate the **"earnings test"** which will get rid of reduction of quarterly benefits of a retiree aged 55 to 62 years who is still in covered employment.

The Act provides option for a worker and self-employed worker to get an early retirement at the age of fifty five (55) provided that such worker or self-employed worker is **"service insured"** (has earned at least 80 quarters of coverage).

Section 103(q) gives the definition of **"early retirement"** as retirement when a worker or self-employed worker elects to retire before meeting the requirement for normal retirement. A worker or self-employed worker must have attained the age of fifty-five (55) and be service in-

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"We prepare your tomorrow today".

How to plan your retirement

The average life span now in the Marshall Islands may have shortened over the years, and for the elderly workers who have constantly been bothered by chronic illnesses, they may not be able to look forward to a blissful retirement that may last 25 years or even 35 years.

In some countries where retirement is considered the final career, people make the two of life's most important decisions, WHEN TO RETIRE AND HOW TO SPEND THE FOLLOWING YEARS. These decisions requires just as much planning and foresight as the careers they are leaving behind.

Making your dream of having a secure and comfortable retirement is much easier when you consider different options available as you prepare for the future.

If you are already near retirement age, you should:

* get information about MISSA's retirement programs.
* get information about how your immediate family members may qualify for (survivor) benefits.
* download application forms from the MISSA website - http://www.rmismissa.org (if you are outside the Marshall Islands).
* inquire about your contributions and estimated benefits upon retirement (as this is not yet available online, you need to see personally MISSA's Claims and Benefits Specialists and ask for a copy of your wage history and Individual ICE Calculation Worksheet).
* get information about EARNINGS TEST, if you plan to continue working after you retire.
* get information about payment to non-citizens (if you are not a citizen of RMI, FSM, Palau or the US) if, after retirement, you plan to leave the Marshall Islands for more than six months.
* get information about proposed legislations that if passed into laws, may change the amount of your future benefits and the

financial viability of the Marshall Islands Social Security System.

MISSA's RETIREMENT PROGRAMS

Retirement benefits (Sections 135-136 of the SS Act)

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

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

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

"Fully insured" means a worker or self-employed worker has earned at least one quarter of coverage for each year beginning with the later of June 30, 1968, or the year in which the worker or self-employed worker attains the age of twenty-one (21) years and ending with the year before the year of death, attaining retirement age, or the year of becoming disabled, whichever first occurs; provided, however, that a worker or self-employed worker who dies, attains retirement age, or becomes disabled prior to October 1, 1983, must have no less

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How to plan your retirement

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than eight (8) quarters of coverage and a worker or self-employed worker who dies, attains retirement age, or becomes disabled after September 30, 1983, must have no less than twelve (12) quarters of coverage; provided, that the maximum number of quarters of coverage required shall be no more than thirty-eight (38) quarters.

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

Disability benefits (Section 137 of the SS Act)

The requirements for entitlement to Disability Benefits are as follows:

- The Claimant must be or have been unable to engage in any substantial gainful activity because of any medically determinable physical or mental impairment(s)

"Medically determinable impairment" is an impairment that results from anatomical, physiological, or psychological abnormalities that can be shown by medically acceptable clinical and laboratory diagnostic techniques. A physical or mental impairment must be established by medical evidence consisting of signs, symptoms, and laboratory findings-not only by the individual's statement of symptoms"

- The period of disability is expected to result in death or to last for a continuous period of at least 12 months.
- The Claimant must have been both fully and currently insured at the time of becoming disabled.

"Currently insured" means a worker or a self-employed worker has earned at least six (6) quarters of coverage during the forty (40) quarter period ending with the quarter of retirement, disability or death, whichever first occurs."

- An application must have been filed for Disability Benefits with respect to the Claimant.

Survivor benefits (Sections 138-139 of the SS Act)

The surviving spouse and the surviving parents of a worker or self-employed worker who is fully insured or currently insured at the time of death, shall, after filing of application, be entitled to a surviving spouse's or parent's, as the case may be, insurance benefit payable every month beginning with the month of death of the deceased worker and ending, in the case of a spouse, with the month preceding the month of death or remarriage of the surviving spouse, and in the case of surviving parents, ending with the month preceding the month of death of the last surviving parent, whichever first occurs.

Every surviving child of a worker or self-employed worker who is fully or currently insured at the time of death, shall, after filing an application, be entitled to a monthly surviving child insurance benefit beginning with the month of the death of the worker or self-employed worker and ending with the month preceding the month of the child attaining eighteen (18) years of age (or 22 years if the child is a bona fide student), the child's marriage, or the child's adoption by another, except for adoption subsequent to the death of the worker or self-employed worker by an aunt, uncle, stepparent, or grandparent; provided that that child was dependent upon the worker or self-employed worker.

A child shall be deemed to be or have been, at any relevant time, dependent upon a worker or self-employed worker if the worker or self-employed worker provided regular and substantial support to or on behalf of the child. A natural or legally adopted child is presumed to be dependent upon the worker parent, absent evidence to the contrary. A customarily adopted child or a step child is dependent upon the worker or self-employed worker only if at the time of the worker's death, the

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How to plan your retirement

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child had lived in the worker's home continuously for one year and during that time, the customarily adopting parent or step-parent, was contributing at least one-half of the child's support.

Lump sum benefits (Section 141 of the SS Act)

(1) If a worker or self-employed worker permanently ceases to work for reason of old age, illness, physical disability or any other reason which has an adverse effect on the ability of such person to perform his duties, and rights to insurance benefits under Section 36 through 39 of the SS Act with respect to the worker or self-employed worker have not otherwise accrued, a lump sum benefit equal to 4% of his cumulative covered earnings shall be paid to such worker in a lump sum payment.

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

Covered earnings means the worker's or self-employed worker's gross earnings during any quarter subject to a maximum of $5,000 and is that amount of earnings upon which the worker, the worker's employer and the self-employed worker makes contributions to the Administration.

(2) if after a worker or a self-employed worker dies and all rights to survivor's insurance benefits with respect to the worker or self-employed worker have ceased, a lump sum benefit equal to 4% of his cumulative covered earnings, less the amount of the benefits actually received by the worker or the self-employed worker, or his survivors, if any, shall be paid as set forth in Subsection (3) and (4) of Section 141 of the SS Act.

(3) The lump sum benefit payable under Subsection (2) shall be paid to the spouse, and in the absence of the spouse, shall be paid to the children in equal shares, or guardian, if such children are minors, and in the absence of both, shall be paid to the parents in equal shares.

(4) In the absence of any of the persons referred to in Subsection (3), the lump sum benefit shall be paid to the persons specified under the prevailing laws and customs with respect to intestate secession in the domicile of the deceased worker's or the deceased self-employed worker's at his death.

EARNINGS TEST

Pursuant to Section 144 of the SS Act, recipients of retirement benefits who are under 62 and are working, the benefit amount shall be reduced by$1.00 for every $3.00 earned in a quarter in excess of $1,500. The adjustment in benefits will be applied as soon as practicable following the quarter in which the earnings were made and reported. No adjustment is made for claimants who have attained the age of 62 years.

Example: If a retiree earns a total of $2,000 for a quarter, while receiving a monthly retirement benefit of $300, the benefit shall be reduced during the 3-month period, beginning with the first month after the quarter in which the earnings were made and reported. The computation follows:

Total earnings per quarter	$2,000
Deduct	(1,500)
Balance subject to ET	500
Divide by	3 months
= one third	$166.66
Quarterly benefit ($300x3)	$ 900
Deduct ET	(166.66)
Balance	$733.34
Divide by	3 months
Adjusted monthly benefit	$244.61

PAYMENT TO NON-CITIZENS

Pursuant to Section 142 of the SS Act, unless modified by a totalization or bilateral agreement, no more than six (6) months of benefit payments under this Chapter shall be paid to any beneficiary who is not a citizen or national of the republic while the beneficiary has been outside of the republic; provided, however, payments shall be made to citizens and nationals of the Federated States of Micronesia (FSM), the Republic of Palau (ROP), and the Unites States of America (USA) as if they were citizens or nationals of the Republic, if FSM, ROP and USA, respectively, extend reciprocal benefits to citizens of the Marshall Islands.

Will the Marshall Islands Retirement Fund be able to pay future generation of beneficiaries when the time comes?

A positive answer to this question can only be made possible if MISSA will get continuous support from the RMI Government thru enactment of legislations that are in line with MISSA's long term goals and coupled with full compliance by employers to existing tax rules and regulations.

Fortunately, despite several attempts by certain individuals to introduce bills that are detrimental to the long-term viability of the fund, the majority of the Nitijela legislators (past and present) has given full support to protect the system from untimely insolvency.

MISSA's tax enforcers and Legal Counsel have also been in the forefront of the Administration's relentless efforts to increase revenues and collect long-delinquent contributions. These efforts have been one of the driving forces that provided positive cash flow to the Administration and kept MISSA from dipping into its trust fund.

The last time MISSA had a cash problem that forced it to make a drawdown from the Retirement Fund was in 2001, when MISSA was still the Administrator of the RMI Health Fund. In the succeeding years, MISSA was even able to generate cash surpluses which were injected into its investments.

Strong legal support boosts MISSA collections

Tax officers and auditors of MISSA, Customs, Treasury, Tax & Revenue Division of the Ministry of Finance on Majuro and Ebeye, and MalGov attended a two-day tax audit workshop entitled "Effective Audit Methods and Collection Techniques."

In the midst of declining tax collection in the country, Bruce Bilimon, the Ministry of Finance's Assistant Secretary for Customs, Treasury, Tax & Revenue, organized a workshop to improve the audit and collection skills of the country's tax enforcers and auditors. The training was facilitated by Carson McNeill, Revenue Advisor of the IMF, who also had facilitated tax trainings in RMI in the past.

On day 1, the group was able to learn different audit case selection techniques and using intelligence to determine levels of revenue and compliance.

On day 2, the participants were taught how to deal with delinquent taxpayers and non-filers, and effective collection methods, including audit assessments.

The main highlight of the workshop focused on the sharing of actual audit findings and tax collection cases experienced by the different tax authorities in the country. This enabled the participants, more particularly those from Ebeye, to learn the most common "ways and means" by which businesses tried to avoid paying the right amount of taxes.

The training would not have been a big success without the active participation and inputs from the participants, more particularly Asst. Secretary Bruce Bilimon, Itibo Tofinga and Lincoln Meia of the Ministry of Finance, John Peralta of MalGov, Bryan Edejer, Mathilda Lanwi and Ave Gimao of MISSA.

The workshop also served as a forum for identifying flaws in the current tax system in the country. Ambiguities in certain provisions of the Tax and Revenue Code and the Social Security Act resulted to different interpretations which caused confusion and disagreements among taxpayers and tax authorities.

It is also a known fact that a number of individuals and businesses were able to illegally evade taxes due to weak enforcement of the law or, in certain cases, lack of the legal support necessary for successful prosecution. Since these tax evaders were able to succeed in the past, this may encourage them to evade taxes in the future.

This condition results in a significant amount of tax revenues being lost by the government, and it leads to unfair competition. As these tax-evading individuals and businesses pay little or no taxes, they can offer bids or sell their products at prices much lower than the tax-paying individuals and businesses.

Delinquent taxpayers and tax evaders were also observed to have used the pretext of "not knowing the law" as an excuse for not paying the right amount of taxes. However, as is known worldwide, "ignorance of the law is no excuse."

During the workshop, it was noted that there were lots of similarities on how each agency deals with delinquency and tax evasion – from routine and surprise visits to business establishments, verification of records and documents, gathering of information from third parties...until a tax assessment is completed and presented to the taxpayer. Such commonality reflects the group's shared vision to enforce the authority vested to them by law.

However, one distinct advantage that MISSA has over the other agencies is the strong legal support that the Administration receives from its legal counsel.

With the ever increasing benefit payments outpacing collections in recent years, MISSA has to find other ways to maintain a positive cash flow. Otherwise, it will resort to dipping into its Trust Fund to ensure uninterrupted payment of benefits averaging $1.1 million every month and another $1.0 million in administrative expenses every year.

With the help of its legal counsel, MISSA was able to step up its collection efforts that resulted in partial and full settlement of old

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Carson McNeill

Bryan Edejer
MISSA's Tax Compliance Manager

To date, almost a hundred delinquency cases have already been referred to David Strauss, MISSA's legal counsel, that resulted to the recovery of long-outstanding receivables worth millions of dollars. A number of these cases were through court orders and the monthly installment payments collected by MISSA out of these debts helped the Administration in meeting its benefit payments on time.

Actuarial report not promising...

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strategic plans to correct this potential funding deficiency such as continued long-term investment return, more rigorous tax collection, stricter administration of all system eligibility requirements and continued cost control.

Subsequent valuation report in October 1, 2003 showed that total AAL dropped to $205.7 million while total assets increased to $41.5 million. Consequently, it caused the funded AAL to jump to 20% (from 16%). The drop in AAL indicated a downward trend in reported income by active workers while the increase in total assets was the result of the strong performance of MISSA investments - gains of $7.5 million or an astounding net return of 31.23% in calendar year 2003 alone.

Three years later (as of October 1, 2006), total AAL slightly increased to $207.7 million while total assets ballooned to $61.2 million. Proportionately, the funded AAL soared to 29.46%. The increase in total assets was again attributed to the consistent strong performance of MISSA investments - accumulated gains of $20.2 million (or an annual net return of 16.45%) since the appointment of MISSA's new Investment Advisor (Investor Solutions, Inc.) and Investment Custodian (Fidelity Investments) in November 2002.

In their October 2001 valuation report, MISSA's actuary has recommended that the Board consider a funding policy that seeks to raise the funded percent from 16% to 30% over 30 years. This can be attained with the passage of new legislations that will put tighter controls on survivor and disability benefits. However, on the contrary, the Administration were faced with several bills detrimental to the long-term viability of the RMI's Retirement Fund. Fortunately, the majority of the Nitijela legislators remained supportive of MISSA's stand to protect the system and the next generations of beneficiaries.

The exceptional performance of MISSA investments peaked in October 2007 when its total market value (including BOMI & MISC stocks and BOMI TCDs) reached $66.6 million. Consequently, MISSA's total assets increased to $71.9 million which were more than twice its total assets in 2001.

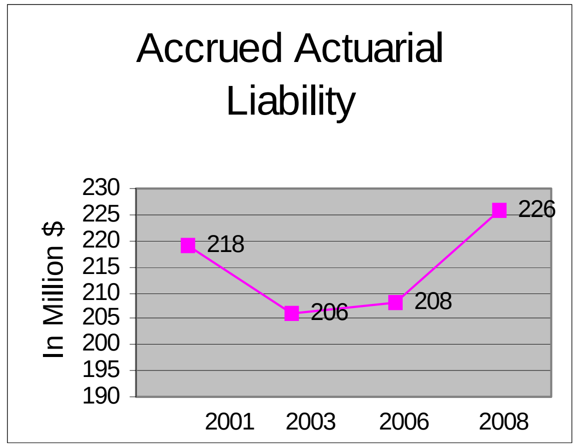
Had a valuation study done in October 2007, MISSA would have a funded AAL of about 32%-33%, which would have surpassed the actuary's recommended funded AAL of 30%. This feat was achieved by MISSA without any of the recommended legislations that will put tighter controls on survivor and disability benefits. Likewise, had MISSA investments neither gained nor lost in FY 2008, the funded AAL would have been 32%.

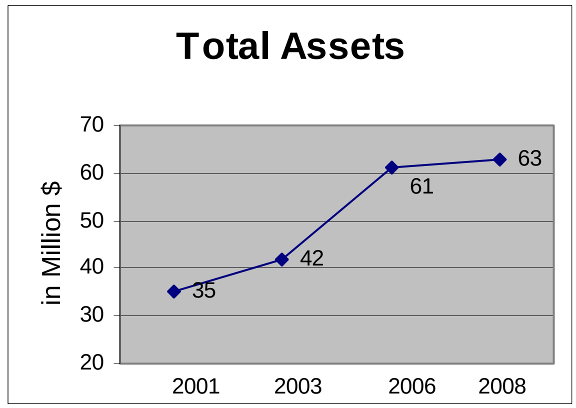
In addition to the valuation study as of October 1, 2008, MISSA asked its actuary to prepare a study showing the impact of switching from a defined benefit plan to a defined contribution plan. This project was the result of an earlier initiative of President Litokwa Tomeing who, as the Nitija Speaker in 2004, appointed a special committee to conduct a comprehensive review of the Marshall Islands social security system and look at other forms of retirement schemes as possible alternatives to the current social insurance system in RMI.

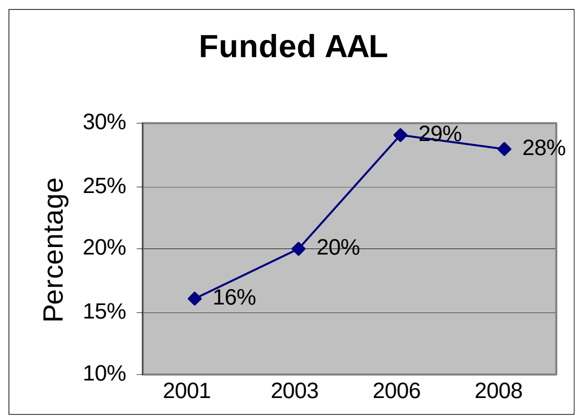
DEFINED BENEFIT PLAN

The current social security system in the country is a defined benefit plan. A traditional defined benefit (DB) plan is a plan in which the benefit on retirement is determined by a set formula, rather than depending on investment returns. A traditional pension plan that *defines* a *benefit* for an employee upon that employee's retirement is a defined benefit plan.

Traditionally, retirement plans have been administered by institutions which







exist specifically for that purpose, by large businesses, or, for government workers, by the government itself. A traditional form of defined benefit plan is the *final salary* plan, under which the pension paid is equal to the number of years worked, multiplied by the member's salary at retirement, multiplied by a factor known as the *accrual rate*. The final accrued amount is available as a monthly pension or a lump sum.

The benefit in a defined benefit pension plan is determined by a formula that can incorporate the employee's pay, years of employment, age at re-

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FSM legislature approved drastic changes in SS system

This article was taken from FSM Social Security Administration's quarterly Newsletter, the FSM Social Security Update

The FSM Social Security Administration's (FSMSSA) proposed Bill no. 15-52 was enacted into law on March 6, 2009. The new law, Public Law 15-73, amended Title 53 of the FSM Code to help the program survive today and to continue to remain viable for the future generations of FSM.

The following issues necessitated the need for the amendments:

- Benefit payments have eclipsed tax collections.
- Downsizing and abolishment of salary increases in the government since 1997, along with the closing down of several major businesses in FSM have negatively impacted tax collections in the country.
- There was $4.1 million in delinquent taxes. $2.1 million is from Pohnpei, $1.6 million is from Chuuk, $312 thousand is from Yap and $177 thousand from Kosrae.
- Social security began in 1968 and 2008 marked its 40th anniversary. Every person who started contributing into the program has already reached or surpassed retirement age. When the program began, there were no beneficiaries. All participants were contributors. The program started paying for benefits two years after and the number of beneficiaries has been growing ever since. The program has aged and as a result, more people are receiving benefits today.
- The disparity between what an individual contributes to the system through taxes and what an individual receives from the program in benefits is substantial. All active beneficiaries as of December 31, 2008 contributed $14.7 million in taxes to the FSMSSA during their working years. On the other hand, the program had paid them $80.8 million in benefits.
- The funded status of the program is too low. The FSM social security system is a defined benefit program. A defined benefit program promises its participants a benefit based on his or her wages once they attain eligibility. Eligibility is attained by earning wages and contributing into the system through paying for social security taxes. As long as a person remains eligible, he or she shall continue to receive benefits. Therefore, whenever an individual pays into the system, the FSMSSA becomes liable to that individual.

The accrued liability is the accumulation of all benefits that every tax contributor and current beneficiary is supposed to receive in the event that they become eligible. As of January 1, 2006, the FSMSSA has a total accrued liability of $262 million. The market value of FSMSSA's assets at that time was $42.7 million which is 16% of the total accrued liability. Therefore, the FSMSSA is 16% funded. The remaining $219 million is the FSMSSA's unfunded accrued liability. In simpler terms, if the program were to stop today, the FSMSSA would only be able to pay for 16% of all benefits earned up to this point. The desired funded status of a defined benefit program such as the FSMSSA is at least 30%. The new law is intended to increase the FSMSS's funded status.

FSM social security is an individual program. Each person has his own social security number and each person's own wages will determine the amount of benefit that he or his survivors will receive in the event of retirement, disability or death. Because this program is very important to each and every current beneficiary and worker, and future generations, the administration submitted these amendments to congress to ensure that it survives today and continues into the future.

Comparison between FSM and RMI social security systems:

	FSM	RMI
Contribution rate (retirement fund-employee's share)	7%	7%
Eligibility requirements		
• To be fully insured for retirement benefits	50 qtrs.	38 qtrs.
• To be fully insured for disability benefits	45 qtrs.	38 qtrs.
• To be currently insured for disability	20/25	6/40*
Retirement age		
• Early retirement	60-64	55-59
• Normal retirement	65	60
Funded AAL (2006)	16%	29%
Funded AAL (2008)	NA	28%
Current beneficiaries	6,358	3,562
Contributions in 2008 (in million $)	$14.06	$13.47
Benefit payments in 2008 (in million $)	$14.25	$12.55

*in RMI, a worker must have earned at least 6 qtrs. of coverage during the last 40 qtr. period ending with the qtr. of retirement, disability or death, whichever first occurs.

Amendments in Public Law 15-73:

1. Section 603(9): To clarify the definition of "employer", whether it is an individual, partnership, corporation, national government, municipal or state organization or agency thereof, or any other type of business or non-business organization and its responsibilities as far as social security taxes are concerned in order to improve the FSMSSA's ability to collect social security taxes.

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Drastic changes in FSM social security system

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2. Section 603(13)(d)(i): Individuals who attain age 60 or die on or after January 1, 2010, must earn at least 50 quarters of coverage to be fully insured for death or old age benefits. This provision would decrease the FSMSSA's unfunded accrued liability by $6.2 if passed into law.
3. Section 603(d)(ii): to change the requirements for disability benefits.
   - Individuals who become disabled on or after January 1, 2010 must earn at least 45 quarters of coverage to be fully insured for disability benefits.
   - Individuals who become disabled on or after January 1, 2010 must also meet the definition of currently insured to qualify for disability benefit. To be currently insured, one must have at least 20 quarters of coverage within the 25-quarter period ending with the quarter in which a person retires, dies or becomes disabled.
4. Section 605(1)(7): Impose criminal penalties on an employer for intentional failure to pay taxes and identify the CFO of the national government, state governments, municipal governments, or any agency of any of the above as the individual liable to the program.
5. Section 607(2): Lien for taxes: all taxes, including penalties and interest accrued thereon, imposed or authorized under this subtitle and owed by a state or municipal government, or any agency thereof, shall be subject to a writ of garnishment of all the money owed by the FSM National Government to any state or municipal government or any agency thereof, and such writ of garnishment shall have priority over any claim for such money in any manner by the particular state or municipal government or agency thereof.
6. Section 804(l)(c): Retirement age:
   - An individual aged 60 to 64 will receive 50% of his/her calculated retirement amount and work at the same time with no earnings test adjustment.
   - At age 65, he or she will receive 100% but the earnings test will apply if he or she works.
7. Section 809: Foreigners who are not citizens of the Marshall Islands, Palau or the U.S. will be paid lump sums equal to their total contributions while employed in as of the date the employee turns 60 or dies. Further, they must be fully insured to be qualified for the lump sum benefits.
8. Section 901 & 902:
   - Increase the tax rate from 6% to 7% (employee 7%, employer 7%) on October 1, 2009.
   - Section 902: increase the tax rate from 7% to 7.5% (employee 7.5%, employer 7.5%) on January 1, 2013.
9. Section 1006(2)(c): To allow the FSMSSA to invest in BBB grade bonds
10. Section 1006(2)(e): To allow for investments in the international market but only with those who exchange their currency in American Depository Receipts.
11. Section 1006(2)(e)(ii)(iii)(iv): to change the percentage of the market value of the fund that can be invested in any one industry group from ten to twenty-five percent; and to insert a security measure to ensure that the portfolio is being invested only on a recognized national or regional stock exchange, physical or electronic.

The FSMSSA supports the new law and believes that it will play a key role in ensuring that the program survives in the short term for the current 6,358 beneficiaries as well as for the future generations.

The amendments are based upon actuarial studies that have been conducted since 1999. By law, an actuarial study is required every three years. Since 2000, actuarial studies have been conducted every two years to ensure the sustainability of the FSMSSA program. All actuarial studies are distributed to the FSM President, Congress, State Governors and Speakers for information and reference. The most recent actuarial study of 2006 compels the Social Security Administration to implement these changes or adjustments to protect this important program for the current workforce and beneficiaries. The FSMSSA is looking forward to its next actuarial study which will be due at the end of 2009.

Investments in BOMI yield $0.52 million

The Administration recently received $293 thousand from the Bank of the Marshall Islands (BOMI) representing dividends earned in 2008 from its 64,485 shares of stocks with the said bank.

Since MISSA's acquisition of these shares in 1999, the Administration has received annual dividends amounting to about $1.6 million. Currently, the shares at BOMI are valued at $8.3 million.

Likewise, interest earned from two TCDs at BOMI that matured in April and May 2009 amounted to $162 thousand and $68 thousand, respectively. The two TCDs, worth $4.5 million were subsequently rolled over, earning interest rate of 5% per annum.

The TCDs represent MISSA's short-term cash reserves and will be utilized to ensure that the Administration has enough cash reserves available for uninterrupted payments to the retirees and other beneficiaries of the Retirement Fund.

With the declining level of contributions, the Administration anticipates that payments to beneficiaries and operating expenses will exceed collections in the very near future. Therefore, these TCDs at BOMI are one of MISSA's most important assets and will be withdrawn to pay the retirees and beneficiaries when needed.

In a related development, MISSA retained four seats in the BOMI Board. During BOMI's annual stockholders' meeting held in April, MISSA's Board Chairman Jack Niedenthal, Board Members Saeko Shoniber and Maria K. Fowler, and Administrator Saane K. Aho were reelected to the BOMI board.

MISSA's membership to the BOMI board began in 2001 with three members and then four in 2003. MISSA's 31% ownership of BOMI has allowed the Administration to have a controlling interest on the country's most profitable financial institution.

MISSA gets strong legal support

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debts, either amicably or through court orders. In FY 2008, MISSA was able to collect about $1.2 million and another $1.5 is expected to be collected this fiscal year out of these old-outstanding receivables.

How does MISSA handle tax delinquency?

When MISSA serves a notice of delinquency or tax assessment to a taxpayer, all efforts are exhausted until the amount due is totally paid-off. This is one of the primary responsibilities of Bryan Edejer, MISSA's Tax Compliance Manager, who has handled effectively the post he held since he joined MISSA in 2007. He is being assisted by Brad Lamille, Tax Compliance Supervisor and four Tax Officers - Almitha Clement, Ruthann Korean, Jackson Henry and Rotis Jitiam.

If the amount of tax deficiency is significant and the employer does not have the financial capacity to pay-off the entire amount, an affordable payment plan is offered and a promissory note is signed. This is normally done out of court and without the services of a lawyer.

MISSA's Tax Officers and Auditors

However, not all delinquent taxpayers given affordable payment options cooperate with MISSA. When all amicable efforts have already been exhausted by MISSA's Tax Compliance Department and the delinquent taxpayer remains adamant, the case is referred to David Strauss, MISSA's current legal counsel, who either contacts the delinquent taxpayer regarding settlement or simply files an action to collect the delinquent taxes in the High Court.

Depending on the delinquent taxpayer's payment history, degree of cooperation, current financial condition, and length of time in which the delinquent taxes are paid, the legal counsel may waive some of the penalties. By law, MISSA is authorized to impose a penalty of up to 100% of the contributions owed plus 12% interest per annum on the penalties. Additionally, MISSA is entitled to recover court costs and reasonable attorney's fees (49 MIRC, Ch. 1, Sect. 149(1)).

In cases of promissory notes or monthly payments ordered by the court or by consent of the tax-payer, the periodic (usually bi-weekly or monthly) payments are closely monitored by MISSA and the legal counsel. A default in payments for three consecutive months results in a referral of the matter back to the legal counsel for further action.

Only a small number of the total delinquency cases result in court proceedings.

As of the last quarterly returns filed in Q1 2009, only 362 (or 51%) of the 712 employers in active operations on Majuro, Ebeye-Kwajalein and outer islands filed and paid their SS contributions on time. Their combined contributions represent about 80%-85% of MISSA's total revenues. Consistently topping the list of those filing and paying on time is the RMI Government which contributes about one third (1/3) of the Administration's Retirement and Health Fund collections.

The non-filers are comprised mostly of small mom and pop stores, schools and local governments who have long outstanding obligations with the Administration. For several years now, this group has been the focus of MISSA's collection campaign. With the assistance of the legal counsel, a number of them have been ordered by the court to pay MISSA. However, as most of them are in financial distress, the Administration was unable to collect.

The need for a strong tax audit team.

In 2006, the declining level of voluntary tax compliance and the increasing number of employers whose quarterly tax returns seemed doubtful prompted the Administration to assign full time Tax Auditors whose primary function is to examine payroll records of employers.

Tax audits have already been performed in the past but as MISSA's Tax Compliance Officers were also tasked with other functions like data entry of quarterly returns, updating of employer filing status in the system, monitoring of delinquencies and legal referrals, only a handful of payroll audits were completed.

Since the Tax Audit Team was organized in 2006, more than 50 payroll audits have been completed which resulted to the discovery of tax deficiencies worth about $1.65 million. To date, almost $1 million of these accounts have already been collected. About a dozen more employers, including local governments, are currently under audit.

Of the more than 50 audits completed by MISSA, only 3 were found to have completely reported the correct taxable wages of their employees and paid the right amount of social security taxes. The rest have not reported or have under-reported the taxable wages of at least 1 of its employees.

These alarming statistics prompted MISSA tax auditors to be more vigilant and thorough in the conduct of their audit as employers are now becoming more creative and will always try to find all possible ways to reduce or avoid their tax obligations.

MISSA's Tax Audit Department is currently headed by Tax Audit Manager Mathilda Lanwi. She is assisted by Tax Audit Supervisor Elvie John, and Stephen Tarbwilin, Tax Auditor.

MISSA's tax audit team has been in constant and close coordination with auditors of the Ministry of Finance. As both audit teams are tasked with the same responsibilities and use identical audit techniques and procedures, their sharing of information has been very useful in the early detection and identification of unreported and under-reported taxes. This concerted effort is the result of a memorandum of agreement (MOA) in 2006 signed by officials of MISSA, Ministry of Finance, MalGov, KalGov, and the AG's Office. The MOA's primary purpose was to ensure a free flow of information between and among the said government agencies to promote fiscal stability through improving the internal revenue generation in the Marshall Islands.

MISSA opposes Bill# 50

(Continued from page 1)

sured to be entitled to early retirement.

Under Section 136(1)(a), a service insured worker or self-employed worker, on or after his attainment of 55 years of age, and after filing an application, shall be entitled to an early retirement, old age insurance benefit payable every month beginning with the month those conditions were satisfied and ending with the month preceding the month of death.

Under Section 136(2):

(a) The monthly amount of the early retirement, old age insurance benefit shall be the basic benefit reduced by one-half (1/2) 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, 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 one-half (1/2) percent for each complete month that the date of deferred retirement follows the date the worker or self-employed worker attains the age of 60 years, but not less than the minimum benefit.

"Deferred retirement" means retirement when a worker or self-employed worker elects to retire after meeting the requirements for normal retirement. A worker or self-employed worker must have attained or exceeded the age of sixty (60) years and one (1) month and be fully insured (must have earned at least 38 quarters of coverage) to be entitled to deferred retirement.

Under Section 136:

(3) If a person who is receiving an old age insurance benefit accepts covered employment, the benefit shall be re-computed at the end of the calendar year and re-computed benefit shall be paid beginning with the first month of the subsequent calendar year.

(4) It shall be the duty of such beneficiary to notify the Administration immediately after he accepts covered employment, of the fact of such employment.

Under Section 144 **(The Earnings test),** where any of the provision of this Part provides that a benefit is subject to this Section, a worker or self-employed worker who is in receipt of that benefit and at the same time is in covered employment, shall have his quarterly benefit reduced by one dollar (US$1.00) for every three dollars (US$3.00) earned during that quarter in excess of fifteen hundred dollars (US$1,500). The reduction shall be made as soon as practicable after the quarter in which the earnings were earned. Notwithstanding the foregoing, the earnings test is not applicable in the quarter in which the worker or self-employed worker who is receiving the benefit attains sixty-two (62) years of age, or in any subsequent quarter thereafter.

As what she usually does before responding to any proposed legislation that affected MISSA in the past, the MISSA Administrator consulted first with the actuary who in turn conducted a thorough study on the effect to the Fund if the bill is passed.

Subsequently, the actuary came up with a recommendation **not to support the bill.** The result of his study revealed that, although abolishing early retirement will save MISSA around $700 thousand a year in benefits, the Administration will also have to pay $1.1 million more in benefits if the earnings test is removed. Therefore, the net effect is a $400 thousand increase in benefits a year which MISSA can not afford at the moment.

In the past, a number of similar bills have been proposed which were not supported by MISSA because it sought to increase further the pension of current beneficiaries (old age and medical retirees, and survivors). In a recent review, MISSA discovered that more than 90% of the current beneficiaries have already withdrawn more benefits from the Retirement Fund than what they have contributed.

> *"The actuary came up with a recommendation **not to support the bill.** The result of his study revealed that, although abolishing early retirement will save MISSA around $700 thousand a year in benefits, the Administration will also have to pay $1.1 million more in benefits if the earnings test is removed. Therefore, the net effect is a $400 thousand increase in benefits a year which MISSA can not afford at the moment.*

On the contrary, the Administration has been strongly urged by its actuary to take steps in controlling direct or indirect increases in benefits in order to prolong the life of the Retirement Fund.

In their 2006 valuation report *(see related article on page1)*, MISSA's actuary recommended the following options:

1. Raise the contribution rate from 7% to 9.1% through 0.2% increases per year. This is based on the projected growth in benefits from $11.1 million in 2006 to $16.3 million in 2015.
2. The ultimate goal of MISSA must be to remain viable by insuring that the amount of contributions meets or exceeds the level of benefits provided. The Retirement Fund must be protected, must continue to exist, and must be able to pay promised benefits well into the future.
3. Take such steps as may be necessary to verify benefit payments to all current beneficiaries.
4. Consider implementing a maximum benefit to limit the size of the benefit that may be earned, just as the minimum benefit has a set dollar amount of $128.99.
5. Consider combining a maximum benefit with an increase in the retirement age.
6. Consider extending the earning test beyond age 62. Social security retirement benefits are designed to provide income to those who are retired – those who are no longer working. Those "retirees" who continue to work are not retired and are not in need of retirement benefits to sustain them.

Actuarial report not promising...

(Continued from page 6)

tirement, and other factors. For example, a plan offering $100 a month per year of service would provide $3,000 per month to a retiree with 30 years of service. While this type of plan is popular among unionized workers, Final Average Pay (FAP) remains the most common type of defined benefit plan offered in the United States. In FAP plans, the average salary over the final years of an employee's career determines the benefit amount.

Many DB plans include early retirement provisions to encourage employees to retire early, before the attainment of normal retirement age. Companies would rather hire younger employees at lower wages. Some of those provisions come in the form of additional *temporary* or *supplemental benefits*, which are payable to a certain age, usually before attaining normal retirement age.

Defined benefit plans may be either *funded* or *unfunded*.

In an *unfunded* defined benefit pension, no assets are set aside and the benefits are paid for by the employer or other pension sponsor as and when they are paid. Pension arrangements provided by the state in most countries in the world are unfunded, with benefits paid directly from current workers' contributions and taxes. This method of financing is known as *Pay-as-you-go* (PAYGO or PAYG). The social security system in the USA and most European countries are unfunded, having benefits paid directly out of current taxes and social security contributions. In some countries, such as Germany, Austria and Sweden, company run retirement plans are often unfunded.

MISSA is now seeking the assistance of the International Labour Organization (ILO), in which the RMI was officially accepted as a member in 2007, as it looks at other forms of retirement schemes as possible alternatives to the current social insurance system in RMI. This development was an initiative of President Litokwa Tomeing who, as the Nitijela Speaker in 2004, appointed a Special Committee to conduct a comprehensive review of the Marshall Islands Social Security System. In 2006, the MISSA Administrator, together with Sen. Maynard Alfred, then Head of the Special Committee appointed by the Speaker, have formal discussions with top officials of the ILO Office for the South Pacific and Fiji National Provident Fund, as they proceeded to the initial stage of the study.

In a *funded* plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits. The future returns on the investments, and the future benefits to be paid, are not known in advance, so there is no guarantee that a given level of contributions will be enough to meet the benefits. Typically, the contributions to be paid are regularly reviewed in a valuation of the plan's assets and liabilities, carried out by an actuary to ensure that the pension fund will meet future payment obligations. This means that in a defined benefit pension, investment risk and investment rewards are typically assumed by the sponsor/employer and not by the individual. If a plan is not well-funded, the plan sponsor may not have the financial resources to continue funding the plan. In many countries, such as the USA, the UK and Australia, most private defined benefit plans are funded, because governments there provide tax incentives to funded plans (in Australia they are mandatory). In the United States, private employers must pay an insurance-type premium to the Pension Benefit Guaranty Corporation, a government agency whose role is to encourage the continuation and maintenance of voluntary private pension plans and provide timely and uninterrupted payment of pension benefits.

DEFINED CONTRIBUTION PLAN

In a defined contribution plan, contributions are paid into an individual account for each member. The contributions are invested, for example in the stock market, and the returns on the investment (which may be positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, often through the purchase of an annuity which then provides a regular income. Defined contribution plans have become widespread all over the world in recent years, and are now the dominant form of plan in the private sector in many countries. For example, the number of defined benefit plans in the US has been steadily declining, as more and more employers see pension contributions as a large expense avoidable by disbanding the defined benefit plan and instead offering a defined contribution plan.

Money contributed can either be from employee salary deferral or from employer contributions. The portability of defined contribution pensions is legally no different from the portability of defined benefit plans. However, because of the cost of administration and ease of determining the plan sponsor's liability for defined contribution plans (you don't need to pay an actuary to calculate the lump sum equivalent that you do for defined benefit plans) in practice, defined contribution plans have become generally portable.

In a defined contribution plan, investment risk and investment rewards are assumed by each individual/employee/retiree and not by the sponsor/employer. In addition, participants do not necessarily purchase annuities with their savings upon retirement, and bear the risk of outliving their assets. (In the United Kingdom, for instance, it is a legal requirement to use the bulk of the fund to purchase an annuity.)

The "cost" of a defined contribution plan is readily calculated, but the benefit from a defined contribution plan depends upon the account balance at the time an employee is looking to use the assets. So, for this arrangement, the *contribution is known* but the *benefit is unknown* (until calculated).

Despite the fact that the participant in a defined contribution plan typically has control over investment decisions, the plan sponsor retains a significant degree of fiduciary responsibility over investment of plan assets, including the selection of investment options and administrative providers. (Source: WIKIPEDIA)

MISSA's financial performance - first 8 months of FY 2009

Stocks have been rallying hard since hitting multi-year lows in early March 2009 and this may be an indication that the financial sector and world market are close to stabilizing. But for the Administration, the road to recovery is still far from over.

Since the onset of FY 2009, the market value of MISSA's investments outside the country has dropped by $5.01 million, bringing down MISSA's total investments to $54.81 million as of May 31, 2009. This includes BOMI/MISC stocks and BOMI TCDs of $12.83 million. MISSA's total investments peaked in October 2007 when its market value reached $66.6 million.

The first eight months of FY 2009 had been a rollercoaster ride for MISSA investments. The biggest monthly loss was felt in October last year as its market value declined by $6.48 million and dropped further by $1.97 million in the following month. In December, it rallied back with an increase of $1.07 million but the gain was short-lived. The January-February results continued to be dismal as it shrunk further by $5.49 million. By end of March, it started to turn around with a gain of $1.62 million and rallied further in April and May with additional gains of $3.53 million and $2.73 million, respectively.

As of May 31, 2009, MISSA's net assets totaled $59.4million, down by $3.8 million or 6% from the start of the fiscal year.

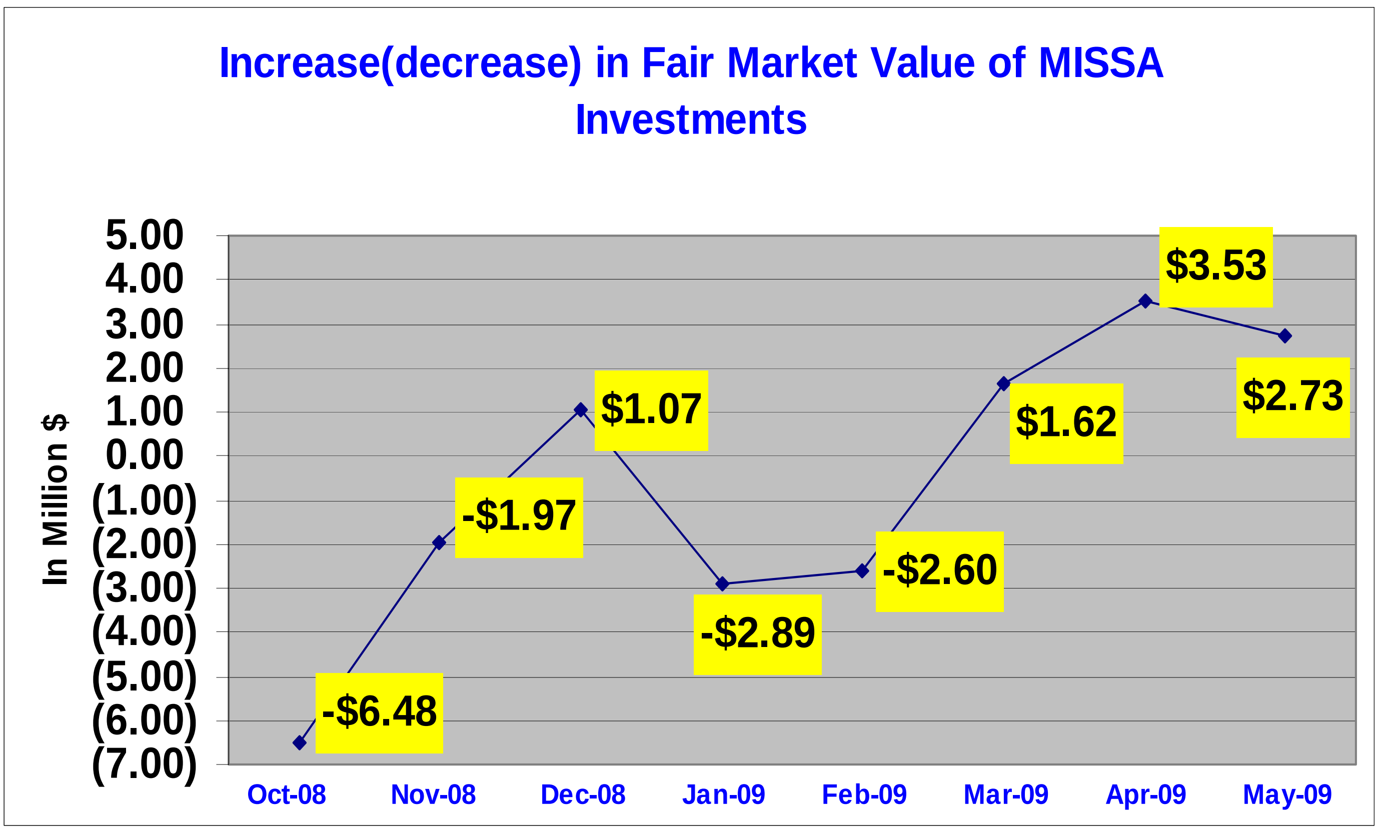
Contributions for the first eight months of FY 2009 totaled $9.1 million while benefit payments and administrative expenses amounted to $9.0 million and $0.6 million, respectively, for the same period.

Despite the growing imbalance between collection and benefit payments/administrative expenses, the Administration continues to maintain a positive cash flow. The main revenue drivers include the continuous timely remittances of the RMI Government and collection of past due contributions from certain employers. The top 50 taxpayers have also consistently filed and paid their dues which comprise of about $80% of MISSA's total revenues.

Much needed cash continue to flow in as the Administration received $293,783 in cash dividends from BOMI for calendar year 2008 while MalGov has paid a total of $665,000 since October 2008 in past due contributions.

The Administration's tax officers and auditors, supported by its Legal Counsel, have doubled their efforts to continue their tax collection campaign to collect long, past due contributions and verify the correctness of quarterly returns filed with MISSA.

In the first eight months of FY 2009, a total of 23 promissory notes were signed by delinquent employers who entered into affordable payment arrangements while 69 cases were referred to the Legal Counsel. Consequently, a number of those referred to the Legal Counsel have settled partially their obligations with MISSA, and the balances covered by signed promissory notes.



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