



# The Social Security Journal **Yokwe!**

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## Contributions up by 7.7% as FY 2008 ends

**But net assets tumble as the fair market value of MISSA's offshore investments dropped by \$8.5 million, while benefit payments increased by 7.7% from last fiscal year.**

**D**espite the uncertainties brought by the dismal performance of MISSA investments in the world market, the Administration remains optimistic in its ability to meet benefit payments on time without making draw-downs from its investments.

MISSA's un-audited financial report for the fiscal year ended September 30, 2008 provided a sigh of relief to the Administration, as, excluding the investment losses, it shows that the total contributions of \$13.47 million and other income of \$1.9 million have provided enough cash to sustain MISSA's \$12.47 million benefit payments and \$1.02 million administrative expenses for FY 2008.

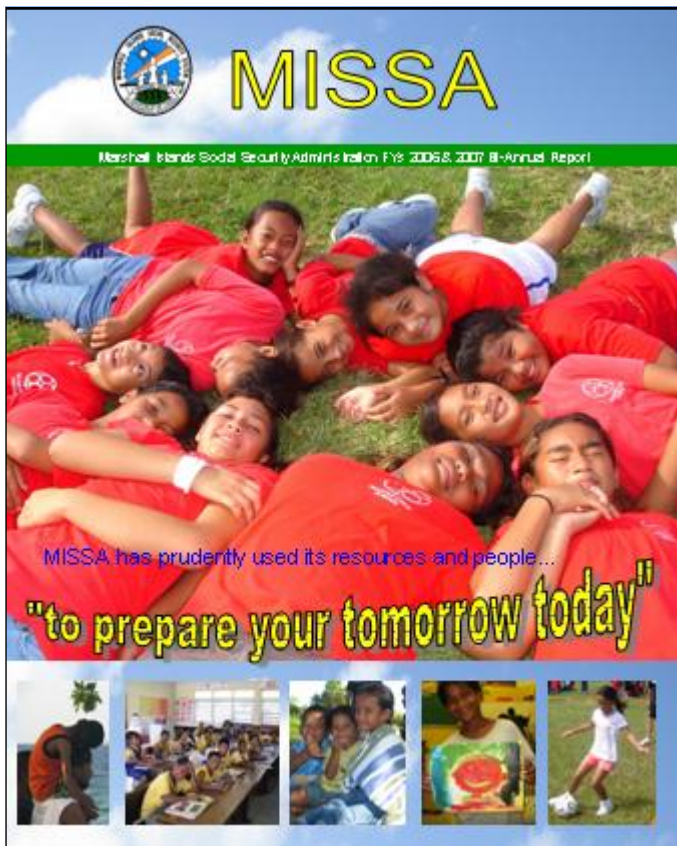
The FY 2008 figures also showed that contributions increased by \$0.96 million or 7.7% from last fiscal year.

As projected, benefit payments for FY 2008 increased to \$12.55 million or 7.7% from last fiscal year.

At the onset of FY 2008, MISSA's targeted contributions amounted to \$12.35 million while benefit payments and administrative expenses were earmarked at

\$12.19 million and \$1.10 million, respectively.

Without the decrease in FMV of its offshore investments, MISSA would have generated a net operating surplus of \$2.66



*In its FYs 2006-2007 bi-annual report just recently released to the public, MISSA has adopted the slogan, "To prepare the youth's tomorrow today." This slogan is very appropriate as MISSA continues to face challenges from certain sectors and individuals in the form of proposed legislations that threaten the future of the next generations of retirees - the youth and middle-age wage earners.*

million. Nevertheless, even with the investment loss, the Administration is expected to generate another cash surplus of \$300,000 by the end of December 2008. Such cash surplus will be injected again to MISSA's investments.

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## MISSA releases FYs 2006 & 2007 bi-annual report

**“W**hat will the Marshall Islands Social Security Retirement Fund

*look like over the next 30-50 years?* Will there be enough money to meet the operating requirements of the fund? Will there be political breakthroughs that will change the trend of tax compliance in the country? How will information technology impact MISSA's operational efficiency? How can we better our services to our beneficiaries and continue to improve our level of performance in years to come?"

These are the kinds of questions that reflect MISSA's commitment to continue to prudently use its resources and people to prepare the future of the next generations (Continued on page 10)

**“We prepare your tomorrow today”.**



# "Eel En" opens on Retirees' Day

*The long-awaited Retirees' Day finally came with double celebrations - first, with the traditional speeches, games, dances and partying, and then came the main highlight... the grand opening of the new retirees' building named "Eel En". The new building was a gift from the Japanese Government to all retired and disabled citizens of the Marshall Islands.*

In Marshallese, Eel En means "the nest" - a very appropriate name, as the new building will serve as the "nesting" place and headquarters for all retirees.

The name given to the new building was the idea of the incumbent President of the Marshall Islands Association of Retired Persons, Luckner Abner.

About five years ago, former President Kessai Note and his Cabinet approved and declared July 1st of every year as "Retirees' Day", as a tribute to all retired senior and disabled citizens who have served the Marshall Islands in various employment capacities in the government and private sectors.

During that time, the Cabinet also approved that July 1st shall serve as MISSA's anniversary date, as it was on July 1, 1968 when the Trust Territory Social Security System (TTSSS) was first established.

Traditionally, the last four annual celebrations were held on the first week of July. But as the construction of the new retiree building could only be completed in September, the Marshall Islands Association of Retired Persons requested that it be held on September 19, 2008 instead.

This year's event also marked the commemoration of MISSA's 40th year anniversary and was attended by more than 400 retirees, guests (that included Cabinet Ministers and Members of the Nitijela), MISSA employees and the general public and was held at the Alele-Courthouse grounds in Uliga.

A short program was opened with a prayer by Reverend Enja Enos. It was followed by brief but inspiring messages from Administrator Saane K. Aho, Minister Christopher Loeak, MalGov Councilor Isaiah Alee, Luckner Abner - President of the Retirees' Association, Minister Amenta Matthew, and MISSA Deputy Administrator, Bill Joseph.

A special message was also delivered by Dr. Kazuyuki Oh-

daira, Charge d' Affaires of the Japanese Embassy. He represented the Government of Japan which facilitated the financing of the construction of the new retirees' building at a cost of \$86,000.

Refreshments were served during lunch. After the short program, the cutting of ribbon ceremonies followed and everyone was able to take a good look at the simply designed but well decorated facility. Then the participants took a short break and returned late in the afternoon for the games and dinner.

Live musical entertainment was provided by the M-Polen band while the Bank of the Marshall Islands donated the anniversary T-shirts.

Majuro Hospital provided a team of medical staff upon the request of the Administration. Although most of the activities require minimum physical exertion, MISSA felt that there was still a small chance for minor incidents. This was also a good opportunity for the participants to have their blood pressure checked and consult about their medical concerns.

The merrymaking continued at night with games and dancing. Participants from Namdrik performed song and dance numbers while a trio of young girls from Wotje danced the hula.

Cash prizes were also

awarded to the winning participants in the games like musical chair, dancing contest and ro-ro.

This year's event would not have been a success without the cooperation and help provided by the officers and members of the Marshall Islands Association of Retired Persons, and major donors namely, the Bank of the Marshall Islands and Embassies of Japan and ROC-Taiwan.

Dozens of donations and support in cash and in kind were also received from the Marshall Islands Resort, Utrik Local Government, Betry Langijota, Micronitor, Oriental Restaurant, TSL Enterprises, Moylan's Insurance, NTA, Labojie Restaurant, Momotaro Corporation, MalGov, Pan Pacific Fishing Company, Mayor Lany Lane, MIMRA, Dep't. of Public Safety, V7AB, DAR, MSTCo., Easy Life Co., Cost Price, AA Wholesale, Fair Price, Laxmi Store, Home Garden, AA Wholesale, Ben Kiluwe Store, Mei Xin Store, Yang Store, D&M Store, Jin Fu Store, Lucy Store, M&L Store, Sunlite Store and dozens of mom & pop stores.



Dr. Kazuyuki Ohdaira-Charge d' Affaires (Embassy of Japan) and Saane K. Aho, MISSA Administrator, formally open the \$86,000 "Eel En" building donated by the Government of Japan to the retired senior citizens of the Marshall Islands.



# Contributions surpassed FY 2008 target

(Continued from page 1)

As in the past years, the RMI Government's consistent bi-weekly remittances were the main revenue driver in FY 2008. MalGov has also provided a strong cash flow for the Administration as it continues to meet its monthly payments which totaled to about \$1.0 million from January through September 2008.

A major challenge impacting MISSA's ability to generate a positive cash flow remains a serious concern for the Administration. Due to serious operating problems and gloomy business climate, certain businesses and employers are now on the verge of financial collapse and could no longer afford to meet their obligations to MISSA on time.

Another downturn that impacted MISSA's cash flow was the reduction in the workforce and working hours in Kwajalein that resulted to a significant reduction of contributions from this sector which represents about 20% of MISSA's total contributions.

As of the end of September 30, 2007, there was a total of 1,053 workers reported by Chugach Development Corporation and Kwajalein Range System (KRS), the two main employers in Kwajalein. Both have combined contributions of \$814,204 for Q3 2007. One year later, only 867 workers were reported, with combined contributions of \$656,625. This translates to a shortfall of 186 in the number of workers and \$157,579 in dollar value, or almost 20%.

Administrative expenses were kept at sparing levels throughout the fiscal year. Out of the budgeted \$1.10 million, only \$1.02 million were spent which was 7.5% of total revenues. This resulted to a savings of \$86,000 or 7.8%. By law, MISSA is authorized to spend up to 20% of total revenues for administrative expenses.

## PRIOR SERVICE TRUST FUND (PSTF)

In January and July 2008, MISSA received \$108,112 and \$7,784, respectively, as additional funding for its almost 250 PSTF beneficiaries. This enabled the Administration to continue paying the monthly PSTF benefits until August 2008, after which the fund was depleted again (for the second time).

MISSA was forced to put on hold its PSTF benefit payments in November 2007 for lack of funds. Payments were then resumed in January 2008 when additional funding was received.

This month, MISSA received \$61,088 which enabled the Administration to release its September and October 2008 benefit checks. Unless additional funding is received, PSTF funds will only last until January 2009.

At present, the Administration needs at least \$11,100 to meet its monthly PSTF benefit payments, including the 20% administrative fee that MISSA is entitled to.

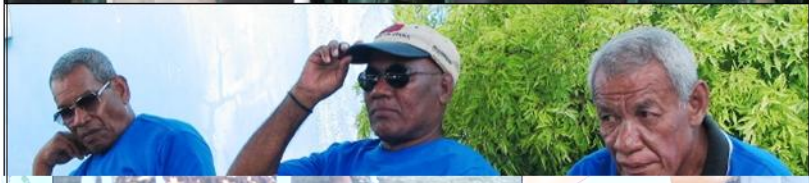
*In a related development, the Administration has again fulfilled its commitment to be fully auditable and accountable. On November 18, 2008, MISSA's external auditors have started their field work for FY 2008 audit. While certain agencies of the government are still struggling to have their books ready for audit covering as much*



*as five years back, Sheryl Profeta, MISSA's Finance Manager, had already updated MISSA's books for FY 2008 and made all audit requirements available to the external auditors. As in the past years, it normally takes about 2 weeks to complete the audit for MISSA.*



# More Retirees' Day 2008 pictures...





# Board Chairman updates RMI President on MISSA investments

*In his letter to President Litokwa Tomeing dated October 14, 2008 through Health Minister Amenta Matthew, Jack Niedenthal, MISSA's Chairman of the Board, assured the RMI President that despite the distressing performance of MISSA's investment portfolio in recent weeks, it is not a cause for panic.*

Following is the complete excerpts of his letter:

\*\*\*\*\*

His Excellency President Litokwa Tomeing,

I have been requested to report on the financial condition of the MISSA funds.

As of the end of the third quarter (September 30, 2008), MISSA's account balance with Investor Solutions, Inc. was \$46,326,361. Of that amount, \$17,963,730 is a short-term, high-quality bond portfolio which is a near cash equivalent. In addition, MISSA has CD (Certificates of Deposit) balances with BOMI of \$4,644,729 including accrued interest.

During the fiscal year, MISSA made contributions of \$300,000 and had no withdrawals. A complete financial report is attached.

Over the next several years, MISSA's projected cash flow needs from the portfolio are zero. Even in the event of reduced retirement tax revenues due to potential economic slowdown, cash flow needs are trivial in comparison to available liquid assets.

However, over the longer term, MISSA required rate of return is 8.5% in order to meet the projected retirement needs of our citizens. It is not possible to achieve that rate of return in totally safe assets. MISSA must invest a portion of its capital for higher rates of return in the global equity markets. With no cash flow needs, a strong financial balance sheet, and a very long time horizon, MISSA is well positioned to accept this risk. The equity portfolio is prudent, widely diversified into 12 separate asset classes to reduce risk while achieving global market returns.

During the first week of October, the equity portion of MISSA's portfolio declined along with the global indexes in a worldwide financial rout. While declines of any magnitude are distressing, it is not a cause for panic. Financial declines are an inevitable part of long term investing. We have more than adequate time for the portfolio to recover. MISSA is confident in our strategy and is in frequent contact with our investment advisor. Aside from the routine rebalancing of our portfolio, we anticipate

no changes in our investment program.

I am also happy to report that the stock market increased today, October 14, by 936 points or 11%.

Sincerely,

Jack Niedenthal  
Chairman of the Board  
Marshall Islands Social Security Administration

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To further reassure the government, the Board Chairman enclosed the most recent update written by Frank Armstrong, President and founder of Investor Solutions, Inc., MISSA's Investment Advisor. It was entitled "Overview of Situation for Institutional Investors."



Frank Armstrong (3rd, standing) is the person behind MISSA's investment gains of almost \$19 million since he was hired as Investment Advisor in November 2002.

In his introduction, Frank Armstrong said, "We appreciate your confidence during this trying time. We know that many of you are concerned, and perhaps even frightened. So we hope this will be an effective way to communicate with you. Of course, you are always welcome to discuss your individual situation with your advisor. That's what we are here for.

That week was distressing, but hardly a cause for panic. We saw one of the worst weeks in

recent financial history. Every market in the world suffered. There was no place to hide, and even widely diversified portfolios all lost value.

Corrections and crashes are an inevitable part of the investment process. While the market reaction was acute, your portfolios are designed to ride out corrections and market cycles.

We are all in this together, and we can all come out of this together. FYI, I personally have exactly the same equity portfolio that I recommended to you. I don't have one single penny that is not in our recommended funds and asset allocation models. With the exception of a cash reserve for business purposes, I am 90/10 and have no intent to sell out. If I ever make a move to sell, I will let you all know first. So, I do feel your pain.

**There are several critical things that make us different from the financial institutions that are making the news.** Market turbulence is bad enough without having to worry about your advisor/custodian/mutual funds or ETFs.

The common element for firms that failed, or an in distress today is that they have borrowed huge amounts to make "bets"

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## Social security programs in Pacific island countries (third in a series)

This comparative illustration will help the readers evaluate RMI's Social Security program vis-à-vis the different SS programs in other Pacific island countries. This is published in series and includes the SS programs of Fiji, Kiribati, Marshall Islands, FSM, Palau, Papua New Guinea, Solomon Islands, Vanuatu and Western Samoa.

This article was taken from "Social Security Programs throughout the world: Asia and the Pacific, 2006", published by the US Social Security Administration (SSA) and the International Social Security Association (ISSA) based in Geneva Switzerland

### Qualifying conditions

#### Republic of Palau

**Old-age benefits:** Age 60 with 1 quarter of coverage for each year after June 1968 (or since age 21, if later) up to age 60.

The old-age is payable to a pensioner who begins anew job after retirement.

The pension is equal to 16.5% of the first US\$11,000 of the insured's Cumulative Covered Earnings (CCE), plus 2.7% of earnings between US\$11,000 and US\$44,000, plus 1.35% of earnings over US\$44,000.

The minimum monthly old-age pension is US\$47.50.

**Disability benefits:** Incapacity for substantial gainful activity due to a physical or mental disability that is likely to last at least a year or result in death. One quarter of coverage for each year after June 1968 (or since age 21, if later) with at least 12 quarters of coverage or at least 8 quarters of coverage during the last 13 quarters.

The pension is equal to 16.5% of the first US\$11,000 of the insured's CCE, plus 2.7% of earnings between US\$11,000 and US\$44,000, plus 1.35% of earnings over US\$44,000.

The minimum monthly disability pension is US\$47.50.

**Survivor pension:** The deceased had 1 quarter of coverage for each year after June 1968 (or since age 21, if later) or had at least 8 quarters of coverage in the 13 quarters preceding death.

The surviving pension is payable abroad under reciprocal agreement.

60% of the deceased pension is paid to a widow(er) at any age.

Orphan's pension: Each orphan younger than age 18 (age 22 if a student; no limit if disabled before age 22) received 15% of the deceased's pension.

Earning's test: the survivor pension is reduced by US\$1 for each US\$3 of earnings above US\$500 a quarter if aged 50 or younger.

The minimum monthly survivor pension is US\$47.50, while the maximum is equal to 100% of the deceased's pension.

**Lump-sum survivor benefit:** Paid for the death of a worker with less than the minimum number of required quarters of coverage for a pension.

Eligible survivors are (in order of priority) the spouse, children, parents, legal representative, or persons who lived with the deceased.

A cash payment is paid and split equally among eligible survivors.

**Administrative organization:** Palau Social Security System administers the program at the local level

#### PAPUA NEW GUINEA

**Old-age benefits:** Age 55 and retired from covered employment; unemployed for 12 months.

A lump-sum is paid at any age after a 1-year waiting period if emigrating permanently.

Drawdown payment: Permitted for the purpose of providing housing. Limited periodic drawdown payments are also permitted after 3 months of unemployment.

Al lump-sum is paid equal to total employee and employer contributions plus accumulated interest.

Drawdown payment: Up to 60% of the member's accumulated contributions may be used for housing. The payment is treated as an advance on benefits. Members must make an additional 2% contribution until the full value of the advance is repaid. If an unemployed fund member has less than K1,000 (US\$1.00 equals 2.94 kina) in the account, the total amount can be withdrawn after 3 months.

**Permanent disability benefits:** A lump-sum is paid equal to total employee and employer contributions plus accumulated interest.

The pension is equal to 80% of average weekly earnings.

The minimum and maximum annual earnings for benefit calculation purposes are K625 and K1,875, respectively.

The minimum weekly pension is K18, while the maximum is K75, plus K10 for each dependent child if the insured has a fully or partially dependent spouse; K65 a week for a single person. The maximum pension is 100% of the insured's earnings.

The maximum employer liability for total disability is K22,000.

Partial disability: a percentage of the full pension is paid according to the assessed loss of earnings.

The maximum employer liability for partial disability is K25,000.

Workers' medical benefits: Medical benefits include the reasonable cost of treatment, medicines, hospitalization, surgery, transportation, equipment, and specialist treatment.

**Survivor benefits:** A lump-sum is paid equal to total employee and employer contributions plus accumulated interest. The benefit is paid to a named survivor.

Survivor grant: A lump-sum is paid up to 8 times the annual earnings of the deceased at the time of death, plus K4.60 a week for each dependent child.

The minimum grant is K8,750, plus K10 a week for each dependent child, while the maximum is K25,000, plus K10 a week for each dependent child.

Eligible survivors include all family members (children younger than age 16) who were totally or partially dependent on the deceased's earnings and any person who by custom has a

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## Social security programs

(Continued from page 6)

right to share compensation.

The insured's spouse and children must receive at least 50% of the survivor grant. A tribunal may decide eligibility and the amount payable to each other survivor.

Funeral grant: The cost of funeral expenses is paid, up to K750.

**Administrative organization:** Public Employees Association Superannuation Fund Board manages the program, while Bank of Papua New Guinea regulates the superannuation funds and sets prudential standards. Trustees of authorized superannuation funds appoint licensed investment managers and administrators. Directors, investment managers, and fund administrators are responsible for ensuring that the routine management, investment and administration of superannuation funds comply with the law.

### SOLOMON ISLANDS

**Old-age benefits:** Age 50, regardless of employment status; at any age if emigrating permanently.

Contributions must be paid after age 50 if the member continue to be an employee or starts a new job after retirement that is covered by the provident fund. If the member has withdrawn any of the amount in his or her account at age 50 and makes further contributions from employment, no further withdrawal can be made for 5 years.

Early withdrawal: Age 40, if permanently retired from covered employment.

Drawdown payment: Unemployed fund members may withdraw funds from their individual account after 3 months of continuous unemployment. The value of drawdown payments depends on the value of employee and employer contributions, plus accumulated interest, in the individual account and at the discretion of the individual fund member

Interest rate adjustment: the interest rate is set by the National provident Fund Board at the end of each fiscal year.

A lump-sum is paid equal to total employee and employer contributions plus accumulated interest.

**Permanent disability benefits:** Must be assessed with a permanent physical or mental incapacity to work.

A lump-sum is paid equal to total employee and employer contributions, plus accumulated interest, and equal to 48 months' earnings.

The maximum lump-sum is SI\$19,000.

**Temporary disability benefits:** The benefit ranges from 50% to 100% of earnings, according to the insured's monthly wage and the assessed degree of disability. If the incapacity lasts for more than 3 days, the benefit is paid from the first day until recovery, certification of permanent disability or death.

The maximum monthly benefit is SI\$160. Workers with a temporary disability may undergo periodic medical examination by a doctor named and paid for by the employee.

Partial disability: a lump-sum is paid based on 48 months' earnings, according to the assessed degree of disability. In cases of multiple injuries, individual benefit awards may be

agreed but must not exceed the permanent disability benefit.

**Survivor benefits:** Paid upon the death of the fund member before retirement, to the next-of-kin or to one or more named survivors.

A lump-sum is paid equal to total employee and employer contributions, plus accumulated interest.

Death benefit: the maximum benefit is SI\$2,500 (US\$1.00 equals 6.96 Solomon Islands dollars).

A lump-sum is paid based on 36 months' earnings minus any permanent disability benefits paid to the deceased.

The maximum lump-sum in cases in which the disability benefit has been paid is SI\$9,000. The maximum lump-sum for a fatal work injury is SI\$80,000.

Eligible survivors include members of the family living with the deceased at the time of his or her death who were totally or mainly dependent on the deceased's earnings. The courts determine how the survivor benefit is split among survivors.

Funeral grant: If there are no dependents, the grant covers reasonable burial expenses. Each case is treated separately, and receipts must be provided. The maximum funeral grant is SI\$30.

**Sickness and maternity:** The Labor Act requires employers to provide up to 12 weeks' maternity leave to women employees (including up to at least 6 weeks after childbirth).

**Administrative organization:** National Provident Fund Board administers the program. An independent tripartite body appointed by the Minister of Finance, the National Provident Fund Board comprises two representatives each of government, employers and employees.

**Regulatory framework on unemployment:** A statutory office assists the unemployed in seeking alternative employment by providing individual counseling and identifying suitable job vacancies.

Under the National Provident Fund Act, unemployed fund members may drawdown up to 1/3 of savings in case of unfair dismissal or if laid off, provided that the member's savings in the fund are greater than SI\$10,000 and he or she is not reemployed within 3 months after dismissal. The amount left in the account can also be withdrawn later under certain provisions.

Employers are required to pay a dismissal benefit of 2 weeks' wages for each year of employment, provided that the employee has been in continuous employment with the same employer for 26 weeks or more and is younger than age 50.

\*\*\*\*\*

*MISSA is now seeking the assistance of the International Labour Organization (ILO), in which the RMI was officially accepted as a member early last year, 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 former 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.*



## Series of inter-government agency dialogue now in full swing

**The Revenue & Taxation Division of the Ministry of Finance, MalGov, Division of Labor, MISSA and Immigration Office have started a series of discussions to identify problems and align related regulations to improve each agency's operating procedures.**

**T**o increase the performance level of the country's different tax enforcement agencies, a group initiative in the form of regular meetings has been undertaken, with the active participation of the Labor Office and Division of Immigration.

In the first stage of the discussions, chronic problems among the tax agencies and related labor and immigration problems were identified, as follow:

### Revenue & Taxation Division

- \* Low tax compliance level
- \* Flaws in the current system of issuing Foreign Investment Business License (FIBL).
- \* Rampant violations by foreigners on the reserved sector regulations.

### Malgov

- \* Low tax compliance level
- \* Incomplete documentation by applicants for business license.
- \* Renewal of business license by businesses who did not pay MISSA and withholding taxes.

### Immigration

- \* Overstaying foreigners whose visas have expired.
- \* Foreigners without valid immigration documents.

### Labor

- \* Foreigners being employed without valid work permits.
- \* Businesses employing more foreigners than local workers.
- \* Workers being paid below the minimum wage.
- \* Delay in the issuance of work permits due to incomplete documentation.

### MISSA

- \* Low compliance level.
- \* Non-reporting and under-reporting of taxable gross wages.
- \* Enforcement of court orders against delinquent employers.
- \* Legal impediments vis-à-vis confiscation of assets or closure of delinquent businesses.

Although no concrete and specific solutions to the above stated problems were finalized, the group plans to adopt the following regulations, subject to final approval by higher authorities:

- \* MalGov will require clearance from MISSA and Division of Revenue & Taxation, prior to approval of renewal of business license;
- \* The Labor Office will require employer clearance from MISSA and Division of Revenue & Taxation, prior to renewal of working permits;



From left, standing: John Peralta of MalGov, Lincoln Meia of the Min. of Finance, Ave Gimao Jr. & Bryan Edejer of MISSA; (from left, sitting) Itibo Tofinga of the Min. of Finance, Anjanette Kattil of the Labor Office and Maftanga Lanwi of the Division of Immigration.

- \* Employer violations discovered by an agency will be shared and reported to the other agencies.

In a related development, members of the Tax Commission appointed by the Cabinet has also started a series of discussions. The group has split into two teams - public and private, so that they can cover a more comprehensive study and evaluation of the present tax system in the country.

The public group, comprised of Saane K. Aho (MISSA), Bruce Bilimon (Ministry of Finance), Carl Hacker (EPPSO) and Joseph Batol (MalGov), aims to improve each agency's operating structure, the administration of its tax regulations and the enforcement of the tax authority vested on such agency.

The group is now also looking into the operation of foreign owned shipping vessels with foreign crew operating in RMI territories who do not pay social security contributions and income taxes.

In one of the discussions, Bryan Edejer, MISSA's Tax Compliance Manager, presented the following statistical figures based on Q3 2008 quarterly returns.

### Gross wages reported for Q3 2008

Government	Number of employees	% to total
\$2,000 and less	2,580	56%
\$2,001 - \$4,000	1,189	26%
\$4,001 - \$6,000	480	11%
\$6,001 - \$8,000	186	4%
\$8,000 and more	146	3%
	<u>4,581</u>	<u>100%</u>

Private workers	Number of employees	% to total
\$2,000 and less	1,921	60%
\$2,001 - \$4,000	755	24%
\$4,001 - \$6,000	290	9%
\$6,001 - \$8,000	114	4%
\$8,000 and more	101	3%
	<u>4,581</u>	<u>100%</u>





## Chairman updates RMI President

(Continued from page 5)

on high leverage. When those bets went bad, their capital position was wiped out.

- \* We don't trade our own capital in a way that expose us to a single penny of market risk. We simply hold cash reserves for rainy days.
- \* We don't have any leverage.
- \* We are profitable and privately held.
- \* We finance our growth internally. Not one penny of debt.
- \* We don't custody your funds - you own them at an independent third party custodian, so our financial integrity is not an issue. We could disappear without a trace and accounts would remain exactly the same.

***"Our custodians are not the financial institutions making the news either."***

- \* They don't have capital market divisions.
- \* None of them are in financial distress as a result of trading positions.
- \* They are profitable.
- \* Accounts protected by SIPC and excess SIPC in the event of failure of the custodian. Your assets are returned to you however, there is not a guarantee against market loss. Said another way, if they completely disappeared, you would get your funds back.

Mutual funds and ETFs all hold your assets at trust companies in separate accounts for the shareholders. If they completely disappeared, you would get your shares back.

So, nowhere in the chain of institution holding your assets is there any concern about financial integrity. It's just not an issue.

Over time, the world's equity markets have been reliable generators of massive wealth. However, to capture those benefits, one must accept market fluctuations and be prepared to stay the course during the downturns. So, properly constructed portfolios will provide for sufficient liquid assets to ride out the inevitable declines. We have worked very hard with each other of you to insure that your portfolio matches your needs for distributions well into the future.

***"Here is what we think you can expect to see."***

- \* In the short term, market volatility will continue. Today's rally probably doesn't mean the absolute end of the problem.
- \* Global governments will coordinate massive cash infusions and interest rate cuts to jump start the credit markets. This will take some time.
- \* As these credit markets recover, confidence will be slowly restored and stocks should benefit. Again, this will take some time.
- \* Almost no one expects us to avoid a recession as the real estate bubble works its way through the economy. However, the recession is predicted to be within the normal business cycle bounds. This economic downturn has probably already been factored into stock prices.
- \* Recessions can last one to three years, however, stock

prices generally recover before the economy as investors look forward to better times and increased earnings.

- \* The government can probably will limit the economic downturn through massive infrastructure investments which are needed in any event.

***"Here's what we will be doing for you."***

- \* Rebalance within the equity portfolio to bring that portion back to the investment policy tolerance.
- \* The government has just given us a free lunch with increased protection on bank deposits and CDs. Currently, the spread between Treasury Bills and CDs is extraordinarily high because banks need capital. SO, we will be taking advantage of that by buying some brokered CDs for a portion of your liquid assets through your custodian. Each CD will be below the government's guaranteed limit, so they will be totally secure.

***"What should you be doing?"***

- \* Keep the faith. The only proven method to generate wealth in the world's markets is to ride out the downturns so that you can participate in the inevitable recovery and the growth of the world economy.
- \* Certainly don't sell into a financial panic. That's a sure fire way to buy high, sell low and wonder why you are not making money in the world markets.

### MISSA IS CONFIDENT THAT IT CAN RIDE OUT THE CRISIS

During the just recently concluded 8th Annual Pacific Region Investment Conference in Manila, Philippines, in which the MISSA Administrator attended, one resource speaker asked, "Who will survive this financial meltdown?"

As he made his own assessment, he said, "There will be winners and losers, some will survive, many will not. The winners broadly will be people, companies and countries whose balance sheets are cash rich; the losers are those who are in debt, those who need to refinance, those who are highly leveraged, and those who need to sell."

Relative to this assessment, MISSA doesn't expect a serious cash flow problem in the short and mid-terms, as it can meet its monthly benefit payments and administrative expenses on time. If the cash situation worsens, it's TCDs held at a local bank and a significant amount of near-cash equivalents invested offshore will be made available at a very short notice. Thus, MISSA's balance sheet is cash rich. Further, MISSA is not in debt and doesn't expect any significant amount of cash outlay to pay for its short term obligations.

Lastly, MISSA has full confidence in its Investment Advisor whose track record speaks for itself. Despite the \$8.5 million loss in FY 2008, MISSA yielded a total of \$18.75 million investment gains from November 26, 2002 through September 30, 2008 or an annual net internal rate of return of 9.74%.

However, MISSA's cash flow in the near future will still be significantly impacted by the capacity of the top 10 employers, more particularly the RMI Government, MalGov, Chugach and KRS, to pay their contributions in a timely manner.

While the Administration expects reduction in contributions from Kwajalein/Ebeye, this shortfall will still be supplemented by the contributions coming from the newly established tuna loining plant on Majuro, Pan Pacific Food (RMI), Inc., which currently provides employment to about 600 - 700 local workers.



# Bi-annual report

(Continued from page 1)

of retirees.

In its FYs 2006-2007 bi-annual report, MISSA has adopted the slogan, "To protect the youth's tomorrow today."

This slogan is very appropriate as MISSA continues to face challenges from certain sectors and individuals in the form of proposed legislations that threaten the future of the next generations of retirees - the youth and middle-age wage earners.

In his message to President Tomeing and members of the Nitijela, Jack Niedenthal, Board Chairman, reiterated the Administration's three main goals since 2000 for MISSA's mission to keep social security financially sound:

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



## A BETTER ORGANIZATION TODAY

Over the last seven years, the public has seen the remarkable transformation of an organization that has gone through serious financial distress in the past. Not only the above stated goals were achieved:

# Board approves FY 2009 budget

*In their last meeting for FY 2008, the MISSA Board of Directors approved the proposed budget for FY 2009.*

### Highlights in \$millions

Targeted contributions	\$12.95
Other income	<u>2.23</u>
Total revenues before increase(decrease) In FMV of investments	<u>15.18</u>
Benefit payments	
Retirement	7.60
Disability	1.13
Surviving spouse	3.63
Surviving children	1.01
Lump sum	<u>0.08</u>
Total benefits	<u>13.45</u>
Investment management fees	<u>0.20</u>
Administrative expenses	<u>1.16</u>

- \* MISSA's net assets were up by 73%, valued at \$69 million as of September 30, 2008;
- \* MISSA's funded liabilities rose almost twofolds; from 15% in 1999 to 29.5% in 2006;
- \* MISSA has not made a single withdrawal from its trust fund in seven years;
- \* The MISSA board, management and staff continue to gain

the trust and admiration of the public for their continuous quest for accountability, good governance & transparency;

\* MISSA received clean and unqualified audit with "no findings" from its external auditors in the last six years; and

\* The redoubled efforts of MISSA's tax officers and auditors have significantly improved tax compliance, although MISSA is behind its targeted level of 90% compliance rate.

In her message to the public, Saane K. Aho, MISSA Administrator, stressed the report's theme, "preparing the youth's future today", which focused on the essence that form the basic foundation of MISSA's self-existence—financial

security of its members and their families in their old age or during disability.

In closing, she said that social security issues have now gained a new urgency and MISSA feels that TIME IS OF THE ESSENCE. With the support of the public and the RMI Government, she is confident that the Administration will face and overcome all difficult challenges that will come along the way to protect the next generations of retirees.

\*\*\*\*\*

Total benefits and admin. expenses	<u>14.81</u>
Projected increase in net assets before increase(decrease) in FMV of MISSA investments	<u>\$0.37</u>

The projected other income represents dividends and interest income from investments and recovery of bad debts from delinquent employers.

The projected benefit payments of \$13.45 million is about 7.9% and 15.4% higher than the benefit payments for FY 2009 (unaudited) and FY 2007 (audited), respectively. This trend clearly indicates the widening gap between contributions and benefit payments, that if not corrected, will threaten the future of the next generation of beneficiaries.

In the past, MISSA has repeatedly advised Nitijela, more particularly certain proponents of proposed legislation that are detrimental to MISSA's financial viability, that if this imbalance continues, MISSA will have a serious cash flow problem. This will leave no other option to the Administration but to increase the current contribution rates or make drawdowns from its investments in order to meet its benefit payments on time.



## Frank lectures on the ABCs of Fiduciary Law & Practice Standards

*In the midst of the current global financial crisis and considerable losses incurred by numerous trust funds in the Marshall Islands, the College of the Marshall Islands Public Policy Institute invited Frank Armstrong of Investor Solutions, Inc., MISSA's Investment Advisor, to facilitate a lecture about the role, practice standards and ethical values of fiduciaries.*

**What is a fiduciary?** A fiduciary is an individual who is required to act for the benefit of another, and occupies a position of trust to that person.

**What are fiduciary duties?** Fiduciary duties are a combination of moral and ethical values (prudence and loyalty), rigid business practices (covered by rules, laws and regulations) and part of overall governance. A fiduciary can never delegate away fiduciary responsibility - however, duties can be shared with other "co-fiduciaries." The ultimate responsibility can not be given away. A fiduciary can reduce, if not nearly eliminate, liability by following certain prudent practices.

**What is an Investment Fiduciary ?** An Investment Fiduciary is someone who is managing the assets of another person or group of persons and stands in a special relationship of trust, confidence, and/or legal responsibility. It includes Investment Advisors, Trustees and Investment Committee Members of retirement plans, foundations and endowments. There are three categories of Investment Fiduciary:

1. Investment steward - a person who has the legal responsibility for managing investment decisions.
2. Investment Advisor - a professional who is responsible for managing comprehensive and continuous investment decisions.
3. Investment manager - a professional who makes investment decisions, and selects the individual securities (stock and bonds) to implement a specific invest mandate.

The Board of Directors of MISSA is the prime steward of the Marshall Islands Retirement Fund and has the fiduciary duty to demonstrate that an Investment Advisor and Investment Custodian independent from the Investment Advisor have been prudently selected with diligence and constantly monitored.

An Investment Custodian is a professional who manages (i.e. trading) the investment portfolio based on the agreed asset class allocation and structure.

### Best practice – step 1: Organize

MISSA's search for a new Investment Advisor and Custodian was the outcome of the losses it suffered after the 9/11 tragedy. Out of a dozen interested parties who offered their

tragedy. Out of a dozen interested parties who offered their services, the Board finally chose Investor Solutions, Inc. and Fidelity Investments IBG as its Investment Advisor and Custodian, respectively. Right then, an Investment Policy Statement (IPS) was drafted and presented to the Board Members. An IPS is a document drafted between a portfolio manager and a client that outlines general rules for the manager. It provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements would also be included in an IPS.



### Best practice - step 2: Formalize

One of the most important steps toward an investment strategy is to identify a "hierarchy of decisions", from the most important to the least: What is the **time horizon** of the investment strategy?; What **asset class** will be considered?; What will be the mix among assets classes?; What sub-asset classes will be considered?; What will be the **worst case scenario** if something goes wrong?

Once the selected asset classes are considered consistent with the identified risk, return and time horizon, the details in the IPS are polished and procedures for controlling and monitoring are redefined, and ultimately finalized.

### Best practice - step 3: Implement

This is the stage where the four basic investment principles are applied based on the agreed IPS: asset allocation, portfolio structure, stock selection, and continuous portfolio management.

If necessary and with the approval of the Investment Steward, the allocation are adjusted at any time in order to rebalance the portfolio or to account for changes in investment goals as well as changes in market conditions.

In the case of MISSA, as the Investment Advisor and Investment Custodian are independent of each other, there is no conflict of interest. This creates a high level of transparency and professionalism.

### Best practice - step 4: Monitor

While the MISSA Board gives the Investment Advisor and Custodian (who are considered "prudent experts") investment discretion, periodic (monthly, quarterly and annual) reports are required from them and these reports are presented by the Investment Advisor to the Board either thru a teleconference or personal visit. These reports highlight in detail the performance of each asset class which are compared against appropriate index, peer group, and due diligence procedures as defined in the IPS. The reports also show in detail all transactions in a given period, including dividends and interest earned, money transfers, bought and sold securities and management fees.



# 5th SS Administrators' Conference - Koror, Palau

**T**he regional partnership between and among the three Micronesian social security systems of the Marshall Islands (MISSA), Federated States of Micronesia (FSMSSA) and Republic of Palau (ROPSSA) continues to strengthen as their Administrators and senior managers met in Koror, Palau on August 6-8, 2008.

The conference was hosted and facilitated by Greg Ngirmang, the Administrator of ROPSSA. He was joined by Saane K. Aho and Alex Naruhnn, Administrators of MISSA and FSMSSA, respectively. Likewise, as in the past conferences, Jerry Facey of the Prior Service Trust Fund and Jill Derickson of Computer Specialties, the group's primary I.T. Consultant, participated in the conference.

In this year's conference, the group adopted the slogan "Continuous Improvement" which refers to the constant communication and sharing of information among the three systems that led to the development of operating procedures in tax compliance, claims and benefits, finance, and most of all, the upgrade of the FoxPro computer system that the three entities are using.

The idea to have an annual conference among the three Freely Associated States was brought up sometime in 2003 when the three systems received a grant from the US Depart-

ment of Interior for the purpose of upgrading and modernizing the social security software program (FoxPro V8) then currently being shared by the three systems.

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

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

The upgraded and modernized version became fully operational in July 2005 and was followed by a series of hands-on training facilitated by the programmers themselves. From that time on, MISSA, ROPSSA and FSMSSA have become ever closer through

sharing of information, common problems encountered, strategies and other operational issues on information technology, finance and accounting, claims and benefits and tax compliance.

Currently, Jill Derickson is doing the finishing touches on the numerous enhancements to the FoxPro system that were agreed upon in previous meetings. These enhancements are intended to address the individual and common systemic problems and issues encountered by the three entities.



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