



The Social Security Journal **Yokwe!**

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MISSA investments recover as FY 2009 ends

The \$12.68 million investment gain by MISSA in the second half of FY 2009 totally wiped out the huge losses incurred in the early part of the fiscal year, resulting to a fiscal year net gain of \$2.035 million.

FY 2009 was a year full of uncertainties, but the Administration took a deep sigh of relief as it prevailed over its most grueling financial challenge in recent years.

The most recent investment performance report presented by Frank Armstrong, MISSA's investment advisor, reflected a net investment gain of \$2.035 million and a net internal rate of return of 4.39% for the twelve-month period ending September 30, 2009.

Although the amount is dwarfed by the much bigger gains of the Administration in 2006 (\$5.37 million) and 2007 (\$7.63 million), it boosted MISSA's resolve to remain financially stable, even in the short term. This rally may also be indicative of a better investment outlook in the coming months. Some may even consider this as the beginning of the end of the global economic downturn that started in late 2007.

MISSA was not spared by the worldwide economic crisis as its investments dropped in value by as much as \$8.50 million in FY 2008 and further, by another \$12.278 million in the first five months of FY 2009. Consequently, these huge losses led to a big drop in MISSA's net assets from \$69.03 million as of the end of FY 2007, to \$63.19 million a year later, and further to \$58.61 million in mid-FY2009.

As recommended by its investment advisor, the Administration will not make any immediate changes in its present investment policies and will maintain its current allocation of 60% for equities and 40% for bonds/cash. The equity portfolio will remain prudent, widely diversified, and divided into 12 separate classes to reduce risk while achieving global market returns.

MISSA investments are spread over 20,000 companies in the U.S. and worldwide.



Majuro retirees (pictured above) have once again enjoyed participating in more than a dozen outdoor games that highlighted this year's Retirees' Day in commemoration of MISSA's 41st year anniversary. The same annual festivities were also celebrated in Ebeye and attended by senior and disabled citizens.



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Retirees' Day 2009



The first of July once again became a memorable day for the more than 200 old-age and medical retirees, survivors, MISSA employees and Board members, and guests who trooped to the RRE Shoreline in Uliga to celebrate Retirees' Day 2009.

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Serving the public amidst local & global challenges



Retirees' Day 2009

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Six years ago, then 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 sector.

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.

This year's event also marked the commemoration of MISSA's 41st year anniversary and was attended by more than 200 retirees, guests (that included Cabinet Ministers and Members of the Nitijela), MISSA employees and the general public and was held at the RRE Stage area in Uliga.

A short program was opened with a prayer by Reverend Enja Enos. It was followed by brief but inspiring messages from David Paul - MISSA Board Vice-Chairman, Minister Ruben Zackhras who spoke on behalf of President Litokwa Tomeing, Health Minister Amenta Matthew, MalGov Mayor Titus Langrine, Senator Gerald Zackios, Luckner Abner - President of the Retirees' Association, and MISSA Administrator Saane K. Aho.

A certificate of recognition and cash reward was given to Neimon Lani, a 90 year-old retiree, for being the longest living beneficiary of MISSA. As she is living in the outer island, the certificate was received by Mathilda Lanwi on her behalf.

Another award was given to Jorbi Anitok who coined the Marshallese word "Jaklik" as his entry to the theme writing contest sponsored by MISSA. In English, Jaklik means "preparing for a better tomorrow."

As in the past celebrations, highlighting the event were several outdoor games that were participated by the retirees and MISSA employees. It included musical chair, coconut grinding, basket weaving, balloon bursting, "ro-ro" chanting, and egg tossing. Cash prizes ranging from \$10 to \$30 were handed out to the winners.

Live musical entertainment and dance numbers were provided by Lokonmok Band.

This year's event would not have been a success without the support of Mr. Patrick Chen of Bank of the Marshall Islands, who donated cash for the 300 anniversary shirts distributed to the retirees. A cash donation was also received from the embassy of ROC-Taiwan.

MISSA also thanked the support and assistance provided by RRE, Majuro Stevedore, Lokonmok Band, Roxy's Lunch plate, Limaro Circle (Rairok DRD), Canvassback Mission, Mr. Arlington Tibon and Councilwoman Betty Imaikta.





MISSA expresses objection to 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), 136(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 insured 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.

Below is the Administrator's response to Bill#50:

September 16, 2009

Honorable Senator David Kabua
Chairman, Nitijela Standing Committee on Health, Education & Social Affairs
Republic of the Marshall Islands

Re: MISSA's response to Bill# 50 (Elimination of Early/Deferred Retirement & Earnings Test)

Dear Chairman and Senator Kabua,

The Marshall Islands Social Security Administration (MISSA) wishes to express its objection to Bill no. 50 as eliminating both early/deferred retirement and earnings test will result to a net increase in benefit payments. As you are aware, the Marshall Islands Retirement Trust Fund is not yet ready to afford such benefit increases.

According to the study done by our actuary, eliminating early retirement would reduce benefit payments by \$700 thousand a year which is in line with MISSA's goal to remain financially viable. However, if the earnings test is likewise eliminated, it will translate to at least \$1.1 million in additional benefits and the net effect will be a net benefit increase of \$400 thousand which the Administration cannot afford at the moment.

Therefore, our actuary recommended that due to the current funded status, no change should be made to the system that would increase benefits.

With the current fiscal year ending in just a couple of weeks, the Administration projects that FY 2009 benefit payments will total \$13.60 million while administrative expenses will amount to \$0.95 million. If the total amount of benefits and administrative expenses are subtracted from the projected contributions of \$13.80 million, MISSA will have a net operating deficit of \$0.75 million before other income (from interest and dividends) in the

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Actuary: Retirement Fund will run out of money by 2022

if there will be no benefit decreases and no revenue increases

With the release of the most recent actuarial report from Joseph Nichols of Pacific Actuarial Services, MISSA's actuary, the pressure to initiate drastic changes in the social security laws and regulations has now come to utmost urgency for MISSA's top management and Board of Directors. At stake for the people of the Marshall Islands is the future welfare of both their current and future generation of retirees and their immediate families.

The report said that as of October 1, 2008, the total accrued actuarial liability (AAL) of MISSA stood at \$225.8 million while the market value of Trust Assets was \$63.2 million. This results to an unfunded AAL of \$162.6 million or 72%. Therefore, the funded AAL is only 28%. This simply means that if the social security program in RMI is stopped on that date, MISSA can only pay for 28% of all benefits due on that date. Although this is an improvement in funded status to past years, there are warning signs showing future stresses to the System. Due to market decreases in 2008, the funded status of the System has hit a critical mark. Adding to the stress on the System is the fact that the number of workers and taxable earnings continue to decrease.

MISSA's funded AAL was 15% in 1999. In 2001, it slightly improved to 16% and then jumped to 20% in 2003. It further soared to 29% in 2006 due to MISSA's exceptional investment gains.

AAL represents the current value of benefits already earned and which are in pay status as well as benefits earned as of the valuation date by those who are still working and are expected to earn future benefits. One can think of this as the amount needed today to pay for all benefits earned as of today that are either already being paid or may be paid in the future.

This determination of the AAL does not include former workers who are no longer making contributions, are not fully-insured, 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.

The funded ratio is an indication of how well-funded the Administration is at any point in time with respect to benefits already earned. A funded ratio of 100% would indicate that the Administration's liability for benefits earned was fully funded by current Trust assets. A funded ratio of 25% would indicate that current Trust assets were only great enough to cover 25% of the benefits already earned. The greater the funded status, the better funded the Administration is with respect to benefits al-



Joseph Nichols: "As the amount of benefit payments grows in the future, without further changes, it is certain that the Trust will run out of money. In fact, based on current provisions and worker demographics, the Trust will be diminished by 2022. This projection is based on no growth in the active workforce. The deficit will come even sooner should the workforce continue to decrease."

ready earned.

The deficiency is calculated as the accrued liability less the market value of Trust assets and further reduced by the estimated value of future employee contributions in excess of that needed to fund future benefits and System expenses.

The unfunded AAL is greatly affected by the level of Trust assets which, in return, is affected by the investment performance of the Trust. After experiencing positive investment returns for fiscal years 2002 through 2007, the Trust has realized a negative return in 2008 with the Trust losing \$8.5 million or 8.33%

ACTUARY'S COMMENTS AND SUGGESTIONS TO MANAGE THE UNFUNDED AAL

Benefit payments and administrative expenses exceeded the amount of contributions collected during each fiscal year from 2006 to 2008, and will continue to do so for fiscal year 2009. Since a larger portion of the contributions are for past due collections, the difference between the current year collections and disbursements are even greater. The trend of deficits shows no end. This puts the Administration in the position of having to dip into the Trust in order to meet its financial

commitments. As the amount of benefit payments grows in the future, without further changes, it is certain that the Trust will run out of money. In fact, based on current provisions and worker demographics, the Trust will be diminished by 2022. This projection is based on no growth in the active workforce. The deficit will come even sooner should the workforce continue to decrease.

Increasing revenue

The most immediate source of additional revenue could come through an increase in the tax rate levied on workers, self-employed workers and employers. Contributions can increase two ways: first by increasing the percentage, then by increasing the maximum taxable wage base. Increasing the percentage only increases contributions, not liabilities. If the maximum taxable wage base is increased, the benefit earned on the additional amount should be lower than the current 2%. In fact, one option is to eliminate the taxable wage base maximum for contributions, but keep the gradual increase in place for benefits. This would increase current annual revenues by approximately \$1.3 million. This change would be very difficult, but at least it provides a starting point to make decisions. Since most of the liability is based on benefits in pay status, continually increasing current worker and employer contributions will

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Retirees' Day in Ebeye

By: Bernie Lojkar, Ebeye Branch Manager

Ilo kar July 3 ran eo, ro rej bed ilo program eo an Social Security ilo Ebeye, aelon in Kwajalein im rej kobjor title ne rej ba "Retiree" rar kemem e ak kojeraman e ran in ba kake.

Rainin ear juon ran eo ekar kanuj in lemonono. Ear wor group ko im rar bar bok konair im jiban kamnono ritto rein ilo ejelok wonen. Group eo an St. Rose, iumin boke dron eo an Randall im Ford rar ikkure kin ikkure ko ejelok uer im elap aer eman. Group eo juon ear itok im bar letok monono eo an rainin rej na etair Youth to Youth iumin boke dron eo an Maure Arikatau, rar al im lelok molo ko remman nan ritto rein kobalok ibben ikkure ko jet. Jonan lap in monono eo an ritto rein rar jutak im tuj ak ikkure ibben group kein ruo. Koba lok ibben group in kojanjan eo an Anrohasa Band im rar komman ice block ko elap aer kar letok monono eo an jotenin ran an aolep retiree.

Office eo an MISSA ekonon lelok kamolol nan Irojlaplap Imata Kabua, Iroj im Sen. Mike Kabua, Sen. Jeban Riklon, Sen. Jerry Bejang, KALGOV, businesses ko rar jiban donate, Youth to Youth, St. Rose Group, Anrohasa Band, Kora im Man ro rar komat im koboji mona ko, im aolep ro rar itok im komman bwe ran in en juon ran eo ebed ilo bwebwenato.

Mene elon ro rar jab bed im witness e ran in ak jej bed wot ilo jabon konan ne **"BED BED IJIN BED BED IJON."**



MISSA opposes Bill# 50

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current fiscal year.

Even if our investments will break-even in the current fiscal year and our net assets remain constant from last year, our unfunded actuarial accrued liability of 72% (as of October 1, 2008) will remain a serious threat to the long term viability of the Fund. In fact, according to our actuary, without significant future increases in contributions and with no change in the upward trend of benefit payments, it is projected that the Trust Fund will be completely depleted by 2022.

This serious financial condition is further aggravated by the current global financial crisis, as MISSA's funds have declined significantly in value over the past two years. In FY 2008 alone, the market value of MISSA's investments (except for MISC stocks and BOMI stocks and CDs) dropped by \$8.5 million. It further declined by another \$11.25 million in the first six months of FY 2009. Although stocks rebounded in the second half of the current fiscal year, it is not enough to recover such huge losses in the past.

Adding more financial burden to the Administration is the expected reduction in working hours and salaries of employees from a certain local government and another government corporation this coming fiscal year. These two employers have a combined workforce of 686 workers. This reduction in contributions is expected to exacerbate the imbalance resulting from the ever increasing benefit payments expected to reach \$14.75 this coming fiscal year.

As we finalize our FY2010 budget, we are very much concerned with an impending cash deficit of at least \$1.3 million which may leave us no other option but to dip into our Trust Funds, our first drawdown in nine (9) years. Such cash drawdown can only be avoided if the RMI Government will assist the Administration with a big amount of subsidy to ensure uninterrupted benefit payments in the coming months.

Citing the above reasons, I would like to once again solicit your kind support. It is our hope that we all have a unified position on this matter.

Lastly, let me take this opportunity to thank you and the RMI Government for your continuous support to MISSA.

Sincerely,

Saane K. Aho
MISSA Administrator



MISSA expects \$1.2 million cash deficit in FY 2010

The Administration may have no other option left but to dip into its cash reserves in a local bank to meet its monthly benefit payments. This will be MISSA's first cash drawdown in nine years.

Unless an unexpected \$1.2 million (at the least) in long-outstanding obligations is collected in the coming fiscal year or the RMI Government offers a cash subsidy to MISSA, the Administration stands to face the inevitable - a huge cash shortfall in the next few months. The last time the Administration made a drawdown from the Trust Fund was in 2000 when the administration of the Health Fund was still under MISSA. During the 1990's, MISSA had been regularly making drawdowns from the Retirement Trust Fund.

Since FY2006, the combined amounts of benefits and administrative expenses paid out by MISSA exceeded its cash collections. Fortunately, other sources of revenue like interest and dividends were generated from local investments which enabled the Administration to maintain a positive cash flow, ensure uninterrupted benefit payments and even generate cash surpluses until FY2008. The extra cash were then subsequently invested.

The positive cash flow enjoyed by the Administration in recent years was also the result of MISSA's intensified collection efforts and support from its legal counsel that resulted to the collection of long-outstanding receivables from certain delinquent employers. Likewise, the RMI Government, MalGov and the two main employers in Kwajalein (Chugach and KRS) have also provided MISSA with the much needed cash due to their consistent and on-time remittances.

To date, at least \$10 million worth of long-outstanding obligations (not including Health Fund contributions) to MISSA remain unpaid. This amount includes interest and penalty charges that have accumulated over the years. Considering the urgency of the matter, the Administration is determined to seek all possible legal remedies to collect these past due accounts.

Unfortunately, as an aftermath of the current financial crisis, employers comprised mainly of local governments, government corporations and private entities in serious financial distress continue to face cash problems of their own that has resulted to the accumulation of their debts to MISSA.

Despite the failure of such employers to pay their past due and current quarters on time, the budgeted contributions of \$12.95 million for

FY 2009 was not only achieved, but surpassed by at least another \$573 thousand (excluding accrual of \$1.2 million as receivable from a certain local government). However, this translates to a slight increase of 0.39% in contributions when compared to FY 2008. MISSA's contributions in FY 2008 totaled \$13.47 million.

MISSA did not have any cash surplus at the end of 2009. However, it has enough cash on hand to pay-off its benefits until the next quarterly deadline in January 2010.

Imbalance between contributions and benefit payments/administrative expenses

Since 2006, MISSA had experienced an imbalance between contributions vis a vis benefit payments and administrative expenses. During this fiscal year, MISSA's contributions totaled \$11.44 million while the combined amounts of benefits paid and administrative expenses totaled \$11.92 million.

The trend continued in the following year. In FY 2007, contributions reached \$12.51 million but were not enough to cover benefit payments and administrative expenses amounting to \$12.67 million.

In FYs 2008, MISSA's benefit payments and administrative expenses totaled \$13.46 million while contributions amounted to \$13.47 million.

The burden of correcting this fund deficiency became more challenging in FY 2009 as MISSA's total benefit payments reached \$13.55 million (or 8.9% higher than the previous year) and administrative expenses totaled \$971 thousand (despite it being 16.5% lower than the approved budget of \$1.16 million). This imbalance translates to another deficit of \$995 thousand which probably, will lead to MISSA drawing down one of its TCDs prematurely in 2010.

If the total benefit payments and administrative expenses from FYs 2006 to 2009 exceeded contributions, then why did MISSA still maintain a positive cash flow in the past four years?

What saved MISSA from a virtual cash crisis was its very aggressive collection campaign, coupled with payroll audits. With the help of the Administration's legal counsel, certain employers owing millions of dollars to MISSA were ordered by the court to make periodic payments to MISSA. Likewise, dividends from local investments also provided MISSA with the much needed cash. Dividends and interest earned from investments outside the country are reinvested as well as interests from TCD's at a local bank.

Projected cash flow for FY 2010

Cash collections from:	
Current contributions	\$12.00 million
Prior years' contributions	1.30
Others	<u>0.51</u>
Total projected cash inflow	<u>13.81</u>
Cash operating requirements	
Benefit payments (8% higher than in FY2009)	14.75
Administrative expenses (13.5% lower than in FY2009)	<u>1.00</u>
Total projected cash outflow	<u>15.75</u>
Net cash outflow	(1.94)
Cash balance, October 1, 2009	<u>0.75</u>
Cash Deficit	<u>(\$ 1.19)</u> million



Trust Fund will be zero by 2022

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not fully fix the impending deficit.

Another source of additional funding is to look directly to the Marshall Islands Government for additional funds. Keeping in mind that the more money there is in the Trust fund, the larger the potential dollar amount of investment return. The RMI Government could make investments in Social Security by allocating \$5 million per year for the next 3 to 4 years. This would push the exhaustion of trust assets out past 20 years. Alternately or in addition to a single payment, some of the funding received through Compact II could be allocated to Social Security on an annual basis.

Limiting benefit growth

1. Increase normal retirement age to 65 - this change would decrease the unfunded AAL by approximately \$30 million. It would also decrease the annual cost of the benefits from 11.5% to 9% and extend the date assets are exhausted out about 5 additional years;
2. Freeze benefits - this change would decrease the unfunded AAL by approximately \$22 million. It would also decrease the annual cost of the benefits from 11.5% to about 8% and extend the date assets are exhausted well beyond the 20 year projection.
3. Freeze benefits and increase normal retirement age to 65 - this change would decrease the unfunded AAL by approximately \$43 million. It would also decrease the annual cost of the benefits from 11.5% to about 6% and extend the date assets are exhausted well beyond the 20 year projection;
4. An additional plan design was to look at converting the so-

cial security system from a defined benefit (DB) plan to a defined contribution (DC) plan. Due to the poor funded status of the system, this conversion would be difficult without a large contribution from the RMI Government. For example, if the approximately \$50 million in accumulated contributions were refunded to active workers in exchange for any benefit, this would leave \$13.2 million to pay for those currently receiving benefits. The full 14% contributions would need to be put in the frozen DB plan for 15 years, leaving no contributions for current workers. SO not only would the workers be, in aggregate, forfeiting over 1/2 of their accrued benefits, they would receive no benefits for the next 15 years. It does not mean that a DC plan is not feasible. It means that no change is feasible unless benefit reductions involve both active workers and those currently in pay status.

5. In each of the above scenarios, drastic changes to the active worker benefits only is not enough to sustain the System. Without additional funding, the only ways to make the System sustainable is to lower benefit for both active workers and those currently in pay status. One option is a flat percentage decrease to all benefits - for active workers and for those workers currently in pay status. For example, if all benefits were decreased by 25%, the funded percent would increase to about 37% and remain there for 8 to 10 years. **Without additional funding, benefits across the board must be changed.**

There has been discussion to cap payments to a percent of contributions. Approximately 90% of those in pay status have already received benefits greater than the sum of the taxes related to their benefit. If benefits were limited to 100% of the taxes, only 10% would continue receiving benefits. For active workers, if benefits were limited to the sum of the taxes, they would be paid for, on average, 5 years. This is a significant decrease in liabilities - over half.

MISSA increases annual Health Fund collection fee for MOH

When the Marshall Islands Health Fund Act of 2002 was enacted into law by the Nitijela, the responsibility for the administration and oversight of the Health Fund and its programs as set out under the Social Security health Fund Act 1991 was transferred to the Ministry of Health Services (MOH).

However, as agreed upon by MISSA and MOH, the Administration will continue to collect the Health Fund contributions of workers, employers and self-employed workers on behalf of MOH. In return MOH will pay MISSA an administrative fee equivalent to 3.5% of all Health Fund contributions that MISSA collects, provided however, that the fee shall only cover the first \$4 million Health Fund contributions per year. The agreement took effect starting January 1, 2004.

Since 2004, MISSA was able to collect a total of \$34.42 million for the Marshall Islands Health Fund, or an average of \$5.74 million every year. In return, it charged the MOH a total of \$0.84 million as collection fee, or an average of \$140 thousand annually.

lected by MISSA from workers, employers and self-employed individuals, one-third of the amount goes to the Marshall Islands Health Fund.

In short, all tax collection efforts that MISSA personnel exerted, including legal fees and every administrative expense that the Administration spent have benefited the Health Fund. It is for these reasons that the Administration decided to increase its collection fee.

The additional charges are aimed to supplement MISSA's tax collections with other sources of revenue to mitigate the impact of a huge cash deficit the Administration is anticipating in the coming fiscal year.

Health fund collections since 2004:

2004	\$4.96 million
2005	5.70
2006	6.00
2007	5.84
2008	6.22
2009	5.70
Total	<u>\$34.42 million</u>

For every dollar worth of social security contributions col-

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MISSA Board approves FY2010 budget

In what could be a preview for the most difficult test the current Administration will be taking in the coming months, the MISSA Administrator presented to the Board a gloomy FY 2010 Budget during their meeting held on September 23, 2009.

Prior to the meeting, the Administrator met with her senior managers several times to ensure that all proposed figures are realistic and reflect the true picture of what lies ahead.

With an impending cash deficit of at least \$1.2 million in the coming fiscal year, the Administrator and the entire MISSA staff shared a common conviction that belt-tightening must start from inside MISSA. Thus, the budgeted administrative expenses were closely scrutinized to reflect only the expenses that were deemed necessary in the course of MISSA operations. This cost cutting measure resulted to a 12.6% reduction (more than \$150 thousand) in budgeted administrative expenses for FY 2010 when compared with the budget for FY 2009. The cuts were comprised of reduction in payroll (MISSA will no longer hire an in-house lawyer), off-island travels and trainings, utility costs and supplies. All MISSA personnel, particularly the department managers, were made aware of these cost cutting measures to ensure that any administrative expense that is spent is within the budgetary limits.

The FY 2010 revenue budget is entirely different from those of previous years for the simple reason that it lacks the forethought that MISSA will "again" surpass the previous year's financial performance. On the contrary, the bottom line of the budget which normally reflected a positive amount in the past, now shows a net decrease in assets of \$1.6 million before investment gain(loss). This simply means that in FY 2010, it is projected that benefit payments and administrative expenses will exceed contributions and other income by \$2.6 million. This is the first time that the Administration will experience a deficit [before investment gain(loss)] since FY 2002, when the administration of the Health Fund was transferred to the Ministry of Health.

The Board is aware that FY 2010 will be the most difficult and challenging year since 2000. But the challenge this time is entirely different. It is a situation beyond the control of the MISSA Board, management and staff. It is the aftermath of a global and local downturn that spared no one. Making things worse are flaws in the social security laws and weak enforcement of the law that have been used and abused by certain employers and individuals in order to illegally evade paying taxes. The situation is further aggravated by proposed legislations aimed to increase benefits which the Administration can not afford at the moment.

The Administrator also presented to the Board a detailed action plan on beneficiary screening for continued entitlement. This plan is aimed to reduce benefit payments via identification of current beneficiaries who may no longer qualify for benefits as they may have already died, remarried (in the case of surviving spouses) or beyond benefit age (in the case of surviving children).

Highlight of the approved budget follows, with comparative figures for FYs 2009 and 2008

COMPARATIVE STATEMENTS OF CHANGES IN NET ASSETS (in Million US Dollars)

	FY2010 Budget	FY2009 Budget	FY2009 Actual	FY2008 Audited
Contributions	\$12.75	\$12.95	\$13.52	\$13.47
Investment income	1.07	1.78	3.45	(6.48)
Other income	<u>0.46</u>	<u>0.45</u>	<u>0.25</u>	<u>0.76</u>
Total additions	<u>14.28</u>	<u>15.18</u>	<u>17.22</u>	<u>7.75</u>
Benefit payments	14.75	13.45	13.55	12.44
Administrative expenses/mgt. fees	<u>1.13</u>	<u>1.38</u>	<u>1.07</u>	<u>1.14</u>
Total deductions	<u>15.88</u>	<u>14.83</u>	<u>14.62</u>	<u>13.58</u>
Net changes in assets	<u>(\$ 1.60)</u>	<u>\$ 0.35</u>	<u>\$ 2.60</u>	<u>(\$ 5.83)</u>
% of Admin. Exp. to Contributions	<u>7.72%</u>	<u>8.79%</u>	<u>7.18%</u>	<u>7.23%</u>

*FY 2009-actual was based on unaudited financial statements as of September 30, 2009

Note: By law, the budget for administrative expenses for any fiscal year shall not exceed 20% of contributions.

To ensure uninterrupted service to the public, the Board also approved the purchase of a back-up generator in anticipation to possible power outages in the future.



Future outlook on sustainability

The twelve months of FY 2009 have been a bumpy rollercoaster ride for the Administration as it continued to bear the brunt of the global financial crisis.

Fortunately, the Administration's investments have been rallying hard since hitting multi-year lows in the first five months of FY 2009, with MISSA losing another \$12.87 million. Fortunately, it was compensated by the significant gains in the succeeding months that resulted to a net gain of \$2.2million for the whole of FY 2009. For many, this may be an indication that the financial sector and world economy are close to stabilizing, as ["the situation may now have stopped getting worse"](#). But for the Administration, the road to recovery is still far from over.

Although the US economy may have suffered most from intensified financial strains and the continued fall in the housing sector, third world and developing countries like the Marshall Islands have been hit hard by the collapse in global trade as well as by rising financial problems of their own. As the country's supply chain is totally dependent upon global trade, the inflated prices of prime commodities have seriously affected the purchasing power of the RMI residents. Fortunately, oil prices fell sharply and inflation pressures have subsided quickly around the world - but not in the Marshall Islands. Gas prices are still averaging \$5 a gallon while prices of prime commodities remain high. Compounded by a very high level of unemployment in the country, the current situation brings a lot of uncertainties as to what lies ahead. With a declining economy, businesses and self-employed individuals will freeze hiring or much worse, resort to downsizing of their manpower in order to survive. A shrinking labor force will mean reduced revenues for the government and lower social security contributions for MISSA.

MISSA's latest actuarial report is not promising either, although much better than the actuarial report five years ago. But what brought a new sense of urgency to the Administration is the distressing result of the actuarial study that [if no drastic changes are made to the present benefit structure now, the Marshall Islands Retirement Fund will be fully exhausted by year 2022.](#)

This new sense of urgency has impacted MISSA's Board of Directors, management





Future outlook on sustainability

(Continued from page 9)

and staff who have now joined hands and doubled their resolve to do what is best for the people of the Marshall Islands. With the future of thousands of present and future beneficiaries at stake, MISSA is now seriously considering the following recommendations by the actuary in order to prolong the life of the Fund beyond 2022:

1. Extend normal retirement age to 65

Effect: Under this scenario, the earliest an active worker could retire would be age 65. Benefits for those in pay status would remain unchanged. The UAAL would decrease by about \$11 million and the funded status would increase to about 31%. [This change alone would not eliminate deficits in the future, but trust assets would not be exhausted until 2028.](#)

2. Freeze all benefits for active workers

Effect: Although this change would not happen by itself, the purpose of this assumption is to show that the looming deficit cannot be fixed by limiting future benefits only. It will slow down future payments but will not eliminate the deficit between benefit payments and contributions. [The UAAL would not decrease but trust assets would not be exhausted until well after 2040.](#)

3. Decrease by 25% all benefits across the board

Effect: The decrease would be applied to both current and future beneficiaries. It is anticipated that current adjustments for early and late retirement that apply to the basic benefit would also apply to this cap. The UAAL would decrease by about \$50 million and the funded status would increase to about 37%. [This change alone would not eliminate deficits in the future, but would at least stabilize the funded percent for many years into the future.](#)

An additional plan design was to look at converting the social security system from a defined benefit (DB) plan to defined contribution (DC) plan. Due to the poor funded status of the system, this conversion would be difficult without a large contribution from the government. For example, if the approximately \$50 million in accumulated contributions were refunded to active workers in exchange for any benefit, this would leave \$13.2 million to pay for those currently receiving benefits. The full 14% contributions would need to be put in the frozen DB plan for 15 years, leaving no contributions for current workers. So not only would the workers be, in aggregate, forfeiting over 1/2 of their accrued benefits, they would receive no benefits for the next 15 years. It does not mean that a DC plan is not feasible. It means that no change is feasible unless benefit reduc-

tions involve both active workers and those currently in pay status.

Since FY2006, the combined amounts of benefits and administrative expenses paid out by MISSA exceeded its collections. This imbalance is expected to continue in the coming fiscal year with benefits expected to increase by 9%-10% while cash collections are projected to decline by 6%-8%. The disparity is anticipated to result to a cash deficit of at least \$1.4 million in FY 2010 alone.

However, despite these distressing facts, the Administration remains optimistic that the Fund will survive the crisis.

MISSA'S FOCUS IN THE COMING FISCAL YEAR

Although the current global system is highly vulnerable and uncertain at the moment, MISSA's investment portfolio is designed to ride out market volatility and market cycles. It is prudent, widely diversified and divided into 12 separate asset classes to reduce risk while achieving global market returns. MISSA believes that it has more than adequate time for its investment portfolio to recover. Aside from routine rebalancing, the Administration anticipates no changes in its investment program and strategies in the new fiscal year.

MISSA's local investments continue to grow as interest from TCDs and equity earnings from BOMI were earned in FY 2009. At least another \$300 thousand is expected to be received in the coming fiscal year.

Despite the reduction in the number of workers reported by Kwajalein employers, MISSA was still able to maintain positive cash flows in FYs 2008 and 2009, and expects the continued prompt remittances by the RMI Government, KRS and Chugach Development Corporation – the two main employers in USAKA, and several big employers on Majuro who have consistently paid their contributions on time in the past. They are expected to be the same revenue driving forces in the coming fiscal year.

Another significant source of revenue that MISSA expects from Kwajalein is the very generous offer by USAKA on behalf of the Army & Air Force Exchange Service (AAFES) to gratuitously contribute amounts equal to the employer's share of the MISSA and Health Fund contributions, on behalf of its 100 plus RMI citizen employees. This translates to nearly \$170 thousand annually.

Majuro's Pan Pacific Foods (RMI), Inc. (PPF), a tuna loining plant, is also expected to provide the much needed employment opportunities to at least 500 local workers as it stepped into a new production phase in mid-2009. Despite huge losses in their initial year of operation, the company is not giving up. With higher production expected in the coming months, more

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MISSA welcomes Pauline

Pauline deBrum is MISSA's new Administrative Assistant for Ebeye. She is a long-time resident of Ebeye and came on board effective August 26, 2009.

Prior to her appointment, Pauline has gained more than eight years of clerical work experience in Kwajalein. She worked as an inventory and



customer service staff for the Army & Air Force Exchange Services (AAFES), Kwajalein Range System (KRS) and Raytheon for several years.

Pauline completed a number of business and clerical vocational courses from Hawaii Business Corps. Her all-around experience in customer service coupled with her good relationship with local and traditional leaders in Ebeye make Pauline an ideal candidate for the administrative assistant post.



Future outlook on sustainability

(Continued from page 10)

workers are expected to be hired.

It can be recalled that MISSA lost a significant chunk of its revenues in late 2004 and subsequent years when PPF's predecessor, PM & O tuna loining plant closed down and more than 600 local workers lost their jobs. MISSA used to collect about \$313 thousand a year from the said company.

MalGov has also impacted positively on MISSA collections as it paid a total of \$2.04 million since January 2008. With the payment plan still in place, \$1.14 million is expected to be paid by MalGov annually. A third of this amount comprised of Health Fund contributions are remitted to the Ministry of Health.

MISSA's tax officers and auditors, with the support of the legal counsel, will continue their relentless campaign to collect past due contributions. Delinquent accounts collected in the past two years comprise of about 10% to 15% of MISSA's total revenues.

The Administration has also embarked into cost saving measures, more particularly in power consumption, utilities, off-island travels and supplies. This translates to about \$148 thousand reduction in the budget for FY 2010 when compared to that of the previous year.

Likewise, the Administration has initiated a long-term action plan that will entail more rigorous efforts by MISSA personnel to seek for information that may lead to the discovery of deceased retirees and survivors whose families continue to receive benefits, disabled individuals who have recovered from their disabilities, surviving spouses who have remarried, surviving children who are no longer eligible for benefits and non-citizens who have permanently left the country.

Lastly, although MISSA no longer enjoys substantial cash surpluses that it used to have in the past, the Administration guarantees that there will be no interruption in benefit payments in the coming months. In the event that a significant amount of contributions is not remitted on time, MISSA has TCDs in a local bank worth \$4.78 million that can be used as the need arises. These TCDs represent MISSA's short-term reserves and will be utilized to ensure that retirees and other beneficiaries of the Retirement Fund continue to receive their benefits on time.

MISSA increases annual Health Fund collection fee for MOH

(Continued from page 7)

Following is the MISSA Administrator's letter to Health Secretary Justina Langidrik.

September 15, 2009

Secretary Justina Langidrik
Ministry of Health

P.O. Box 16, Majuro
Republic of the Marshall Islands MH96960

Re: Increase in MISSA Collection fee

Dear Secretary Langidrik,

Please be informed that effective October 1, 2009 MISSA shall increase its administrative fee of 3.5% (for the first \$4 million Health Fund annual collections) to a fixed collection fee of \$300,000 per annum. This is in line with the Administration's goal to supplement its tax collections with other sources of revenue to mitigate the impact of a huge cash deficit the Administration is anticipating in the coming fiscal year.

Since FY2006, the combined amounts of benefits and administrative expenses paid out by MISSA exceeded its collections. This imbalance is expected to continue in the coming fiscal year with benefits expected to increase by 9%-10% while contributions are projected to decline by 6%-8%. The disparity is anticipated to result to a cash deficit of at least \$1.3 million in FY 2010 alone.

To ensure uninterrupted benefit payments, MISSA will have to dip into its Trust Fund, possibly as early as December of this year. This may be our first cash drawdown since 2001 and after the administration of the Health Fund was transferred to the Ministry of Health in 2003.

As you are aware, the Administration's aggressive collection efforts in the past several years have directly benefited the Ministry of Health (MOH) as one third (1/3) of all contributions collected by MISSA goes to the Health Fund. From January 2004 through July 2009, MISSA has collected \$33.45 million or an average of \$5.84 million annually for the Marshall Islands Health Fund, while MOH has paid the Administration a total of \$840 thousand representing 3.5% collection fee for the first \$4 million collected every year as set forth in our Administrative Fee Agreement signed in 2003.

Of the \$1 million average administrative expenses MISSA spent annually, 68%-69% is comprised of salaries and benefits of the 31 employees working for the Administration, 4 (or 13%) of whom are directly connected with the Retirement Fund, while the remaining 27 personnel are performing functions for both Retirement and Health Funds. If we apply proportionately the cost of salaries and benefits, it will translate to about \$200,100 being the share of MOH per annum. This does not include the \$103,300 additional annual share of MOH for other administrative costs like legal fees, utilities, equipment and supplies. This calculation provided us with the basis for our increase.

For your reference, we have attached a copy of the current Administrative Fee Agreement between MOH and MISSA that was signed in 2003 and the proposed addendum for your review and approval.

Should you need further information, please don't hesitate to contact us.

Sincerely,

Saane K. Aho
Administrator



MISSA's financial performance in FY 2009

(based on unaudited financial statements for the fiscal year ending September 30, 2009)

The Administration's \$1.731 million investment gain in September virtually saved MISSA from the year-long rollercoaster ride of its offshore investments which dropped in value by as much as \$12.28 million in the first five months of FY2009. This resulted to a cumulative net investment gain of 2.04 million dollars for the twelve months ended September 30, 2009.

According to the latest (unaudited) financial report for the FY ended September 30, 2009 prepared by Sheryl Profeta, MISSA's Finance Manager, MISSA's net assets increased by \$2.6 million mainly due to other income comprised mainly of interest and dividends and the effect of the cumulative net increase of \$0.99 million in the fair market value of MISSA investments.

As of September 30, 2009, MISSA's net assets totaled \$65.8million, up by about \$2.6million or 4.12% from the start of the fiscal year.

Contributions for FY 2009 totaled \$13.5 million, net of bad debt expense of \$1.2 million. It surpassed MISSA's target of \$12.95 million and was 0.39% higher than the contributions of \$13.47 million in FY 2008.

Benefits continue to increase at an average rate of 8% and totaled \$13.55 million in FY 2009. The amount is \$1.1 million or 8.87% higher than the benefits paid in the previous fiscal year. The Administration's average monthly benefit payments amount to \$1.1 million.

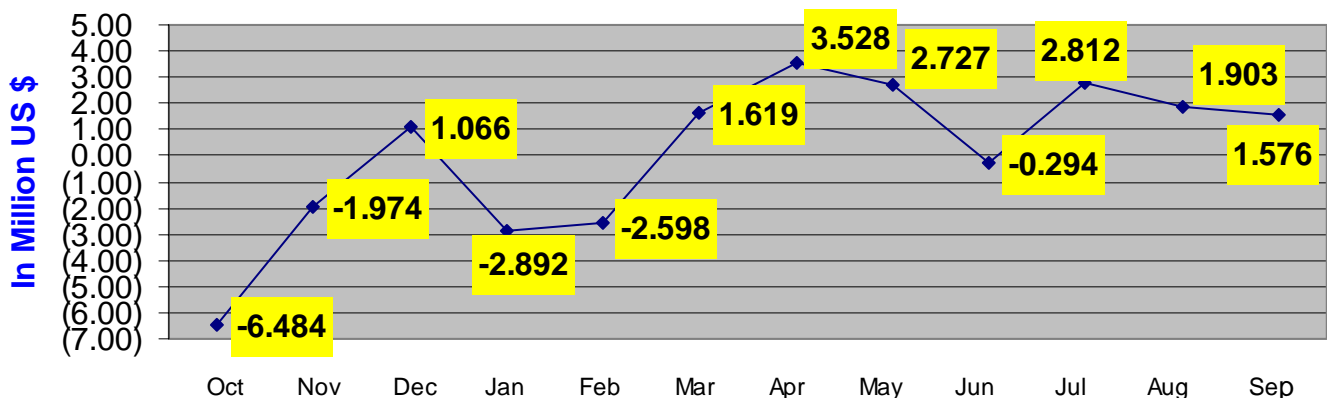
Total administrative expenses amounted to \$971 thousand and was \$291 thousand or 4.44% lower than the approved budget of \$1.16 million. It was also lower by \$170 thousand or 15% when compared to FY 2008 and represent 6.86% of total contributions. By law, MISSA may spend up to 20% of total contributions in administrative expenses.

Despite the growing imbalance between collections and benefits/administrative expenses, the Administration did not experience any cash flow problem in FY 2009. The main revenue drivers include the consistent timely remittances of the RMI Government and the prompt payments of MalGov on their monthly installments. The three major employers in Kwajalein, Chugach Corporation, KRS and AAFES also provided MISSA with the much needed contributions.

With the quarterly deadline (due on October 12, 2009) for the 4th quarter of 2009 fast approaching, the Administration remains optimistic that contributions will sustain the benefit payments and administrative expenses for the next three months. If collections fall short of what are expected, MISSA may pre-terminate its TCD held by a local bank to ensure uninterrupted benefit payments in the coming months.

In a related development, MISSA is the first government agency to have its books ready for audit by its external auditors for the fiscal year ended September 30, 2009. The Administration is confident that it will earn again an unqualified opinion from its auditors and another "no finding audit", a feat it achieved consistently since FY 2002.

Comparative monthly increase(decrease) in market value of MISSA Investments - FY 2009



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