

FSMSS Board of Trustees Meets in Kosrae

On December 11 and 12, 2007, the FSMSS Board of Trustees met on the island of Kosrae for its 3rd Regular Board Meeting of the year.

For the first time since February 2006, the board gathered with a full quorum. Gathered for the meeting were Chairman and Pohnpei State Representative, Lt. Gov. Jack E. Yakana; Vice Chairman and National Government Representative, Nahoy G. Selifis; Representative of Yap, Charles L. Chieng; Representative of Chuuk, Garrison Irons; and filling in vacant Kosrae Representative Seat, was Yosiwo George. FSMSS Administrator Alexander R. Narruhn was also present as ex-officio member.



The meeting took place in the conference room of the Kosrae Administration Building. Chairman Yakana opened the meeting with the roll call after which each member of the board took the time to cast their opening remarks. George officially welcomed the board to the State of Kosrae as its new representative and revealed that he was quite pleased to be representing his state. Each of the members echoed each other in their pleasure for finally attaining a full quorum. Irons, in particular, was pleased to finally meet all the members including Chieng of Yap and George of Kosrae. In his opening remarks, Chieng expressed similar sentiments and said he hoped the board would finally move forward with all the challenges the system currently faced in light of the fact that the board was finally operating under a full quorum. The first item on the agenda was a presentation by Daniel Roland of Smith Barney's Consulting Group, which replaced Merrill Lynch in September of 2006 as the FSMSS Investment Portfolio's consultant. The FSMSSA's portfolio is managed by three money managers: Atalanta Sosnoff, Payden & Rygel, and Missouri Valley Partners. Roland showed that the portfolio's total value as of September 30, 2007, was \$44.479 million. 59.2% of that was invested in large cap core, 32.3% was in fixed income, and the remaining 8.6% was invested in small cap. The growth of the portfolio was largely attributed to the constant over performance of Atalanta Sosnoff. It had constantly bested its benchmarks and came with returns at times when the overall market did not induce such returns.

After Roland's presentation, the board paid a courtesy visit to the Governor of the State of Kosrae, Robert J. Weilbacher. As it was just a courtesy visit, the board offered its willingness to participate in any state-arranged meeting or hearing in which the board would be glad to hear the people's concerns and questions. Chairman Yakana revealed that the board had conducted open public forums in the past and would be willing to schedule another for the State of Kosrae if requested to do so. The Governor thanked the board for the visit and assured them that if the need for a forum were to arise, he would inform the board of it.

The board reconvened in the conference room for a presentation from Donald H. Clark, vice president of Administrative Services Corporation. In his presentation, Clark walked the board through the viability of

retirement

plans.

Afterwards, Administrator Narruhn made his report to the board concerning the FSMSSA's current status. While benefit payments were constantly increasing, collections seemed to have reached a stagnant point and as a result, both 2005 and 2006 came in with deficits. Operations and benefit payments were greater than collections by \$817 thousand in 2005 and by \$1.814 million in 2006. As of September 30, 2007, benefit payments came in at a total of \$10.217 million while contributions amounted to \$8.688 million. Narruhn revealed that Public Law 14-86 had been passed in 2006, with the bulk of its amendments coming into effect on January 1, 2007. The intention of the law had been to decrease this gap between benefit payments and collections. Going on further, the administration had submitted a bill to the president which is currently with congress and this bill aims to rectify this issue by introducing key changes to help the system's unfunded liability and to bring a balance between collections and payments.

The administrator revealed that as of September 30, 2007, \$4.082 million was reported delinquent. Out of this, the FSMSSA had been able to collect \$1.704 million as of September 30, 2007, through audits and resulting payment agreements.

Continuing, the administrator walked the board through the pending amendment which if passed into law, would help the administration's collections and decrease the system's unfunded liability by a total of \$84.9 million and raise its funded status from the current 16% to 24%.

The board broke for the day at 4:00 p.m. and reconvened at 9:40 a.m. the next day. After entertaining an appeal case, the board had the administrator continue with his report. The administrator went on to present to the board the 2008 Proposed Budget for the FSMSSA. The law mandates that the budget for a year would be no more than 11% of the total collections for the previous year. The proposed budget was at \$1,104,132, which was 9.2% of the total projected income of the year. The administrator reminded the board that the FSMSSA had never exhausted the total budget for any one year. The board approved the calendar year 2008 proposed budget as it was well under the ceiling.

Along with this, the board approved a resolution to make two separate draw downs from the investment portfolio to cover benefit payments for the upcoming year. \$500 thousand would be the initial drawdown while \$900 thousand would be taken out sometime during the middle of the year. At 1:07 p.m., the board paid a courtesy visit to the Speaker of the Kosrae State Legislature, Lyndon Jackson. After reconvening, the board went over a recommendation from its investment consultant concerning one of its money managers, Missouri Valley Partners. Due to its unsatisfactory performance since being hired in 2003, the board decided to begin a manager search and have its consultant come up with 3 potential managers for the board to review in its next meeting.

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