TRIENNIAL REPORT

FYs 2014 - 2016

Marshall Islands Social Security Administration

The turning point

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TRIENNIAL REPORT

FYs 2014 - 2016

Marshall Islands Social Security Administration

The turning point

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Our Mission, Vision and Core Values

MISSION

To safeguard and sustain the financial stability of the Retirement Fund by operating within the guidelines of the law, complying to set policies and procedures, and adhering to the principles of governance and accountability.

VISION

To establish for the people of the Marshall Islands a financially sound social security system with pension benefits whereby workers would be ensured a measure of security in their old age and during disability, and surviving spouses and children of deceased workers would be ensured support after the loss of the family's income.

CORE VALUES

Governance	We just don't make decisions. We follow the best possible processes before making these decisions.
Accountability	We take ownership of our actions and remain liable to our mandate and constituents.
Stewardship	We act with an owner mentality and continually protect the well being of the majority.
Sustainability	We meet the needs of the present without compromising the ability of future generations to meet their own needs.
Integrity	We earn the public trust by good example and adherence to standards of conduct in our actions and decisions.
Competence	We engage people who can deliver what needs to be accomplished and create a big impact to the community.
Resilience	We persevere and remain resolute in the face of challenges and setbacks, and remain focused on our mission and vision.
Proactivity	We anticipate and act. We foresee imminent crisis and prepare in advance. We seek help with perseverance.
Prudence	We make decisions and act with due diligence and care.

The Fund's road to recovery…

Starting FY 2009 through FY 2016, benefit payments have exceeded contributions by an aggregate total of $29.2 million that left no other option to MISSA but to, first, liquidate its Time Certificates of Deposit (TCDs) of $3 million, and later withdraw $21.3 million worth of investments overseas or 41.3% of the total market value of MISSA's offshore investments as of the end of FY 2016, in order to maintain a positive cash flow.

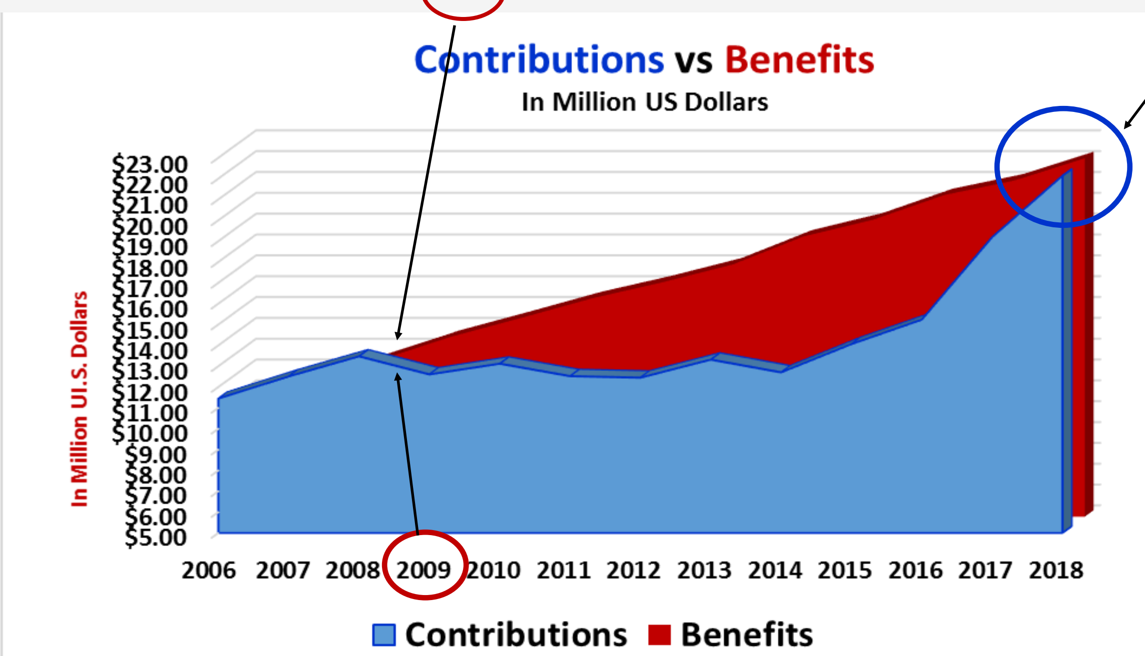
With the long-term financial viability of the Fund at stake, the Administration started to consider several option plans to narrow down the widening gap that resulted in cash shortfalls year after year.

In 2012, MISSA, together with its actuary presented to the RMI Cabinet the Administration's actuarial valuation report that reflected a funded ratio of 23% as of October 1, 2011. It was also made clear that by 2022, the Fund will be fully depleted if nothing is done to change the present system, assuming that the current trend in contributions and benefits will not change.

Consequently, MISSA initiated to reform the current system via Bill 43 which was introduced to the Nitijela in March 2013. Unfortunately, no action was taken by the legislators to pass the bill. However, this did not deter the Administration from seeking other options to save the Fund from early depletion. MISSA continued to seek the help of its consultant and actuary to calculate certain data and statistics and come up with different scenarios that will help in the determination of which option is best under the present situation.

The Pension Workshop held in Majuro and the creation of the National Task Force on Social Security by the Cabinet in 2015 marked the turning point to the Fund's recovery, although in the short and medium terms only. MISSA made use of the data provided by the actuary and collaborated with the Task Force to introduce Bill 47 (PL 2016-26) which was passed by the Nitijela on September 28, 2016. The effective date of the bill was later deferred and was replaced by Bill 75 (PL 2017-30). This will be discussed further in detail in the succeeding pages of this report.

In Million US $	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contributions	11.44	12.51	13.47	12.60	13.12	12.52	12.45	13.31	12.70	14.06	15.23	19.26	21.41
Benefits	11.02	11.65	12.55	13.65	14.55	15.48	16.25	17.11	18.45	19.26	20.43	21.12	21.87
Surplus (Deficit)	0.42	0.85	0.92	(1.04)	(1.43)	(2.96)	(3.81)	(3.79)	(5.75)	(5.20)	(5.20)	(1.86)	(0.46)



Note: Contributions in 2017 and 2018 include RMI Government appropriations of $3.3 million and $4 million, respectively.

Continuously striving to serve and protect our beneficiaries and stakeholders

THE FUND

"After a number of public and N unsuccessful and that bill

Foundation:

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of Marshall Islands (RMI), was established pursuant to RMI Public Law 1990-75 (the Social Security Act of 1990 or "the Act"), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (The Fund).

The Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family's income.

Additionally, MISSA is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program. Accordingly, MISSA established the Prior Service Trust Fund (PSTF) to account for activities under this program.

On March 6, 1991, the Nitijela passed Public Law 1991-118 (The Social Security Health Fund Act of 1991), as amended, which directed MISSA to administer the Marshall Islands Social Security Health Fund.

On April 11, 2002, the Nitijela passed Public Law 2002-57 to repeal the Social Security Health Fund Act of 1991 and to transfer the administration of the Health Fund to RMI's Ministry of Health (MOH). However, the formal turn over did not take effect until December 1, 2002, with MISSA's Deputy Administrator for Health Fund and its entire Medical Referral Team being absorbed by MOH.

Contributions to the Fund are governed by the Social Security Act of 1990, the last amendment of which was covered by Bill 75 or PL No. 2017-30 effective March 9, 2017 (the date when the Speaker signed the new law before the Clerk of the Nitijela), which imposes a tax on the quarterly income of every wage earner equal to eight percent of wages received. The maximum quarterly taxable wages is $10,000. Every employer is required to contribute an amount equal to that contributed by employees.

Retirement benefits are paid to every person who is a fully insured individual as defined by the Social Security Act of 1990, as last amended by Bill 75, has attained the following :

(i) age 60 prior to March 9, 2017
(ii) age 61 by March 9, 2017
(iii) age 62 by January 1, 2019
(iv) age 63 by January 1, 2021
(v) age 64 by January 1, 2023
(vi) age 65 by January 1, 2025

and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. Eligible children who are not married and are not working may also receive benefits until eighteen or up until age twenty-two, if in school. Eligible children who became disabled

" public hearings and consultations with the itijela, the reforms under Bill No. 43 were has since been eliminated."

before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 1990, benefits are paid monthly and are computed as follows:

a) Pension element - 2% of index covered earnings, plus;

b) Social element - 14.5% of the first $11,000 of cumulative covered earnings in excess of $11,000 but not in excess of $44,000. The $11,000 and $44,000 bend points may be increased from time to time by wage index adjustments granted by the Board of MISSA.

Due to the passage of Bill 75, the following benefit reductions have been enforced effective March 9, 2017.

Monthly Benefits		% of Reduction
From	To	
$ 1.00	$ 299.99	0%
$ 300.00	$ 399.99	5%
$ 400.00	$ 499.99	6%
$ 500.00	$ 599.99	7%
$ 600.00	$ 699.99	8%
$ 700.00	$ 799.99	9%
$ 800.00	$ 899.99	10%
$ 900.00	$ 999.99	10%
$ 1,000.00	$ 1,099.99	10%
$ 1,100.00	$ 1,199.99	10%
$ 1,200.00	$ 1,299.99	10%
$ 1,300.00	$ 1,399.99	10%
$ 1,400.00	$ 1,499.99	10%
$ 1,500.00	$ 1,599.99	10%
$ 1,600.00	$ 1,699.99	10%

To lessen the impact of the benefit cuts, the reductions have been phased in over a period of three years wherein 2/3 will be subsidized by the Government in FY 2017 and 1/3 in FY 2018. The entire 100% cut shall be fully enforced in FY 2019.

Other changes under Bill 75 are as follows:

- There will be no more early and deferred retirement starting March 9, 2017.
- Provisions on customary adopted child will be more stringent to ensure the long term sustainability of the Fund.
- "Earnings" was redefined to specify non-taxable earnings that include the following:

(i) payments made by the employer as a result of an accident or sickness of the worker (other than sick leave);

(ii) reimbursement of medical or hospitalization expenses;

(iii) payments made to or on behalf of the worker or his beneficiary from a trust or annuity;

"By 2008, the robust financial healt collections remain flat due to th unemployment rate while benefits increa

(iv) reasonable stipends paid to volunteers of religious organizations, NGOs; and schools;

(v) reasonable sitting fees for board members and elected officials;

(vi) earnings exempted by virtue of any international agreement to which the Republic of the Marshall Islands is a party;

(vii) reasonable per diem and travel allowances to the extent that they do not exceed any comparable Government rates;

(viii) rental housing allowance paid to an employee, not exceeding Two Thousand Two Hundred and Fifty ($2,250) per quarter provided it does not exceed three times the wages;

(ix) any payment in the form of scholarship, fellowship or stipend made to any employee while he is a full-time, bona fide student at an educational institution;

(x) earnings received by a minister of the gospel, or clergyman from a religious group or organization;

(xi) earnings received by an employee for services performed or rendered in the capacity if a domestic or household employee for a private individual or family;

(xii) reasonable session allowances for elected officials; and

(xiii) payments made in cash, or any form other than cash, for casual labor not exceeding one week in any month of a quarter if the work is not performed in the course of the employer's trade or business. For purposes of this Chapter, earnings shall be computed to the nearest cent;

(xiv) any payment to account of sickness or accident disability, or any payment of medical or hospitalization expenses, made by the employer, provided however, that normal wages or salaries paid to an employee for a period of time during which he is excused from work because of sickness shall not be excluded from wages and salaries under this paragraph; and

(xv) any payment made to or in behalf of an employee or to his beneficiary from a trust or annuity including distributions from qualified pension or deferred compensation plan trusts and annuities that are funded in whole or part by taxable wages.

Basis of Accounting:

MISSA is accounted for as a Fiduciary Fund Type – Private Purpose Trust Fund and prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

Financial challenges

By 2008, the robust financial health of the Fund started to deteriorate as collections remain flat due to the country's stagnant economy and high unemployment rate while benefits increased steadily at 5%-6% per year. In 2009, contributions could no longer sustain benefit payments forcing MISSA to use its cash reserves (TCDs) at a local bank to meet benefit payments on time. When the TCDs were used up in 2010,

***h of the Fund started to deteriorate as
he country's stagnant economy and high
sed steadily at 5%-6% per year."***

the Administration was forced to make a series of drawdowns from its foreign investments. By the end of FY 2012 investment withdrawals totaled $5 million while net assets have dropped to $72.9 million.

On March 18, 2013, Bill No. 43 was introduced in the Nitijela to provide for changes that will lead to further financial stability of the Fund by removing loopholes, increasing contributions from 7% to 9%, and decreasing benefits by approximately 22%. Failure to enact these amendments will cause depletion of the Fund within nine years as current contributions cannot cover benefits.

Unfortunately, after a number of public hearings and consultation with the public and Nitijela, the reforms under Bill No. 43 were unsuccessful and that bill has since been eliminated.

With no other source of funds, the Administration had no other option but to continue drawing down from its offshore investments in order to meet its benefit payments on time. As of September 30, 2014, MISSA's net assets dropped further to $72.3 million while total drawdowns reached $10 million.

In late 2014, MISSA started a series of consultative discussions with Wilshire Associates, a U.S. based consulting firm specializing in pension funds and investments. After months of actuarial and investment reviews, Wilshire presented several option plans which included a Plan Conversion Design from the current Defined Benefit (DB) System to a Defined Contribution (DC) Plan, setting up a maximum benefit for those who have received multiple times what they have contributed to the system, and increasing taxes while reducing benefits.

The Administration had also consulted over the years with a pension specialist from the International Monetary Fund.

One of the suggestions presented to MISSA was to adopt a new benefit formula for new retirees to be phased in over a period of 5 years with RMI Government appropriations for MISSA.

The Turning Point

In April 2016, the Pacific Financial Technical Assistance Center (PFTAC), in cooperation with the International Monetary Fund and the Bank of the Marshall Islands, sponsored a three-day social security pension workshop in Majuro. This was attended by representatives from the social security systems of the RMI, Palau and FSM, including Palau's Civil Service Pension Fund. MISSA's consultants from Wilshire and Investor Solutions were also present.

It was evident during the presentations that the three countries have similar financial challenges in its social security and pensions funds but the Governments of Palau and FSM were able to mitigate the impact of these

"It was evident during the presentati financial challenges in its social Governments of Palau and FSM were able through effective legislations and financial

challenges on a timely manner through effective legislations and financial assistance. This may have influenced the mindset of RMI legislators and triggered a series of government initiatives which resulted to the creation of the National Task Force on Social Security by the Cabinet.

The Task Force, composed of eleven representatives from the Cabinet, Nitijela and private sector together with MISSA Management and consultants, paved the way to the conceptualization of the MISSA Reforms Bill, also known as Bill No. 47 (PL 2016-26). The bill was passed on September 29, 2016 by the Nitjela, with the implementation date set for January 1, 2017.

Consequently, the Nitijela's Committee on Appropriations approved a $2.3 million government subsidy for MISSA for FY 2017. This provided the Administration with the much needed fiscal stimulus to remain operational, with only $1 million being withdrawn from its investments by the end of FY2016.

However, the new MISSA reforms continued to receive protests and criticisms from the public.

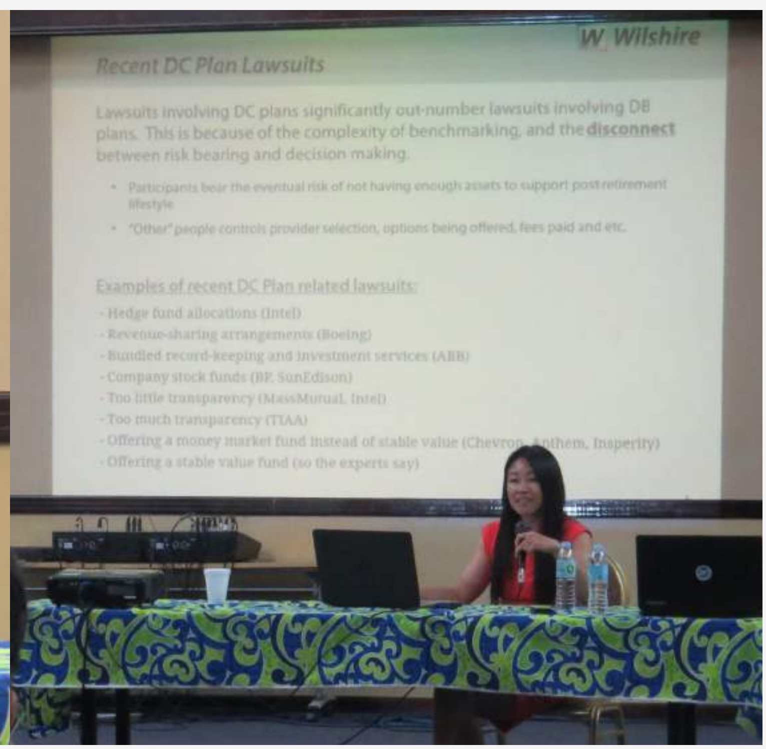
Events after September 30, 2016

On December 13, 2016, MISSA received $575,000 from the Ministry of Finance representing 25% of the $2.3 million subsidy appropriated by the RMI Government.

On January 4, 2017, Bill 54 was introduced and subsequently passed by the Nitijela which deferred the effective date of PL 2016-26 to March 6, 2017. The members of the MISSA Task Force met again a number of times and came up with the final MISSA reforms bill which ultimately became Bill 75.

On February 28, 2017, Bill 75 was enacted into law (PL 2017-30) but was only certified by the Speaker before the Clerk of the Nitijela on March 9, 2017. As per Nitijla's rules and regulations, the effective date of a new law is the date of the Speaker's certification.

In preparation for the final implementation of the new law, MISSA's Tax Managers and Legal Counsel met with accountants and employers to clarify what retirement fund tax rate to be used for the quarter ending March 31, 2017. Should it be the new tax rate



ions that the three countries have similar / security and pensions funds but the to mitigate the impact of these challenges assistance. "

of 8% or the old rate of 7%?

As the MISSA system can only recognize one tax rate for the retirement fund in a quarter, MISSA management decided to effect a pro-rata calculation. Consequently, MISSA deemed it reasonable and fair to use 7.29% for the first quarter of 2017. For the 2nd quarter, there will be no more confusion as the new tax rate of 8% will be used.

On March 24, 2017, MISSA received $1,725,000 from the Ministry of Finance representing the remaining balance of the $2.3 million RMI subsidy for the Administration.

As the effective date of the new MISSA reforms was pushed back to mid-FY 2017, only half of the financial effects of the tax increases and benefit reductions will be realized in FY 2017. As a result, the Administration requested a supplemental budget from the RMI Government. Consequently, a Memorandum of Agreement was signed by the MISSA Board Chairperson and the Minister of Finance which will enable MISSA to receive another $1 funding in FY 2017. This was subsequently received by MISSA on July 20, 2017.

CHAIRPERSON'S MESSAGE

Saeko Shoniber
Board Chairperson

Dear Valued Stakeholders:

I am pleased to report that despite the difficult challenges we faced in the past three fiscal years, we were able to achieve most of our aggressive goals set for 2014 through 2016. A more detailed review of the Administration's financial performance is presented in the succeeding pages.

Fiduciary Role of the MISSA Board

The MISSA Board is aware that the Administration's investments are the main lifeline of the Retirement Fund. As stewards of your Fund, our aim is to be able to gain as much fundamental understanding of fiduciary responsibilities, knowledge and prudent practices for an effective investment portfolio oversight.

Managing MISSA's investment decisions is not an easy task especially for lay persons like us. To gain more knowledge about our fiduciary responsibilities, the MISSA Board, including senior managers have attended a series of in-depth investment training courses that provided the essentials for trustees like us on how we can improve our understanding of our role as prudent fiduciaries. These trainings also covered all of the components of a comprehensive investment process and best practices. These trainings have provided us with unique overviews of the following areas:

- Fiduciary standard of care
- Investment Policy Statements (IPS)
- Key documentation for fiduciary purposes
- Self-assessment of Fiduciary Excellence
- Monitoring investments on an on-going basis

We are currently in the process of a Level-1 "self-assessment" (Self-Assessment of Fiduciary Excellence, or SAFE) to analyze how well our investment portfolio meets the Global Standard of Fiduciary Excellence as defined by the Center for Fiduciary Studies. After this process, we can quickly assess our understanding of and compliance to a fiduciary standard of care.

After SAFE, we will proceed with Level-2 Assessment known as a Consultant's Review of Fiduciary Practices (CRFP), that will provide a more detailed analysis of the Investment Steward's practices. The CRFP will be conducted by one of the leading fiduciary training and resources organizations in the U.S.

Investment Decisions

Since we acquired the services of our current Investment Advisor in 2002, MISSA's investments have grown steadily over the years despite the market downturn in 2008 when MISSA lost more than $8 million. From $23.71 million in late 2002, the market value of MISSA's investments soared to $52.93 million by September 30, 2015 despite the $14.5 million drawdowns from the Fund in the same period, and with a 7.59% time weighted return net of management fees. During these period, MISSA has maintained a 60% equity and 40% fixed income asset allocation in its portfolio. But because of the massive withdrawals and the expectation that no immediate government financial assistance is on the way, the Board, upon the recommendation of the Investment Advisor, decided to a more conservative and safer asset allocation to counter any investment slump in the near future.

On December 29, 2015, the members of the Board unanimously approved a change in its Investment Policy Statement (IPS), authorizing to change the asset allocation to 30% global equity and 70% fixed income.

When the National Task Force on Social Security was created in mid 2016, the tide turned in favor of MISSA. With high hopes that the social security reforms that MISSA had been pushing in the past several years will be approved by the RMI legislature and with much certainty that the Government's subsidy is finally coming, the Board decided to aim for a healthier equity position and higher return by reverting to its previous 60%

> ***"From $23.71 million in late 2002, the market value of MISSA's investments soared to $52.93 million by September 30, 2015 despite the $14.5 million drawdowns from the Fund in the same period, and with a 7.59% time weighted return net of management fees."***

equity and 40% fixed income.

On August 18, 2016, the Board approved a revised IPS that effected the 60/40 asset allocation.

Legislations critical to MISSA's financial viability

When benefit payments surpassed revenues in 2009, the MISSA Board and management started to formulate action plans to bridge/narrow the gap. In 2012, our actuary presented to the RMI President and Cabinet a proposed plan design to rehabilitate the Fund, as the result of the recent actuarial valuation revealed that if no changes are made to the present System and with the present economic trend in the country, the Fund will be fully exhausted in the next 8 years.

MISSA had also engaged a local economist to conduct a study on the RMI economy and lending market and the impact on the RMI social security system. As expected, the result was just a confirmation of the report by the MISSA actuary. Both reports have something in common: it reflected the grim reality that the Fund is in great danger and that something drastic needs to be initiated by the Administration.

In 2013, Bill 43 was introduced to provide for changes in the Social Security Act of 1995 that will lead to further financial stability of the Fund by removing loopholes, increasing contributions from 7% to 9%, and decreasing benefits by approximately 22%. Unfortunately, no action was done by the Nitijela.

National Task Force on Social Security

Despite the setback on Bill 43, MISSA persevered and continued to seek the attention of the Government and legislators. After the successful "Pension Forum" held in Majuro in April 2016 that was attended by the social security systems of the RMI, Palau and FSM and the Palau Pension Fund, the Government finally took action. The Cabinet created the eleven-member "National Task Force on Social Security" which was tasked to come up with a concrete plan to restore the financial health of the Retirement Fund. By the end of FY 2016, Bill 47 (which later became Bill 75), was passed by the Nitijela. The rest was history. With the new reforms law in place and with more optimism that the Government will continue to appropriate a reasonable budget for MISSA in the coming years, the financial outlook of the Fund now looks more promising than before.

Acknowledgment

On behalf of the MISSA Board, I would like to say "komol tata" to President Hilda Heine, the Cabinet and the Nitijela members who have made a critical decision to pass an unpopular bill in favor of MISSA and its future sustainability. We are very thankful that despite the public's outcry and the unfavorable financial impact to you and your family as contributors to the Fund and being beneficiaries as well, you have selflessly acted positively on something necessary and imperative under the present circumstances.

Likewise, I would like to thank the noble men and women behind Bill 75 (PL 2017-30), the honorable members of the "Task Force", namely: Min. Brenson Wase (Chairman), Sen. David Paul (Vice-Chairman), and members, Min. Kalani Kaneko and Min. Alfred Alfred Jr., Senators Dennis Momotaro and Bruce Bilimon, Ms. Kathryn Relang, Ms. Marie Maddison, Mr. Russel Edwards, Mr. Nicolas Tibon and Legal Advisor, Asst. AG Jonathan Kawakami.

I would like also to mention the invaluable contributions of the IMF team that facilitated the Pension Workshop headed by Mr. Ronald Hackett, our consultants and actuary from Wilshire and investment advisors from Investor Solutions, Inc.

Lastly, on behalf of the MISSA Board, I would like to recognize the main driving force behind MISSA's successes since she joined the Administration in 2000, Administrator Saane K. Aho. Her invaluable involvement in all aspects of MISSA operations and able leadership led to MISSA's receiving an unprecedented 15 consecutive years of A+ rating for "no-audit findings" from our external auditors.

In closing, I would like to continue to solicit the support of the people of the Marshall Islands. MISSA is aware of the painful economic impact that the new law will bring to your families. But please bear in mind that this move will be more beneficial to everyone of us in the long-term. This short term sacrifice will bring long lasting gain for the next generations of beneficiaries.

Saeko Shoniber
Board Chairperson

CHIEF EXECUTIVE's REPORT

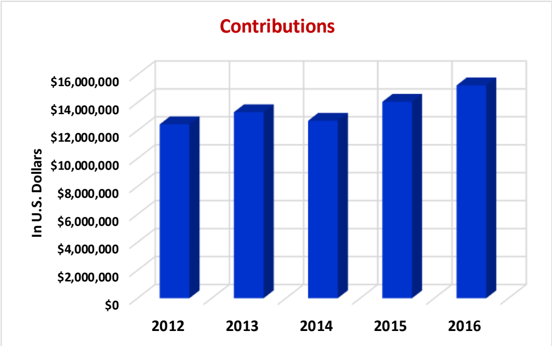
Saane K. Aho
Administrator & CEO

To the people of the Marshall Islands:

It is with honor and pride that I present to you the Administration's accomplishments in the past three fiscal years.

REVENUES

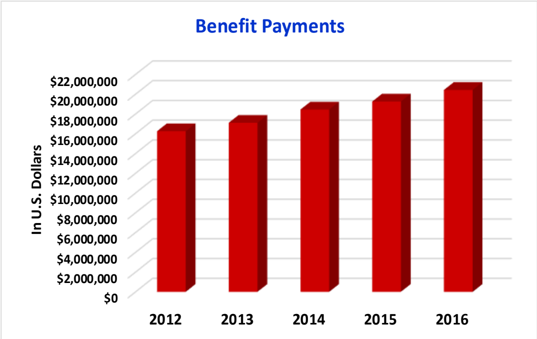
Contributions have grown steadily from a low of $12.70 million in 2014, $14.06 million in 2015 and an unprecedented high of $15.23 million in 2016. This was the result of the concerted efforts of MISSA's Tax Compliance Officers and Legal Counsel who joined hands to go after delinquent taxpayers who either settled their obligations through affordable payment plans or court judgments after cases were filed against them. Our Tax Auditors have also recovered hundreds of thousands of dollars in tax deficiencies resulting from their payroll audits.



The Ministry of Finance's (MoF) timely bi-weekly remittances of the government employees' contributions have favorably impacted MISSA's cash flow. It was also through the MoF that the tax on the land lease that was assigned to MISSA by a local government owing millions of dollars to the Administration and the RMI subsidy that was also assigned to MISSA by a state owned enterprise have been paid regularly. Government employees represent about 45.6% of the estimated 12,700 workers and self-employed individuals contributing to the system.

BENEFITS

As the gap between contributions and benefit payments widened over the years, the Administration felt that it is imperative to put stiffer rules on eligibility requirements. The more stringent benefit screening being undertaken by MISSA in the past three years gradually reduced our benefits from 8% in 2014 to 5% and 6% in 2015 and 2016, respectively. Benefit payments totaled $18.45 million, $19.26 million and $20.43 million in FYs 2014, 2015 and 2016, respectively. Total beneficiaries increased steadily from 4,513 in FY 2014 to 4,690 and 4,905 in FYs 2015 and 2016, respectively. On average, MISSA receives about 17-18 applications for retirement, disability, survivor and lump-sum benefits every month.



INVESTMENTS

Both local and offshore investments performed exemplary well in the last 3 fiscal years. MISSA's shareholding in a local bank increased by $1.2 million in FY 2014, and another $1.2 million and $1.1 million in FYs 2015 and 2016, respectively. As of

"Considering that time is of the essence, the National Task Force on Social Security, together with MISSA and its consultants, opted for a temporary fix which is more affordable to the contributors and less burdensome to the beneficiaries. Thus, Bill 75 (a.k.a. P.L. 2017-26) was enacted."

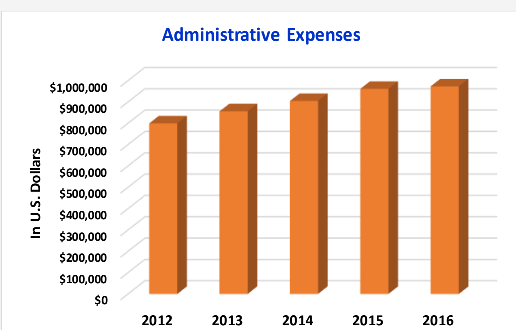
September 30, 2016, MISSA held about 37% in equity shares of the Marshall Islands Holdings, Inc., the holding company of the Bank of the Marshall Islands. Its book value now stands at $14.5 million.

Likewise, MISSA's offshore investments have increased in market value by $4.85 million in the last three fiscal years that resulted to a time weighted return (net) of 2.85% in the same period.

As of the end of FY 2016, MISSA's total investments totaled $63.8million despite the $15.3 million investment withdrawals made by MISSA.

ADMINISTRATIVE EXPENSES

By law, the Administration is allowed to spend up to 20% of contributions in any given year. But MISSA is governed by its ethical principle that administrative expenses should not go beyond what is necessary and reasonable. For FYs 2014, 2015 and 2016, actual administrative expenses amounted to only $904,390 (7.12%), $961,119 (6.84%) and 972,878 (6.39%) , respectively. Since 2000, MISSA's administrative expenses never exceeded 9% of contributions due to cost cutting measures being enforced by management.



MISSA REFORMS

It has always been the aim of the Administration to look for a long-term solution to MISSA's financial dilemma. However, under the present circumstances, substantial government appropriation, additional tax increase, more severe benefit cuts, and radical amendments to the current system are necessary to achieve it. Considering that time is of the essence, the National Task Force on Social Security, together with MISSA and its consultants, opted for a temporary fix that is more affordable to the contributors and less burdensome to the beneficiaries. Thus, Bill 75 (a.k.a. P.L. 2017-30) was enacted, with the following highlights:

* The maximum taxable wage cap previously at $5,000 per quarter or $20,000 per annum was increased to $10,000 per quarter or $40,000 per annum. This will increase annual contributions by $1. million.
* The Retirement Fund rate was increased by 1% (from 7% to 8%) for both employee and employer contributions. This will further increase revenues by $1.9 million. However, the current 3.5% contribution rate for Health Fund will remain the same.
* Benefits were reduced for those receiving $300 or more per month, with cuts ranging between 5% to 10%. This will generate a savings of $1 million every year. A maximum benefit of $1,200 per month was set for those retiring on March 9 and onward while current beneficiaries will have a maximum benefit of $1,600 per month.
* There will be no more early and deferred retirement starting March 9, 2017.
* Current retirees will still be covered by earnings test until age 62. For new retirees starting March 9, 2017 and onward, the earnings test will be applied up to age 65.
* ***The old age retirement benefit is redefined. A person shall be eligible to receive normal retirement old age benefits as follows:***

  At age 61 by March 9, 2017
  At age 62 by January 1, 2019
  At age 63 by January 1, 2021
  At age 64 by January 1, 2023
  At age 65 by January 1, 2025
* The RMI Government will subsidize 1/3 of the benefit cuts in FY 2017 and 2/3 in FY 2018. 100% of the benefit reduction will be absorbed by the beneficiaries in FY 2018.
* Provisions on customary adopted child will be more stringent to ensure the long term sustainability of the Fund.
* "Earnings" was redefined to read as follows:

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from our external audi
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have led to fraud or fiscal irregularitie

"Earnings" means compensation of any kind, including without limitation any salary, wage, bonus, tip, allowance or fee, paid by the employer to or on behalf of the worker in cash or in any other form, ***but not including***:

(i) payments made by the employer as a result of an accident or sickness of the worker (other than sick leave);

(ii) reimbursement of medical or hospitalization expenses;

(iii) payments made to or on behalf of the worker or his beneficiary from a trust or annuity;

(iv) reasonable stipends paid to volunteers of religious organizations, NGOs; and schools;

(v) reasonable sitting fees for board members and elected officials;

(vi) earnings exempted by virtue of any international agreement to which the Republic of the Marshall Islands is a party;

(vii) reasonable per diem and travel allowances to the extent that they do not exceed any comparable Government rates;

(viii) rental housing allowance paid to an employee, not exceeding Two Thousand Two Hundred and Fifty ($2,250) per quarter provided it does not exceed three times the wages;

(ix) any payment in the form of scholarship, fellowship or stipend made to any employee while he is a full-time, bona fide student at an educational institution;

(x) earnings received by a minister of the gospel, or clergyman from a religious group or organization;

(xi) earnings received by an employee for services performed or rendered in the capacity if a domestic or household employee for a private individual or family;

(xii) reasonable session allowances for elected officials; and

(xiii) payments made in cash, or any form other than cash, for casual labor not exceeding one week in any month of a quarter if the work is not performed in the course of the employer's trade or business. For purposes of this Chapter, earnings shall be computed to the nearest cent;

(xiv) any payment to account of sickness or accident disability, or any payment of medical or hospitalization expenses, made by the employer, provided however, that normal wages or salaries paid to an employee for a period of time during which he is excused from work because of sickness shall not be excluded from wages and salaries under this paragraph; and

(xv) any payment made to or in behalf of an employee or to his beneficiary from a trust or annuity including distributions from qualified pension or deferred compensation plan trusts and annuities that are funded in whole or part by taxable wages.

WAY FORWARD

With the reforms law taking effect starting May 9, 2017, MISSA is now looking forward to continuing its collaboration with the National Task Force on Social Security and continue to seek further options to narrow down the gap between contributions and benefits.

MISSA has reiterated many times that the new law is only aimed at addressing the short and medium term cash flow of the Administration and does not guarantee a long-term solution to the Fund's financial viability. Without further changes to the new system, MISSA's cash flow will eventually end up with another deficit in the coming fiscal year.

Estimated revenues for FY 2017	$14,000,000
Estimated benefits for FY 2017(before Bill 75)	(21,000,000)
Administrative expenses for FY 2017	(1,000,000)
Deficit	(8,000,000)
Effect of Bill 75 (6 months and 3 weeks)	2,250,000
Subsidy (2/3 of benefit reduction) to be shouldered by MISSA	(666,667)
FY 2017 Appropriation	2,300,000
Supplemental budget for FY 2017	1,000,000
Investment withdrawal in Dec. 2016	1,000,000
Deficit	($2,116,667)

MISSA has started to focus on new option plans to be presented to the National Task Force and Nitijela for further legislation. Upon request of MISSA management, Wilshire Associates (MISSA consultant and actuary) has completed an "Experience Study" to compare the turnover, retirement and mortality assumptions used in the October 1, 2014 valuation

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t lapses in internal control that may
s within our organization. "

with actual plan experience from 2011 through 2016 (see more details on page 26).

Further, MISSA is also considering doing a comprehensive review of the following areas:

* Survivor benefits;
* Increase in minimum quarterly earnings for inclusion in the Social Security program to $750;
  * Change in the requirements to be considered fully eligible:
  * Increase in the number of minimum number of quarters required from 12 to 20 quarters, and
  * Increase in the number of quarters required from 38 to 50 quarters.

MISSA is also considering the establishment of a maximum benefit for those who have received multiple times what they have put into the system. This was based on the actuary's report that about 90% of present beneficiaries have received more than what they have contributed. Another option being studied in the past is the conversion of the present defined benefit plan to a defined contribution scheme.

We will also consider the option of amending the provision on non-citizen beneficiaries overseas who currently are required to report to MISSA every six months in order to continue receiving their benefits. Under existing law, "unless modified by a totalization agreement, no more than 6 months of benefit payments shall be paid to any beneficiary who is not a citizen of the Marshall Islands, Republic of Palau, Federated States of Micronesia and the United States of America, while the beneficiary has been outside the country."

It is always the Administration's desire to reach for long-term solutions to prevent further depletion of the Retirement Fund and the best recourse is to correct certain flaws in the system, more particularly on benefits. A five year cash projection of MISSA revealed that the Administration will need at least $24 million from the Government if no further reforms to the new system is implemented. Without government appropriation in the coming years, it is imminent that the Fund will be fully depleted by continuous investment withdrawals.

ACCOUNTABILITY

For the fifteenth year in a row MISSA has received an A+ rating from our external auditors, without any questioned costs, issues of overspending nor significant lapses in internal control that may have led to fraud or fiscal irregularities within our organization. Our budgetary process has always been prudently scrutinized by the Board and senior management while our costs and expenses are kept at sparing levels constantly.

ACKNOWLEDGMENT

Since I joined the Administration in 2000, MISSA has moved forward in leaps and bounds and was able to overcome difficult challenges through the years, especially during the last three fiscal years. These successes would not have been achieved without the unceasing support and guidance of the MISSA Board.

I also want to give recognition to the MISSA management and staff who may just be ordinary workers in the eyes of the public but their hardwork and passion for quality work and service is the driving force that made MISSA one of the top performing agencies in the country.

The enactment of the new MISSA law provided the much needed stimulus to prolong the life of the Retirement Fund even just for the short-term. This would not have been made possible without the resolve of the National Task Force on Social Security who worked tirelessly to come up with a more reasonable and fair option to address the immediate fiscal needs of MISSA despite strong opposition from the general

"The enactment of the new MISSA law provided the much needed stimulus to prolong the life of the Retirement Fund even just for the short-term."

public.

On a last note, I would like to say a heartfelt KOMOL TATA to President Hilda Heine, the Cabinet and Nitijela for your trust and confidence in our efforts and your continued support to the Administration. The timely budget appropriation given to MISSA enabled us to maintain a positive cash flow without further drawdowns from our investment, and your decisive move to pass Bill 75 was the turning point toward a new horizon for the Administration.

To my beloved countrymen, it is my fervent hope that you continue to collectively bear with us the difficult task of restoring the financial health of Marshall Islands Retirement Fund. At this point in time, we need to jointly carry the burden and endure the financial impact brought about by the recent social security reforms. It may be difficult in the short and medium terms but the sacrifices that we will endure will not only protect the next generation of beneficiaries of the Retirement Fund but will also sustain the long-term economic growth of the entire nation as well.

More difficult challenges may come across our way in the future but with your support and understanding, the Administration will pursue its mission with due diligence to ensure a measure of security in your retirement or during disability.

Kommol tata.

Saane K.Aho
Administrator

FIDUCIARIES

Saeko Shoniber
CHAIRPERSON
Member since 2000
Financial Consultant-Marshalls Electric Co., Majuro Water & Sewage System

Francis Carlos Domnick
VICE-CHAIRMAN
Member since 2012
CEO - Anil Development Corp., DAR Sales & Services

Brenda Alik
DIRECTOR
Member since 2012
General Manager - Marshall Islands Visitors Authority, Director - National Training Council

Alfred Capelle
DIRECTOR
Member since 2012
Chairman - RMI Customary Law and Language Commission

Mailyn K. Lang
DIRECTOR
Member since 2015
Secretary - Ministry of Health

Justina Langidrik
DIRECTOR
Member since 2015
Commissioner - Public Service Commission

Harden Lelet
DIRECTOR
Member since 2015
Special Assistant for RMI Affairs - Kwajalein Range Services

MANAGEMEN

Saane K. Aho
Administrator & CEO

Bill joseph
Deputy Administrator & COO

Avelino Gimao Jr.
Deputy Administrator & CFO

Amelia Timon
Finance Manager

Newton Matthew
Chief Accountant

Bryan Edejer
Tax Compliance Manager

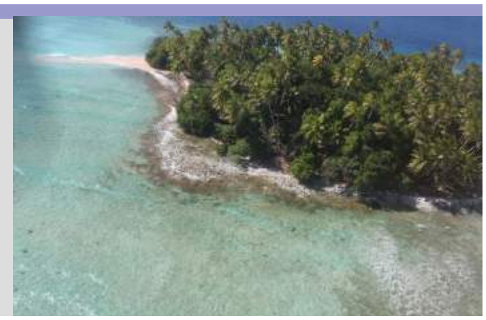
Mathilda Lanwi
Tax Audit Manager

Brad Lamille
Claims & Benefits Manager

Ivy Langbata
I. T. Manager

Bernadette Lojkar-Kabua
Ebeye Branch Manager

NT and STAFF



Antonio Rear
Accountant

Almitha McKay
Tax Compliance Supervisor

Stephen Tarbwilin
Claims Specialist

Velma Kisino
Sr. Admin. Asst.

Rooney Milne
Tax Compliance Supervisor-Ebeye

Ruthann Korean
Treasury Supervisor

Rotis Jitiam
I.T. Staff

Priscilla Joab-Baso
Registration Clerk

Pauline deBrum
Admin. Assistant-Ebeye

Martha Korok
Admin. Asst./Internal Auditor

Diana Jekkar
Tax Officer

Krystal Muller
Tax Auditor

Jenia Mejina
Customer Service Rep.

Johnny Latdrik
Tax Officer

Rozena Tonyokwe
Tax Auditor

Catherine Jibaiur
General Custodian

Damien John
Logistics Support

Liston Lorennij
Security Staff

Danny Lewis
Security Staff

Rusin Jatios
Logistics Support-Ebeye

EMPLOYEE DIRECTORY

Saane K. Aho .... Administrator & CEO

RETIREMENT AND OPERATIONS DIVISION

Bill Joseph .... Deputy Administrator & COO

CLAIMS AND BENEFITS DEPARTMENT

Brad Lamille .... Claims & Benefits Manager
Stephen Tarbwilin .. Claims & Benefits Specialist

ADMINISTRATION DEPARTMENT

Velma Kisino .... Senior Administrative Assistant
Catherine Jibaiur General Custodian
Damien John .... Logistics Support
Danny Lewis .... Security Guard
Liston Lorennij .... Security Guard

EBEYE BRANCH OPERATIONS

Bernie L. Kabua .... Branch Manager
Rooney Milne ...... Tax Compliance Supervisor-Ebeye
Pauline deBrum .. Administrative Assistant
Rusin Jatios .... Logistics Support

CORPORATE SERVICES DIVISION

Avelino Gimao Jr. .... Deputy Administrator & CFO

FINANCE DEPARTMENT

Amelia Timon .... Finance Manager
Newton Matthew ...... Chief Accountant
Antonio Rear .... Accountant
Ruthann Korean .. Treasury Supervisor
Priscilla Baso ..... Registration/Treasury Clerk
Jenia Mejina .... Customer Service/Treasury Clerk
Ivy Langbata .... I.T. Manager
Rotis Jitiam .... I.T. Clerk

TAX COMPLIANCE DEPARTMENT

Bryan Edejer .... Tax Compliance Manager
Almitha Clement . Tax Compliance Supervisor
Diana Jekkar .... Tax Officer
Johnny Latrik ...... Tax Officer

TAX AUDIT DEPARTMENT

Mathilda Lanwi .... Tax Audit Manager
Krystal Muller ...... Tax Auditor
Rozena Tonyokwe .. Tax Auditor

INTERNAL AUDIT DEPARTMENT

Martha Korok .... Internal Auditor/Admin. Asst.

PERSONNEL & PUBLIC INFORMATION DEPARTMENT

Avelino Gimao Jr. .... Personnel/Public Info. Officer

ORGANIZATIONAL MATRIX

Board of Directors

Administrator & CEO

Investment Advisor

Legal Counsel

Fund Custodian

Internal Auditor

Operations

Corporate Services

Operations

Claims & benefits

- Eligibility evaluation
- Benefit calculation & payment
- Verification of living beneficiaries
- Screening of continued eligibility for surviving families & non-citizens
- Medical reexamination
- Prior Service Trust Fund (PSTF)

Internal admin. & operations

- Benefit file management
- Retiree allotments & insurance
- Building maintenance
- Procurement
- Logistics support
- Janitorial services & housekeeping
- Security

Ebeye branch operations

- Finance
- Internal administration

Corporate Services

Controllership

- Corporate planning
- Budget
- Financial analysis & reporting
- Investments
- System, policies & procedures

Finance

- Accounting
- Payroll
- Non-benefit payments
- Asset management
- Treasury & cash management
- Customer service
- New member registration
- Benefit distribution
- External audit

Information technology

- System development
- Computer network operations

Tax compliance

- Data entry
- New employer registration
- Payment plans & collection
- Employer records
- Legal referrals
- Tax assessments
- Employer information & file security
- Tax information awareness

Employer payroll audit

- Verification of payroll records
- Tax assessment

Human resource management

- Recruitment & termination
- Performance evaluation
- Pay plan & job leveling
- Training & development
- Rewards & employee benefits

HIGHLIGHTS

Key Performance Indicators

	2012	2013	2014	2015	2016
Active Contributors					
Workers	11,097	11,539	11,409	11,456	11,986
Employers	629	647	665	651	671
Contributions	$12,447,381	$13,313,876	$12,701,609	$14,058,434	$15,232,081
Number of beneficiaries					
Retirement	2,004	2,064	2,188	2,329	2,443
Disability	1,993	2,017	2,063	2,071	2,141
Survivor	128	129	138	148	173
Lump sum	105	99	124	142	148
Total	4,230	4,309	4,513	4,690	4,905
% of increase in beneficiaries	1.98%	1.87%	4.73%	3.92%	4.58%
Benefit payments					
Retirement	$ 9,813,768	$10,585,297	$11,373,370	$12,006,633	$12,821,783
Disability	$ 5,453,080	$ 5,617,160	$ 6,083,229	$ 6,271,549	$ 6,574,036
Survivor	$ 829,921	$ 799,487	$ 791,656	$ 812,813	$ 831,539
Lump sum	$ 155,424	$ 105,726	$ 199,288	$ 170,641	$ 205,965
Total	$16,252,193	$17,107,670	$18,447,543	$19,261,636	$20,433,323
% of increase in benefits	4.97%	5.26%	7.83%	4.41%	6.08%
Administrative expenses	$ 799,218	$ 855,893	$ 904,390	$ 961,119	$ 972,878

Record high contributions of **$15.23 million in FY 2016**; 3-year revenues of **$41.99 million**, or an average of **$14.0 million** per fiscal year.

Offshore Investment income grew by **$4.43 million** in the last three fiscal years, with **2.85%** annual Net Time Weighted Return; market value totaled **$49.27 million** as of September 30, 2016.

Investment with a local bank yielded **$3.5 million** in additional equity plus **$1.3 million** cash dividends in the last three fiscal years;

Benefit payments increased from **$17.11 million** in FY 2013 to **$20.43 million** in FY 2016 or **19.44%** in 3 years; **6.48%** average yearly growth in the past 3 fiscal years.

Investment drawdowns totaled **$15.3 million** in the last three fiscal years.

Administrative expenses grew at sparing levels, from **$0.85 million** from FY 2013 to **$0.97 million** in FY 2017 .

FYs 2014 - 2016 IN REVIEW

Membership

As of September 30, 2016, MISSA's estimated number of registered members is approximately 78,900 individuals, comprised of active contributors, past contributors who may have died, retired or are no longer actively employed, foreign workers who left RMI permanently, students and survivors of deceased workers.

Active contributors

Between FYs 2012 and 2015, the number of workers and self-employed individuals whose tax contributions have been filed and paid almost flattened at an average of 11,375 individuals. But at the close of FY 2016, it went up to 11,986 resulting to an increase of about 5.4%. This increase in the number of workers was not only the result of additional employment opportunities in FY 2016, (construction business in particular) but rather, was caused also by improved cash flows of a number of private employers who failed to pay on time in previous fiscal years and who opted to enter into installment agreements with MISSA to pay off their taxes. As a matter of MISSA policy, the contributions will only be credited to the individual wage earners after the total amount due for the quarter is paid in full.

Tax compliance

Our Tax Compliance Officers together with our Tax Auditors have always been on the forefront of our aggressive collection campaign. In the last three fiscal years, we have filed more than 70 delinquency cases in court and all of these cases have been decided in favor of MISSA. Likewise, our Tax Auditors have collected about $2.4 million or 85% of the $2.8 million tax deficiencies discovered since our Tax Audit Department was established in 2006.

As of the quarter ended September 30, 2016, there are approximately 671 employers actively in operation - 549 are located in Majuro while the rest are in Kwajalein Atoll and other outer-islands. About half of the employers are small mom and pop stores employing one or two workers.

The RMI Government remains as the top employer, paying an average of $6.64 million annually (both retirement and health fund contributions) which represents around 30% of total contributions being collected by the Administration.

Claims and benefits

As the gap between revenues and benefits continue to widen, MISSA has resorted to more stringent benefit screening procedures to ensure that only eligible applicants were granted benefits. For FYs 2014, 2015 and 2016, we have approved 204, 177 and 215 claims, respectively which translates to 4.73%, 3.92% and 4.58 % annual increases, respectively. The average annual benefit increase in terms of approved claims in the last three fiscal years is 4.61%.

Net assets

The net assets of the Administration were significantly

“The market value of ou by $4.85 million in $15.3 million drawdowns made resulted to a 3-year time weighte

impacted by the series of investment withdrawals in the last three fiscal years. As of the start of FY 2014, MISSA’s net assets were worth $72.99 but it dropped by more than 10% in value (or $7.4 million), to $65.61 million by September 30, 2016 due to the $15.3 million drawdowns during the same period.

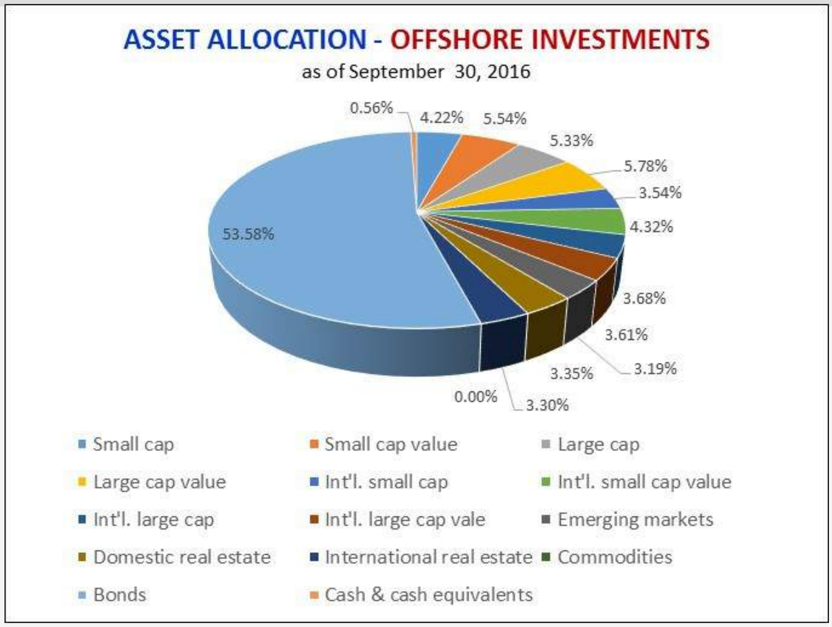
Cash flow

With a combined $41.99 million in revenues and $58.14 million in benefit payments plus $2.84 million in administrative expenses in the last three fiscal years, MISSA incurred an aggregate operating deficit of $18.99 million before investment gains and other income. In order to ensure uninterrupted benefit payments, the Administration has withdrawn a total of $15.3 million from its offshore investments during the same period.

Investments

The market value of our offshore investments have grown by $4.85 million in the last 3 fiscal years despite the $15.3 million drawdowns made during the same period. This resulted to a 3-year time weighted net return of 2.85%. Our local investment has performed exemplary well too, in the last three fiscal years and have grown by $3.5 million, plus another $1.3 million received by MISSA in the form of cash dividends.

FY 2017 Asset Allocation	Weight	Market Value ($'000)
Small cap	4.22%	$ 2,077
Small cap value	5.54%	2,727
Large cap	5.33%	2,626
Large cap value	5.78%	2,846
Int'l. small cap	3.54%	1,744
Int'l. small cap value	4.32%	2,130
Int'l. large cap	3.68%	1,813
Int'l. large cap vale	3.61%	1,780
Emerging markets	3.19%	1,574
Domestic real estate	3.35%	1,649
International real estate	3.30%	1,627
Commodities	0.00%	-
Bonds	53.58%	26,398
Cash & cash equivalents	0.56%	276
Total	100.00%	$ 49,267



Excerpts from the market review by Investor Solutions (MISSA’s Investment Advisor)

“For September (2016), eight of eleven equity asset classes were positive with foreign accounts outperforming domestic. U.S. REITS lagged. Net performance was marginally positive.”

“The quarter saw all equity classes but U.S. REITS strongly positive with foreign market performing best with MSCI EAFE up 6.43 % and international small cap stocks faring even better. Domestic stocks also performed well with the S&P 500 returning 3.82% for the quarter and small cap stocks faring even better as the Russel 2000 finished up 9.05%. The outperformance of the Russell 2000 versus the S&P 500 by was the widest margin in several quarters. Investors were well rewarded for keeping the faith after the surprise Brexit vote.”

“The year to date performance saw every equity asset class positive with U.S. equities leading foreign developed markets, but emerging markets has been the best performer up 16.02% as measured by the MSCI EM index. REITS and International real estate continued their strong recent performance as investors searched for higher yielding assets.”

“Meanwhile, the global central bank initiative to prime the pump with easy money has the intended affect of holding interest rates at historically low levels. Zero is no longer the lower limit to interest rates as some countries have gone negative in an effort to encourage banks to lend more money.”

r offshore investments have grown the last 3 fiscal years despite the during the same period. This d net return of 2.85%."

Health Fund

Despite the transfer of the administration of the Health Fund to the Ministry of Health (MOH), MISSA continued to collect the 3.5% Health Fund contributions on behalf of the MOH. In return, the Administration charges $50,000 as administrative fees every quarter. In the last three fiscal years, MISSA collected a total of $20.7 million in HF contributions.

New fiduciaries

On February 19, 2015, the Cabinet appointed a new set of stewards to continue its fiduciary role in managing the Marshall Islands Retirement Fund in the next three years. Mrs. Saeko Shoniber, a board member since 2000, was re-appointed as Chairperson of the seven-member Board of Directors. Previous board members Francis Carlos Domnick, Brenda Alik and Alfred Capelle were also re-appointed. The newly appointed members include Justina Langidrik (Chief Secretary), Mailyn Lang (MOH Secretary) and Harden Lelet (Special Assistant for RMI Affairs in Kwajalein).

Ebeye operations

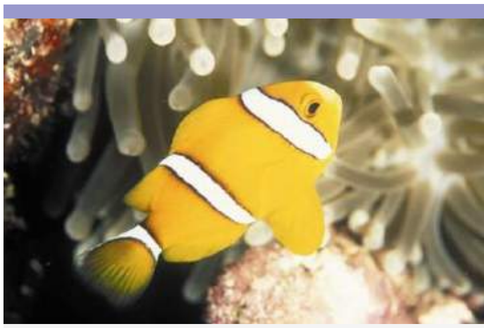
Since 1987, MISSA operates a branch in Ebeye, Kwajalein Atoll which has successfully collected an average of about $4 million every year for both retirement and health Funds. These contributions primarily came from the 3 major employers in USAKA namely: Kwajalein comprised of Chugach Management Services, Kwajalein Range Services and Army & Air Force Exchange Services, and 3 in Ebeye that includes KalGov, KAJUR and Triple J. Their combined contributions represent about 20% of MISSA's total annual collections.

Actuarial Valuation

In late 2015, MISSA engaged the services of Wilshire Associates to conduct its 9th actuarial valuation using data as of October 1, 2014. The main objectives of the valuation follow:

- Provide an estimation of the liability and market value of trust assets to determine the current funded status as of October 1, 2014
- provide a basis for any appropriate recommendations for changes in the current System.
- Provide cash flows to determine the System's sustainability.
- Provide information required to meet reporting requirements.
- Monitor the System's actual experience relative to the current actuarial assumptions.

All actuarial assumptions and methods were the same as those utilized in the prior valuation with two exceptions. The



“This is an indication that mortality rates when better reflect actual mortality experie in a lower life expectancy that is curre

investment income assumption was decreased from 7.5% to 4.5% to better reflect future investment returns. The salary scale was also decreased from 4% to 0% to better reflect future anticipated increases.

As of October 1, 2014, the total accrued liability of MISSA was $442.51 million using the investment income (discount rate) assumption of 4.5% and the market value of Trust assets was $72.37 million, resulting in an unfunded accrued liability of $370.14 million. If the discount rate assumption remain unchanged at 7.50%, the total accrued liability would be $300.49 million and the market value of Trust assets was $72.37 million, the resulting unfunded accrued liability would be $228.12 million.

When discussing the funded status of a retirement plan, a common benchmark is the funded ratio of the System which is calculated as the market value of Trust Assets divided by the accrued liability. The funded ratio as of October 1, 2014 is 16% using a 4.5% discount rate (or 24% using the prior 7.5% discount rate).

The accrued liability increased from 2013 to 2014 due to the change in assumptions. Without the changes, the accrued liability would have been $300.49 million.

	Valuation Date		
	1-Oct-2013	1-Oct-2014	1-Oct-2014
Accrued liability			
Workers earning benefits	$ 104,252,000	$ 97,188,000	$ 173,204,000
Retirees, spouses, children and disabled workers receiving benefits	187,931,000	181,029,000	232,785,000
Fully insured, inactive workers entitled to a benefit	31,457,000	22,275,000	36,521,000
Total accrued liability	323,640,000	300,492,000	442,510,000
Market value of assets	(72,988,000)	(72,367,000)	(72,367,000)
Unfunded accrued liability	250,652,000	228,125,000	370,143,000
Funded ratio	23%	24%	16%
Normal cost	N/A	2,274,000	4,961,000
Asset return	12.01%	3.21%	3.21%
Valuation interest rate	7.5	7.50%	4.50%

Experience Study

In preparation for another actuarial valuation MISSA engaged again the services of its actuary from Wilshire to conduct an experience study. In the study, MISSA provided Wilshire with annual census data as of October 1, the plan’s measurement date, for the six consecutive years from 2011 to 2016. The assumptions used for the baseline measurement are consistent with those used to develop the October 1, 2014 actuarial valuation results. The results of the study follow:

Mortality

The current mortality rates assumed are those from the Retirement Plans 2000 (RP-2000) mortality table published by the Society of Actuaries (SOA) based on U.S. population observations. The table below shows MISSA’s actual mortality experience, mortality rates from the RP-2000 table

Age	Actual Mortality Rates	RP-2000 Mnortality Rates	Ratio
<20	1.01	0.02	45.35
20-24	0.10	0.03	3.77
25-29	0.02	0.03	0.51
30-34	0.11	0.05	2.30
35-39	0.10	0.08	1.38
40-44	0.37	0.11	3.47
45-49	0.63	0.16	4.03
50-54	0.96	0.24	4.04
55-59	3.16	0.46	6.83
60-64	3.56	0.85	4.18
65-69	4.28	1.47	2.91
70-74	5.90	2.55	2.31
75-79	9.22	4.22	2.19
80-84	11.73	7.23	1.62
85-89	16.10	11.53	1.40
90-94	18.37	18.58	0.99
Total	4.85	1.81	2.67

and the ratio (“Ratio” column) in 5 year age brackets:

This table shows that the actual mortality rates overall is materially greater than the expected rates especially for ages 79 and under. This is an indication that it is prudent to use higher expected mortality rates when calculating the actuarial liability to better reflect actual mortality experience for the population. This will result in a lower life expectancy that is currently assumed.

Wilshire recommended using the following mortality rates for future valuation to better reflect actual plan experience:

it is prudent to use higher expected calculating the actuarial liability to nce for the population. This will result ntly assumed."

Age	RP-2000 Mnortality Rates	Proposed Mortality Rates	Ratio
<20	0.02	0.04	1.75
20-24	0.03	0.05	1.75
25-29	0.03	0.05	1.75
30-34	0.05	0.08	1.75
35-39	0.08	0.13	1.75
40-44	0.11	0.19	1.75
45-49	0.16	0.27	1.75
50-54	0.24	0.42	1.75
55-59	0.46	0.81	1.75
60-64	0.85	1.49	1.75
65-69	1.47	2.58	1.75
70-74	2.55	4.46	1.75
75-79	4.22	7.38	1.75
80-84	7.23	12.66	1.75
85-89	11.53	20.17	1.75
90-94	18.58	32.51	1.75

To not be overly aggressive with changes, the proposed mortality rates are 1.75 times the RP-2000 rates.

Holding everything else constant, increasing the mortality rates will lower the calculated liability and decrease the life expectancy to better match actual island mortality (71.3 years for males and 72.5 years for females based on the 2011 RMI census). As a comparison, using the unadjusted RP-2000 mortality rates, the implied life expectancy was approximately 80 years old.

Prior Service Trust Fund

The PSTF is a U.S. funded program that provides benefits to Micronesians with five or more years of service with the Naval Administration or Trust Territory Government prior to 1968. This program is controlled by a Trust Agreement between the U.S. Department of Interior and the four Trust Territory governments of the Commonwealth of the Northern Mariana Islands, Republic of Palau, Federated States of Micronesia and the Republic of the Marshall Islands.

Between FYs 2014 and 2016, a total of $232 thousand additional funding was received by MISSA from the PSTF office in Saipan which was used to pay for retirement and survivor benefits worth $276 thousand during the same period.

By the end of FY 2016, the U.S. Department of Interior, Office of Insular Affairs (OIA) awarded an increase in COLA for all existing PSTF beneficiaries. With the additional funds, the minimum benefit payment was raised to $50, retroactively award a 20% COLA to those above the new minimum, and provided a 3% annual COLA moving forward.

As of September 30, 2016, the Fund balance amounted to $$22,773 but another funding of $103,000 was received on October 18, 2016 which will help enable MISSA to cover benefits and administrative fees for the entire FY 2017.

MARSHALL ISLANDS
SOCIAL SECURITY ADMINSITRATION
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

MARSHALL ISLANDS
SOCIAL SECURITY ADMINISTRATION

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Years Ended September 30, 2016 and 2015
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Social Security Administration:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands, which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISSA as of September 30, 2016 and 2015, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Implementation of New Accounting Pronouncements

As discussed in Note 2 to the financial statements, MISSA adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* effective October 1, 2014.

Uncertainty Regarding Funded Ratio

As discussed in Note 8 to the financial statements, MISSA may be unable to meet its future benefit obligations.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of MISSA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Deloitte.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017 on our consideration of MISSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISSA's internal control over financial reporting and compliance.

Deloitte + Touche LLP

June 23, 2017

The following Management's Discussion and Analysis (MD&A) of the Marshall Islands Social Security Administration's (MISSA) financial performance provides an overview to the financial statements of MISSA for the fiscal years ended September 30, 2016 and 2015. Since the MD&A is designed to focus on current activities, resulting changes and current known facts, we encourage the readers to consider it in conjunction with the audited financial statements, which follow this section.

REQUIRED FINANCIAL STATEMENTS

MISSA, a component unit of the Republic of the Marshall Islands (RepMar), prepares its financial statements on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Statements of Fiduciary Net Position reflect all of MISSA's assets and liabilities and provide information on the nature and amount of investments available to ensure payment of retirement, survivor, disability and lump sum benefits. All additions to and deductions from the net position held in trust for retirement, disability, survivor and lump sum benefits are accounted for in the Statements of Changes in Fiduciary Net Position. This statement measures MISSA's performance over the past year in increasing or decreasing the net position available for future benefits.

FINANCIAL ANALYSIS OF MISSA

The Statements of Fiduciary Net Position on page 10 and the Statements of Changes in Fiduciary Net Position on page 11 provide an indication of MISSA's financial condition. While these statements measure the value of MISSA's net position and the changes to them, another important factor to consider in determining the financial health of MISSA is its actuarial funded status.

At the onset of FY 2016, the Administration's Fund Advisor has recommended an amendment to MISSA's Investment Policy Statement (IPS) to change its asset allocation from 60% global equity and 40% fixed income to 30% global equity and 70% fixed income in order to reduce the portfolio risk caused by MISSA's continuous drawdowns from the Fund. Subsequently, the MISSA Board approved the recommendation to safeguard the Fund from future market downturn, while expecting that the RMI Government will initiate drastic action to prevent the Fund from further depletion.

In April 2016, the Pacific Financial Technical Assistance Center (PFTAC), in cooperation with the International Monetary Fund (IMF) and the Bank of the Marshall Islands, sponsored a social security pension workshop in Majuro that triggered a series of government initiatives and resulted in the creation of the National Task Force on Social Security by the Cabinet. This team of eleven representatives from the Cabinet, Nitijela and private sector together with MISSA Management and consultants, paved the way to the conceptualization of the MISSA Reforms Bill, also known as Bill No. 47. Subsequently, it was passed in September 2016 by the Nitjela, although its final implementation was deferred to March 6, 2017. Consequently, the Nitijela's Committee on Appropriations approved a $2.3 million government subsidy for MISSA for FY 2017. This provided the Administration with the much needed fiscal stimulus to remain operational, with only $1 million being withdrawn from its investments by the end of 2016.

With renewed optimism, the MISSA Board decided to revert back MISSA's asset allocation to 60% global equity and 40% fixed income in August 2016. As of September 30, 2016, MISSA's investments outside the country totaled $49.27 million, which were lower by $3.66 million from last fiscal year due to drawdowns.

The latest actuarial valuation report indicated an unfunded Actuarial Accrued Liability (AAL) of $370 million or 84% as of October 1, 2014. It has increased by $119 million when compared with the $251 million unfunded AAL as of October 1, 2013.

As of September 30, 2016, MISSA's total net position held in reserve for future benefits amounted to $65.61 million. MISSA has no debt and did not have material activity in its capital assets. Please refer to notes to financial statements for additional information concerning these matters.

A summary of MISSA's Statements of Fiduciary Net Position as of September 30, 2016, 2015 and 2014 is presented below:

	2016	2015	2014
ASSETS:			
Cash	$ 970,364	$ 772,855	$ 986,958
Receivables, net:			
Contributions	1,951,979	1,784,736	1,825,889
Other	793,487	678,480	570,819
Investments:			
Cash Management	276,230	53,257	15,626
Stocks	18,832,721	18,530,271	18,518,418
Mutual funds	44,715,832	47,805,484	52,554,234
Fixed assets, net	65,112	72,652	86,151
Total assets	67,605,725	69,697,735	74,558,095
LIABILITIES:			
Accounts payable	80,118	82,144	55,412
Other liabilities and accruals	76,685	136,151	103,110
Due to affiliates	1,839,854	2,647,044	2,032,916
Total liabilities	1,996,657	2,865,339	2,191,438
NET POSITION:			
Held in trust for future benefits	$ 65,609,068	$ 66,832,396	$ 72,366,657

A summary of MISSA's Statements of Changes in Fiduciary Net Position for the years ended September 30, 2016, 2015 and 2014 is presented below:

	2016	2015	2014
Additions:			
Contributions	$ 15,232,081	$ 14,058,434	$ 12,701,609
Net investment income	4,699,755	264,911	4,787,186
Other	251,037	365,149	1,241,613
Total additions	20,182,873	14,688,494	18,730,408
Deductions:			
Benefit payments	20,433,323	19,261,636	18,447,543
Administrative	972,878	961,119	904,390
Total deductions	21,406,201	20,222,755	19,351,933
Change in net position	$ (1,223,328)	$ (5,534,261)	$ (621,525)

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in MISSA's report on the audit of its financial statements dated June 30, 2016. Such Management Discussion and Analysis explains the major factors impacting the fiscal year 2015 financial statements and can be obtained from MISSA's Administrator via the contact information on page 9.

Additions:

Like in previous years, the RMI Government has consistently paid its bi-weekly remittances on time which comprised 30.5% of total contributions. Despite the lack of new job opportunities in the country, contributions have increased from $14,058,434 in fiscal year 2015 to $15,232,081 the following fiscal year due to MISSA's continuous aggressive collection efforts.

The following table presents MISSA's investment allocations as of September 30, 2016 with comparative figures in 2015.

	As of September 30, 2016				As of September 30, 2015			
Investment Type	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**	**Weight**	**Target**	**Market Value ($'000)**	**Target Value ($'000)**
Small Cap	4.22%	2.40%	$ 2,077	$ 1,182	4.64%	4.8%	$ 2,454	$ 2,451
Small Cap Value	5.54%	3.75%	2,727	1,847	7.38%	7.5%	3,904	3,970
Large Cap	5.33%	3.45%	2,626	1,700	4.92%	5.4%	2,606	2,858
Large Cap Value	5.78%	3.90%	2,846	1,921	7.61%	7.8%	4,030	4,129
Int'l Small Cap	3.54%	2.25%	1,744	1,109	4.53%	4.5%	2,395	2,382
Int'l Small Cap Value	4.32%	2.70%	2,130	1,330	5.37%	5.4%	2,843	2,858
Int'l Large Cap	3.68%	2.25%	1,813	1,109	4.17%	4.5%	2,205	2,382
Int'l Large Cap Value	3.61%	2.70%	1,780	1,330	4.91%	5.4%	2,598	2,858
Emerging Markets	3.20%	2.10%	1,574	1,035	3.61%	4.2%	1,909	2,223
Domestic Real Estate	3.35%	2.25%	1,649	1,109	4.66%	4.5%	2,467	2,382
International Real Estate	3.30%	2.25%	1,627	1,109	4.60%	4.5%	2,433	2,382
Commodities	0.00%	0.00%	0	0	1.39%	1.5%	738	794
Bonds	53.58%	69.90%	26,398	34,437	42.11%	39.90%	22,296	21,119
Cash and Equivalents	0.55%	0.10%	276	49	0.10%	0.10%	53	53
TOTAL	**100%**	**100%**	**$49,267**	**$49,267**	**100%**	**100%**	**$52,931**	**$52,931**

The above allocations are based on the latest investment policy statement adopted by the Board of Directors on August 18, 2016 wherein MISSA's total investment portfolio requires an allocation of 60% for equities and 40% for bonds. Eight months earlier, the Board, upon the recommendation of MISSA's Fund Manager, approved a temporary asset allocation of 30% global equity and 70% fixed income ratio in order to reduce portfolio rick caused by the continuous investment withdrawals by MISSA.

With the exception of MISSA's investment in the Marshall Islands Holdings, Inc. (MIHI) and Marshall Islands Service Corporation (MISCo), all investments are limited to no-load mutual funds, unit investment trusts, Exchange Trade Funds, close-end mutual funds, and other diversified marketable securities.

For the year ended September 30, 2016, the fair market value of MISSA's investments in the U.S. and international markets decreased by $3.66 million due to drawdowns that totaled $6.8 million. Since 2010, total investment withdrawals amounted to $22.3 million. A total of $1.56 million in dividends and interest payments were received and subsequently reinvested. Investment management fees have decreased by 10.5% from $146,590 in 2015 to $131,161 in 2016.

MISSA presently holds a 38% interest in MIHI, a local holding company incorporated on February 27, 2013. On October 31, 2013, MIHI acquired all of the outstanding common stock of Bank of the Marshall Islands (BOMI). Prior to MIHI's acquisition of BOMI, MISSA owned 65,417 shares of stocks of BOMI valued at $10,959,846. On May 11, 2015 and April 27, 2016, MISSA received additional shares in the aggregate amount of 192 from MIHI, increasing MISSA's shares to 65,609 as of September 30, 2016. As of September 30, 2016, MISSA's interest at MIHI increased in value by $1.10 million representing MIHI's fiscal year equity earnings. Annual dividend payments of $458,902 were received from MIHI in December 2015 for calendar year 2016 and in December 2014 for calendar year 2015, respectively. As of September 30, 2016 and 2015, the shares at MIHI were valued at $14.53 million and $13.43 million, respectively. Furthermore, MISSA holds 3,000 shares of stocks at $10.00 par value of Marshall Islands Service Corporation, which is majority-owned by MIHI.

Deductions:

Deductions represent benefit payments and administrative expenses. For the year ended September 30, 2016, total deductions amounted to $21.41 million, which is 5.85% higher than the $20.22 million paid in the previous year. As more workers reach retirement age, benefit payments for fiscal year 2016 increased steadily by 6.08% to a total of $20.43 million as compared to $19.26 million paid in fiscal year 2015. Administrative expenses were maintained within the budgetary limit. For the years ended September 30, 2016 and 2015, MISSA's administrative expenses totaled $972,878 and $961,119 respectively. These amounts represent 6.6% and 6.5% of total contributions generated during these respective years. As mandated by the Social Security Act of 1990, MISSA's administrative expenses have an allowable ceiling of as much as 20% of total revenues for any given year.

FUTURE ECONOMIC OUTLOOK

After years of constant appeal for RMI Government intervention and consultation with pension experts in the Pacific region, MISSA was able to solicit the support of the Pacific Financial Technical Assistance Center (PFTAC), in cooperation with the IMF's Expenditure Policy Division. From April 25 to 29, 2016, a team of retirement and pension fund specialists from PFTAC and IMF facilitated a conference that was attended by the social security systems of the Marshall Islands, Federated States of Micronesia (FSM) and the Republic of Palau, the Civil Service Pension Fund of Palau, MISSA's investment consultants and actuary, and representatives from the Cabinet and Nitijela.

The social security issues and pension challenges faced by FSM and Palau were similar to that of RMI but because of their Government's timely intermediation through legislation and financial assistance, their social security and pension systems were able to gradually restore their financial health. In the last several years, MISSA has constantly appealed to the RMI Government for budget appropriation and introduced a number of option plans to rehabilitate the system but did not succeed. The conference was the turning point and may have significantly influenced the outlook of the RMI legislators to take drastic action.

On May 20, 2016, the Cabinet established an eleven-member National Task Force to review the financial status of MISSA and come up with restructuring proposals and recommendations not later than August 2016. After a series of meetings with MISSA management and consultants, the task force submitted its final proposal, which ultimately became Bill 47. On September 29, 2016, the Nitijela passed Bill 47, to take effect on January 1, 2017. The highlights of the bill include a 1% increase in the Retirement Fund tax, the removal of the cap on taxable wages and a 5% benefit cut for those receiving $200 and above per month. However, on January 4, 2017, Bill 54 was introduced and subsequently passed by the Nitijela, postponing the effective date of the reforms bill to March 6, 2017.

Considering the urgency of the matter, the National Task Force met again a number of times and finally, came up with a modified reform plan that incorporated some provisions of Bill 43, a bill introduced a few years ago but was not acted upon by the Nitijela. The new bill, also known as Bill 75 was passed by the Nitijela on February 28, 2017 and subsequently certified by the Speaker on March 9, 2017. Based on Nitijela rules, the effective date of a new law is the date when the bill was certified by the Speaker before the Clerk of the Nitijela.

The highlights of Bill 75 follow:

- The maximum taxable wage cap currently at $5,000 per quarter or $20,000 per annum was increased to $10,000 per quarter or $40,000 per annum. This is expected to generate about $1.1 million additional revenues per year;

- The Retirement Fund rate was increased by 1% (from 7% to 8%) for both employee and employer contributions. This will increase contributions by $1.9 million per year. However, the current 3.5% contribution rate for Health Fund will remain the same;

- Benefits were reduced for those receiving $300 or more per month. The benefit reductions range from 5% to as much as 10% and will result to an annual savings of around $1 million. To lessen the impact of the benefit cuts, the reduction was phased in over three years where in two-thirds (2/3) are subsidized by the government in FY 2017 and one-third (1/3) the following fiscal year. By FY 2019, full reduction will be effected;

- There will be no more early and deferred retirement starting March 9, 2017;

- Current retirees will still be covered by earnings test until age 62. For new retirees starting March 9, 2017 and onward, the earnings test will be applied up to age 65;

- The old age retirement benefit was redefined. A person shall be eligible to receive normal retirement old age benefits as follows:

    At age 61 by March 6, 2017

    At age 62 by January 1, 2019

    At age 63 by January 1, 2021

    At age 64 by January 1, 2023

    At age 65 by January 1, 2025

- Provisions on customary adopted child will be more stringent to ensure the long term sustainability of the Fund; and

- "Earnings" was redefined for tax compliance purposes while certain compensations (i.e. stipend, sitting fees, per diem, etc.) were specifically identified as non-taxable.

MISSA has reiterated many times that the new law is only aimed at addressing the short and medium term cash flow of MISSA and does not guarantee a long-term solution to the Administration's financial viability. It is projected that, without further changes to the new system, MISSA will again need to withdraw from its investments at least $2 million before the end of FY 2017 due to the following shortfall:

Estimated revenues for FY 2017	$ 14,000,000
Estimated benefits for FY 2017 (before Bill 75)	(21,000,000)
Administrative expenses for FY 2017	(1,000,000)
Deficit	(8,000,000)
Effect of Bill 75 (6 months and 3 weeks)	2,250,000
Subsidy (2/3 of benefit reduction) not received	(666,667)
FY 2017 Appropriation	2,300,000
Supplemental budget for FY 2017	1,000,000
Investment withdrawal in Dec. 2016	1,000,000
Shortfall	$ (2,116,667)

MISSA has started to focus on new option plans to be presented to the National Task Force and Nitijela for further legislation. Upon request of MISSA management, Wilshire Associates (MISSA consultant and actuary) is now working on an "Experience Study" to compare the turnover, retirement and mortality assumptions used in the October 1, 2014 valuation with actual plan experience from 2011 through 2016 (six measurement dates). If the current assumptions used do not reflect recent experience, then it may be appropriate to adjust the assumptions to reflect more realistic values. Further, MISSA is also considering doing a comprehensive review of the following areas:

- Survivor benefits;
- Increase in minimum quarterly earnings for inclusion in the Social Security program to $750;
- Change in the requirements to be considered fully eligible:
  - Increase in the number of minimum number of quarters required from 12 to 20 quarters, and
  - Increase in the number of quarters required from 38 to 50 quarters.

MISSA is also considering the establishment of a maximum benefit for those who have received multiple times what they have put into the system. This was based on the actuary's report that about 90% of present beneficiaries have received more than what they have contributed. Another option being studied in the past is the conversion of the present defined benefit plan to a defined contribution scheme.

It is always the Administration's desire to reach for long-term solutions to prevent further depletion of the Retirement Fund and the best recourse is to correct certain flaws in the system, more particularly on benefits. A five year cash projection of MISSA revealed that the Administration will need at least $24 million from the Government if no further reforms to the new system is implemented. Without government appropriation in the coming years, it is imminent that the Retirement Fund will be fully depleted shortly due to continuous investment withdrawals.

CONTACTING MISSA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our beneficiaries and others a general overview of MISSA's finances and to demonstrate its accountability for the money it collects. If you have questions about this report or need additional financial information, contact the Administrator, P.O. Box 175, Majuro, MH 96960 or via email at ms.saaneaho@ntamar.net.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statements of Fiduciary Net Position
September 30, 2016 and 2015

	2016	2015
ASSETS		
Cash	$ 970,364	$ 772,855
Receivables, net:		
Contributions	1,951,979	1,784,736
Other	793,487	678,480
Total receivables, net	2,745,466	2,463,216
Investments:		
Cash management	276,230	53,257
Stocks	18,832,721	18,530,271
Mutual funds	44,715,832	47,805,484
Total investments	63,824,783	66,389,012
Capital assets, net	65,112	72,652
Total assets	67,605,725	69,697,735
LIABILITIES		
Accounts payable	80,118	82,144
Other liabilities and accruals	76,685	136,151
Due to affiliate	1,839,854	2,647,044
Total liabilities	1,996,657	2,865,339
Contingencies		
NET POSITION		
Held in trust for retirement, disability and survivors' benefits	$ 65,609,068	$ 66,832,396

See accompanying notes to financial statements.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2016 and 2015

	2016	2015
Additions:		
Contributions:		
Private employees	$ 9,593,133	$ 9,340,446
Government employees	4,519,820	4,307,410
Penalties and interest	721,491	1,148,204
Total contributions	14,834,444	14,796,060
Add recovery from (allowance for) doubtful accounts	397,637	(737,626)
Net contributions income	15,232,081	14,058,434
Investment income:		
Net change in the fair value of investments	3,267,199	(1,191,062)
Dividends	1,560,416	1,598,282
Interest	3,301	4,281
Total investment income	4,830,916	411,501
Less investment expense:		
Investment management and custodial fees	131,161	146,590
Net investment income	4,699,755	264,911
Other additions	251,037	365,149
Total additions	20,182,873	14,688,494
Deductions:		
Benefit payments:		
Retirement	12,821,783	12,006,633
Survivors	6,574,036	6,271,549
Disability	831,539	812,813
Lump sum	205,965	170,641
Total benefit payments	20,433,323	19,261,636
Administrative	972,878	961,119
Total deductions	21,406,201	20,222,755
Change in net position	(1,223,328)	(5,534,261)
Net position at beginning of year	66,832,396	72,366,657
Net position at end of year	$ 65,609,068	$ 66,832,396

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of the Marshall Islands (RepMar), was established pursuant to RepMar Public Law 1990-75 (the Social Security Act of 1990), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (the Retirement Fund). The Retirement Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family's income. Additionally, MISSA is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, MISSA established the Prior Service Fund to account for activities under this program.

MISSA operates under the authority of a seven-member Board of Directors appointed by the Cabinet of RepMar.

(2) Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities, which includes the requirement for MISSA to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the basic financial statements. In addition, these statements require that resources be classified for accounting and reporting purposes as held in trust for retirement, disability and survivors' benefits.

Management of MISSA has determined that, per its enabling legislation, the net position of MISSA is to be held in trust for retirement, disability and survivors' benefits.

A. Basis of Accounting

MISSA is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

B. Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of the liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

C. Cash

For the purposes of the statements of fiduciary net position, cash includes cash on hand and cash in checking and savings accounts.

(2) Summary of Significant Accounting Policies, Continued

D. Investments

Investment and related investment earnings are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

MISSA categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

E. Receivables and the Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of the Marshall Islands. These receivables are not collateralized and are non-interest bearing.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts. The allowance is established through a provision for bad debts charged to expense.

F. Fixed Assets

Fixed assets with a cost that equals or exceeds $200 are generally capitalized at the time of acquisition. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Buildings and improvements	5 - 15 years
Motor vehicles	3 - 5 years
Computer equipment	3 years
Furniture	5 years
Office equipment	3 years

G. Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MISSA has no items that qualify for reporting in this category.

(2) Summary of Significant Accounting Policies, Continued

H. Compensated Absences

Annual vacation leave is earned by all permanent employees and accumulates at the rate of one working day per bi-weekly pay period. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. As of September 30, 2016 and 2015, the accumulated annual leave liability amounted to $33,381 and $22,537, respectively, and is included in the statements of fiduciary net position within other liabilities and accruals.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2016 and 2015 is $18,536 and $16,023, respectively.

I. Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MISSA has no items that qualify for reporting in this category.

J. Contributions

Contributions to the Retirement Fund are governed by the Social Security Act of 1990, as amended, which imposes a tax on the quarterly income of every employee not currently subject to the United States Social Security System or any other recognized Social Security System, equal to seven percent of wages received.

Maximum quarterly taxable wages are $5,000. Every employer is required to contribute an amount equal to that contributed by employees.

K. Benefit Obligations

Retirement benefits are paid to every person who is a service insured or a fully insured individual as defined by the Social Security Act of 1990, as amended, has attained an age of sixty years and has filed an application for old age insurance benefits. Benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. Eligible children who are not married and are not working may also receive benefits until age eighteen (18) or up until age twenty-two (22), if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 1990, benefits are paid monthly and are computed as follows:

a) Pension element - two percent of index covered earnings, plus;

b) Social element - 14.5% of the first $11,000 of cumulative covered earnings plus 0.7% of cumulative covered earnings in excess of $11,000 but not in excess of $44,000. The $11,000 and $44,000 bend points may be increased from time to time by wage index adjustments granted by the Board of MISSA.

The minimum benefit is $129 per month, effective October 1, 1995.

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards

During the year ended September 30, 2016, MISSA implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investments from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investments. Such implementation did not have a material effect on the accompanying financial statements. Refer to Note 2B for more information regarding MISSA's investments.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

M. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net position and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Prior Service Benefits Program

Under the terms of a Prior Service Claim Adjudication Service Agreement between MISSA and the Trust Territory Prior Service Trust Fund, MISSA is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Program. The Prior Service Trust Fund Administration (PSTFA) will reimburse MISSA $2,000 per annum plus an amount equal to eight percent of the total amount of automated and manual benefit payments. Any cost for MISSA personnel who assist in searching and locating prior service documents in cooperation with the Prior Service Administration will be reimbursed on a dollar for dollar basis.

On September 15, 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations to and responsibility for the enrollees eligible for the Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, the Federated States of Micronesia, and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

MISSA assumed administrative functions and, for the years ended September 30, 2016 and 2015, received an allocation of $39,400 and $152,967, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2016 and 2015 amounted to $117,759 and $78,253, respectively. However, while MISSA accepts the liability for any amounts received, MISSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of September 30, 2016, the amount of $20,234 is available for future benefit payments under the Prior Service Benefits Program.

(4) Deposits and Investments

The deposit and investment policies of MISSA are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of MISSA's investments. Legally authorized investments are as follows:

(i) Government obligations - Obligations issued or guaranteed as to principal and interest by the Government of Republic of the Marshall Islands (RepMar) or by the Government of the United States, provided that the total market value of the investments in obligations guaranteed by Government of RepMar shall at the time of purchase not exceed twenty-five percent (25%) of the total market value of all investments of MISSA, and further provided that the principal and interest on each obligation are payable in the currency of the United States.

(4) Deposits and Investments, Continued

(ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of the RepMar or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is issued by an agency of the United States Government or is rated in one of the four highest categories by two nationally recognized rating agencies in the United States. No investment under this heading shall exceed five percent of the market value of the Retirement Fund or ten percent of the outstanding value of the issue at the time of purchase.

(iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of the RepMar or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by MISSA's investment advisor at the time of purchase, that not more than fifteen percent (15%) percent of the market value of the Retirement Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) percent of the market value of the Retirement Fund shall be invested in any one industry group.

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the RepMar or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent (10%) of all investments of the Retirement Fund.

A. Deposits:

Custodial credit risk is the risk that in the event of a bank failure, MISSA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MISSA does not have a deposit policy for custodial credit risk.

As of September 30, 2016 and 2015, the carrying amount of MISSA's cash was $970,364 and $772,855, respectively, and the corresponding bank balances were $1,278,170 and $950,680, respectively. Of the bank balances, $930,183 and $363,357, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $347,987 and $587,323, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, bank deposits in the amount of $250,000 were FDIC insured. MISSA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments:

As of September 30, 2016 and 2015, investments in marketable securities are as follows:

	2016	2015
Mutual funds	$ 44,715,832	$ 47,805,484
Exchange Traded funds	4,274,618	5,072,693
Cash management funds	276,230	53,257
	$ 49,266,680	$ 52,931,434

(4) Deposits and Investments, Continued

B. Investments, Continued

MISSA has the following recurring fair value measurements as of September 30, 2016 and 2015:

	September 30, 2016	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 4,274,618	$ 4,274,618	$ -	$ -
Mutual funds	44,715,832	44,715,832	-	-
	48,990,450	$ 48,990,450	$ -	$ -
Investments measured at amortized cost:				
Money market funds	276,230			
	$ 49,266,680			

	September 30, 2015	Fair Value Measurements Using: Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Exchange Traded funds	$ 5,072,693	$ 5,072,693	$ -	$ -
Mutual funds	47,805,484	47,805,484	-	-
	52,878,177	$ 52,878,177	$ -	$ -
Investments measured at amortized cost:				
Money market funds	53,257			
	$ 52,931,434			

Additionally, MISSA owns 65,609 shares of common stock of Marshall Islands Holdings, Inc. (MIHI), which engages in all aspects of holding company activities in the RMI and which is the sole shareholder of Bank of Marshall Islands (BOMI).

MISSA also owns 3,000 shares of common stock of Marshall Islands Service Corporation (MISC), which is majority-owned by MIHI.

The investment in MIHI is accounted for on the equity method since the investment constitutes 38% ownership share as of September 30, 2016 and 2015. At September 30, 2016 and 2015, MISSA's investment in MIHI amounted to $14,528,103 and $13,427,578, respectively. The investment in MISC is stated at NAV. At September 30, 2016 and 2015, MISSA's investment in MISC amounted to $30,000.

As of September 30, 2016 and 2015, MISSA maintained bank deposits with BOMI totaling $347,987 and $587,323, respectively. During the years ended September 30, 2016 and 2015, MISSA received cash dividend payments from MIHI of $458,902.

(4) Deposits and Investments, Continued

B. Investments, Continued

During the years ended September 30, 2016 and 2015, the total net increase in fair value of investments included $1,559,427 and $1,686,553, respectively, of equity in the net earnings of MIHI.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. At September 30, 2016 and 2015, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to credit risk.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, MISSA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MISSA's investments are held and administered by trustees. MISSA's custodian holds investment securities in MISSA's name. MISSA's custodian is not affiliated or related to investment brokers. Accordingly, these investments are not exposed to custodial credit risk.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for MISSA. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of September 30, 2016 and 2015.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. MISSA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At September 30, 2016 and 2015, MISSA's investment portfolio did not include investments in debt securities. Accordingly, MISSA is not exposed to interest rate risk.

(5) Receivables

Receivables as of September 30, 2016 and 2015, including applicable allowances for doubtful accounts, are as follows:

	2016	2015
Court judgments	$ 5,112,148	$ 5,479,237
Contributions	3,474,638	3,372,846
Notes	1,031,762	883,472
Other	78,994	77,374
	9,697,542	9,812,929
Less allowance for doubtful accounts	(6,952,076)	(7,349,713)
	$ 2,745,466	$ 2,463,216

(5) Receivables, Continued

Court judgments receivable represents amounts due from employers for delinquent contributions that have been referred to attorneys for collection and have been adjudicated by the Court. These amounts are comprised of unpaid contributions together with penalties, interest, and attorney fees and are subject to interest of 9% per annum. Notes receivable represents amounts due from employers for delinquent contributions wherein the employer has entered into a promissory note agreement with MISSA with stipulated repayment terms and conditions, including interest of 12% per annum.

(6) Related Party Transactions

As of September 30, 2016 and 2015, MISSA recorded amounts payable to the Marshall Islands Health Fund of $1,839,854 and $2,647,044, respectively, which represented unremitted basic health fund employee and employer contributions collected by MISSA at the respective year ends. Such is included in the statements of fiduciary net position as due to affiliate.

(7) Capital Assets

Capital asset activity for the years ended September 30, 2016 and 2015, is as follows:

	October 1, 2015	Additions	Retirements	September 30, 2016
Buildings and improvements	$ 511,597	$ -	$ -	$ 511,597
Computer equipment	108,137	1,245	-	109,382
Motor vehicles	88,700	24,500	(17,900)	95,300
Office equipment	92,022	2,179	-	94,201
Furniture	59,467	-	-	59,467
	859,923	27,924	(17,900)	869,947
Less accumulated depreciation and amortization	(787,271)	(35,464)	17,900	(804,835)
	$ 72,652	$ (7,540)	$ -	$ 65,112

	October 1, 2014	Additions	Retirements	September 30, 2015
Buildings and improvements	$ 511,597	$ -	$ -	$ 511,597
Computer equipment	110,507	1,330	(3,700)	108,137
Motor vehicles	108,350	-	(19,650)	88,700
Office equipment	82,370	16,798	(7,146)	92,022
Furniture	59,167	300	-	59,467
	871,991	18,428	(30,496)	859,923
Less accumulated depreciation and amortization	(785,840)	(32,138)	30,707	(787,271)
	$ 86,151	$ (13,710)	$ 211	$ 72,652

(8) Contingencies

In June 2016, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2014. The valuation reported actuarial accrued liabilities and market value of assets for the Retirement Fund of $442,510,000 and $72,367,000, respectively, as of October 1, 2014. The funded ratio of the Retirement Fund as of October 1, 2014 is 16%. As of September 30, 2016, MISSA recorded total fund equity of $65,588,834 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

MISSA is of the opinion that there are outstanding contributions due to the Retirement Fund; however, a reasonable estimate of this amount cannot be made due primarily to noncompliance by employers.

(9) Risk Management

MISSA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MISSA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. MISSA is also exposed to investment risk. This risk is limited by diversification of the portfolio, establishment and monitoring of investment policies and guidelines, and monitoring of investment performance. In addition, investment consultants monitor MISSA's activities and advise the Board of Directors.

(10) Subsequent Events

On November 18, 2016, MISSA's Board of Directors authorized and approved the withdrawal of $2,000,000 from MISSA's investments to fund benefit payments.

On February 28, 2017, the Nitijela amended Public Law 2016-26 *Social Security (Amendment) Act 2016* through Public Law 2017-30 *Social Security (Amendment) Act 2017* with an effective date of March 6, 2017.

Subsequent to year end, MISSA received $2,300,000 from RepMar for the purpose of funding benefit payments.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Combining Statement of Fiduciary Net Position
September 30, 2016

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
ASSETS					
Cash	$ 947,591	$ 22,773	$ 970,364	$ -	$ 970,364
Receivables, net:					
Contributions	1,951,979	-	1,951,979	-	1,951,979
Other	792,892	600	793,492	(5)	793,487
Total receivables, net	2,744,871	600	2,745,471	(5)	2,745,466
Investments:					
Cash management	276,230	-	276,230	-	276,230
Stocks	18,832,721	-	18,832,721	-	18,832,721
Mutual funds	44,715,832	-	44,715,832	-	44,715,832
Total investments	63,824,783	-	63,824,783	-	63,824,783
Capital assets, net	65,112	-	65,112	-	65,112
Total assets	67,582,357	23,373	67,605,730	(5)	67,605,725
LIABILITIES					
Accounts payable	80,118	-	80,118	-	80,118
Other liabilities and accruals	73,551	3,139	76,690	(5)	76,685
Due to affiliate	1,839,854	-	1,839,854	-	1,839,854
Total liabilities	1,993,523	3,139	1,996,662	(5)	1,996,657
NET POSITION					
Held in trust for retirement, disability and survivors' benefits	$ 65,588,834	$ 20,234	$ 65,609,068	$ -	$ 65,609,068

See Accompanying Independent Auditors' Report.

MARSHALL ISLANDS SOCIAL SECURITY ADMINISTRATION
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2016

	Retirement Fund	Prior Service Fund	Total Before Elimination	Elimination	Total
Additions:					
Contributions:					
Private employees	$ 9,593,133	$ -	$ 9,593,133	$ -	$ 9,593,133
Government employees	4,519,820	-	4,519,820	-	4,519,820
Penalties and interest	721,491	-	721,491	-	721,491
Total contributions	14,834,444	-	14,834,444	-	14,834,444
Add recovery from doubtful accounts	397,637	-	397,637	-	397,637
Net contributions income	15,232,081	-	15,232,081	-	15,232,081
Investment income:					
Net change in the fair value of investments	3,267,199	-	3,267,199	-	3,267,199
Dividends	1,560,416	-	1,560,416	-	1,560,416
Interest	3,301	-	3,301	-	3,301
Total investment income	4,830,916	-	4,830,916	-	4,830,916
Less investment expense:					
Investment management and custodial fees	131,161	-	131,161	-	131,161
Net investment income	4,699,755	-	4,699,755	-	4,699,755
Other additions	231,227	39,400	270,627	(19,590)	251,037
Total additions	20,163,063	39,400	20,202,463	(19,590)	20,182,873
Deductions:					
Benefit payments:					
Retirement	12,785,644	36,139	12,821,783	-	12,821,783
Survivors	6,512,043	61,993	6,574,036	-	6,574,036
Disability	831,539	-	831,539	-	831,539
Lump sum	205,965	-	205,965	-	205,965
Total benefit payments	20,335,191	98,132	20,433,323	-	20,433,323
Administrative	972,841	19,627	992,468	(19,590)	972,878
Total deductions	21,308,032	117,759	21,425,791	(19,590)	21,406,201
Change in net position	(1,144,969)	(78,359)	(1,223,328)	-	(1,223,328)
Net position at beginning of year	66,733,803	98,593	66,832,396	-	66,832,396
Net position at end of year	$ 65,588,834	$ 20,234	$ 65,609,068	$ -	$ 65,609,068

See Accompanying Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Marshall Islands Social Security Administration:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Social Security Administration (MISSA), which comprise the statement of fiduciary net position as of September 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISSA's internal control. Accordingly, we do not express an opinion on the effectiveness of MISSA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

June 23, 2017

Unresolved Prior Year Findings
Year Ended September 30, 2016

There were no unresolved audit findings from prior year audits of MISSA.