

FSM Social Security Administration



ANNUAL REPORT 2013 ★



2013 marked many changes for the FSM Social Security Administration, charting a course of improved financial position, while staying focused on the challenges still faced. After many years of disappointing investment returns, followed by modest improvement last year, the System's net position increased by 104% from a \$3.67 million net gain in 2012 to \$7.50 million net gain in 2013. The investment portfolio that included money market was valued at \$43,736,351 at the end of 2013.

The improved market position is something to celebrate, but even more important was the increase in employee/employer contributions. During 2013, contributions totaled \$17.24 million, an increase of 5.33% from the previous year's collections of \$16.37 million. A tax increase, effective January 2013, raised the contribution rate from 14% to 15% while the taxable wage base rose from \$6,000 to \$7,000. The tax increases reflect the government's proactive position in ensuring the long-term viability of the System.

In addition to investment returns and contributions, the collection of delinquent taxes also helped the plan's balance sheet. During 2013, the System collected \$952,959 from delinquent accounts.

As expected, benefit payments also increased. A total of \$18.43 million was disbursed in benefit payments during fiscal year 2013. This represents a 3.87% increase from \$17.75 million in 2012 to \$18.43 million in 2013. The percentage increase was greater than 2012, and was attributed mainly to new claims. As of December 31, 2013, there were 6,377 members and beneficiaries receiving benefits in fiscal year 2013.

The FSM Public Law 5-120 mandates the FSMSSA to present an annual budget not exceeding 11 % of its projected income for the ensuing fiscal year. The budget ceiling for fiscal year 2013 was \$1.82 million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.26 million.

The smaller gap between contributions and payment means the System is going in the right direction. However, benefit payments still outpaced contributions, which compromises the long-term viability of the System. Cash infusions from the investment portfolio and the FSM National Government were again required to cover benefit payments. We must continue to be vigilant in our efforts to increase contributions, whether through taxes or improved collections, to maintain the Social Security System for those we serve, the citizens of the Federated States of Micronesia.

I would also like to thank Ms. Rose Nakanaga for her years of service on the Board. The System experienced considerable improvements under her leadership, and we wish her well on her new appointment to the World Bank.

I appreciate the ongoing support from our Board Members, Administration and the FSM Government and the willingness of all to work together to amend the System's critical financial needs.

Sincerely,



Gillian Doone
Chairman

Board of Trustees

The Board of Trustees is the governing body of the Federated States of Micronesia Social Security System. Members are nominated by the President, confirmed by the Congress and serve three-year terms. Nominations to the Board take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. The Social Security Administrator is an ex-officio member of the Board.

Board Members

Terms

FSM National Government
Gillian Doone
Chairman



2/11/12 to 2/10/15

Kosrae State
Kalwin Kephias



4/1/14 to 3/31/17

Chuuk State
Nakama Sana



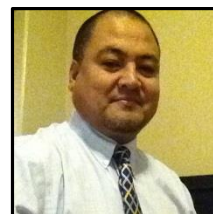
10/1/13 to 9/30/16

Yap State
Vincent Tafileluw
Vice Chairman



7/24/13 to 7/23/16

Administrator
Alexander R. Narruhn
Ex-Officio Member



7/1/00 to 6/30/02
7/1/02 to 6/30/05
7/1/05 to 6/30/08
7/1/08 to 6/30/11
7/1/11 to 6/30/14
7/1/14 to 6/30/17

I submit this Annual Report of the Federated States of Micronesia Social Security System (FSMSSA, or the "System") covering fiscal year 2013, the period from January 1, 2013, to December 31, 2013, for the review of all interested parties.

As management of the FSMSSA, the Administration is responsible for the accuracy of the data presented in this report. We believe that this data is accurate in all material aspects and is reported in such a manner as to accurately represent the financial condition of the FSMSSA operations.

Board Meetings

On January 7-8, 2013, the FSM Social Security Board of Trustees held its first meeting of the year in Yap, FSM. Chairman Rose N. Nakanaga, Pohnpei State, facilitated the meeting. Vice Chairman Innocenti Oneisom, Chuuk State, National Government representative Gillian Doone and ex-officio member Administrator Alexander R. Narruhn also were in attendance. Deputy Administrator Dernista I. Capelle, Claim Officer Francky Ilai and Yap Branch Manager Erick G. Ruepong also joined the meeting. Appeal cases on disability, eligibility and spousal benefits were heard. Mr. Doone observed that the appeals process could be streamlined, and the Board discussed improvements to the system.

Mr. Narruhn reported that he had been directed to provide quarterly employment figures for the President. Narruhn also discussed possible new facilities for FSMSSA. Mr. Narruhn also reported that \$1.224 million had been collected from delinquent accounts, exceeding the year's goal of \$1.2 million. In the continuing efforts to collect delinquent accounts, Mr. Narruhn stated they had recently completed the annual eligibility survey and had hired investigation officers at the Pohnpei and Chuuk branches. Narruhn further reported on tax increases set to begin January 1, 2013. The tax rate increased to 15% while the taxable wage base would rise from \$6,000 to \$7,000. Combined, the changes would translate into an increase of \$600,000 to \$700,000 in revenue.

Mr. Narruhn also gave a report on the status of the ACH (Automated Clearing House) program. ACH was established to make it easier for citizens working abroad to make voluntary contributions into the System. Despite communication efforts, participation has remained relatively low. The Board discussed options to spread the word about the ACH voluntary contribution program and agreed to train recruiters who lived in communities with high concentrations of FSM residents living abroad.

On September 3-6, 2013, the second Board Meeting of 2013 was held in Kosrae. Chairman Gillian Doone, Vice Chairman Vincent Tafileluw, Yap State; Member Innocenti Oneisom, Chuuk State; and ex-officio member Administrator Alexander R. Narruhn were in attendance. Deputy Administrator Dernista I. Capelle, Claim Officer Francky Ilai and Kosrae Branch Manager Presley Charley also were in attendance. A variety of appeals were presented, including adoption, remarriage and disability. Representatives from each party held an open dialogue, and the Board reviewed each case and reported its decisions accordingly.

Once the appeals process was complete, Ms. Capelle reported on her presentation at the 2013 FSM Interagency Leadership Conference, held in August. She discussed disability benefits and was part of a panel discussion outlining the System in general and disability benefits in particular. The Board also discussed expense policy regarding per diem rates, a proposed maximum benefit cap, delinquent taxes, and using ACH to make voluntary contributions. They also discussed improved public outreach to communicate the claims process and requirements for inclusion.

Administrator's Report

Investment Consultant Jason Miyashita of Morgan Stanley Smith Barney gave a status report on the investment portfolio as of September 2013. The board also discussed the upcoming APAFS Conference scheduled to take place in November.

On November 18-20, 2013, the FSMSSA Board convened a special meeting in Pohnpei to hear a variety of appeals. Present at the meeting were Chairman Gillian Doone, representing the national government; Vice Chairman Vincent Tafileluw, Yap State; Member Nakama Sana, Chuuk State; and ex-officio member Administrator Alexander R. Narruhn. Claim Officer Francky Ilai, Pohnpei Branch Manager Onlino Lawrence and Pohnpei Branch Investigation Officer Kerman Alten also were in attendance as well as Legal Counsel Michael J. Sipos. A variety of appeals were presented, including adoption, remarriage and disability dependent. Representatives from each party held an open dialogue to clarify the appeals process, emphasizing the need for documentation. The Board reviewed each case and reported its decisions accordingly.

On December 9-10, 2013, FSMSSA Board held its third meeting of 2013 in Yap State. Chairman Gillian Doone, Vice Chairman, representative of Yap State, Vincent Tafileluw; Representative of Chuuk State Nakama Sana; and ex-officio member Administrator Alexander R. Narruhn were in attendance. FSMSSA Claims Officer Francky Ilai, FSMSSA Comptroller Teresita Dayao and Yap Branch Manager Erick Ruepong also attended the meeting. Mr. Narruhn reviewed System statistics, including the current number of beneficiaries, benefits paid to date, and collections deposited to date. Mr. Narruhn also reported on proposed amendments and the actuarial study underway to examine the results of the proposed amendments. In addition, Mr. Narruhn announced that the Pohnpei Branch was receiving much-needed computer upgrades, and the Chuuk Branch would soon follow.

Reports were heard on the collection of delinquent taxes, proposed changes to the investment portfolio, quarterly reports, tax collections and travel expense policy. Comptroller Dayao presented financial statements from 2011 to 2013, and Investment Consultant Jason B. Miyashita outlined the investment portfolio performance.

The Board discussed branch office performance and made recommendations to continue outreach programs and public forum meetings to address the issues of remarriage and adoption. The Board also reviewed appeals procedures and methods to streamline the process. Several appeals cases were heard. The proposed 2014 budget was reviewed and approved.

Board Adopts New Investment Allocation

In May of 2013, the FSM Social Security Board of Trustees resolved to diversify their allocations under Intermediate bonds. Chairman of the Board Rose Nakanaga informed Investment Consultant Daniel Roland, Morgan Stanley Smith Barney, to diversify the core/fixed income which is currently managed by Payden & Rygel to accommodate Intermediate bonds with a startup of \$5 million. The Board also resolved to interview potential intermediate investors, deciding on Garcia Hamilton.

Staff Updates

In March, FSMSSA hired Catherine Jonas, Kosrae, as the new head for the Tax Department. Ms. Jonas holds a degree in Economics from the University of Hilo, Hawaii. Ms. Jonas' professional goals include improving audits and collections to meet the long-term goals of the System.

FSMSSA New Board Members

Mr. Nakama Sana has joined the FSMSSA Board of Trustees, representing the State of Chuuk. Mr. Sana has served Chuuk State and the FSM governments in the areas of finance and accounting for more than 30 years. His extensive experience includes serving as the Director of Treasury for Chuuk State and in FSM Public Auditor's Office. Mr. Sana's expertise in finance and accounting will be invaluable to the System.

Mr. Vincent Tafileluw also joined the FSMSSA Board, representing the State of Yap. Mr. Tafileluw, Manager of the Yap Visitors Bureau, has served on several Boards in the State of Yap, including YCAP, the Board of Education, and the Yap Development Center Advisory Board. He brings investment experience and extensive knowledge of the State of Yap to the Board.

Mr. Kalwin Kephass also was appointed to the FSMSSA Board of Trustees, representing the State of Kosrae. Currently the Dean of the College of Micronesia, Kosrae Campus, Mr. Kephass has served in various capacities as a public servant since 1977. Mr. Kephass holds degrees in Human Behavior and Educational Leadership and is currently working on his Doctorate in Higher Education and Adult Learning Progress. A well-known and well-respected citizen in his community of Malem, Mr. Kephass is a father and grandfather and likes to spend his leisure time fishing.

Yap State Public Forum

Continuing the System's efforts to educate the public about FSM's Social Security program, a public forum was held in Yap State on December 19, 2013. Yap State Branch Manager Erick Ruepong facilitated the meeting. The meeting began with the introduction of the Branch's staff and Yap State's new Board member Mr. Vincent Tafifluw. More than 60 residents attended the forum, which covered topics related to System's eligibility guidelines, including disability claims, eligibility requirements, adoption specifics and retirement. A representative from the Ayuw Credit Union also made a presentation on setting up accounts

Administrator's Report

Financial Reports

Net Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash and equivalents	\$ 1,931,021	\$ 2,244,250	\$ 1,209,552
Investments	43,736,351	37,206,732	35,220,871
Other current assets	3,293,007	3,424,074	4,059,782
Fixed assets, net	107,152	102,841	109,787
Total	49,067,531	42,977,897	40,599,992
Liabilities			
	<u>180,206</u>	<u>290,608</u>	<u>217,523</u>
Net Assets			
Held in trust for retirement, disability and survivors; benefit	\$ <u>48,887,325</u>	\$ <u>42,687,289</u>	\$ <u>40,382,469</u>

Changes In Net Assets

FSMSSA follows the calendar year as its fiscal year. The following table presents information about FSMSSA Retirement Fund results of operations for CY2013.

	2013
Contributions	\$17,244,974
Benefit Payments	(18,431,758)
Admin Expenses	(1,156,701)
Other Income, net	<u>1,041,065</u>
Operating Deficit	(1,302,420)
Investment Income/(Loss), net	<u>7,502,456</u>
Change in Net Assets	6,200,036
Net Assets, beginning of year	<u>42,687,289</u>
Net Assets, 12/31, end of year	<u>\$48,887,325</u>

Funding Status

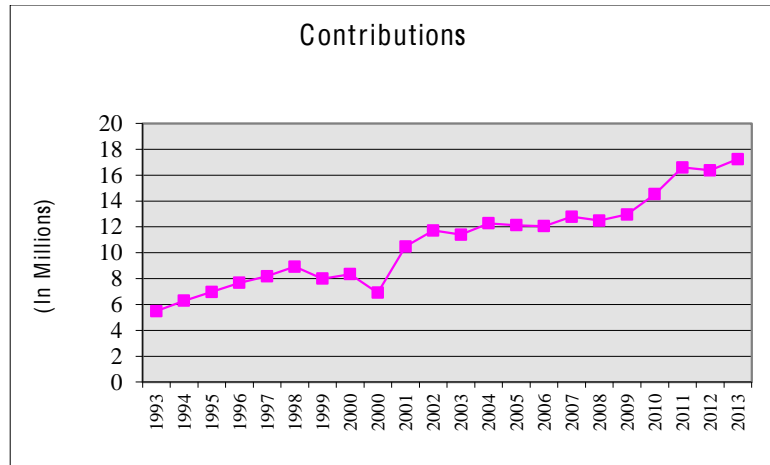
The Administration continues its efforts to ensure that collected contributions and investment income are sufficient to pay current benefits, meet administrative expenses, and reduce the unfunded accrued liability. The long-term goal of the Administration is for the System to accumulate assets sufficient to guarantee that future benefit obligations will always be met.

The following graphs illustrate current and historical levels of contributions received as well as benefit payments and administrative expenses paid. The graphs also track the overall historical value of the investment and realized past investment performance.

Contributions

2013 contributions totaled \$17.24 million, an increase of 5.33% from 2012's collections of \$16.37 million. The increase was attributed to the recent tax increases (tax rate rose from 7% to 7.5 % while taxable wage base rose from \$6,000 to \$7,000). Contributions were comprised of:

Government	\$8,521,408
Private	8,523,577
Judgment	12,617
Pen./Interest	<u>187,372</u>
Total	\$17,244,974



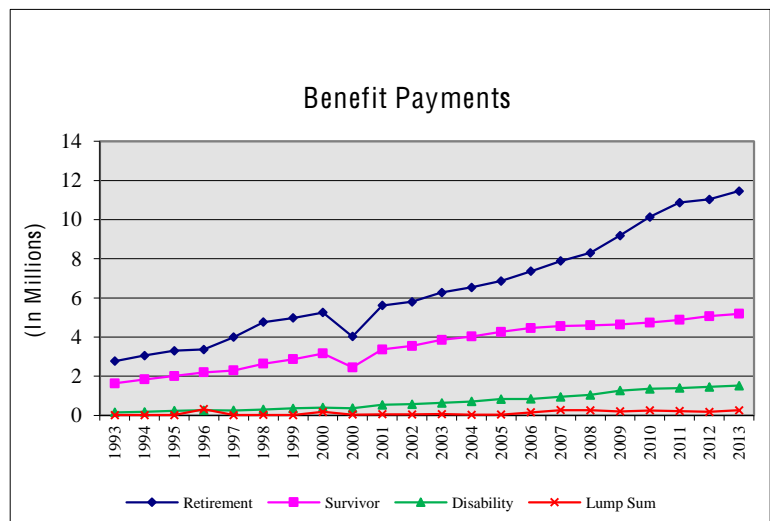
Benefit Payments

A total of \$18.43 million was disbursed in benefit payments during fiscal year 2013.

Disbursements were comprised of:

Retirement	\$11,457,404
Survivor	5,189,255
Disability	1,523,375
Lump Sum	<u>261,724</u>
Total	\$18,431,758

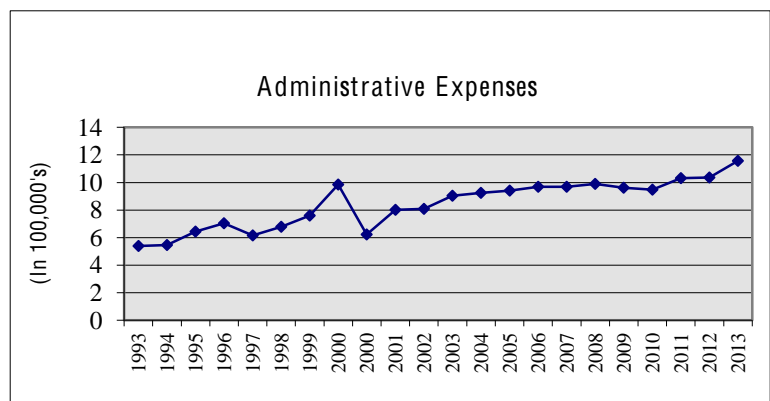
Benefit payments increased by 3.87% from \$17.75 million in 2012 to \$18.43 million in 2013.



Administrative Expenses

Net administrative expenses totaled \$1,156,701 for 2013, increasing by 11.65% over 2012. Necessary computer upgrades contributed to the increase. Despite this, a budget surplus of 8% was achieved. Administrative expenses were:

Budget	\$1,255,695
Actual	1,156,701
Surplus	98,994
% Surplus	8%

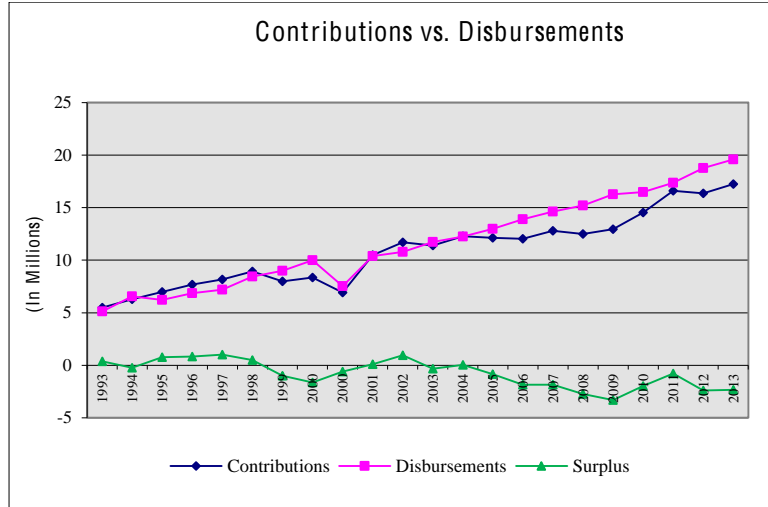


Administrator's Report

Contributions and Disbursements (Benefits + Admin. Expenses)

Contributions increased by 5.33% from \$16.37 million in 2012 to \$17.24 million in 2013.

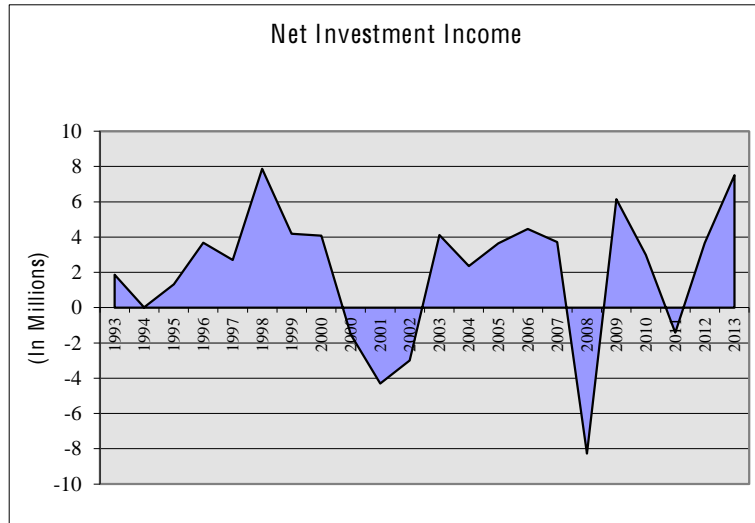
Disbursements increased by 4.3% from \$18.78 million in 2012 to \$19.59 million in 2013. Although the gap between contributions and disbursements has narrowed, disbursements continue to outpace contributions. \$1 million was withdrawn from the investment portfolio and \$1 million was received from FSM National Government to cover the shortfall.



Investments

The Administration retained Morgan Stanley Smith Barney as its investment advisor and custodial trustee. Golden Capital, Renaissance, Payden & Rygel, Winslow Capital, Cambiar Investors, Garcia Hamilton & Associates and Atalanta Sosnoff serve as money managers.

The FSMSSA does not own any time deposits at the local banks.



The investment portfolio that included money market was valued at \$43,736,351 at the end of 2013. Investment income increased by 104% from a \$3.67 million net gain in 2012 to \$7.50 million net gain in 2013. The \$43.74 million market value of the investment portfolio is net of \$1 million drawdown during the year to supplement benefit payments.

Investment Income/(Loss)

	2013	2012
Investment	\$43,736,351	\$37,206,732
Income/(Loss)	7,505,456	3,669,947
Drawdown	1,000,000	1,000,000

Prior Service Benefits

The Prior Service Benefits Trust Fund (PSBTF) is a supplemental retirement, disability and survivors' plan established pursuant to Section 105(m) of U.S Public Law 99-239. It was established to continue to provide benefits to those who worked for the U.S. Navy Administration or the Government of the Trust Territory of the Pacific Islands for at least five years prior to July 1, 1968.

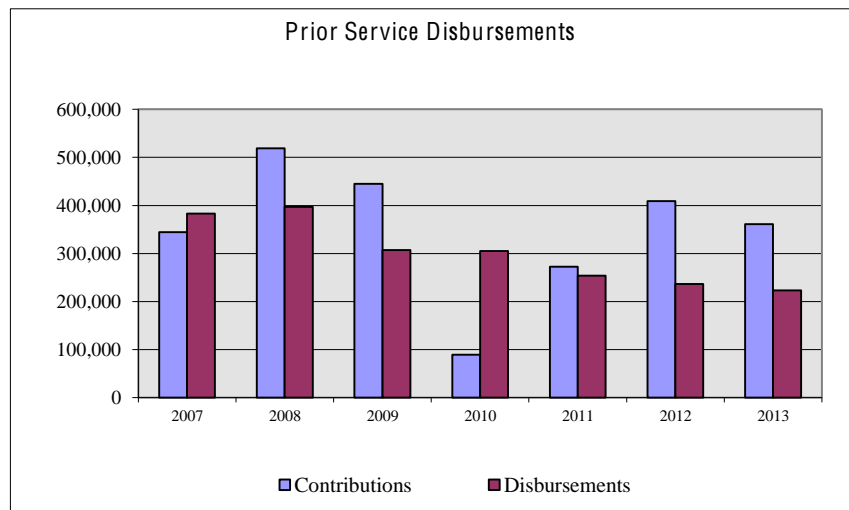
In 1987, the United States Congress provided \$8 million for initial capitalization of the PSBTF. Pursuant to U.S. Public Law 99-239, future funding would be provided, if warranted, based on the results of actuarial valuations.

Effective April 1, 2006, the Federated States of Micronesia Social Security Administration assumed responsibility for benefit payments made to citizens of the Federated States of Micronesia. For FY2012, total funds received from the Prior Service Trust Fund Administration amounted to \$408,879 while benefits paid and administrative expenses totaled \$236,645. While the Administration accepts the liability for any amounts received, the Administration does not accept the obligation to pay future benefits unless additional funds are received from PSTFA.

As of Dec. 31, 2013, the Prior Service Fund had net assets of \$246,215.

Prior Service

For fiscal year 2013, reimbursements to FSMSSA from the Prior Service Benefits Trust Fund totaled \$361,324 while benefits paid totaled \$223,247.



Administrator's Report

Conclusion

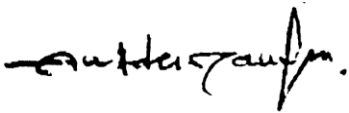
Although the Program continues to curb disbursements and increase collections through various efforts, the System continues to pay more in benefits, refunds and expenses than it collects in contributions. Improved investment performance and tax increases in 2013 helped offset some of this drain, but as disbursements continue to outpace contributions, the System's long-term financial health remains critical.

It is important that Management and the Board continue to work with the FSM government to explore ways to guarantee the future sustainability of the System.

Acknowledgements

I would like to thank everyone whose hard work and dedication make Social Security a reality for the people of Micronesia. Through the continued efforts of the Congress and President, the Board of Trustees, and the Administration staff, Social Security continues to promise security to the retired, disabled, and surviving spouses and children of the hardworking men and women of Micronesia who make our economy grow and flourish.

This report is intended to be a complete and succinct summary of the FSMSSA as a basis for making management decisions, responsible management of the assets contributed by the members and their employers and as a preliminary means of evaluating the effects of legislation pertaining to the System. This report will be submitted to the President and Congress of the Federated States of Micronesia as well as other interested parties.



Alexander R. Narruhn
Administrator

Professional Service Providers

Actuary

Nichols Actuarial Consulting
406 Court St.
Savannah, MO 64485

Auditors

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam 96913-3911

Custodial Trustee

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Investment Advisor

Consulting Group/Morgan
Stanley Smith Barney
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Federated States of
Micronesia
Attorney General

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96941

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Money Managers

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Payden & Rygel
333 South Grand Avenue
Los Angeles, CA 90071

Golden Capital Management LLC
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Renaissance
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Covington, KY 41011

Winslow Capital Group, LLC
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Penobscot, ME 04476

Garcia, Hamilton & Associates
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1401 McKinney, Suite 1600
Houston, TX 77010

Atalanta Sosnoff
101 Park Avenue
New York, NY 10178

Management's Discussion and Analysis

The following discussion and analysis provides an understanding of the FSM Social Security System Administration's (FSMSSA) financial performance for the fiscal year ended December 31, 2013. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

Administration

The FSMSSA is a successor System of the former Trust Territory Social Security System. It was established by the Federated States of Micronesia Public Law 2-74 and began its full operation on January 1, 1988. The FSMSSA provides retirement, disability and survivor benefits to the citizens of the Federated States of Micronesia.

Under Title 53 of the FSM Code, the authority to administer the FSMSSA is vested to a six-member Board of Trustees, five of whom are nominated by the President and confirmed by the Congress of the FSM. The nominations to the Board take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. The Board is duly represented by the following individuals:

Gillian Doone	National Government	Chairman of the Board
Kalwin Kephias	State of Kosrae	Member
<i>Vacant</i>	State of Pohnpei	
Nakama Sana	State of Chuuk	Member
Vincent Tafileluw	State of Yap	Vice Chairman
Alexander R. Narruhn	Administrator	Member, Ex-officio

The Administrator, who is selected by the Board, is responsible for daily operation as well as supervision of branch managers from each of the four States of the FSM.

Funding

The FSM Social Security System is financed by employer/employee contributions at a rate of 7.5% each, or a combined tax rate of 15% paid to the System every quarter. The maximum quarterly taxable wage base is \$7,000 and is slated to increase by \$1,000 every five years for a maximum of \$10,000 until January 1, 2028. The FSM National and State governments as well as all private employers incorporated or doing business in the FSM are subject to social security tax.

Additional revenues are derived from interest and penalties charged to delinquent taxpayers, and other miscellaneous fees.

Budget

The FSM Public Law 5-120 mandates the FSMSSA to present an annual budget not exceeding 11 % of its projected income for the ensuing fiscal year. The budget ceiling for fiscal year 2013, based on projected income of \$16.5 million, was \$1.82 million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.26 million, which is 7.6% of the projected income. The actual administrative cost incurred for FY 2013 was \$1.16 million, or 8% surplus compared to the approved budget. The remaining administrative costs for FY 2013 of \$40,000 pertained to the Prior Service Fund.

Significant Events

- ✓ Contributions collected increased by 5.53% from \$16.37 million in 2012 to \$17.24 million in 2013.
- ✓ Total benefit payments to members or their beneficiaries increased by 3.74% from \$17.98 million in 2012 to \$18.66 million in 2013.
- ✓ 6,377 FSM citizens received Social Security benefits in fiscal year 2013.
- ✓ 849 retirement, survivor and disability claims were received, processed, and approved in fiscal year 2013.
- ✓ Investment portfolio, including marketable securities, increased by 17.55% from \$37.21 million in 2012 to \$43.74 million in 2013.
- ✓ FSMSSA received \$1 million in funding from the FSM National Government, which was used to supplement benefit payments.
- ✓ A drawdown of \$1 million was made from the investment portfolio to supplement benefit payments.
- ✓ Net position totaled \$49.13 million on December 31, 2013, compared to 42.84 million on December 31, 2012, an increase of 14.69%.
- ✓ \$952,959 from delinquent accounts was collected in 2013.
- ✓ Close monitoring of expenses led to an administrative budget surplus of 8% in fiscal year 2013.
- ✓ Received \$360,100 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2013 totaled \$223,247.
- ✓ Effective January 1, 2013, the tax rate and maximum taxable wages have been increased from 14% to 15% (employee 7.5 %, employer 7.5%) AND FROM \$6,000 TO \$7,000, respectively.

Management's Discussion and Analysis

Financial Highlights

Net assets for the retirement fund (non-inclusive of the Prior Service Fund) increased by 14.5% from \$42.69 million in 2012 to \$48.89 million in 2013. The increase was attributed to net investment gain.

Statement of Net Assets (Retirement Fund)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Cash and equivalents	\$ 1,931,021	\$ 2,244,250	\$ 1,209,552
Investments	43,736,351	37,206,732	35,220,871
Other current assets	3,293,007	3,424,074	4,059,782
Fixed assets, net	<u>107,152</u>	<u>102,841</u>	<u>109,787</u>
Total	<u>\$ 49,067,531</u>	<u>\$ 42,977,897</u>	<u>\$ 40,599,992</u>
LIABILITIES	<u>\$ 180,206</u>	<u>\$ 290,608</u>	<u>\$ 217,523</u>
NET ASSETS			
Held in trust for retirement, disability and survivors' benefit	\$ 48,887,325	\$ 42,687,289	\$ 40,382,469

Statement of Changes in Net Assets (Retirement Fund)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contributions	\$ 17,244,974	\$ 16,371,874	\$ 16,593,155
Benefit Payments	(18,431,758)	(17,745,448)	(17,366,480)
Admin Expenses	(1,156,701)	(1,035,997)	(1,032,036)
Other	<u>1,041,065</u>	<u>1,044,444</u>	<u>1,247,807</u>
Operating deficit	\$ (1,302,420)	\$(1,365,127)	\$ (557,554)
Investment Income	<u>7,502,456</u>	<u>3,669,947</u>	<u>(1,421,047)</u>
Change in Net Assets	\$ 6,200,036	\$ 2,304,820	\$ (1,978,601)
Net Assets, beginning	<u>42,687,289</u>	<u>40,382,469</u>	<u>42,361,070</u>
Net Assets, ending	<u>\$ 48,887,325</u>	<u>\$ 42,687,289</u>	<u>\$ 40,382,469</u>

Management's Discussion and Analysis

- Investment income increased by 104% from \$3.67 million net gain in 2012 to \$7.50 million net gain in 2013. The net gain is attributed mainly to the good performance of the equity investment accounts. As a result, the market value of the investment portfolio as of the end of FY 2013 rose to \$43.74 million from \$37.21 million in 2012. This end of year market value is net of \$1 million drawdown required to supplement benefit payments in addition to the \$1.0 million funding received from the FSM National Government.

Retirement Fund	<u>2013</u>	<u>2012</u>	<u>2011</u>
Investment*	\$ 43,736,351	\$ 37,206,732	\$ 35,220,871
Investment Income	7,502,456	3,669,947	\$ (1,421,047)
Investment Withdrawals	1,000,000	1,000,000	\$ 500,000
*includes cash management fund			

- The total amount of contributions collected was \$17.24 million, averaging a collection of \$4.31 million per quarter. This amount reflects an increase of 5.33% compared to \$16.37 million collected in 2012. The higher collection amount is attributed to the January 1, 2013, tax rate increase from 14% to 15% (7 ½% employee, 7 ½% employer) and also the increase in taxable wages from \$6,000 to \$7,000. Total delinquent taxes collected in 2013 was \$952,959. Of this amount, 47.4% was from prior years.

Contributions	<u>2013</u>	<u>2012</u>	<u>2011</u>
Government	\$ 8,521,408	\$ 7,901,969	\$ 7,495,281
Private	8,523,577	8,266,665	8,772,936
Judgment	12,617	18,854	82,192
Penalties and interest	187,372	184,386	242,746
Total	\$ 17,244,974	\$ 16,371,874	\$16,593,155

- Benefit payments increased by 3.87% from \$17.75 million in 2012 to \$18.43 million in 2013. The increase was attributed mainly to new claims received, processed and approved during the year as well as the eligibility survey held in 2012. The number of participants receiving benefits increased from 5,854 in 2012 to 6,377 in 2013.

Benefit Payments	<u>2013</u>	<u>2012</u>	<u>2011</u>
Retirement	\$ 11,457,404	\$ 11,038,569	\$ 10,870,989
Survivors	5,189,255	5,068,023	4,881,958
Disability	1,523,375	1,456,825	1,395,552
Lump Sum	261,724	182,031	217,981
Total	\$ 18,431,758	\$ 17,745,448	\$ 17,366,480

Management's Discussion and Analysis

- Actual administrative expenses increased by 11.65%. The higher administrative expense this year was attributed to computer upgrade costs as well as vehicle expense. Despite the higher administrative cost, a budget surplus of 8% was attained as a result of management's continuing monitoring of its operating expense.

Budget	<u>Approved</u>	<u>Actual</u>	<u>Surplus</u>	<u>%</u>
2013	\$ 1,255,695	\$ 1,156,701	\$ 98,994	8%
2012	\$ 1,115,902	\$ 1,035,997	\$ 79,905	7%
2011	\$ 1,063,046	\$ 1,032,036	\$ 31,010	3%

- For FY 2013, total funds received from the Prior Service Trust Fund amounted to \$361,324, while benefits paid and administrative expenses totaled \$223,247 and \$44,670, respectively. As of December 31, 2013, the Prior Service Fund had a net position of \$246,215. Contributions decreased by 11.63% while benefit payments also decreased by 5.66%.

Statement of Net Assets (Prior Service Fund)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
ASSETS	\$ 299,712	\$ 196,297	\$ 70,650
LIABILITIES	(53,497)	(44,050)	(43,750)
NET ASSETS	\$ 246,215	\$ 152,247	\$ 26,900

Statement of Changes in Net Assets (Prior Service Fund)			
	<u>2013</u>	<u>2012</u>	<u>2011</u>
PSTFA Reimbursements & other income	\$ 361,324	\$ 408,879	\$ 272,797
Benefit Payments	(223,247)	(236,645)	(253,765)
Admin Expenses	(44,670)	(47,373)	(35,398)
Other	561	486	231
Change in Net Assets	93,968	125,347	(16,135)
Net Assets, beginning of year	152,247	26,900	43,035
Net Assets, end of year	246,215	152,247	26,900

Management's Discussion and Analysis for the year ended December 31, 2013, is set forth in the report on the audit of the FSMSSA's financial statements, which is dated June 15, 2013. That Discussion and Analysis explains the major factors impacting the 2013 financial statements.

Conclusion:

Overall, Fiscal Year 2013 was a better year for the System as its net position grew by 14.5% or \$6.2 million compared to FY 2012. The increase was attributed mainly to the increase in market value of the investment portfolio, particularly from the good performance of the equity investment accounts.

The System also benefited from the tax increase and increase in taxable wage base which took effect January 1, 2013. However, 2013 saw another operating deficit due to imbalances between collection and benefit payments including administrative expenses.

Contributions collected were \$17.24 million while benefits paid and administrative expenses totaled \$18.43 million and \$1.16 million, respectively, resulting in an operating deficit of \$2.3 million. To cover the deficit, \$1 million was withdrawn from the investment portfolio. The FSM National Government also appropriated \$1 million to supplement benefit payments.

Although the gap between contributions and disbursements is closing, payments still outpaced contributions in 2013. A cash infusion from the FSM National Government as well as a drawdown from the investment portfolio were required to cover the shortfall.

Enforcing the recovery and collection of outstanding social security taxes remains a challenge. For fiscal year 2013, more than \$952,959 in delinquent taxes was recovered.

With increased benefit payments of 3.87% and 2.18% in 2013 and 2012, respectively, management continues to pursue efforts to increase contributions and curb disbursements through the following:

- Collection of delinquent taxes.
- Audits.
- Eligibility surveys.
- Monitoring investment performance.
- Controlling administrative expenses.

Supplemental funding from the FSM National Government also may be required in the future.

Legislative changes to increase contributions have been somewhat offset by legislative changes that increase benefits. We must continue to monitor this and pursue cost containment whenever possible.

It is projected that the System will require at least \$2.0 million additional funding to supplement benefit payments in 2014. The Administration will continue to work with the Legislature and Government to reduce the need for cash infusions and design a self-sustaining program.

Summary of Principal System Provisions

Applicable Laws

Public Law 2-74, as amended by Public Laws 5-120, 6-111, 7-118, 7-119, 7-120, 9-56, 12-51, 12-76, 14-37, 14-86, 15-73 and 16-10.

Workers and Employer's Contributions

Workers, self-employed workers and employers each pay 7.5% of Maximum Covered Earnings per quarter.

Self-employed with employees - remuneration shall be deemed to be twice the amount paid to the highest paid employee reported by the self-employed person in the quarter, up to maximum covered earnings.

Self-employed with no employees - Remuneration is deemed to be 5% of the gross revenue of the business for the previous calendar year subject to maximum covered earnings.

Coverage

All employees employed by an employer incorporated or doing business in the Federated States of Micronesia are covered unless both the employer and employee are currently subject to another recognized social security system.

Eligibility for and Computation of Benefits is based on the following definitions:

Quarters of Coverage: A calendar quarter in which contributions were made for at least \$300 of earnings.

Currently Insured: Credited with at least 20 quarters of coverage during the most recent previous 25 calendar quarters.

Fully Insured: Credited with at least one quarter of coverage for each year since the later of attainment of age 21 or June 30, 1968, and having not less than 12 quarters of coverage. If age 60 on or before December 31, 2006, no more than 38 quarters are required. No more than 50 quarters are required for everyone else.

Maximum Covered Earnings: Effective January 1, 2008, the \$5,000 quarterly limit increased to \$6,000; \$7,000 on January 1, 2013; \$8,000 on January 1, 2018; \$9,000 on January 1, 2023 and \$10,000 on October 1, 2028.

Minimum Benefit: \$75 per month. \$100 per month effective January 1, 2012.

Summary of Principal System Provisions

Basic Benefit

A worker's Basic Benefit is calculated as 1/12 of:

1. 16.5% of the first \$10,000 of Cumulative Maximum Covered Earnings for which contributions have been made, plus
2. 3.0% of the next \$30,000 of Cumulative Maximum Covered Earnings for which contributions have been made, plus
3. 2.0% of the next \$262,500 of Cumulative Maximum Covered Earnings for which contributions have been made, plus
4. 1.0% of Cumulative Maximum Covered Earnings in excess of \$302,500 for which contributions have been made.

Old Age Insurance Benefit

Eligibility: Age 60 and Fully Insured

Amount: Greater of the Basic Benefit or the Minimum Benefit, subject to the earnings test. Active workers who turn 60 after January 1, 2011 will receive 50% of the Basic Benefit from ages 60 to 64. The reduced benefit will not be subject to the earnings test.

Disability Insurance Benefit

Eligibility: Disabled for three months and Currently and Fully Insured at time of disability

Amount: Unreduced Basic Benefit earned at time of disability. Sum of disability benefit and workers compensation benefit may not exceed 80% of the highest covered compensation earned in the year of disability and the prior five years. The benefit ceases should the worker recover from the disability.

Surviving Spouse Benefit

Eligibility: Worker must have been Fully Insured at time of death.

Amount: 60% of the Basic Benefit earned at the time of death, subject to the earnings test. Paid until the earlier of the date the spouse remarries or dies. This benefit is reduced by any Old Age Insurance Benefit that the spouse may be entitled to based on his or her own earnings history.

Summary of Principal System Provisions

Surviving Child Benefit

Eligibility: Worker must have been Fully or Currently Insured at time of death.

Amount: 15% of the Basic Benefit for each dependent child under the age of 18 or 22 if a student. The benefit ceases if the child marries or is adopted by a close relative.

The sum of all survivors' benefits cannot exceed 100% of the Basic Benefit earned at the time of death.

Payment to Foreign Citizens residing outside the FSM

Payments to citizens and nationals of the Republic of Palau, the Republic of the Marshall Islands and the United States shall be made as if they were citizens or nationals of the Federated States of Micronesia as long as those nations give citizens and nationals of the Federated States of Micronesia reciprocal treatment. For citizens and nationals of other countries who are fully insured, a lump sum payment equal to total worker paid contributions as of the date the worker turned age 60, became disabled, or died. The lump sum payment is reduced by any payments already made to the employee, surviving spouse or child before the lump sum is paid.

Lump Sum Death Benefit

Eligibility: After the death of any covered worker and rights to all survivors benefits have ceased.

Amount: Four percent of total Maximum Covered Earnings for which contributions have been paid, less the value of any benefits already paid.

Lump Sum Benefit (other than death)

Eligibility: Age 60 and not Fully Insured, native born citizen of the Federated States of Micronesia or resident for at least 10 years and must have lived in the Federated States of Micronesia for at least one year immediately preceding death.

Amount: Four percent of total Maximum Covered Earnings for which contributions have been paid.

Earnings Test

Benefits are reduced by \$1 for every \$2 of earnings in excess of \$300 received each quarter.

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