

FSM Social Security Administration



2008-2009 ANNUAL REPORT

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This report covers calendar years 2008-2009. During this period, Social Security celebrated its 40th anniversary in the region. Its purpose then, and its purpose now, remains the same – to provide for the needs of workers and their beneficiaries when they retire or are unable to work. However, as the worldwide economic outlook continues to look bleak, the Board faces major challenges attempting to meet this goal.

The years 2008-2009 marked significant landmarks in the Social Security System, including increasing the quarterly taxable wage base, instituting an updated investment policy and improving tax collection. Despite these best efforts, the negative gap between benefit payments and collections continues to increase. Further changes must be made for the System to continue.

In 2009, investment income experienced a \$6.1 million gain, compared to an \$8.3 million loss sustained during 2008. However, because of the \$3.0 million drawdown from investments to supplement benefit payments, investments netted only a \$3.1 million increase.

The drawdown, required to cover benefits, was a result of contributions falling short of the benefit payments. This trend continues to drain the fund. During 2008, Social Security received \$12,488,497 in contributions, paid \$989,810 in administrative expenses and disbursed \$14,241,374 in benefit payments and refunds of contributions. During 2009, contributions increased slightly to \$12,955,409, while administrative expenses decreased to \$961,778, but benefit payments, including refunds of contributions, increased to \$15,322,114.

It will be impossible to maintain the System long term with this type of ongoing drain, although efforts continue to rectify this problem, with amendments to the FSM Social Security Act: Public Law 14-86 and Public Law 15-73.

Public Law 14-86 implements limitations on adopted beneficiaries as well as sets a minimum contribution for eligibility. The amendment also raises the minimum monthly benefit from \$50 - \$75 and adds a tenet for FSM citizens working abroad the ability to participate through voluntary contributions.

Public Law 15-73 allows individuals aged 60-64 to continue to work, and pay into the system, while receiving a reduced retirement benefit. This amendment becomes effective January 1, 2011. The amendment also increases the tax rate from 6% to 7% for both employees and employers as of October 1, 2010; with further increases to 7.5% for both on January 1, 2013. The amendment also defines minimum participation requirements for retirement and disability benefits as well as imposes penalties for avoiding payment of taxes. A change broadening the System's investment options as well as payment limits for non-citizens also are included in the amendment.

We must continue to work together with the FSM Congress, Administrator, State Legislators and Citizens to address the serious issues facing the System.

I have been a member of the Board since 2007. 2009 marks my final year as the Chairman. During this time, I have had the pleasure of serving alongside the other dedicated Board members and Administration, including Vice Chairman Rose N. Nakanaga, Pohnpei State Representative. Ms. Nakanaga will assume the duties of Acting Chairman in 2010. We have worked closely together over the years, and we expect a seamless transition in our common goal to guarantee the future health of the program and benefit payments to all beneficiaries.

I would like to thank the Board members whose terms expired in 2008 and 2009: Jack Yakana who has served since 2002; and Yosiwo George, who has served since 2007; for their service on the Board and commitment to the people of Micronesia.

And finally, I would like to thank the other members of the Board and the Administration for their hard work and dedication.

Sincerely,

Garrison Irons

Chairman
Board of Trustees

Board of Trustees

The Board of Trustees is the governing body of the Federated States of Micronesia Social Security System. Members are nominated by the President, confirmed by the Congress and serve three-year terms.

Nominations to the Board take into account the need to have adequate geographical representation and to have representatives from public and private sector employers and employees. The Social Security Administrator is an ex-officio member of the Board.

Board Members

Terms

Chuuk State
Garrison Irons



3/29/07 to 3/29/10

Chairman

Pohnpei State
Rose N. Nakanaga



10/2/08 to 10/1/11

Vice Chairman

FSM National Government
Nahoy G. Selifis



10/10/02 to 10/9/05
10/10/05 to 10/9/08
10/10/08 to 10/09/11

Vice-Chairman

Yap State
Charles L. Chieng



5/26/89 to 5/26/92
6/5/92 to 6/5/95
5/13/96 to 5/13/99
5/26/99 to 5/26/02
11/5/02 to 11/4/05
11/15/05 to 11/14/08
11/15/08 to 7/24/10

Kosrae State
Jefferson Timothy



2/01/09 to 1/31/12

Administrator
Alexander R. Narruhn



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

Ex-Officio Member

Administrator's Report

I submit this Annual Report of the Federated States of Micronesia Social Security System (FSMSSA, or the "System") covering fiscal years 2008 and 2009, the period from January 1, 2008, to December 31, 2009, 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.

In 2008, Social Security celebrated its 40th year of operation. Progress is being made to further increase the financial stability of the fund. A significant amount of education was provided by the Administration to the Board of Trustees, the Legislatures and the participants of the fund as to the importance to make sure money is available in the future to pay promised benefits. As part of this education, a new public law was passed as a step in the right direction. However, many provisions, essential to the long-term stability of the System, have been delayed or repealed.

Board Meetings - 2008

The Board of Trustees held three regular meetings during 2008 and three regular meetings during 2009.

The first regular meeting of the Board of Trustees was held in Honolulu on April 8-10, 2008. Board members that were present included Chairman and Representative of Pohnpei, Lt. Gov. Jack E. Yakana; Vice-Chairman and at-large member, Nahoy G. Selifis; Representative of Yap, Charles L. Chieng; Representative of Chuuk, Garrison Irons; and Representative of Kosrae, Yosiwo George. Social Security Administrator Alexander R. Narruhn, serving as ex-officio member, was also present.

The main agenda items of the meeting were the review of investment portfolios and the interviews for potential small cap money managers. The Administrator also presented financial statements for the year 2007.

Annual portfolio reviews were presented by Smith Barney, Atalanta Sosnoff and Payden Rygel.

Dan Roland and Jason Miyashita presented for Smith Barney. The total portfolio is about 64% equities and, as of April, 2008, is valued at \$40.8 million. Despite the losses, Smith Barney advised the board to not make any drastic changes. To do so would force the System to miss out on any market bounce back.

Jim Staub presented for Atalanta Sosnoff, the System's large core manager. Although 2007 showed positive results, the first quarter of 2008 showed a -13.5% loss, 4% less than the benchmark. However, from 2005 to 2007, the return was 53.4%, well above the 28.2% benchmark. As of March 31, 2008, the total portfolio under Atalanta's management is \$21,210,899, 17.8% in cash and 82.2% in common stock.

Mike Salvay presented for Payden&Rydel. As of March 31, 2008, the portfolio managed by Payden&Rygel is \$14.9 million.

