

# FSM Social Security Administration



## ANNUAL REPORT 2015



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## Letter from the Chairman

Improvements continued during 2015 for the FSM Social Security Administration, in the areas of finance, administration and governance. The Board continues to tackle the challenges, but is also proud of the enhancements made on a day-to-day basis. For the third year in a row, the System saw positive returns. The returns were not at the level anticipated, but with the help of their investment consultants, adjustments were made to enhance future returns. The investment portfolio was valued at \$43,005,195 at the end of 2015.

Contributions for the 2015 Fiscal Year were flat at \$17.62, compared with \$17.64 million in contributions for 2014. The tax increase, effective January 2013, which raised the contribution rate from 14% to 15% while the taxable wage base rose from \$6,000 to \$7,000 continues to help the System. 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 2015, the System collected \$891,567 from delinquent accounts.

As expected, benefit payments also increased. A total of \$19.24 million was disbursed in benefit payments during fiscal year 2015. This represents a 1.34% increase from \$18.99 million in 2014. The percentage increase was less than previous years due to audits and questionnaires of current recipients to verify all are still eligible to receive payments. As of December 31, 2015, there were 6,422 members and beneficiaries receiving benefits.

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 2015 was \$1.85 million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.28 million, and actual expenses were lower than the budget, creating a \$57,000 surplus.

The Board was able to fill two vacant seats – one from National Government and one from Pohnpei. We welcome Mr. Mathew Chigiya and Mr. Jack Harris and thank them for their willingness to help provide important benefits to the citizens of FSM.

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,



Nakama Sana  
Chairman

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

*Chuuk State*  
Nakama Sana  
Chairman



10/1/13 to 9/30/16

*Yap State*  
Vincent Tafileluw  
Vice Chairman



7/24/13 to 7/23/16

*Kosrae State*  
Kalwin Kephias



4/1/14 to 3/31/17

*Pohnpei State*  
Jack Harris



9/23/15 to 12/31/18

*FSM National Government*  
Mathew Yamada Chigiya



11/20/15 to 12/31/18

*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 6/30/18

## **Administrator's Report**

I submit this Annual Report of the Federated States of Micronesia Social Security System (FSMSSA, or the "System") covering fiscal year 2015, the period from January 1, 2015, to December 31, 2015, 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 February 2-4, 2015*, the FSM Social Security Board of Trustees held a special meeting in Honolulu, HI for the Trust Fund Portfolio review and other businesses pending. Chairman Gillian Doone, National Government, Vice Chairman Vincent Tafileluw, Yap State, Trustee Nakama Sana, Chuuk State, Trustee Kalwin Kephas, Kosrae State and ex-officio member Administrator Alexander R. Narruhn were present at the meeting.

The meeting began with a discussion of the pending Social Security bill in Congress, which was close to being passed, but due to unfavorable amendments attached, was put on hold. After approval of the prior meeting minutes, a discussion was held to determine the leadership on the Board. A vote was held and Nakama Sana was selected as Chairman and Vincent Tafileluw will remain as Vice Chairman.

The Administrator's report consisted of a reiteration of how damaging an amendment to decrease normal retirement age to 60 would be on the system, along with miscellaneous staff discussions and an update on potential office space. The report concluded with an update of two Kosrae appeals that are now in court.

The meeting concluded with a discussion of the open Deputy Administrator's position and a real estate presentation by an outside consultant.

*On April 2, 2015*, the FSM Social Security Board of Trustees held its first regular meeting of the year in Pohnpei. Chairman Nakama Sana, Chuuk State, facilitated the meeting. Vice Chairman Vincent Tafileluw, Yap State, Trustee Kalwin Kephas, Kosrae State and ex-officio member Administrator Alexander R. Narruhn also were in attendance. Steve Finnen, FSMSS Legal Counsel and Claim Officer, Francky Ilai also joined the meeting. After roll call, the appeals for prior benefit eligibility denials were presented to the Board.

A variety of benefit denial 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.

The meeting agenda then moved to the discussion and approval of the prior meeting's minutes, interviews for the vacant Deputy Administrator position and an investment presentation by Mr. Dan Roland.

Closing statements were made in which Trustee Kephas thanked everyone for a good meeting; Vice Chairman Tafileluw thanked the Board Members for taking time out of their vacation to attend the meeting. Chairman Sana announced the decision to appoint Mr. Ilai as Deputy Administrator and called for the nominations of Trustees for Pohnpei and the National Government to come as soon as possible. He closed the meeting by thanking the Administrator for the good work.

## Administrator's Report

**On June 17-19, 2015**, the second regular Board Meeting of 2015 was held in Yap. Chairman Nakama Sana, Chuuk State, Vice Chairman Vincent Tafileluw, Yap State; Trustee Kalwin Kephas, Kosrae State and ex-officio member Administrator Alexander R. Narruhn were in attendance. Deputy Administrator Francky Ilai and Yap Branch Manager Erick G. Ruepong also were in attendance.

After roll call and approval of the prior meeting's minutes, Chairman Sana thanked the Yap staff for two days of excellent hospitality, good work and good meetings. Vice Chairman Tafileluw welcomed the Board to Yap and Trustee Kalwin also shared his appreciation for the hospitality.

Mr. Narruhn presented the Administrator Report, which included an update on the hiring of the Claims Officer. There are applicants from all the states, and after the Board meeting, a screening will be completed to determine the top candidates. There is also an open technical position in Yap. Mr. Narruhn also reported that the person in Honolulu hired to communicate the value in voluntary contributions has requested assistance. As a result, the Administrator and Chairman will be attending a public forum to help spread the message in Hawaii. The report concluded with a discussion on a pending bill from the President that adjusts benefits for those working after age 65.

New Business began with the hearing of two appeals (one for a disability claim and one for a child survivor claim). The Board reviewed each case and reported its decisions accordingly. The Board was also presented with the provisions of a Board sponsored bill, a voluntary contributions report and a financial statement. Finally, comments were made regarding the continued vacant position from Pohnpei and a suggestion for additional staff development in the next budget.

The meeting concluded with final remarks by the Board Members and Administrator where thanks were provided for Yap's hospitality and everyone's hard work and dedication.

**On August 21, 2015**, the FSMSSA Board convened for the third regular Board meeting of the year in Guam. Present at the meeting were Chairman Nakama Sana, Chuuk State, Vice Chairman Vincent Tafileluw, Yap State; Trustee Kalwin Kephas, Kosrae State and ex-officio member Administrator Alexander R. Narruhn. Deputy Administrator Francky Ilai was in attendance. After minutes of the previous meeting were adopted, and Chairman Sana made opening remarks, the Administrator Report was presented.

The Board reviewed each case and reported its decisions accordingly.

Old business included a discussion on the current status of the Social Security amendment and the appeal of two denied benefit applications. The Board reviewed each case and reported its decisions accordingly.

The meeting concluded final remarks by the Board Members and Administrator.

## **Administrator's Report**

*On December 2, 2015*, FSMSSA Board held its fourth regular meeting of 2015 in Manila, Philippines. Chairman, representative of Chuuk State, Nakama Sana, Vice Chairman, representative of Yap State, Vincent Tafileluw; Jack Harris of, representative of Pohnpei State; and ex-officio member Administrator Alexander R. Narruhn were in attendance. Assistant Administrator Francky Ilai also attended the meeting. After a welcome to Mr. Harris, the newest Board Member, an investment performance report was facilitated by Jason Miyashita of Smith Barney Morgan Stanley. Reports were presented by Raymond James, Atalanta Sosnoff, Aristotle Capital Management and Garcia Hamilton & Associates.

The meeting reconvened in the afternoon and the budget was discussed and approved and the new amendment to be presented to Congress was discussed. The budget has a ceiling of \$1,859,000, which is 11% of the projected revenue for 2016 (\$16,900,000). However, the actual 2016 budget for administrative expenses is \$1,276,548, or 7.6% of the projected income. A key provision of the proposed bill includes a \$10 million interest free loan from the FSM government to help with cash flow.

After the financial statements were presented, final remarks were made by the Board Members and the meeting was adjourned.

### **Board Continues to Work on New Amendment**

Due to the challenges faced by FSMSSA, the Board continues to research and propose amendments to the Social Security Act. Recent changes have helped the System by increasing future contributions and decreasing future benefits. For the System to be sustainable for future generations, additional changes must be made. The Board is proposing increasing contributions by including more self-employed income and wages made by fishing vessel employees. They are also looking at adjusting the maximum taxable wage and lowering the benefit formula at the higher cumulative wage level.

### **Staff Updates**

Francky Ilai was promoted from Claim Officer to Deputy Administrator. Kerman Alten was then promoted to Claim Officer.

**Financial Reports**

**Net Assets**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Cash and equivalents	\$ 2,922,069	\$ 2,020,467	\$ 1,931,021
Investments	43,005,195	45,329,658	43,736,351
Other current assets	3,953,009	2,867,721	3,293,007
Fixed assets, net	99,865	81,774	107,152
Total	49,980,138	50,299,620	49,067,531
<b>Liabilities</b>	<u>159,623</u>	<u>171,890</u>	<u>180,206</u>
Net Assets Held in trust for retirement, disability and survivors; benefit	\$ <u>49,820,515</u>	\$ <u>50,127,730</u>	\$ <u>48,887,325</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 CY2015.

	<b>2015</b>
<b>Contributions</b>	\$17,623,995
<b>Benefit Payments</b>	(19,240,090)
<b>Admin Expenses</b>	(1,208,146)
<b>Other Income, net</b>	<u>2,047,029</u>
<b>Operating Deficit</b>	(777,212)
<b>Investment Income/(Loss), net</b>	<u>469,997</u>
<b>Change in Net Assets</b>	(307,215)
<b>Net Assets, beginning of year</b>	<u>50,127,730</u>
<b>Net Assets, 12/31, end of year</b>	<u>\$49,820,515</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.

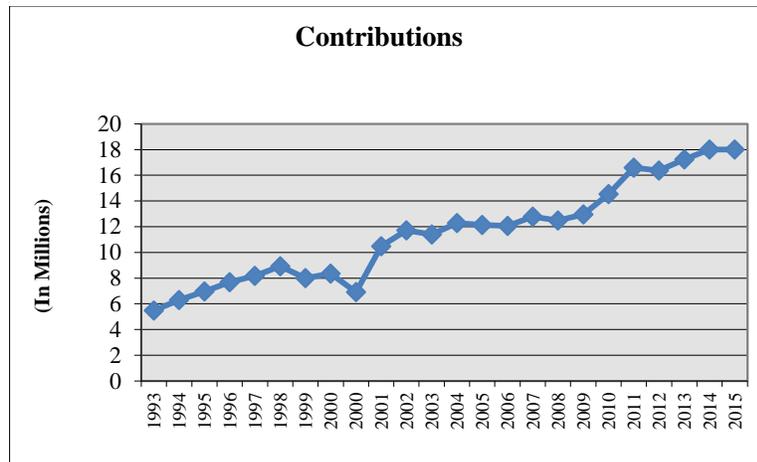
The following graphs illustrate current and historical levels of contributions received as well as benefit payments and administrative expenses paid. The graphs also track the overall historical value of the investment and realized past investment performance.

# Administrator's Report

## Contributions

2015 contributions totaled \$17.62 million, a decrease of 0.11% from 2014's collections of \$17.64 million. Contributions were comprised of:

<b>Government</b>	\$8,670,218
<b>Private</b>	8,789,853
<b>Judgment</b>	7,285
<b>Pen./Interest</b>	<u>156,639</u>
<b>Total</b>	\$17,623,995



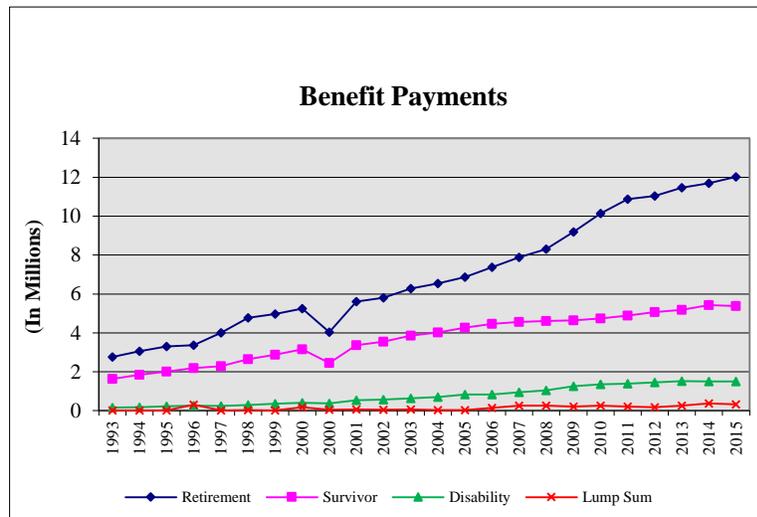
## Benefit Payments

A total of \$19.24 million was disbursed in benefit payments during fiscal year 2015.

Disbursements were comprised of:

<b>Retirement</b>	\$12,024,918
<b>Survivor</b>	5,381,314
<b>Disability</b>	1,514,583
<b>Lump Sum</b>	<u>319,275</u>
<b>Total</b>	\$19,240,090

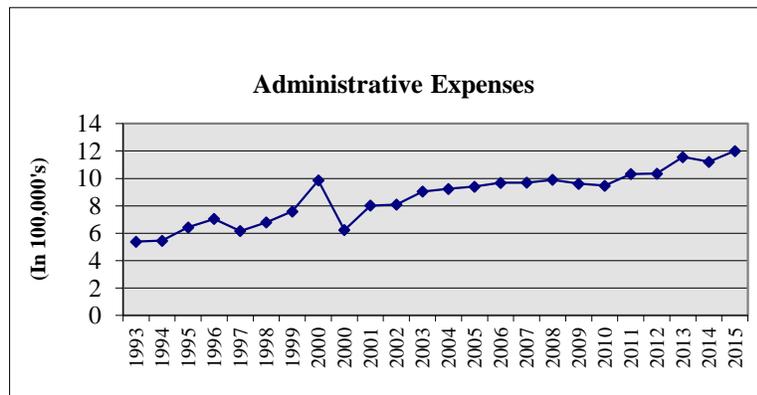
Benefit payments increased by 1.34% from \$18.99 million in 2014 to \$19.24 million in 2015.



## Administrative Expenses

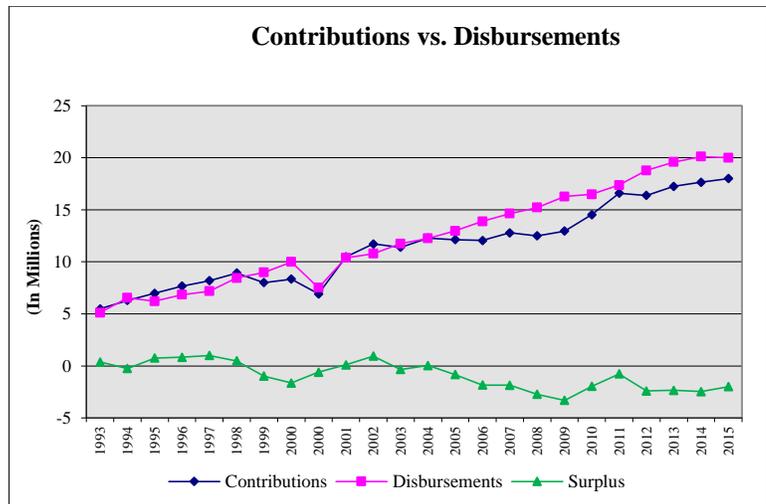
Net administrative expenses totaled \$1,208,146 for 2015, increasing by 7.71% over 2014. The 2015 expenses were \$67,452 under budget. Administrative expenses were:

<b>Budget</b>	\$1,275,598
<b>Actual</b>	1,208,146
<b>Surplus</b>	67,452
<b>% Surplus</b>	5%



**Contributions and Disbursements (Benefits + Admin. Expenses)**

Contributions decreased by 0.11% from \$17.64 million in 2014 to \$17.62 million in 2015. Disbursements increased by 1.7% from \$20.11 million in 2014 to \$20.45 million in 2015. Although the gap between contributions and disbursements has narrowed, disbursements continue to outpace contributions. \$2.5 million was withdrawn from the investment portfolio and \$2 million was received from FSM National Government to cover the shortfall.

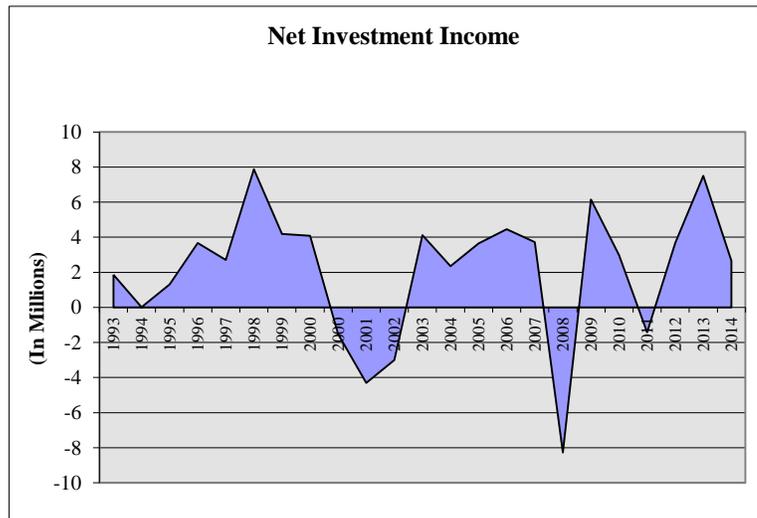


**Investments**

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 \$43,005,195 at the end of 2015. Investment income decreased by 82% from a \$2.66 million net gain in 2014 to \$0.47 million net gain in 2015. The \$43.01 million market value of the investment portfolio is net of \$2.5 million drawdown during the year to supplement benefit payments.



**Investment Income/(Loss)**

	2015	2014
<b>Investment</b>	\$43,005,195	\$45,329,658
<b>Income/(Loss)</b>	469,997	2,659,510
<b>Drawdown</b>	2,500,000	1,000,000

# Administrator's Report

## 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.

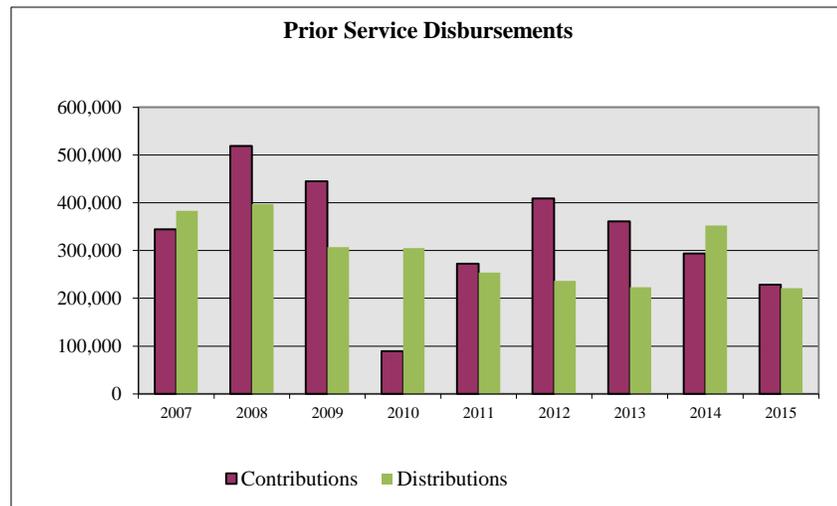
In 1987, the United States Congress provided \$8 million for initial capitalization of the PSBTF. Pursuant to U.S. Public Law 99-239, future funding would be provided, if warranted, based on the results of actuarial valuations.

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 FY2015, total funds received from the Prior Service Trust Fund Administration amounted to \$228,767 while benefits paid and administrative expenses totaled \$220,991. 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, 2015, the Prior Service Fund had net assets of \$197,688.

## Prior Service

For fiscal year 2015, reimbursements to FSMSSA from the Prior Service Benefits Trust Fund totaled \$228,767 while benefits paid and expenses incurred totaled \$220,991.



## Conclusion

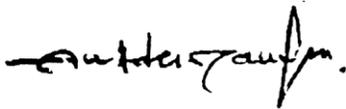
Although the Program continues to curb disbursements and increase collections through various efforts, the System continues to pay more in benefits, refunds and expenses than it collects in contributions. Improved investment performance and tax increases have helped offset some of this drain, but as 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

# Administrator's Report

## 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

### Investment Advisor

Consulting Group/Morgan  
Stanley Smith Barney  
120 Father Duenas Ave.  
Hagatna, Guam 96910

### Legal Counsel

Federated States of  
Micronesia  
Attorney General

Michael Sipos  
P.O. Box 2069  
Kolonias, Pohnpei FM  
96941

Law Office of Steve Finnen  
P.O. Box 1450  
Kolonias, Pohnpei, FM  
96941

### Money Managers

Cambiar Investors  
2401 E. Second Ave.  
Denver, CO 80206

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

Golden Capital Management LLC  
10715 David Taylor Dr.  
Suite 400  
Charlotte, NC 28262

Renaissance  
50 E. River Center Blvd., Suite  
1200  
Covington, KY 41011

Winslow Capital Group, LLC  
42 Western County Rd.  
Penobscot, ME 04476

Garcia, Hamilton & Associates  
Five Houston Center  
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, 2015. 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:

Nakama Sana	State of Chuuk	Chairman of the Board
Vincent Tafileluw	State of Yap	Vice Chairman
Kalwin Kephas	State of Kosrae	Member
Jack Harris	State of Pohnpei	Member
Mathew Chigiyaal	National Government	Member
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 2015, based on projected income of \$16.8 million, was \$1.85 million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.28 million, which is 7.6% of the projected income. The actual administrative cost incurred for FY 2015 was \$1.21 million, or 5% surplus compared to the approved budget. The remaining administrative costs for FY 2015 of \$37,000 pertained to the Prior Service Fund.

# Management's Discussion and Analysis

## Significant Events

- ✓ Contributions collected slightly decreased by 0.1% from \$17.64 million in 2014 to \$17.62 million in 2015.
- ✓ Total benefit payments to members or their beneficiaries increased by 1.3% from \$18.99 million in 2014 to \$19.24 million in 2015.
- ✓ 6,422 FSM citizens received Social Security benefits in fiscal year 2015.
- ✓ 870 retirement, survivor and disability claims were received, processed, and approved in fiscal year 2015.
- ✓ Investment portfolio, including marketable securities, decreased by 5% from \$45.33 million in 2014 to \$43.01 million in 2015.
- ✓ FSMSSA received \$2 million in funding (\$1 million received in 2015, \$1 million will be received in 2016) from the FSM National Government, which was used to supplement benefit payments.
- ✓ A drawdown of \$2.5 million was made from the investment portfolio to supplement benefit payments.
- ✓ Net position totaled \$49.82 million on December 31, 2015, compared to \$50.13 million on December 31, 2014, a decrease of 0.6%.
- ✓ \$891,567 from delinquent accounts was collected in 2015.
- ✓ Close monitoring of expenses led to an administrative budget surplus of 5% in fiscal year 2015.
- ✓ Received \$228,000 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2015 totaled \$183,851.
- ✓ 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) decreased by 0.6% from \$50.13 million in 2014 to \$49.82 million in 2015. The increase was attributed to net investment gain.

<b>Statement of Net Assets (Retirement Fund)</b>			
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>ASSETS</b>			
Cash and equivalents	\$2,922,069	\$2,020,467	\$1,931,021
Investments	43,005,195	45,329,658	43,736,351
Other current assets	3,953,009	2,867,721	3,293,007
Fixed assets, net	99,865	81,774	107,152
Total	<u>\$49,980,138</u>	<u>\$50,299,620</u>	<u>\$ 49,067,531</u>
<b>LIABILITIES</b>	<u>\$159,623</u>	<u>\$ 171,890</u>	<u>\$ 180,206</u>
<b>NET ASSETS</b>			
Held in trust for retirement, disability and survivors' benefit	\$49,820,515	\$50,127,730	\$ 48,887,325

<b>Statement of Changes in Net Assets (Retirement Fund)</b>			
	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
Contributions	\$17,623,995	\$17,641,983	\$17,244,974
Benefit Payments	(19,240,090)	(18,985,730)	(18,431,758)
Admin Expenses	(1,208,146)	(1,121,686)	(1,156,701)
Other	2,047,029	1,046,328	1,041,065
<b>Operating deficit</b>	<u>\$ (777,212)</u>	<u>\$ (1,419,105)</u>	<u>\$(1,302,420)</u>
<b>Investment Income</b>	<u>469,997</u>	<u>2,659,510</u>	<u>7,502,456</u>
Change in Net Assets	\$(307,215)	\$1,240,405	\$6,200,036
Net Assets, beginning	<u>50,127,730</u>	<u>48,887,325</u>	<u>42,687,289</u>
<b>Net Assets, ending</b>	<u>\$49,820,515</u>	<u>\$50,127,730</u>	<u>\$48,887,325</u>

## Management's Discussion and Analysis

- Investment income decreased by 82% from \$2.7 million net gain in 2014 to \$0.47 million net gain in 2015. The net gain is below the anticipated return of 7.5%. As a result, the market value of the investment portfolio as of the end of FY 2015 decreased to \$43.01 million from \$45.33 million in 2014. This end of year market value is net of \$2.5 million drawdown required to supplement benefit payments in addition to the \$2 million funding received from the FSM National Government.

<b>Retirement Fund</b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Investment*	\$43,005,195	\$45,329,658	\$43,736,351
Investment Income	469,997	2,659,510	7,502,456
Investment Withdrawals	2,500,000	1,000,000	1,000,000
*includes cash management fund			

- The total amount of contributions collected was \$17.62 million, averaging a collection of \$4.40 million per quarter. This amount reflects a small decrease of 0.10% compared to \$17.64 million collected in 2014. The lower collection amount is attributed to lower collections of delinquent accounts, which declined from \$1,103,931 to \$891,567.

<b>Contributions</b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Government	\$8,670,218	\$8,650,038	\$8,521,408
Private	8,789,853	8,783,794	8,523,577
Judgment	7,285	54,844	12,617
Penalties and interest	156,639	153,307	187,372
Total	\$17,623,995	\$17,641,983	\$17,244,974

- Benefit payments increased by 1.34% from \$18.98 million in 2014 to \$19.24 million in 2015. The increase was attributed mainly to new claims received, processed and approved during the year. The number of participants receiving benefits decreased from 6,470 in 2014 to 6,422 in 2015. The decrease is due to the questionnaire sent to each recipient as benefit payments were put on hold pending receipt of the questionnaire.

<b>Benefit Payments</b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Retirement	\$12,024,918	\$11,692,921	\$ 11,457,404
Survivors	5,381,314	5,420,464	5,189,255
Disability	1,514,583	1,502,864	1,523,375
Lump Sum	319,275	369,481	261,724
Total	\$19,240,090	\$18,985,730	\$ 18,431,758

## Management's Discussion and Analysis

- Actual administrative expenses increased by 8%. The higher administrative expense this year was attributed to higher personnel costs and the filling of positions that were vacant during 2014. As in recent years, a budget surplus of 5% was attained as a result of management's continuing monitoring of its operating expense.

<b>Budget</b>	<b><u>Approved</u></b>	<b><u>Actual</u></b>	<b><u>Surplus</u></b>	<b><u>%</u></b>
2015	\$ 1,275,598	\$ 1,208,146	\$ 67,452	5%
2014	\$ 1,269,455	\$ 1,121,686	\$ 147,769	12%
2013	\$ 1,255,695	\$ 1,156,701	\$ 98,994	8%

- For FY 2014, total funds received from the Prior Service Trust Fund amounted to \$228,767, while benefits paid and administrative expenses totaled \$183,851 and \$37,140, respectively. As of December 31, 2015, the Prior Service Fund had a net position of \$197,688. Contributions decreased by 22% while benefit payments decreased by 40%.

<b>Statement of Net Assets (Prior Service Fund)</b>			
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>ASSETS</b>	\$243,971	\$232,355	\$299,712
<b>LIABILITIES</b>	(46,283)	(42,808)	(53,497)
<b>NET ASSETS</b>	\$197,688	\$189,547	\$246,215

<b>Statement of Changes in Net Assets (Prior Service Fund)</b>			
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
PSTFA Reimbursements	\$228,767	\$294,083	\$ 361,324
Benefit Payments	(183,851)	(308,195)	(223,247)
Admin Expenses	(37,140)	(44,522)	(44,670)
Other	365	1,966	561
Change in Net Assets	8,141	(56,668)	93,968
Net Assets, beginning of year	189,547	246,215	152,247
Net Assets, end of year	197,688	189,547	246,215

Management's Discussion and Analysis for the year ended December 31, 2015, is set forth in the report on the audit of the FSMSSA's financial statements, which is dated June 13, 2015. That Discussion and Analysis explains the major factors impacting the 2015 financial statements.

# Management's Discussion and Analysis

## Conclusion:

Fiscal Year 2015 saw the System's net position remain relatively flat as it decreased by 0.6%, or \$307,000, compared to FY 2014. The decrease was attributed mainly to lower than expected investment returns.

The System did benefit from the tax increase and increase in taxable wage base which took effect January 1, 2013. However, 2015 saw another operating deficit due to imbalances between collection and benefit payments including administrative expenses.

Contributions collected were \$17.62 million while benefits paid and administrative expenses totaled \$19.24 million and \$1.21 million, respectively, resulting in an operating deficit of \$2.8 million. To cover the deficit, \$2.5 million was withdrawn from the investment portfolio. The FSM National Government also appropriated \$2 million to supplement benefit payments.

Although the gap between contributions and disbursements is closing, payments still outpaced contributions in 2015. A cash infusion from the FSM National Government as well as a drawdown from the investment portfolio was required to cover the shortfall.

Enforcing the recovery and collection of outstanding social security taxes remains a challenge. For fiscal year 2015, more than \$890,000 in delinquent taxes was recovered.

With increased benefit payments of 1% and 3% in 2015 and 2014, 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 2016. 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 quarter 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 base 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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