CHAPTER 1.
GENERAL PROVISIONS

Section 101. Short title. This act is known and may be cited as the “Federated States of Micronesia Social Security Act.”

Section 102. Declaration of policy. The purpose of this act is to effect economy and efficiency in the fields of government and business by providing a means whereby employees may be ensured a measure of security in their old age and given an opportunity for leisure without hardship and complete loss of income. Further, to provide survivors’ insurance for wage earners and their dependents.

Section 103. Definitions. In this act, unless the context otherwise requires, the following definitions shall be applicable:

1. “Became disabled” means the first month in which an individual is under a disability and is both fully and currently insured.

2. “Board” means the Federated States of Micronesia Social Security Board provided for by section 201 of this act.

3. “Child or spouse” means that an applicant is the child or spouse of an individual if the court of the State in which the individual was domiciled at the time of his death has or would find the applicant to be the individual’s child or spouse in determining the devolution of interstate personal property.
(4) “Contributions” means the tax imposed upon income of covered employees and the tax imposed upon employers on account of wages paid to a covered employee.

(5) “Disability” means inability to engage in any substantial gainful employment by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(6) “Earning test” means that an individual who receives a retirement, disability, or survivor benefit and who works in covered or noncovered employment shall have his quarterly benefit reduced by $1 for each $2 earned in a quarter, except there shall be no reduction for the first $200 earned in a quarter. The reduction shall be applied in one of the subsequent two quarters immediately after the quarter in which the earnings were made, or as soon as possible thereafter.

(7) “Employee” means:

(a) any officer of a corporation; or

(b) any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee; or

(c) any self-employed person who has at least one employee for whom he is required to report in a given quarter; or

(d) any self-employed person who had more than $10,000 of annual gross revenue in the preceding calendar year.

(8) “Employment” means any service by an employee for an
employer incorporated or doing business within the Federated States of Micronesia employing him, irrespective of where such employment shall be performed, except family employment.

(9) “Family employment” means employment of a worker by a member of the household, a parent or a son or daughter except that the worker may apply to the Board for a determination that such employment is bona fide covered employment subject to this act.

(10) “Insured status” can mean any of the following:

(a) “Fully insured individual” means any individual who has not less than one quarter of coverage for each year beginning after June 30, 1968, or for each year after attaining the age of 21, whichever is later, and up to but excluding the year in which he attained retirement age, became disabled, or died, whichever first occurred, except that in no case shall an individual be a fully insured individual unless he has at least 12 quarters of coverage.

(b) “Currently insured individual” means any individual who has had not less than 8 quarters of coverage during the 13 quarter period ending with:

(i) the quarter in which he died, or

(ii) the quarter in which he became entitled to old age insurance benefits, or

(iii) the quarter in which he became disabled, whichever first occurs.

(11) “Quarter” and “calendar quarter” mean a period of three calendar months ending on March 31, June 30, September 30, or
December 31. "Quarter of coverage" means a quarter in which the individual has been paid $50 or more in wages in employment subject to this act.

(12) "Wages" means remuneration paid subject to the provisions of this act, including the cash value of all remuneration paid in any medium other than cash and remuneration accruing to a self-employed person. Remuneration accruing to a self-employed person shall be deemed to be twice the amount paid to the highest paid employee reported by the self-employed person in a quarter, $1,500 maximum per quarter. Remuneration accruing to a self-employed person who has no covered employees shall, for each quarter of a year, be deemed to be 2.5 percent of the gross revenue of the business for the previous calendar year, subject to $1,500 maximum. Remuneration paid for any service which is more or less than a whole dollar shall, as may be prescribed by regulations, be computed to the nearest dollar.

Wages shall not include:

(a) that part of remuneration in excess of $1,500 paid in a quarterly reporting period by one employer;

(b) any payment on account of sickness or accident disability, or medical or hospitalization expenses made by an employer to or on behalf of an employee;

(c) any payment made to or on behalf of an employee or to his beneficiary from a trust or annuity;

(d) remuneration paid in any medium other than cash to an employee for service not in the course of the employer’s trade
or business or for domestic service in a private home of an
employer;

(e) remuneration paid for casual or intermittent
labor not performed in the course of the employer’s trade or business
when such employment does not exceed employment in more than one
week in each calendar month of each quarterly reporting period; and

(f) remuneration from family employment subject to
the provisions of this act.

Section 104. Susceptibility of benefits, contributions, and
funds to legal process or assignment. The benefits, the employee
and employer contributions, and the securities in the several funds
from all taxes presently or hereinafter levied shall not be subject
to execution, attachment, or garnishment and shall be nonassignable
except as specifically provided in this act.

Section 105. Violations; Penalties.

(1) Any person who knowingly makes any false statement or
who falsifies any report to or record of the Federated States of
Micronesia Social Security System in an attempt to defraud the system
shall be guilty of a misdemeanor and upon conviction thereof shall be
imprisoned for a period of not more than one year, or fined not more
than $2,000 or both.

(2) Any person who willfully fails to report wages paid or
pay contributions required thereon shall be guilty of a misdemeanor
and, in addition to any other penalty prescribed by law, such a
person shall also pay penalties not in excess of 100 percent of the
tax due plus interest to the Board as it by regulation shall require.

(3) Any covered employer who fails to submit the quarterly report and pay the social security tax within 10 days after the end of the quarter shall be considered delinquent. The Board or its authorized representatives shall be vested with the authority to levy a penalty of not more than $250 on delinquent employers.

Section 106. Accounts, budget, and costs of administration.

(1) At such time as the Social Security Board may prescribe, the Social Security Administrator shall submit to the Board on forms and in the manner prescribed by the Board a detailed estimate of the budget for the next ensuing fiscal year for the proper conduct of the Social Security System. The Social Security Administrator shall submit to the Board:

(a) the audited accounts of the income and expenditure and the balance in the Social Security Retirement Fund for the last completed fiscal year,

(b) a statement showing the estimated income and expenditure for the fiscal year in progress, together with such summaries, schedules, and supporting data as may be deemed necessary,

(c) a statement showing the estimated balance of the Social Security Retirement Fund at the close of the fiscal year in progress, and

(d) a budget showing the estimated income and
expenditure for the next ensuing fiscal year.

(2) For the next ensuing fiscal year, the estimated costs of administration including salaries and wages, purchase of office supplies, operational expenses, and the maintenance of branch offices shall not exceed an expenditure maximum equal to 12 percent of the estimated income for that year from contributions and interest and dividend income on investments less investment expenses. The audited accounts and the budget for the ensuing fiscal year shall be approved by the Board and submitted to the President and the Congress of the Federated States of Micronesia. Should the estimated costs of administration exceed the expenditure maximum, legislative approval of the budgeted administration expenses is required.

CHAPTER 2.

SOCIAL SECURITY BOARD AND ADMINISTRATION

Section 201. Creation; Composition; Terms; Organization and procedure; Compensation. There is hereby created a Federated States of Micronesia Social Security Board of five members nominated by the President and confirmed by the Congress of the Federated States of Micronesia to operate the Social Security Program authorized by this act. Nominations to the Board shall take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. Members of the Board shall serve 3-year terms, and the Board shall provide for its own organization and procedure. Any vacancies on the Board shall be filled for the unexpired term only. Where a vacancy is for one
year or less, it shall be filled by appointment by the President, otherwise vacancies shall be filled by nomination by the President and confirmation by the Congress. The Social Security Administrator shall be an ex officio member of the Board. Members of the Board who are not Government employees shall be paid at the rate of $30 per day and necessary travel expenses when actually attending meetings of the Board. If a member of the Board is concurrently employed by the National Government of the Federated States of Micronesia, he shall receive his salary during attendance at Board meetings; PROVIDED that if his daily salary shall be less than $30, he shall also be entitled to receive the difference between his daily salary and $30.

Section 202. Powers and duties generally. The Board shall have the powers and privileges of a corporation; shall have an official seal; and shall in the name of “Federated States of Micronesia Social Security Administration” transact all business, enter into contracts, invest all funds or retain a firm to invest or reinvest funds under the Board’s supervision; and, under its rules, regulations, and conditions, transfer or assign such funds as herein authorized, purchase annuities, and hold in trust for the purposes for which received, all cash, securities, and other properties of the system. In the name “Federated States of Micronesia Social Security Administration” it may sue and be sued. The responsibility for the proper operation of this act shall be vested in the Board. The Board shall appoint a Social Security Administrator who shall have
responsibility for the general administration of the Social Security System, and who shall have power to employ and to delegate duties as such employees of the Social Security Administration as deemed feasible and desirable to carry out the provisions of this act.

Section 203. Promulgation of regulations; Hearings; Employees; Annual report. The Board may adopt, amend, or rescind regulations for the administration of this act pursuant to title 17, chapter 1, of the Code of the Federated States of Micronesia. It may hold hearings or make decisions upon hearings delegated to others for the purpose of determining any question involving any right, benefit, or obligation of any person subject to this act. It may fix the compensation of such employee it deems necessary within the limits of available administrative funds budgeted for its operation, and it may contract for special actuarial and other counseling on a fee basis. It shall bond itself and its employees in such amounts as it shall fix. It shall receive audited accounts of the Social Security System within 90 days of the end of the fiscal year of the system and transmit these accounts to the President and the Congress of the Federated States of Micronesia. The annual accounts and report shall be made available to the public. It shall submit to the President and the Congress for each fiscal year a report on its operations and the conditions of its funds, and subject to section 207, in such report shall make recommendations for amendments to this act as it deems desirable.

Section 204. Maintenance of records; Disclosure of records. The
Administrator shall receive and maintain files and records of all employers and all employees subject to this act. Such records shall not be disclosed to any person except as may be required in the administration of this act, or in connection with a hearing conducted in accordance with the provisions of this act.

Section 205. Appointment of branch managers. The Administrator shall have the authority to employ branch managers and delegate such power to such branch managers as may by regulation be prescribed.

Section 206. Audit of records; Power to subpoena; Administration of oaths. The Board and its authorized representatives shall have the power to audit employer records, issue subpoenas, and administer oaths appropriate to the administration of this act.

Section 207. Actuaries and actuarial valuations. The Board shall employ or contract with actuaries or actuarial firms for the purpose of making actuarial valuations of the Federated States of Micronesia Social Security System not less frequently than each 3 years after the date of commencement of the system. Such reports made to the Board shall be submitted with appropriate recommendations for changes in the system and amendments to this act to the President and to the Congress of the Federated States of Micronesia. An actuarial report prepared by a qualified actuary which analyzes the impact on the system of any proposed amendment which has financial implications must accompany the proposed amendment. In particular, proposals to amend section 103, sections 301 to 307 inclusive, sections 401 and 402, or chapter 5 must be accompanied by an actuarial report.
Section 208. Review of Board determinations. Any person aggrieved by a final order of the Board may obtain a review of the order in the Trial Division of the Supreme Court of the Federated States of Micronesia by filing in Court, within 60 days after the entry of the order, a written petition praying that the order be modified or set aside in whole or in part. A copy of the petition shall be served on the Board, by service on its secretary or other designated agent, and thereupon the Board shall certify and file in Court a copy of the record upon which the order was entered. The findings of the Board as to the facts, if supported by competent, material, and substantial evidence, shall be conclusive. If either party applies to the Court for leave to adduce additional material evidence, and shows to the satisfaction of the Court that there were reasonable grounds for failure to adduce the evidence in the hearing before the Board or its authorized representatives, and that such evidence is competent, material, and substantial, the Court may order the additional evidence to be taken by the Board and to be adduced upon the hearing in such manner and upon such conditions as the Court considers proper. The Board may modify its findings and order after receipt of further evidence together with any modified or new findings or order. The judgment of the Court upon the record shall be final, subject to review by the Appellate Division of the Supreme Court upon petition of any aggrieved party, including the Board, within 60 days from judgment.
COVERAGE AND BENEFITS

Section 301. Scope of coverage.

(1) All employees, wherever employed by an employer incorporated or doing business in the Federated States of Micronesia, shall be covered unless both the employer and the employee are currently subject to any other recognized Social Security System.

For the purposes of this act, any elected official in any Government unit or body in the Federated States of Micronesia is deemed to be an employee employed by a Federated States of Micronesia employer. The governmental unit or body to which such person is elected is subject to the provisions in this act relating to the duty and obligations of a Federated States of Micronesia employer.

(2) Every person who:

(a) is a fully insured individual, as defined in this act;

(b) has attained age 60 years; and

(c) has filed application for old age insurance shall be entitled to an old age insurance benefit for each month, beginning with the month for which both paragraphs (a) and (b) of this subsection are satisfied and ending with the month preceding the month in which he dies, subject to the earnings test as defined in this act.

Section 302. Surviving spouse’s benefits. The surviving spouse of an individual who died fully insured, if such a spouse has filed application, shall be entitled to a survivor insurance benefit for each month beginning with the month of death of the fully insured
spouse and ending with the month preceding the month in which the surviving spouse dies or remarries; PROVIDED that such benefit shall be subject to the earnings test as defined in this act.

Section 303. Dependent’s benefits; Disability benefits.

(1) Every surviving child who is dependent upon an individual entitled to old age benefits or who was dependent upon an individual who died fully insured or currently insured, shall be entitled, upon filing application, to a child’s insurance benefit for each month beginning with the month of death of such individual and ending with the month preceding whichever of the following first occurs:

(a) Attainment of age 18 years, except that benefits are payable until the month before the attainment of age 22 so long as the beneficiary is a bona fide student, and except that benefits are payable during the disability of a child who was disabled before the attainment of age 22;

(b) Marriage; or

(c) Adoption.

(2) A child shall be deemed dependent upon his parent or adopting parent unless such individual was not living in the same household with or contributing to the support of such child. Child’s insurance benefits shall be paid to the individual upon whom the child is currently dependent, except such benefit shall be subject to the earnings test as defined in this act.

(3) Every individual who is a fully and currently insured individual and is disabled and has been disabled for at least 3 full
calendar months, upon filing an application for disability
insurance benefits, shall be entitled to a disability insurance
benefit for each month beginning with the first month of the
waiting period and ending with the month preceding the month in
which he dies or recovers from his disability, subject to the
earnings test as defined in this act.

Section 304. Amount of retirement and disability insurance
benefits.

(1) An insured eligible individual shall be paid a
monthly old age benefit for life, except for any month of
disqualification as provided by this act, in an amount calculated
upon an annual basis of 12.6 percent of the first $10,000 of
cumulative covered earnings, plus 2.1 percent of cumulative covered
earnings in excess of $10,000 but not in excess of the next $30,000,
plus 1.05 percent of cumulative covered earnings in excess of $40,000.
Earnings for employment after commencement of payments for old age
or disability insurance benefits shall be included in benefit
calculations upon subsequent application for benefits, but such
earnings shall be applicable for benefits for months after the
calendar year in which such earnings occurred. For the purpose of
this section cumulative covered earnings includes earnings on which
contributions have been paid by the individual to the Trust Territory
Social Security System.

(2) An insured, eligible individual shall be paid a
minimum monthly benefit of $33.60 if the benefit amount calculated
in accordance with subsection (1) of this section is less than $33.60 monthly.

(3) An individual who is both fully and currently insured and who has been under a disability for 3 full calendar months shall be paid a monthly benefit for life or until recovery from the disability, except for any month of disqualification as provided by this act, in an amount calculated in accordance with the preceding subsections of this section. Further, the amount of the benefit as so determined shall, if the individual is receiving a periodic workmen’s compensation benefit, be reduced each month by the excess of the sum of the workmen’s compensation benefit for that month and the benefit payable under this act over 80 percent of one-twelfth of the highest annual covered wages in the period consisting of the year in which the disability occurred and the preceding five years. If a workmen’s compensation benefit was payable in periodic benefits but was commuted to a lump sum, for purposes of this subsection it will be considered that the periodic benefit originally available was paid in each month that it would have been paid if the commutation had not occurred.

Section 305. Reemployment after retirement. In the event an individual who is receiving retirement insurance benefits returns to covered employment, the benefit shall be recomputed at the end of the calendar year and paid as provided in this act beginning with the year after the calendar year the earnings were made.

Section 306. Amount of survivor insurance benefits.
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1 (1) The surviving spouse of a fully insured worker eligible in accordance with section 303 shall be paid a monthly benefit or disability in an amount equal to 60 percent of the retirement or disability insurance benefit calculated for the deceased spouse at the date of death.

2 (2) Each eligible child of an insured worker shall be entitled to a monthly benefit of 15 percent of the retirement insurance benefit calculated for the deceased parent at the date of death.

3 (3) If the spouse of the deceased insured worker is eligible for retirement benefit based on his or her own employment coverage, the survivor insurance benefit shall be reduced by the amount of such retirement benefit.

4 (4) In no event shall the total survivor benefit paid to the spouse and children exceed the retirement benefit calculated for the decedent as of the date of death, nor shall it be less than $33.60 a month computed prior to the application of subsection (3) of this section.

5 Section 307. Lump sum benefits.

6 (1) When a worker dies and the benefits paid, including survivor benefit, have been less than 4 percent of his cumulative covered earnings, the survivors, heirs, or the estate of such individual shall be paid a lump sum benefit, after all rights to survivor benefits have terminated, in an amount equal to 4 percent of the decedent’s cumulative covered earnings, reduced by the amount
of any benefits paid to the insured worker and his eligible
dependents. For the purpose of this section, cumulative covered
earnings includes earnings on which contributions have been paid
by the individual to the Trust Territory Social Security System.

(2) In the absence of a will, survivors shall be paid
in the following order:

(a) Spouse, if living, otherwise children in equal
shares or guardian, if such children are minors;

(b) Parents in equal shares; or

(c) Duly appointed legal representatives of the
deceased or, if none, person or persons determined to be entitled
thereto under the laws and customs of the last domicile of the
deceased person.

Section 308. Adjustments to correct for overpayments and
underpayments to an individual.

(1) Whenever an error has been made with respect to
insurance payments to an individual, proper adjustment shall be made,
under regulations promulgated by the Board by increasing or decreasing
subsequent payments to which such individual is entitled. If such
individual dies before such adjustment has been completed, adjustment
shall be made by increasing or decreasing subsequently paid survivor
benefit payments payable with respect to the wages which were the
basis of benefits of such deceased individual.

(2) No adjustment shall be made when adjustment or recovery would
be against equity and good conscience.
Section 309. Payments of benefits to foreign citizens outside Federated States of Micronesia.

(1) Notwithstanding any other provision of this chapter, no monthly benefits shall be paid under this chapter to any individual who is not a citizen or national of the Federated States of Micronesia for any month which is:

(a) After the sixth consecutive calendar month during all of which the administrator finds, on the basis of information furnished to him by the Attorney General or information which otherwise comes to his attention, that such individual is outside the Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau; and

(b) Prior to the first month thereafter for all of which such individual has been in the Federated States of Micronesia.

For purposes of this paragraph (1), after an individual has been outside the Federated States of Micronesia for any period of 30 consecutive days he shall be treated as remaining outside the Federated States of Micronesia until he has been in the Federated States of Micronesia for a period of 30 consecutive days.

(2) Subsection (1) of this section shall not apply to any individual who is a citizen of a foreign country which the Administrator finds has in effect a social insurance or pension system which is of general application in such country and under which:

(a) Periodic benefits, or the actuarial equivalent thereof, are paid on account of old age, retirement, or death, and
(b) Individuals who are citizens of the Federated States of Micronesia but not citizens of such foreign country and who qualify for such benefits as permitted to receive such benefits or the actuarial equivalent thereof while outside such foreign country without regard to the duration of the absence.

CHAPTER 4.

CONTRIBUTIONS

Section 401. Employee contributions.

(1) There is hereby imposed on every employee a tax equal to the following percentages of wages received by him with respect to employment subject to this act:

(a) With respect to wages paid from the effective date of this act through June 30, 1985, the rate shall be 2 percent;

(b) With respect to wages paid from July 1, 1985, through June 30, 1990, the rate shall be 3 percent;

(c) With respect to wages paid from July 1, 1990, through June 30, 1995, the rate shall be 4 percent;

(d) With respect to wages paid from July 1, 1995, through June 30, 2000, the rate shall be 5 percent;

(e) With respect to wages paid after June 30, 2000, the rate shall be 6 percent.

(2) The tax imposed shall be collected by the employer of the employee by deducting the amount of the tax from the wages as and when paid. Every employer required to so deduct the tax shall be liable for the payment of such tax to the Board and shall be indemnified
Section 402. Employer contributions. There is hereby imposed on every employer an excise tax, with respect to having an individual in his employ, equal to the following percentages of wages, paid by him with respect to the employment subject to this act:

(1) With respect to wages paid from the effective date of this act through June 30, 1985, the rate shall be 2 percent;

(2) With respect to wages paid from July 1, 1985, through June 30, 1990, the rate shall be 3 percent;

(3) With respect to wages paid from July 1, 1990, through June 30, 1995, the rate shall be 4 percent;

(4) With respect to wages paid from July 1, 1995, through June 30, 2000, the rate shall be 5 percent;

(5) With respect to wages paid after June 30, 2000, the rate shall be 6 percent.

Section 403. Employee refunds. When a covered employee is reported with earnings in excess of the quarterly maximum and taxes on the excess are withheld and paid into the Federated States of Micronesia Social Security Retirement Fund, the excess employee tax during the four quarters ending June 30 of each year shall be refunded to the employee within 90 days of that date; PROVIDED that the excess employee taxes are $1 or more. No refund, however, shall be granted to the employer or employers of such employee of taxes paid by such employers on account of wages paid by them to the employee.
Section 404. Reporting; Social security card and number. The Administration shall furnish each employer forms for record keeping and reporting of contributions which shall show in addition to other information specified by the Board the employer account number and the employee social security number. Numbers shall be issued by the employee social security number. Numbers shall be issued by the Administration from a permanent register maintained by it. Each employer shall report quarterly, on the prescribed forms, and pay taxes due thereon to the Administration in accordance with the Board’s regulation and subject to interest and penalty for failure so to do. Each employee shall be assigned a social security number and a card bearing this number.

CHAPTER 5.

RETIREMENT FUND

Section 501. Creation; Administration. There shall be a Federated States of Micronesia Social Security Retirement Fund separate and apart from all public monies or funds of the Federated States of Micronesia, which shall be administered by the Social Security Administration exclusively for the purposes of this act.

Section 502. Composition; Handling.

(1) The retirement fund shall consist of:

(a) All employee contributions;
(b) All employer contributions;
(c) All penalties and interest collected on account of contributions;
(d) All gifts, donations, and fund transfers authorized by law;
(e) All interest and earnings from investment of the funds; and
(f) Funds or assets which are transferred from the Trust Territory Social Security Retirement Fund to the Federated States of Micronesia Social Security Retirement Fund.

(2) Expenses incurred in the operation of the Federated States of Micronesia Social Security System shall be paid from the Federated States of Micronesia Social Security Retirement Fund.

Section 503. Investment of funds; Generally. The Board, after investigation and study, shall determine the methods of investing its trust funds to ensure the greatest return commensurate with sound financing adequately safeguarded. The Board may invest and reinvest the monies in its funds and may hold, purchase, sell, assign, transfer, and dispose of any of the securities and investments in which any of the monies of its funds are invested, and, upon such sale, the proceeds thereof shall be redeposited in the funds of the Board subject to reinvestment and payment therefrom by order of the Board.

Section 504. Investment of funds; Authorized investments enumerated. The Board may invest and reinvest its monies:

(1) in bonds or other evidences of indebtedness of the Federated States of Micronesia or the United States.
(2) in bonds or other evidences of indebtedness of any State of the Federated States of Micronesia or of the United States, PROVIDED
that such bonds or other evidences of indebtedness are guaranteed as to principal and interest or PROVIDED that such bonds or evidences of indebtedness are payable from revenues or earnings specifically pledged for the payment of principal and interest on such obligations, and for the payment of which a lawful sinking fund or reserve fund has been established and is being maintained, but only if no default in payment of principal or interest on the obligations to be purchased has occurred within 5 years of the date of investment therein, or, if such obligations were issued less than 5 years prior to the date of investment, no default in payment of principal or interest has occurred on the obligations to be purchased nor on any other obligations of the issuer within 5 years of such investments; PROVIDED always that at the time of purchase the total cost price of all bonds or evidences of indebtedness in any one State does not exceed 25 percent of the value of the invested assets of the fund at that time.

(3) in bonds, debentures, notes, and other evidences of indebtedness issued or assumed by Federated States of Micronesia institutions, created or existing under the laws of the Federated States of Micronesia, including housing authorities, when such obligations are guaranteed as to principal and interest by the Government of the Federated States of Micronesia; PROVIDED always that at the time of purchase the total cost price of all investments in any single institution does not exceed 25 percent of the value of the invested assets of the fund at that time.

(4) in bonds, debentures, notes, and other evidences of
indebtedness issued, assumed, or guaranteed by any solvent
institutions created or existing under the law of the United States
or of any state or territory thereof, or of the Federated States of
Micronesia, which are not in default as to principal or interest
and which are secured by collateral worth at least 50 percent more
than the par value of the entire issue of such obligations, but only
if not more than one-third of the total value of such required
collateral shall consist of common stock; PROVIDED always that at the
time of purchase the total cost price of all investments in any single
institution does not exceed 25 percent of the value of the invested
assets of the fund at that time.

(5) in common stock, PROVIDED that:

(a) the stock is listed on a recognized United States
stock exchange,

(b) no dividends on the stock have been omitted or
defered during the 5 years prior to the date of purchase, and

(c) purchase of a stock would not result in the fund
holding stock in one corporation in excess of 5 percent or in one
industry group in excess of 10 percent of the value of the invested
assets of the fund at that time, subject always to a maximum
investment at cost price in any one corporation of $350,000.

CHAPTER 6.

TRANSITIONAL PROVISIONS

Section 601. Appointment of initial Board.

(1) Upon effective date of this act the President shall
make nominations for members of the Federated States of Micronesia Social Security Board which shall be subject to confirmation by the Congress. Notwithstanding section 201 the initial Board shall be appointed for the following terms: two members for a period of 3 years, 2 members for a period of 2 years, and 1 member for a period of 1 year. At the conclusion of the term of each Board member the vacancy will be filled in accordance with section 201.

(2) Notwithstanding section 202 and subject to other provisions of this chapter, upon confirmation by the Congress of the initial Board nominations, the Federated States of Micronesia Social Security Board shall enter into an agreement in accordance with section 602 with the Trust Territory Social Security Board providing, inter alia, that the Trust Territory Social Security Administration shall, as the agent of the Federated States of Micronesia Social Security Board, undertake the proper and efficient operation of the Social Security System defined by this act during the transitional period insofar as it pertains to persons covered under this act and until such time as the Federated States of Micronesia Social Security Board and the Trust Territory Social Security Board agree to implement section 604 and the Federated States of Micronesia Social Security Board exercises its prerogatives under sections 603(4) and 605.

Section 602. Agreement between Federated States of Micronesia Social Security Board and Trust Territory Social Security Board.

(1) In order to ensure the continuous efficient operation of the Federated States of Micronesia Social Security System, the
Board of the Federated States of Micronesia Social Security System shall enter into an agreement with the Trust Territory Social Security Board providing that the Trust Territory Social Security Board shall undertake the investment and reinvestment of funds accruing to the Federated States of Micronesia Social Security System, and that the Trust Territory Social Security Administration shall undertake:

(a) The administration of the Federated States of Micronesia Social Security System, including, but not limited to:

(i) Collection of contributions,

(ii) Payment of benefits,

(iii) Maintenance of individual records,

(iv) Registration of employers and employees,

(v) Enforcement of compliance,

(vi) Adjudication of claims,

(vii) Review of eligibility of claims in payment,

(viii) Maintenance of separate accounts and preparation of financial statement, and

(ix) Preparation of budget;

(b) The provision of technical advice;

(c) The training of staff recruited by the Federated States of Micronesia Social Security Board;

(d) Assistance in the establishment of an automatic data processing facility for the Federated States of Micronesia Social Security Administration; and
(e) Other functions as may from time-to-time be required by mutual agreement between the Federated States of Micronesia Social Security Board and the Trust Territory Social Security Board.

(2) The term of the agreement shall be decided by the Board of the Federated States of Micronesia Social Security System and the Board of the Trust Territory Social Security System, taking into account the nature and complexity of the functions which are to be performed and the period of training which is required so that these functions may be properly performed by the staff of the Federated States of Micronesia Social Security Board. By mutual agreement of the Board of the Federated States of Micronesia Social Security System and the Trust Territory Social Security Board, the term of the agreement may be extended or the provisions of the agreement modified.

(3) The agreement shall provide that the cost of administration of the Federated States of Micronesia Social Security System by the Trust Territory Social Security Administration shall be paid from the income of the Federated States of Micronesia Social Security System. This cost shall be estimated from the share of the budgeted cost of administration for the Trust Territory Social Security System which is allocable to the Federated States of Micronesia Social Security System. The cost of remuneration, travel, per diem and other expenditures on account of staff recruited by the Federated States of Micronesia Social Security Board shall be paid from the income of the Federated States of Micronesia Social Security System.
Section 603. Apportionment of assets of the Trust Territory Social Security Retirement Fund.

(1) As of the end of the first calendar quarter following the effective date of this act, the portion of the Trust Territory Social Security Retirement Fund and accrued items allocable to the Federated States of Micronesia Social Security System shall be determined.

(2) This determination shall be made by an actuary in accordance with generally accepted actuarial principles, and it shall be done in such a manner so as to ensure the equitable treatment of employees and beneficiaries of the Federated States of Micronesia Social Security System, other successor Social Security Systems to the Trust Territory Social Security System, and the Trust Territory Social Security System. The allocation shall be based on the contributions of employees and persons in receipt of retirement and disability insurance benefits.

(3) The actuary shall be appointed by the Trust Territory Social Security Board with the concurrence of the Federated States of Micronesia Social Security Board and the cost of the actuarial valuation shall be paid by the Trust Territory Social Security System and allocated on a pro-rata basis among the successor systems to the Trust Territory Social Security System.

(4) The portion of the invested assets of the Trust Territory Social Security System which is allocated to the Federated States of Micronesia Social Security System shall continue to be
invested in a pool with the funds of Trust Territory Social Security System and other successor Social Security Systems until such time following the termination of the agreement described in section 602 that the Federated States of Micronesia Social Security Board as trustees on behalf of covered employees and beneficiaries deems it prudent and advisable and in the best interest of persons insured under the Federated States of Micronesia Social Security System to modify the investment policy which has been followed by the Trust Territory Social Security Board. Until this time, separate accounts of each national system’s proportionate share of the total invested assets shall be maintained.

(5) At such time or times following the termination of the agreement described in section 602 as the Federated States of Micronesia Social Security Board wishes to realize all or a portion of its invested assets, the Board shall negotiate arrangements with the investment management firm as to how, in what form, and at what times the assets are to be realized and these arrangements shall be equitable to members of the Federated States of Micronesia Social Security System and other social security systems then participating in the pool.

(6) Notwithstanding section 603(5), a firm managing the pooled investments of the Federated States of Micronesia Social Security System, or other successor systems to the Trust Territory Social Security System, and of the Trust Territory Social Security System shall be entitled to a period of 6 months following written
notification of the intention of the Federated States of Micronesia Social Security Board to realize all or a portion of its invested assets before these assets or the cash equivalent of these assets must be delivered over to the Board.

Section 604. Collection and remittance of contributions; payment of benefits. As of the end of a calendar quarter to be determined by agreement between the Federated States of Micronesia Social Security Board and the Trust Territory Social Security Board, following the termination of the agreement described in section 602, contributions shall be paid directly to and benefits paid directly by the Federated States of Micronesia Social Security Administration. Until such time as this occurs, the Trust Territory Social Security System shall maintain a separate account and collect contributions, pay benefits, and invest the excess of contributions income over benefit payments and administration expenses as an agent of the Federated States of Micronesia Social Security Board.

Section 605. Other administrative functions. Following the implementation of section 604, and until such time as the Federated States of Micronesia Social Security Board determines that in addition to those functions described in section 604, its Social Security Administration can effectively and efficiently assume all administrative functions associated with the operation of the Social Security System, including settlement and review of claims, enforcement of compliance, registration of employees and insured persons, and maintenance of individual records, the administration of the Trust Territory Social Security System shall maintain a separate account and invest the excess of contributions income over benefit payments and administration expenses as an agent of the Federated States of Micronesia Social Security Board.
Second Congress of the Federated States of Micronesia

Congressional Bill No. 2-307, C.D.1

Public Law 2-74

1 Security System shall continue to perform these functions as an
agent of the Federated States of Micronesia Social Security Board.

Section 606. Administration expenses. During the period the
Administration of the Trust Territory Social Security System
performs the functions described in sections 604 and 605 as an agent
of the Federated States of Micronesia Social Security Board, it
shall be paid an administration fee which will be established by
agreement between the Federated States of Micronesia Social Security
Board and the Trust Territory Social Security Board.

Section 607. Physical assets.

(1) As of the effective date of this act, ownership of the
physical assets including property of the Trust Territory Social
Security System in the Federated States of Micronesia shall be
transferred to the Federated States of Micronesia Social Security
Board. While the Trust Territory Social Security Administration
is performing administrative operations as agents of the Federated
States of Micronesia Social Security System in accordance with
sections 603, 604, and 605, it shall have the right of access to and
use of these physical assets in order to properly carry out its
administration of the Federated States of Micronesia Social Security
System.

(2) At such time as the Trust Territory Social Security
Administration ceases to have responsibility for any employees and
beneficiaries under the Trust Territory Social Security System or
any successor systems, and its affairs are wound up, the movable
property of the Trust Territory Administration shall be distributed among the successor systems in the same proportions as the assets are apportioned under section 603.

Section 608. **Reciprocal agreements.** In view of the considerable intercountry migration among those countries who nationals were or are members of the Trust Territory Social Security System, the Federated States of Micronesia Social Security Board may endeavor to negotiate reciprocal agreements for social security coverage with the other successor systems to the Trust Territory Social Security System.

Section 609. **Saving of title 53 of the Code of the Federated States of Micronesia for certain purposes.**

(1) The provisions of this section apply notwithstanding the repeal of title 53 of the Code of the Federated States of Micronesia, the “Trust Territory Social Security Act,” by sections of this act, but subject to any other provisions of this act.

(2) The Trust Territory Social Security Board continues in existence, and the provisions of title 53 of the Code of the Federated States of Micronesia relating to the Board continue in effect, so long as it’s necessary:

(a) For the performance of the functions of the Board under this act and any corresponding laws of the Republic of the Marshall Islands and the Republic of Palau; and

(b) Thereafter for the purpose of the winding up of its affairs.

(3) Upon the certification by the Federated States of
1 Micronesia Social Security Board, of the completion of the winding
2 up of the affairs of the Trust Territory Social Security Board,
3 the Trust Territory Social Security Board is dissolved.
4 (4) The provisions of title 53 of the Code of the
5 Federated States of Micronesia applying to or in relation to prior
6 service credits and prior service benefits continue in effect.

CHAPTER 7.

EFFECTIVE DATE

Section 701. Effective date. This act shall become law upon
its approval by the President of the Federated States of Micronesia
or upon its becoming law without such approval, and the effective
date of this act shall be:

(1) The date on which it becomes effective in accordance
with Secretarial Order No. 3039; or
(2) The date on which Secretarial Order No. 3039, section
7, ceases to prevent its becoming effective, whichever is the
earlier date.

Signed by President Tosiwo Nakayama
on February 8, 1983