

FSM Social Security Administration



ANNUAL REPORT 2014 ★



TABLE OF CONTENTS

<u>Letter from the Chairman</u>	2
<u>Board of Trustees</u>	3
<u>Administrator’s Report</u>	
Board Meetings.....	4
Funding Status	7
Prior Service Benefits	10
Conclusion	11
Acknowledgements.....	11
Professional Service Providers	12
<u>Management’s Discussion and Analysis</u>	
Administration, Funding and Budget.....	13
Significant Events	14
Financial Highlights.....	15
Conclusion	18
<u>Summary of Principal System Provisions</u>	19
<u>Offices</u>	22

Letter from the Chairman

Improvements continued during 2014 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 second 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 that included money market was valued at \$45,329,658 at the end of 2014.

The trend of increasing employee/employer contributions continued as contributions increased from \$17.24 million to \$17.64 million, a 2.3% increase. 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 2014, the System collected \$1,103,931 from delinquent accounts.

As expected, benefit payments also increased. A total of \$18.99 million was disbursed in benefit payments during fiscal year 2014. This represents a 3.03% increase from \$18.43 million in 2013 to \$18.99 million in 2014. The percentage increase was less than 2013. As of December 31, 2014, there were 6,470 members and beneficiaries receiving benefits in fiscal year 2014.

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 2014 was \$1.87 million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.27 million, and actual expenses were lower than the budget, creating a \$147,769 surplus.

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

Sincerely,



Gillian Doone
Chairman

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

Board Members

Terms

FSM National Government
Gillian Doone
Chairman



2/11/12 to 2/10/15

Kosrae State
Kalwin Kephas



4/1/14 to 3/31/17

Chuuk State
Nakama Sana



10/1/13 to 9/30/16

Yap State
Vincent Tafileluw
Vice Chairman



7/24/13 to 7/23/16

Pohnpei State

vacant

Administrator
Alexander R. Narruhn
Ex-Officio Member



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

Administrator's Report

I submit this Annual Report of the Federated States of Micronesia Social Security System (FSMSSA, or the "System") covering fiscal year 2014, the period from January 1, 2014, to December 31, 2014, 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 19-21, 2014, the FSM Social Security Board of Trustees held its first meeting of the year in Honolulu, HI. Chairman Gillian Doone, FSM National Government, facilitated the meeting. Vice Chairman Vincent Tafileluw, Yap State, Nakama Sana, Chuuk and ex-officio member Administrator Alexander R. Narruhn also were in attendance. Deputy Administrator Dernista I. Capelle also joined the meeting. After roll call and adoption of the prior meeting's minutes, the Administrator's report was provided.

Mr. Narruhn reported on the progress of the actuarial study, a meeting with Congress and continued conversations with the United States Social Security Administration regarding totalization agreements. Mr. Narruhn also reported that claims will continue to increase over the next five years and that it is very important that the Board continue to lobby Congress for a change in the benefit formula. Board members then made comments regarding the Administrator's report, including pending appeal cases and the continued vacancies from Pohnpei State.

Under New Business, the Board reviewed the financial statements. Mr. Narruhn pointed out that the benefits paid continue to exceed contributions received. He also discussed delinquent accounts and commented that most of the delinquent accounts are either uncollectible, already been referred for legal action and or become judgment.

The remaining meeting time over the final two days was spent reviewing cash flow projections and listening to a presentation by Joe Nichols, the System actuary from Nichols Actuarial Services, LLC. After reviewing actuarial funding basics, Mr. Nichols discussed the potential impact of proposed bill changes. Mr. Nichols finished his presentation by reminding the Board of the importance of accurate data.

On May 13-15, 2014, the second Board Meeting of 2014 was held in Chuuk. Chairman Gillian Doone, National Government; Vice Chairman Vincent Tafileluw, Yap State; Member Nakaama Sana, Chuuk State; Kalwin Kephas, Kosrae State and ex-officio member Administrator Alexander R. Narruhn were in attendance. Deputy Administrator Dernista I. Capelle, Claim Officer Francky Ilai and Chuuk Branch Manager Domingko Asor also were in attendance.

A presentation was made by investment consultants Mr. Roland and Mr. Miyashita. Once the presidential duties were transferred to Member Sana by Chairman Doone, Mr. Narruhn gave an Administrator's update on the annual audit, actuarial valuation, voluntary contribution progress and proposed bill to Congress. An appeal was then presented regarding economic dependency. Representatives from each party held an open dialogue, and the Board reviewed each case and reported its decisions accordingly. The first day of meetings concluded with a change to the travel policy and an update on the search for a new Internal Auditor.

The second day of meetings began with discussions regarding the incorporation of the Pohnpei branch into the Social Security headquarters. Administration will continue to look for an appropriate lot to build a building and will further research the feasibility of combing the Pohnpei branch and headquarters. The Board then discussed whether or not SSA can force beneficiaries to use bank accounts for their benefit deposits, suspension of benefits for those citizens living abroad, rules for SSA employees participating in political activities and discussion as to possible reorganization of the make-up of the Board. A motion was passed to keep the Board as currently organized. The May 14 meetings were concluded by discussing first quarter financial and tax reports, and approving the Administrator's contract for an additional four-year term.

Administrator's Report

The meeting concluded on May 15 with a public forum and final remarks by the Board Members and Administrator.

On August 19-22, 2014, the FSMSSA Board convened for the third Board meeting of the year in Kosrae. Present at the meeting were Vice Chairman Vincent Tafileluw, Yap State; Member Nakama Sana, Chuuk State; Member Kalwin Kephas, Kosrae State; and ex-officio member Administrator Alexander R. Narruhn. Claim Officer Francky Ilai, Kosrae Branch Manager Presley Charley also were in attendance. A variety of appeals were presented over the four day period, 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 first day started with an Administrator report, include branch updates, and information regarding a number of activities, including the annual report, actuarial valuation and the hiring of an external auditor. Discussions also continued for political involvement for SSA employees, requirement of bank accounts for beneficiaries and the suspension of benefits for beneficiaries currently living abroad.

Day two of the meeting started with a presentation on investments by Mr. Roland. Discussion then turned to a voluntary contributions report, health and life insurance. The day concluded with three appeal cases.

The financial report was provided on August 21st, followed by a discussion on alternative sources of funding for SSA. Day three concluded with two additional appeal cases. The final day of meetings started with a public forum and ended with closing remarks.

On November 17, 2014, FSMSSA Board held its fourth meeting of 2014 in Yap State. Chairman Gillian Doone, Vice Chairman, representative of Yap State, Vincent Tafileluw; Representative of Chuuk State Nakama Sana; Kalwin Kephas, Representative of Kosrae State; and ex-officio member Administrator Alexander R. Narruhn were in attendance. FSMSSA Comptroller Teresita Dayao also attended the meeting. Once minutes from the previous meeting were approved, there was a general discussion about the System and how current plan provisions are viewed by the members. Mr. Narruhn then gave his Administrator's Report, which included updates on appeals, employee evaluations and the actuarial valuation. The new business section of the meeting began with a financial report and tax collection report.

The meeting ended with an investment report by Mr. Roland, a discussion of the open Deputy Administrator position, and approval of the 2014 budget and closing remarks by the Board Members.

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.

Administrator's Report

Staff Updates

Leilamona Primo was hired the Executive Assistant on January 6, 2014. She studied various courses in Hawaii for some years and came back to Pohnpei, where she earned her Third Year Certificate in Accounting from the College of Micronesia-FSM. The Executive Assistant aims to assist and support FSM Social Security Administration senior management in ensuring the orderly, expeditious and timely operations of Headquarters and Branches and, as the Headquarters' Receptionist, present the "Public Face" of the FSM Social Security Administration in a courteous, supportive and pleasant manner to all inquirers including governments, institutions, private enterprises and the general public.

Likewise, on January 6, 2014, FSMSSA hired Priana Andreas for the Public Information Officer (PIO) position. Priana studied at the College of Micronesia-FSM, where she attained her AA Degree in Liberal Arts as well completing most of the courses in Third Year Education. Pertaining her degree, she took other courses related to Media Studies and Journalism. The PIO at FSMSSA ensures that information about the system be handy to all who deserve to know on timely manners, for instance, initiating press releases to the public, release quarterly newsletter, updating forms the system has, work with Administration on reports and other assigned duties given by Administrator.

Robert L. Carlos also known as RC, was hired the Tax Administration Assistant on February 3, 2014. The Tax Assistant's main objectives include the monitoring and recording of all social security tax revenue documentations submitted by the branch offices, as well as computations and updates. He will also be responsible to assist Catherine Jonas, the Tax Administration Officer in her audit works. Furthermore, Robert studied at the College of Micronesia-FSM, where he studied various courses in Computer Networking and Marine Life. With his knowledge and skills, he had been qualified to deliver the required tasks for this position.

In August of 2014, FSMSSA hired Win Thomas, 52 of age, as the new Internal Auditor. Mr. Thomas holds a degree in Bachelor of Science Degree in Administration of Justice with a minor in Economics from the California State University. Mr. Thomas' professional goals include improving audits and collections to meet the long-term goals of the System.

Later on October 15, 2014, Yasuhiro Kudo started as the Collection Clerk at the Pohnpei Branch Office. Collection Clerk at the branch offices reports directly to the State Branch Managers. He will be diligent assisting the State Branch Manager's duties of enforcing quarterly Social Security tax payment and employer's reporting requirements. Yasuhiro attained his AS Degree in Office Administration at the Palau Community College and in a year or so he continued his studies in Accounting at the University of Guam.

Chuuk and Kosrae State Public Forums

Continuing the System's efforts to educate the public about FSM's Social Security program, a public forum was held in Chuuk State on May 15, 2014 and Kosrae State on August 22, 2014. The Branch Managers (Domingko Asor in Chuuk and Presley Charley in Kosrae) facilitated the meetings. The meeting began with the introduction of the Branch's staff and discussion on certain topics, including the System's eligibility guidelines, including disability claims, eligibility requirements, adoption specifics and retirement.

Financial Reports

Net Assets

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Cash and equivalents	\$ 2,020,467	\$ 1,931,021	\$ 2,244,250
Investments	45,329,658	43,736,351	37,206,732
Other current assets	2,867,721	3,293,007	3,424,074
Fixed assets, net	81,774	107,152	102,841
Total	50,299,620	49,067,531	42,977,897
Liabilities			
	<u>171,890</u>	<u>180,206</u>	<u>290,608</u>
Net Assets			
Held in trust for retirement, disability and survivors; benefit	\$ <u>50,127,730</u>	\$ <u>48,887,325</u>	\$ <u>42,687,289</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 CY2014.

	2014
Contributions	\$17,641,983
Benefit Payments	(18,985,730)
Admin Expenses	(1,121,686)
Other Income, net	<u>1,046,328</u>
Operating Deficit	(1,419,105)
Investment Income/(Loss), net	<u>2,659,510</u>
Change in Net Assets	1,240,405
Net Assets, beginning of year	<u>48,887,325</u>
Net Assets, 12/31, end of year	<u>\$50,127,730</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.

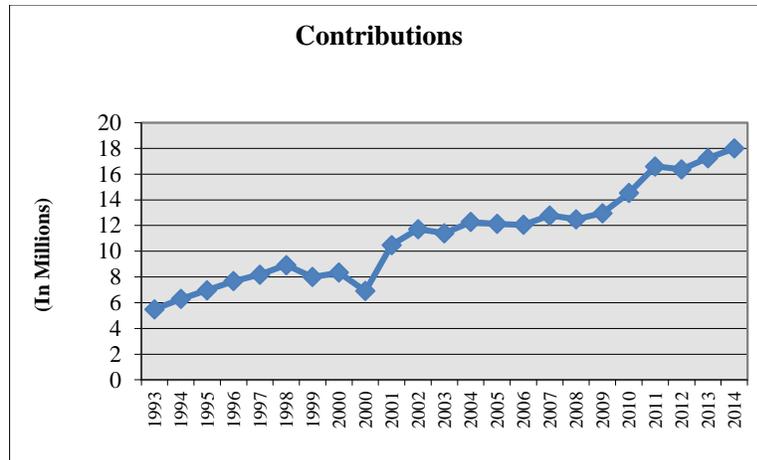
The following graphs illustrate current and historical levels of contributions received as well as benefit payments and administrative expenses paid. The graphs also track the overall historical value of the investment and realized past investment performance.

Administrator's Report

Contributions

2014 contributions totaled \$17.64 million, an increase of 2.32% from 2013's collections of \$17.24 million. Contributions were comprised of:

Government	\$8,650,038
Private	8,783,794
Judgment	54,844
Pen./Interest	<u>153,307</u>
Total	\$17,641,983



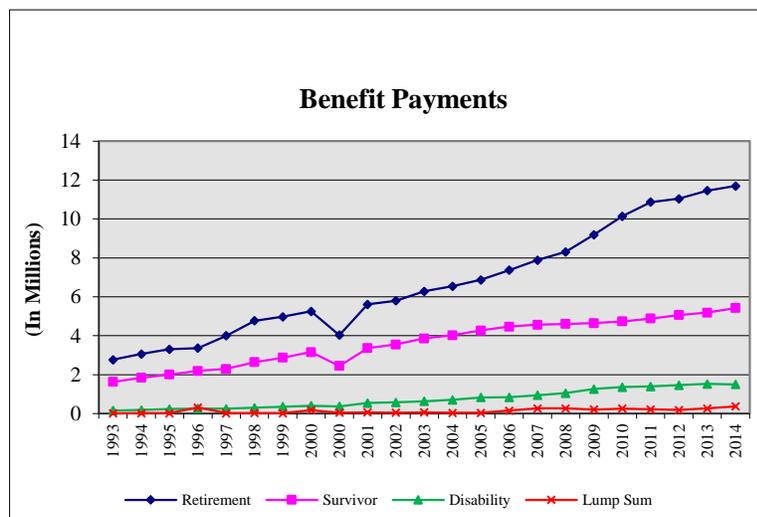
Benefit Payments

A total of \$18.98 million was disbursed in benefit payments during fiscal year 2014.

Disbursements were comprised of:

Retirement	\$11,692,921
Survivor	5,420,464
Disability	1,502,864
Lump Sum	<u>369,481</u>
Total	\$18,985,730

Benefit payments increased by 2.98% from \$18.43 million in 2013 to \$18.98 million in 2014.

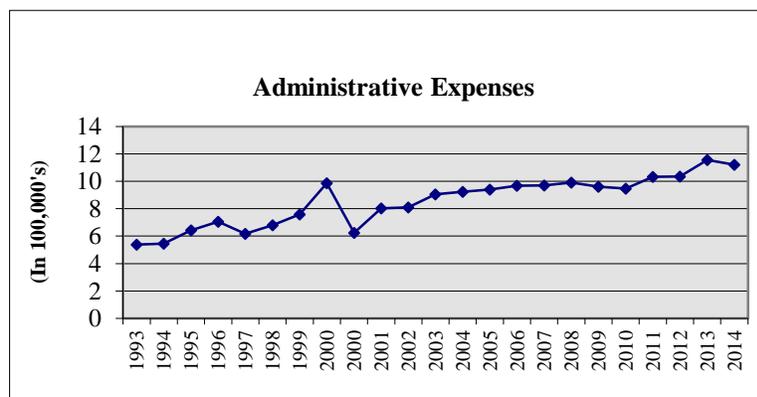


Administrative Expenses

Net administrative expenses totaled \$1,121,686 for 2014, decreasing by 3.03% over 2013. The 2014 expenses were also \$147,769 under budget.

Administrative expenses were:

Budget	\$1,269,455
Actual	1,121,686
Surplus	147,769
% Surplus	12%



Contributions and Disbursements (Benefits + Admin. Expenses)

Contributions increased by 2.32% from \$17.24 million in 2013 to \$17.64 million in 2014. Disbursements increased by 2.7% from \$19.59 million

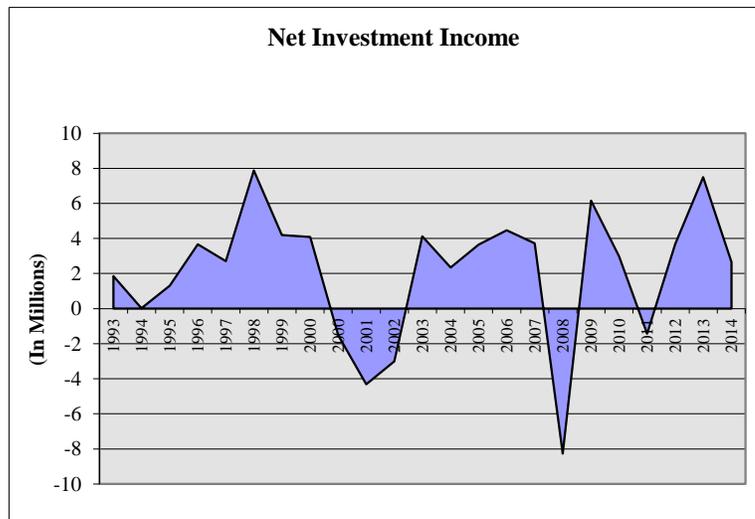
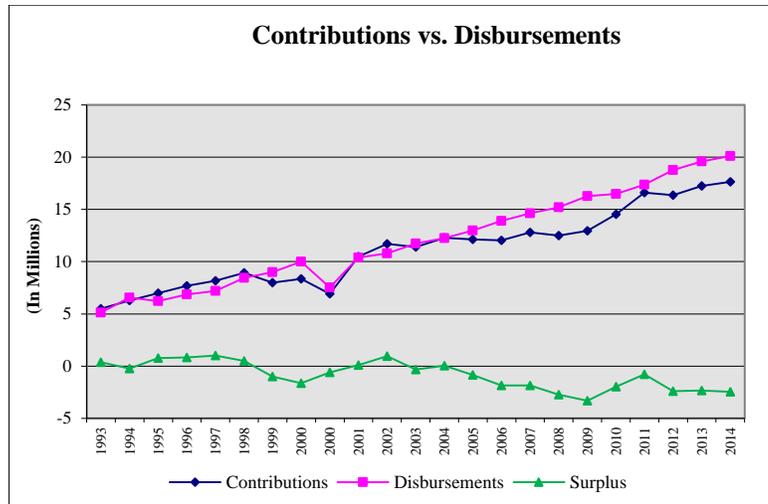
in 2013 to \$20.11 million in 2014. Although the gap between contributions and disbursements has narrowed, disbursements continue to outpace contributions. \$1 million was withdrawn from the investment portfolio and \$1 million was received from FSM National Government to cover the shortfall.

Investments

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

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

The investment portfolio that included money market was valued at \$45,329,658 at the end of 2014. Investment income decreased by 65% from a \$7.50 million net gain in 2013 to \$2.66 million net gain in 2014. The \$45.33 million market value of the investment portfolio is net of \$1 million drawdown during the year to supplement benefit payments.



Investment Income/(Loss)

	2014	2013
Investment	\$45,329,658	\$43,736,351
Income/(Loss)	2,659,510	7,502,456
Drawdown	1,000,000	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.

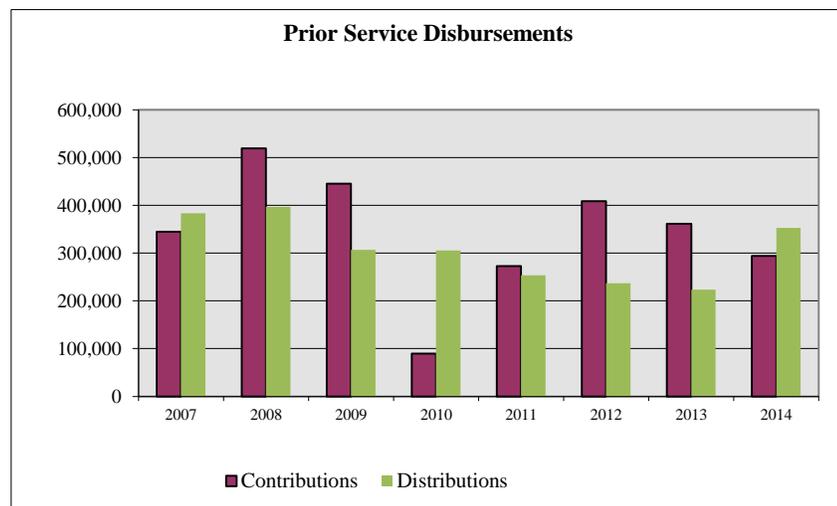
In 1987, the United States Congress provided \$8 million for initial capitalization of the PSBTF. Pursuant to U.S. Public Law 99-239, future funding would be provided, if warranted, based on the results of actuarial valuations.

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 FY2014, total funds received from the Prior Service Trust Fund Administration amounted to \$294,083 while benefits paid and administrative expenses totaled \$352,717 (this amount includes a one-time COLA payment of \$105,400). 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, 2014, the Prior Service Fund had net assets of \$189,547.

Prior Service

For fiscal year 2014, reimbursements to FSMSSA from the Prior Service Benefits Trust Fund totaled \$294,083 while benefits paid totaled \$352,717.



Conclusion

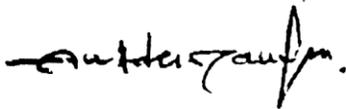
Although the Program continues to curb disbursements and increase collections through various efforts, the System continues to pay more in benefits, refunds and expenses than it collects in contributions. Improved investment performance and tax increases have helped offset some of this drain, but as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

Custodial Trustee

Citigroup Global Markets Inc.
Citibank Building
402 East Marine Drive
Agana, Guam 96910

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
Kolonia, Pohnpei FM
96941

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

Money Managers

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

Payden & Rygel
333 South Grand Avenue
Los Angeles, CA90071

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, 2014. This section has been prepared by the management and should be read in conjunction with the FSMSSA's financial statements and accompanying notes.

Administration

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

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

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

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

Funding

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

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

Budget

The FSM Public Law 5-120 mandates the FSMSSA to present an annual budget not exceeding 11 % of its projected income for the ensuing fiscal year. The budget ceiling for fiscal year 2014, based on projected income of \$17.0 million, was \$1.87million. However, as part of management's cost-cutting measures, the budget was streamlined at \$1.27 million, which is 7.5% of the projected income. The actual administrative cost incurred for FY 2014 was \$1.12 million, or 7% surplus compared to the approved budget. The remaining administrative costs for FY 2014 of \$44,000 pertained to the Prior Service Fund.

Management's Discussion and Analysis

Significant Events

- ✓ Contributions collected increased by 2.3% from \$17.24 million in 2013 to \$17.64 million in 2014.
- ✓ Total benefit payments to members or their beneficiaries increased by 3% from \$18.43 million in 2013 to \$18.99 million in 2014.
- ✓ 6,470 FSM citizens received Social Security benefits in fiscal year 2014.
- ✓ 916 retirement, survivor and disability claims were received, processed, and approved in fiscal year 2014.
- ✓ Investment portfolio, including marketable securities, increased by 3.64% from \$43.74 million in 2013 to \$45.33 million in 2014.
- ✓ FSMSSA received \$1 million in funding from the FSM National Government, which was used to supplement benefit payments.
- ✓ A drawdown of \$1 million was made from the investment portfolio to supplement benefit payments.
- ✓ Net position totaled \$50.13 million on December 31, 2014, compared to \$48.89 million on December 31, 2013, an increase of 2.54%.
- ✓ \$1,103,931 from delinquent accounts was collected in 2014.
- ✓ Close monitoring of expenses led to an administrative budget surplus of 12% in fiscal year 2014.
- ✓ Received \$294,083 from Prior Service Trust Fund Administration (PSTFA). Prior Service benefits paid in 2014 totaled \$308,195.
- ✓ Effective January 1, 2013, the tax rate and maximum taxable wages have been increased from 14% to 15% (employee 7.5 %, employer 7.5%) AND FROM \$6,000 TO \$7,000, respectively.

Management's Discussion and Analysis

Financial Highlights

Net assets for the retirement fund (non-inclusive of the Prior Service Fund) increased by 2.5% from \$48.89 million in 2013 to \$50.13 million in 2014. The increase was attributed to net investment gain.

Statement of Net Assets (Retirement Fund)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and equivalents	\$2,020,467	\$1,931,021	\$ 2,244,250
Investments	45,329,658	43,736,351	37,206,732
Other current assets	2,867,721	3,293,007	3,424,074
Fixed assets, net	<u>81,774</u>	<u>107,152</u>	<u>102,841</u>
Total	<u>\$50,299,620</u>	<u>\$49,067,531</u>	<u>\$ 42,977,897</u>
LIABILITIES			
	<u>\$171,890</u>	<u>\$180,206</u>	<u>\$ 290,608</u>
NET ASSETS			
Held in trust for retirement, disability and survivors' benefit	\$50,127,730	\$48,887,325	\$ 42,687,289

Statement of Changes in Net Assets (Retirement Fund)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contributions	\$17,641,983	\$17,244,974	\$ 16,371,874
Benefit Payments	(18,985,730)	(18,431,758)	(17,745,448)
Admin Expenses	(1,121,686)	(1,156,701)	(1,035,997)
Other	<u>1,046,328</u>	<u>1,041,065</u>	<u>1,044,444</u>
Operating deficit	\$ (1,419,105)	\$(1,302,420)	\$ (1,365,127)
Investment Income	<u>2,659,510</u>	<u>7,502,456</u>	<u>3,669,947</u>
Change in Net Assets	\$1,240,405	\$6,200,036	\$ 2,304,820
Net Assets, beginning	<u>48,887,325</u>	<u>42,687,289</u>	<u>40,382,469</u>
Net Assets, ending	<u>\$50,127,730</u>	<u>\$48,887,325</u>	<u>\$ 42,687,289</u>

Management's Discussion and Analysis

- Investment income decreased by 65% from \$7.5 million net gain in 2013 to \$2.7 million net gain in 2014. The net gain is attributed mainly to the good performance of the equity investment accounts. As a result, the market value of the investment portfolio as of the end of FY 2014 rose to \$45.33 million from \$43.74 million in 2013. This end of year market value is net of \$1 million drawdown required to supplement benefit payments in addition to the \$1.0 million funding received from the FSM National Government.

Retirement Fund	<u>2014</u>	<u>2013</u>	<u>2012</u>
Investment*	\$45,329,658	\$43,736,351	\$37,206,732
Investment Income	2,659,510	7,502,456	\$3,669,947
Investment Withdrawals	1,000,000	1,000,000	\$1,000,000
*includes cash management fund			

- The total amount of contributions collected was \$17.64 million, averaging a collection of \$4.41 million per quarter. This amount reflects an increase of 2.32% compared to \$17.24 million collected in 2013. The higher collection amount is attributed to the January 1, 2013, tax rate increase from 14% to 15% (7 ½% employees, 7 ½% employers) and also the increase in taxable wages from \$6,000 to \$7,000. Total delinquent taxes collected in 2014 were \$1,103,931.

Contributions	<u>2014</u>	<u>2013</u>	<u>2012</u>
Government	\$8,650,038	\$8,521,408	\$ 7,901,969
Private	8,783,794	8,523,577	8,266,665
Judgment	54,844	12,617	18,854
Penalties and interest	153,307	187,372	184,386
Total	\$17,641,983	\$17,244,974	\$16,371,874

- Benefit payments increased by 3% from \$18.43 million in 2013 to \$18.99 million in 2014. The increase was attributed mainly to new claims received, processed and approved during the year as well as the eligibility survey held in 2012. The number of participants receiving benefits increased from 6,377 in 2013 to 6,470 in 2014.

Benefit Payments	<u>2014</u>	<u>2013</u>	<u>2012</u>
Retirement	\$11,692,921	\$11,457,404	\$ 11,038,569
Survivors	5,420,464	5,189,255	5,068,023
Disability	1,502,864	1,523,375	1,456,825
Lump Sum	369,481	261,724	182,031
Total	\$18,985,730	\$18,431,758	\$ 17,745,448

- Actual administrative expenses decreased by 3%. The lower administrative expense this year was attributed to the continued vacancy of the Pohnpei Board Member. As in recent years, a budget surplus of 12% was attained as a result of management's continuing monitoring of its operating expense.

Management's Discussion and Analysis

Budget	<u>Approved</u>	<u>Actual</u>	<u>Surplus</u>	<u>%</u>
2014	\$ 1,269,455	\$ 1,121,686	\$ 147,769	12%
2013	\$ 1,255,695	\$ 1,156,701	\$ 98,994	8%
2012	\$ 1,115,902	\$ 1,035,997	\$ 79,905	7%

- For FY 2014, total funds received from the Prior Service Trust Fund amounted to \$294,083, while benefits paid and administrative expenses totaled \$308,195 and \$44,522, respectively. As of December 31, 2014, the Prior Service Fund had a net position of \$189,547. Contributions decreased by 18.61% while benefit payments increased by 38.05%.

Statement of Net Assets (Prior Service Fund)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
ASSETS	\$232,355	\$299,712	\$196,297
LIABILITIES	(42,808)	(53,497)	(44,050)
NET ASSETS	\$189,547	\$246,215	\$152,247

Statement of Changes in Net Assets (Prior Service Fund)			
	<u>2014</u>	<u>2013</u>	<u>2012</u>
PSTFA Reimbursements	\$294,083	\$361,324	\$ 408,879
Benefit Payments	(308,195)	(223,247)	(236,645)
Admin Expenses	(44,522)	(44,670)	(47,373)
Other	1,966	561	486
Change in Net Assets	(56,668)	93,968	125,347
Net Assets, beginning of year	246,215	152,247	26,900
Net Assets, end of year	189,547	246,215	152,247

Management's Discussion and Analysis for the year ended December 31, 2014, is set forth in the report on the audit of the FSMSSA's financial statements, which is dated June 2, 2014. That Discussion and Analysis explains the major factors impacting the 2014 financial statements.

Management's Discussion and Analysis

Conclusion:

Overall, Fiscal Year 2014 continued a trend of good years for the System as its net position grew by 2.5% or \$1.2 million compared to FY 2013. The increase was attributed mainly to the increase in market value of the investment portfolio, particularly from the good performance of the equity investment accounts.

The System also benefited from the tax increase and increase in taxable wage base which took effect January 1, 2013. However, 2014 saw another operating deficit due to imbalances between collection and benefit payments including administrative expenses.

Contributions collected were \$17.64 million while benefits paid and administrative expenses totaled \$18.99 million and \$1.12 million, respectively, resulting in an operating deficit of \$2.5 million. To cover the deficit, \$1 million was withdrawn from the investment portfolio. The FSM National Government also appropriated \$1 million to supplement benefit payments.

Although the gap between contributions and disbursements is closing, payments still outpaced contributions in 2014. 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 2014, more than \$1.1 million in delinquent taxes was recovered.

With increased benefit payments of 3% and 4% in 2014 and 2013, 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 2015. 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.

Offices

Headquarters

FSM Social Security Administration
P.O. Box L
Kolonia, Pohnpei, FM 96941
Tel. No. (691) 320-2706, 2708 or 4407
Fax No. (691) 320-2607
E-mail: FSMSSA@mail.fm
Web Site: www.fm/fmss

Pohnpei State

FSM Social Security Administration - Pohnpei Branch
P.O. Box L
Kolonia, Pohnpei, FM 96941
Tel. No. (691) 320-2709 or 2181
Fax No. (691) 320-8963
E-mail: PohnpeiSSA@mail.fm

Kosrae State

FSM Social Security Administration - Kosrae Branch
P.O. Box 435
Lelu, Kosrae FM 96944
Tel. No. (691) 370-3048
Fax No. (691) 370-3790
E-mail: KSASSA@mail.fm

Chuuk State

FSM Social Security Administration - Chuuk Branch
P.O. Box 397
Weno, Chuuk, FM 96942
Tel. No. (691) 330-2200
Fax No. (691) 330-2647
E-mail: ChuukSSA@mail.fm

Yap State

FSM Social Security Administration - Yap Branch
P.O. Box 479
Colonia, Yap FM 96943
Tel. No. (691) 350-2309 or 8489
Fax No. (691) 350-4290
E-mail: yapssa@mail.fm