Fiscal Years 2009 and 2008 Financial Performance (Audited)

<table>
<thead>
<tr>
<th></th>
<th>FY 2009 (In Million $)</th>
<th>FY 2008 (In Million $)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CONTRIBUTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>$7.913</td>
<td>$8.730</td>
</tr>
<tr>
<td>Government</td>
<td>3.896</td>
<td>3.824</td>
</tr>
<tr>
<td>Penalties and interest</td>
<td>2.073</td>
<td>0.917</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(1.278)</td>
<td>0.000</td>
</tr>
<tr>
<td>Net contributions</td>
<td>12.604</td>
<td>13.471</td>
</tr>
<tr>
<td><strong>OTHER INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income (loss)</td>
<td>3.347</td>
<td>(6.607)</td>
</tr>
<tr>
<td>Other income</td>
<td>0.363</td>
<td>0.859</td>
</tr>
<tr>
<td>Total other income</td>
<td>3.710</td>
<td>(5.748)</td>
</tr>
<tr>
<td><strong>BENEFITS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement</td>
<td>7.805</td>
<td>7.086</td>
</tr>
<tr>
<td>Survivors</td>
<td>4.734</td>
<td>4.332</td>
</tr>
<tr>
<td>Disability</td>
<td>1.038</td>
<td>1.054</td>
</tr>
<tr>
<td>Lump sum</td>
<td>0.068</td>
<td>0.076</td>
</tr>
<tr>
<td>Total benefits</td>
<td>13.645</td>
<td>12.548</td>
</tr>
<tr>
<td><strong>ADMINISTRATIVE EXPENSES</strong></td>
<td>0.973</td>
<td>1.016</td>
</tr>
<tr>
<td><strong>INCREASE(DECREASE) IN NET ASSETS</strong></td>
<td>1.696</td>
<td>(5.841)</td>
</tr>
<tr>
<td><strong>NET ASSETS AT END OF YEAR</strong></td>
<td>$64.883</td>
<td>$63.187</td>
</tr>
</tbody>
</table>
The current financial difficulties facing Social Security in the Marshall Islands pose enormous challenges, both in the short and long terms. The sooner these challenges are addressed, the more simple and less burdensome their solutions can be. We strongly urge the public to engage in informed discussions and our lawmakers to think selflessly about the future of our working and retired citizens and their families.

A national conversation and timely political action are essential to ensure that Social Security continue to play a critical role in the lives of our citizens.

What is the Marshall Islands Social Security Trust Fund?
The Marshall Islands Social Security Trust Fund (or Retirement Fund) is the total paid-in retirement-fund contributions from workers, self-employed workers and employers to the Marshall Islands Social Security System. These contributions, less the amount required to fully fund current payments to beneficiaries and administrative expenses, are invested both locally and outside the country, and held in reserve to pay current and future retirees, and their survivors.

What was the trust fund’s financial performance in FY 2008-2009?
In FY 2008, the Administration’s investments outside the country was seriously affected by the global economic downturn that started in late 2007. As a result, its fair market value decreased by as much as $8.5 million which caused MISSA’s net assets to drop from $69.03 million to $63.19 million at the end of FY 2008.

MISSA’s investments dipped further by another $12.9 million in the succeeding five months. Fortunately, they bounced back and recovered in the second half of FY 2009. The rally resulted in a cumulative net investment gain of about $2.13 million and another $1.32 million in dividends and interest income for the twelve months ending September 30, 2009.

How has the financial outlook for RMI social security changed in recent years?
The Administration’s doubled efforts in its tax collection campaign coupled with excellent investment results in 2003 through 2005 led the Administration to a very robust financial health. Contributions during this period have sustained MISSA’s benefit payments and administrative expenses. With good cash management, the Administration was able to generate cash surpluses that were subsequently invested. However, benefit payments continued to increase gradually at an average rate of 8% over the years and this increase consequently outpaced contributions. Although administrative expenses were kept at sparing levels, the imbalance continued to rise to alarming levels.

In FY 2006, MISSA’s contributions totaled $11.44 million while the combined amounts of benefits paid and administrative expenses totaled $11.92 million.

The trend continued in the following year as contributions reached $12.51 million, which was not enough to cover benefit payments and administrative expenses amounting to $12.67 million.

In FYs 2008, MISSA’s benefit payments and administrative expenses totaled $13.56 million while contributions amounted to $13.47 million.

The burden of correcting this fund deficiency has become more challenging in FY 2009 as MISSA’s total benefit payments reached $13.64 million (or 8.9% higher than the previous year) and administrative expenses totaled $0.97 million, despite being 12.9% lower than the approved budget of $1.16 million. This imbalance translates to a deficit of $1.10 million which may lead MISSA to a drawdown from its cash reserves in early 2010 in order to ensure uninterrupted benefit payments in the coming months.

What is the short-range outlook (FYs 2010-2011) for the trust funds?
The surging rally of the global stock market in the last six months boosted MISSA’s resolve to remain financially stable, even in the short term. This rally may also be indicative of a better investment outlook in the coming months. Some may even consider this as the beginning of the end of the global economic downturn that started in late 2007.

Although MISSA is optimistic that its investments will fully recover soon, it remains skeptical about the capacity and willingness of certain employers to pay their long-outstanding obligations which have accumulated to millions of dollars.

Tax compliance remained constant at 55%-60% with extensive tax collection efforts being exerted by MISSA. For the Administration to survive in the next two years, it may need a huge cash infusion of at least $1.4 million each year from the Trust Fund to ensure uninterrupted benefit payments.

What is the long-range outlook (FYs 2012-2023) for the trust funds?
The most recent actuarial valuation report reflected that, as of October 1, 2008, MISSA’s funded accrued actuarial liability (AAL) is 28%. This simply means that if the social security program in RMI is stopped on that date, MISSA can only pay for 28% of all benefits due on that date. Although this is an improvement in funded status to past years, there are warning signs showing future stresses to the System. Due to market decreases in 2008, the funded status of the System has hit a critical mark. Adding to the stress on the System is the fact that the number of workers and taxable earnings continue to decrease. (MISSA’s funded AAL was 15% in 1999. In 2001, it slightly improved to 16% and then jumped to 20% in 2003. It further soared to 29% in 2006 due to MISSA’s exceptional investment gains).

The actuarial report also reflected the results of a study initiated by MISSA that if contributions remain constant and benefit payments continue to rise, the Trust Fund will completely be exhausted by year 2023.

What drastic reforms are needed to improve the social security financial imbalance?
Since 2003, a number of proposed legislations have been heard by the Nitijela but to date, were never enacted into laws. All of these bills were strongly opposed by MISSA because they have one thing in common - all were aimed to increase benefit payments.

The Administration’s long-term goals are focused on controlling any increases in benefits. MISSA will also support any law that will lead to fair distribution of benefits and enable future retirees to also harvest the fruits of their contributions. Likewise, the Administration will favor any initiative that will strengthen the enforcement of tax laws in the country.
Despite the country's limited natural resources, fishing, agriculture, handicraft and tourism are potential sources of dollars employing a big chunk of the local labor force, and remain the best hope for a more self-reliant economy for the people of the Marshall Islands. The generation of additional revenues and employment opportunities will not only increase the workers' purchasing power but will likewise translate to additional contributions for the country's social security system.
MISSA investments recover as FY 2009 ends (September 2009) - FY 2009 was a year full of uncertainties that ended with great relief for the Administration as it prevailed over its most grueling financial challenge in recent years.

The most recent investment performance report presented by Frank Armstrong, MISSA’s investment advisor, reflected a net investment gain of $2.035 million and a net internal rate of return of 4.39% for the twelve-month period ending September 30, 2009.

Although the amount is dwarfed by the much bigger gains of the Administration in 2006 ($5.37 million) and 2007 ($7.63 million), it boosted MISSA’s resolve to remain financially stable, even in the short term. This rally may also be indicative of a better investment outlook in the coming months. Some may even consider this as the beginning of the end of the global economic downturn that started in late 2007.

Actuarial report not promising but better than projected (October 2008) - MISSA’s actuarial accrued liability (AAL) as of October 1, 2008 totaled $225.8 million while total assets amounted to $63.2 million. With 162.6 million (or 72%) being unfunded, this simply means that if the social security program in the Marshall Islands is stopped on October 1, 2008, MISSA can only pay for 28% of all benefits due on this date.

In 2001, the Administration’s funded AAL was only 16% as assets were valued at $35 million while AAL totaled $218 million.

Subsequent actuarial valuation reports in October 1, 2003 and 2006 showed that the funded AAL increased to 20% and 29%, respectively. The slight decrease in the funded AAL during the 2008 valuation was mainly due to the decrease in the fair market value of MISSA’s investments in FY 2008 amounting to $8.5 million.

Bill No. 50 sought to remove early retirement benefits and earnings test (March 2009) - If passed by the Nitijela, a worker or self-employed worker who has at least 38 quarters of coverage can not retire at 55 years of age and has to wait until he turns 60 years old to qualify for normal retirement.

If approved, the bill will also eliminate the earnings test which will get rid of the reduction of quarterly benefits of a retiree aged 55 to 62 years who is still in covered employment.

As advised by its actuary, MISSA opposes the bill because it will result to a net increase in benefit payments of at least $400 thousand a year. This will have a detrimental effect to the financial viability of the Retirement Fund.

RMI President & Cabinet reappointed 4 members of the MISSA Board (January 2009) - In its January 9, 2009 meeting, the Cabinet and then RMI President Litokwa Tomeing approved the re-appointment of John Niedenthal, David Paul, Maria K. Fowler and Saeko Shoniber to another 3-year term. Mr. Niedenthal retained his post as Chairman while the members appointed David Paul as Vice-Chairman.

Three new members were also appointed to 3-year terms: Jemi Nashion, Fredly Mawilong and Kunar Abner.
Taiwan Pacific Allies Summit (October 2007) - The Administration was full of optimism as fiscal year 2008 unfolded. It started with a big bang as the Marshall Islands hosted the biggest regional event in recent years, the second Taiwan Pacific Allies Summit held in Majuro.

Showcased in this big event was the completion of the $5 million Taiwan-funded International Conference Centre and the Joint Taiwan and RMI Trade Fair that showed off not only Taiwanese products but Marshallese businesses and local products as well.

The classy facility that was constructed in just seven months did not only create a significant employment opportunity for local workers but also injected thousands of dollars to the Social Security Retirement and Health Funds.

Taiwan

Eel En opened on Retirees' Day (September 2008) - The long-awaited Retirees' Day 2008 finally came with double celebrations - first, with the traditional speeches, games, dances and partying, and then came the main highlight... the grand opening of the new retirees' building named “Eel En”.

The new building was a gift from the Japanese Government to all retired and disabled citizens of the Marshall Islands.

MISSA

hosted the 4th Annual SS Administrators’ Conference (Nov. 28-Dec. 2, 2007) - The Administrators and a number of senior managers of the Republic of Palau Social Security Administration and FSM Social Security Administration joined MISSA in Majuro in this annual event.

In this year’s conference, MISSA adopted the theme, The Advancement of Social Security through Collective Thinking Integrated Technology. This refers to the collaboration among the three systems in terms of information sharing, operational efficiency and the ongoing enhancements on the retirement Fund computer system (FoxPro) that the three systems are using.

MISSA investments peaked, then dropped abruptly at the onset of global economic downturn (October-November 2007) - The month of October 2007 established another milestone for the Administration as its investments outside the country reached its highest level of $55 million, bringing MISSA’s total net assets to more than $70 million.

But this robust financial health was short-lived. The ensuing months marked the beginning of a global economic slump that started in the United States and spread throughout the world. MISSA was not spared by the worldwide economic crisis as its investments outside the country dropped in value by as much as $8.50 million in FY 2008 and further, by another $12.87 million in the first five months of FY 2009. Consequently, these huge losses resulted in a big drop in MISSA’s net assets from $69.03 million as of the end of FY 2007, to $63.19 million a year later, and further to $58.61 million in mid-FY2009.

MISSA

En opened on Retirees’ Day (September 2008) - The long-awaited Retirees’ Day 2008 finally came with double celebrations - first, with the traditional speeches, games, dances and partying, and then came the main highlight... the grand opening of the new retirees’ building named “Eel En”.

The new building was a gift from the Japanese Government to all retired and disabled citizens of the Marshall Islands.
His Excellency Jurelang Zedkeia, President  
Republic of the Marshall Islands

Honorable Alvin Jacklick, Speaker  
Nitijela of the Marshall Islands

Honorable Members  
Nitijela of the Marshall Islands

Dear Sirs and Madam,

On behalf of the Board of Directors of the Marshall Islands Social Security Administration, I am pleased to present this Bi-annual Report covering our organization’s accomplishments for fiscal years of 2008 and 2009.

Since the start of the new millennium, the MISSA Board of Directors has remained on the forefront of the Administration’s goal to keep Social Security fully accountable and financially sound. As this report will show, not only were we able to remain fully auditable and accountable in Fiscal Years 2008 and 2009, MISSA has set unprecedented records:

* MISSA became the only RMI government agency to earn an unparalleled “no finding” or clean audit for 8 consecutive years since 2002, not to mention the unqualified opinion that our external auditors gave from year to year;
* The audit for the Marshall Islands Retirement Fund for FY 2009 was the fastest in the history of RMI in any fiscal year, with the final audit report being dated November 12, 2009 (or just 49 days after the close of the fiscal year);
* The MISSA audit was the earliest audit to be completed for a government agency for FY 2009 within the entire Pacific region comprised of 13 APIPA (Association of Pacific Island Public Auditors) member countries that include our Micronesian neighbors - Guam, Saipan, Palau and FSM; and
* The inclusion of the MISSA audit report for FY 2009 was the first time that a fiscal year audit has been included in the following January Auditor General’s (AG) semi-annual report to the Nitijela. All the audits aside from MISSA’s in the AG’s report in January 2010 are for FYs 2007 & 2008 audits.

MISSA was not spared by the global financial crisis that started in late 2007. But because of the Board of Directors’ prudent fund management practices and our employees’ passion to walk the extra mile, the Administration was able to bounce back and end up restoring its sound financial health by the end of FY 2009:

* MISSA revenues continue to be maintained at high levels, from a low of $5.51 million in 1999 to $13.47 million in 2008 and $12.60 million in 2009;
* MISSA expenses have decreased significantly from $1.55 million in 1999, or 14.5% of total revenues, to $1.02 million in 2008 and $0.97 million in 2009, or only 7.5% and 7.7% of total revenues, respectively;
* Although our offshore investments suffered losses in FY 2008, it fared well in 2009, increasing its market value by $1.0 million. Consequently, our net assets increased to $64.9 million as of September 30, 2009;
* We were able to maintain a positive cash position in the past two fiscal years despite the widening gap between contributions and benefit payments, and have never made any drawdown from the Trust Fund since 2001;
* The Administration has consistently paid in full and on time the monthly benefits of more than 3,500 recipients of retirement, disability, survivor and lump sum benefits currently at $1.1 million per month.

The Board would like to commend MISSA Administrator Saane Aho and her staff for their efforts and competence to uphold all of our goals for our organization, and more importantly, for the people of the Marshall Islands. I would also like to express my appreciation to the families of the MISSA Board members, administration and staff for supporting us over the past two fiscal years.

In closing, I would like to thank you Mr. President, your Cabinet and Members of the Nitijela for your continuing support. Your deep concern and understanding of what is beneficial to the majority of our retirees is the driving force behind the Administration’s resolve to continue serving and protecting the people of the Marshall Islands.

The latest study conducted by our actuary—assuming that there will be no changes in the present system—predicted that the Retirement Fund would only last until 2023. The Administration is now seriously considering several of the options offered by our actuary to reverse this trend. With the futures of thousands of current contributors and beneficiaries at stake, MISSA feels duty-bound to initiate and propose legislation that aims to extend the life of the Fund beyond 2023. We hope that we will be able to count on your kind support in these efforts to save our social security system.

Sincerely,

Jack Niedenthal
MISSA's Board of Trustees

MISSA Board 2009-2012
John M. Niedenthal ....................Chairman
David Paul ...............................Vice-Chairman
Maria K. Fowler ........................Member
Saeko Shoniber ........................Member
Jemi Nashion .............................Member
Fredly Mawilong .......................Member
Kunar Abner .............................Member

MISSA Board 2006-2009
John M. Niedenthal ....................Chairman
E. Tommy Milne ..........................Vice-Chairman
Maria K. Fowler ........................Member
Saeko Shoniber ........................Member
Cradle Alfred ...........................Member
David Paul ..............................Member
Jefferson Barton .........................Member

GOVERNANCE

The role of MISSA's Board of Trustees (the Board) is aligned with the Administration's mission to establish for the people of the Marshall Islands a financially sound social security system: to oversee how the administration serves the long-term interests of its present and former contributing members and their families.

To realize this mission, the Board has adopted corporate governance principles aimed at ensuring that the Board remains fully aware, acts independently, and remains on top of every major decision that the Administration undertakes.

In January 2009, President Litokwa Tomeing and his Cabinet re-appointed four incumbent members whose three-year term expired in January and March 2009 - John M. Niedenthal (who was also re-appointed as Chairman), Board Members David Paul, Maria K. Fowler and Saeko Shoniber. David Paul was subsequently appointed by the members to the post of Vice-Chairman.

Three new members were also appointed by the President and his Cabinet - Jemi Nashion, Fredly Mawilong and Kunar Abner. They replaced Jefferson Barton, E. Tommy Milne and Cradle Alfred who represented the RMI Government, Ebeye and Kwajalein and the retirees, respectively.

FIDUCIARY RESPONSIBILITY

As the steward of the country's Retirement Fund, the Board practices prudent fund management by keeping the growth of its benefits payments, operating and administrative expenses at sparing levels.

The Board has adopted corporate governance principle aimed at ensuring that all the members are independent from third party intervention and pressure, be it political or personal in nature.

As fiduciaries and trustees of the Retirement Fund, the Board is aware of its duty to ensure that the Fund remains financially viable and its assets and stability remain protected.

The Board has put more emphasis on ensuring that the Marshall Islands Retirement Fund is transparent and complies with disclosure requirements. It understands the importance of keeping all beneficiaries, contributors and the public fully informed of relevant developments to avoid negative perception often based on unfounded information.

MEETINGS

The board held six and eight meetings in FYs 2008 and 2009, respectively.

In January 2008, the Board approved certain changes in MISSA’s Investment Policy Statement (IPS) aimed at maximizing investment results.

In April 2009, the Board was updated by MISSA’s Actuary with the result of the October 1, 2008 actuarial valuation and study on the proposed shifting from the current Defined Benefits to Defined Contribution.

The Board also received, on a quarterly basis, briefings from the MISSA Administrator, Senior Managers and Legal Counsel on a variety of major operational, legal, administrative and procedural issues that need the Board’s opinion and approval.

John M. Niedenthal
David Paul
Maria K. Fowler
Saeko Shoniber
Jemi Nashion
Fredly Mawilong
Kunar Abner
To our Beneficiaries, Contributing Members, and the People of the Marshall Islands,

I am pleased to report on the progress MISSA has made in Fiscal Years 2008 and 2009, as well as our outlook for FY 2010.

Despite facing one of the toughest economic environments in decades, the Administration was able to survive the global financial crisis that worsened in FY 2008. Fortunately, MISSA’s local investments provided MISSA with positive returns and were able to cushion the impact of the crisis. Had these local investments been injected outside the country, further losses would have been incurred. In FY 2009, the global market fared better as governments around the world took coordinated action to ward off the blow of a financial panic. Consequently, MISSA investments bounced back. Full economic recovery may still be far ahead, but with the Administration’s prudent management of the Marshall Islands Retirement Fund, MISSA’s financial health is expected to remain sound in the coming years.

FACTS AND FIGURES
The audits of MISSA’s financial statements for FYs 2008 and 2009 have once again received unqualified opinions and no questioned costs or findings by our external auditors. These very high marks have been consistently received by MISSA in the past eight years due to the Administration’s efforts to further strengthen its policies on internal controls and procedures.

* Our relentless collection efforts reinforced by the strong support of our legal counsel have enabled us to surpass targeted retirement fund contributions for FYs 2008 and 2009. Contributions of $13.47 million and $12.60 million were booked on the said years, respectively;

* Although annual benefit payments have continued to also increase from $11.65 million in FY 2007 to $12.55 million in FY 2008, and then to $13.65 million in FY 2009, MISSA has been successful in maintaining its administrative expenses at sparing levels of $1.02 million in 2008 and $0.97 million in 2009, or 7.5% and 7.7% of contributions, respectively. The ratios were way below the 20% maximum ceiling allowed by law;

* The continuing growth of MISSA’s net assets from 2000 through 2007 has been undermined by the substantial losses in MISSA’s investments outside the country in FY 2008. From $69.03 million in FY 2007, it declined to $63.19 million but increased gradually to $64.88 million when the global financial market improved slightly in FY 2009.

DEVELOPMENT OF RMI’S NATURAL RESOURCES – THE KEY TO ECONOMIC GROWTH
As we move forward, we expect FY 2010 to be another challenging, and probably, more difficult year. The weak global environment will likely persist, increasing the strain on both workers and employers. However, this gloomy climate is also creating opportunities that are clearly visible, yet unnoticed by many.

The main theme of our report, “Development of RMI’s natural resources – the key to economic growth”, sums up an alternative vision for the future aimed at establishing financial security for many of our workers through emerging industries in agriculture, fishing, handicrafts and tourism. With unemployment thriving in every sector of our society, it is time that we direct our focus to the natural wealth of our resources that surrounds us. The vast richness of the Marshall Islands awaits our own discovery.

In closing, I want to recognize and thank MISSA’s Board of Directors, management and staff and their families, for their selfless dedication, hard work and support over the years.

I want to also thank President Jurelang Zedkaia, his Cabinet, the Nitijela and the people of the Marshall Islands for your confidence and support as we make our way through these challenges and tough economic times.

Kommol im jeramman nan aolep!

Saane K. Aho
MISSA Administrator
Chief Executive Officer

Saane K. Aho
Administrator & CEO

Member, Board of Directors, Bank of the Marshall Islands (present)
Member, Board of Regents, College of the Marshall Islands (present)
Chairman, Board of Regents, College of the Marshall Islands (2007)
Member, Board of Directors, Prior Service Trust Fund (present)
Deputy Administrator for Health Fund, MISSA (2000)

Senior Corporate Officers - Deputy Administrators

Bill Joseph
Chief Operating Officer

Avelino Gimao Jr.
Chief Financial Officer

Corporate Staff Officers

Sheryl Profeta
Finance Manager

Bryan Edejer
Tax Compliance Manager

Newton Matthew
Chief Accountant

Mathilda Lanwi
Tax Audit Manager

Emlin Andrike
Claims Manager

Joe Wottokna
I.T. Manager

Bernadette Lojkar
Ebeye Branch Manager
Saane K. Aho ...................... Administrator & CEO

RETIREMENT AND OPERATIONS DIVISION
Bill Joseph ...................... Deputy Administrator & COO

CLAIMS AND BENEFITS DEPARTMENT
Emlin Andrike ............... Claims Manager
Joseph Hesly ........ Claims & benefits specialist
Justin Lani ............ Off-Island Coordinator

ADMINISTRATION DEPARTMENT
Tenia Kaiko .............. Senior Admin. Assistant
Catherine Jibairu .... General Custodian
Bruce Thomas ......... Logistics Support
Banner Tare.......... Security Guard
Joseph Joshua .... Security Guard

EBEYE BRANCH OPERATIONS
Bernie Lojkar ............. Branch Manager
Rooney Milne........ Tax Compliance Supervisor
Pauline deBrum .... Administrative Assistant
Rusin Jatios ........ Logistics Support

CORPORATE SERVICES DIVISION
Avelino Gimao Jr.......... Deputy Administrator & CFO

FINANCE DEPARTMENT
Sheryl Profeta.......... Finance Manager
Newton Matthew... Chief Accountant
Antonio Rear........ Accountant
Priscilla Baso ....... Registration Clerk
Dorcas Watak ....... Cashier
Joe Wottokna....... I.T. Manager
Ivy Langbata ....... I.T. Clerk

TAX COMPLIANCE DEPARTMENT
Bryan Edejer.............. Tax Compliance Manager
Brad Lamille......... Tax Compliance Supervisor
Almitha Clement ... Tax Officer
Ruthann Korean ... Tax Officer
Jackson Henry...... Tax Officer
Rotis Jitiam ........ Tax Officer

TAX AUDIT DEPARTMENT
Mathilda Lanwi ........ Tax Audit Manager
Elvie John .......... Tax Audit Supervisor
Stephen Tarbwilin. Tax Auditor

INTERNAL AUDIT DEPARTMENT
Velma Kisino ....... Internal Auditor/Admin. Asst.

HUMAN RESOURCES DEPARTMENT
Avelino Gimao Jr ...... Personnel Officer
We, the men and women behind the Administration’s successes in recent years, MISSA’s "human energy," have embraced a new spirit that enables us to succeed.

* We understand the importance of dedication and passion for work as the key to quality service.
* We are committed to securing the future of the present and future generation of retirees and beneficiaries through innovation and value creation. We are also the means by which we integrate corporate responsibility into our operations countrywide.
* We continued to deliver services reliably in 2008 and 2009. We posted strong financial results in terms of contributions despite being constantly challenged by the current economic downturn worldwide and local tax delinquency problems. At the same time, we continued to advance our corporate responsibility objectives and results.
* We are committed to protecting the majority of the present and former contributors to the fund and not a selected few. In response to several proposed legislations aimed at increasing benefit payments, we strongly articulated our opposition to these bills as they have one thing in common - all are detrimental to the long-term financial viability of the system.
* We believe that by maintaining our administrative expenses at sparing lev-
Investor Solutions, Inc. ...........................Investment Advisor
  Frank Armstrong
  3250 Mary Street, Suite 207
  Coconut Grove, Florida
  United States of America

Fidelity Investments IBG .........................Investment Custodian
  Joseph Derickson
  P.O. Box 770001
  Cincinnati, Ohio
  United States of America

Law Offices of David Strauss ...............Legal Counsel
  Atty. David Strauss
  P.O. Box 534, Majuro
  Republic of the Marshall Islands

Deloitte & Touche LLP .........................External Auditors
  Christopher Wolseley
  Director
  P.O. Box 1258, Majuro
  Republic of the Marshall Islands

Software Specialties ........................I.T. Consultant
  Jill Derickson
  PMB 364 PPP, P.O. Box 10000
  Saipan MP 96950-8900

Pacific Actuarial Services .................Actuary
  Joseph Nichols
  205W. Kansas St., Liberty
  MO 64068
  United States of America

Majuro Clinic ....................................Medical Examiner
  Dr. Alexander Pinano
  Delap, Majuro
  Republic of the Marshall Islands
Executive Summary

General

The Marshall Islands Social Security Administration (MISSA), a component unit of the Republic of Marshall Islands (RMI), was established pursuant to RMI Public Law 1990-75 (the Social Security Act of 1990 or “the Act”), as amended. The law repealed the Social Security Act of 1987 and established MISSA to administer the Marshall Islands Social Security Retirement Fund (the Retirement Fund).

The Retirement Fund was established to provide a financially sound social security system with pension benefits and early retirement, whereby workers would be ensured a measure of security in their old age and during disability, and whereby surviving spouses and surviving children of deceased workers would be ensured support after the loss of the family’s income.

Additionally, MISSA is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program. Accordingly, MISSA established the Prior Service Trust Fund (PSTF) to account for activities under this program.


On April 11, 2002, the Nitijela passed Public Law 2002-57 to repeal the Social Security Health Fund Act of 1991 and to transfer the administration of the Health Fund to RMI’s Ministry of Health (MOH). However, the formal turn over did not take effect until December 1, 2002, with MISSA’s Deputy Administrator for Health Fund and its entire Medical Referral Team being absorbed by MOH.

Principal provisions

Coverage - Contributions to the Retirement Fund are governed by the Act, as amended, which imposes a tax on the quarterly earnings of every worker or self-employed worker, not currently subject to the United States Social Security System or any other recognized Social Security System, equal to seven percent (7%) of earnings received.

Maximum quarterly taxable earnings are $5,000. Every employer is required to contribute an amount equal to that contributed by employees.

Note: In order for a worker or self-employed worker to earn one quarter of coverage, his reported gross earnings in any quarter must be at least $250.

Reporting deadlines

First quarter April 10th
Second quarter July 10th
Third quarter October 10th
Fourth quarter January 10th

Benefit programs

Retirement benefits -

Entitlement to old age insurance benefits:

1. Early retirement – applicant must be at least 55 years of age and service insured.

2. Normal retirement – applicant must be 60 years of age and fully insured.

3. Deferred retirement – applicant must trade or business;

4. Reasonable per diem, travel, stipend and housing allowances; and

5. All earnings in excess of the maximum taxable earnings of $5,000 per quarter.
be at least 60 years and 1 month and fully insured.

“service insured” means having earned at least eight (80) quarters of coverage.

“fully insured” means having earned at least one quarter of coverage for each year beginning with the later of June 30, 1968, or the year in which the worker or self-employed worker attains the age of twenty-one (21) years and ending with the year before the year of death, attaining retirement age, or the year of becoming disabled, whichever first occurs; provided however, that the worker or self-employed worker who dies, attains retirement age, or becomes disabled prior to October 1, 1983, must have no less than eight (8) quarters of coverage and a worker or self-employed worker who dies, attains retirement age, or becomes disabled after September 30, 1983, must have no less than twelve (12) quarters of coverage; provided further, that the maximum number of quarters of coverage required shall be no more than thirty-eight (38) quarters.

Disability benefits - To be classified as "disabled":
1. The worker or self-employed worker must be unable to engage in the continued performance of his duties by reason of any medically determinable physical or mental impairment;
2. The period of disability is expected to result in death or to last at least 12 months; and
3. The claimant must be fully and currently insured at the time of disability.

“currently insured” means having earned at least six quarters of coverage during the most recent forty (40) quarters ending with the quarter of the worker’s retirement, disability or death, whichever first occurs.

Surviving spouse insurance benefits – the surviving spouse of a worker who is fully or currently insured and dies is entitled to a surviving spouse insurance benefit of 100% of the “basic benefit”, subject to the maximum and minimum survivor benefits, and subject to the earnings test. This is paid until remarriage or until death of the surviving spouse, whichever occurs first.

“basic benefit” means one-twelfth (1/12) of the sum of the pension element and the social element calculated as follows:
1. Pension element: 2% of indexed covered earnings, plus
2. Social element: 14.4% of the first $11,000 of cumulative covered earnings (CCE), plus 0.7% of CC in excess of $11,000 but not in excess of $44,000. The $11,000 and $44,000 bend points may be increased from time to time by wage index adjustments granted by the MISSA Board pursuant to Section 147 of the Act.

Surviving child insurance benefits – each surviving child of a worker (natural, and legally or customarily adopted) who is fully or currently insured and dies is entitled to a surviving child’s insurance benefit of 25% of the basic benefit; provided, however, that the total monthly survivor’s insurance benefits payable to both Surviving Spouse and the Surviving Children shall neither exceed the basic benefit applicable to the deceased wage earner nor be less than $128.99; and where more than one person is entitled to survivor’s benefits, the payments shall be made to all such beneficiaries proportionately to the percentage of basic benefit due them.

The surviving child benefit shall end with the month preceding the month of the child attaining age 18, or 22 years of age if the child is a bona fide student, or if disabled before the age of 22 years; the child’s marriage; or the child’s adoption by another parent, except for adoption subsequent to the death of the worker or self-employed worker by an aunt, uncle, stepparent, or grandparent; provided that the child was dependent upon the worker or self-employed...
Executive Summary

worker.

Dependency - a child shall be deemed to be or have been, at any relevant time, dependent upon the worker or self-employed worker if such person provided regular and substantial support to or on behalf of the child. A natural or legally adopted child is presumed to be dependent upon the worker parent, absent evidence to the contrary. A customarily adopted child or a stepchild is dependent upon the worker or self-employed worker only if at the time of the worker’s death, the child had lived in the worker’s home continuously for one year and during that time, the customarily adopting parent or step-parent was contributing at least one-half of the child’s support.

Lump-sum benefits - If a worker or self-employed worker permanently ceases to work for reason of old age, illness, physical disability or any other reason which has an adverse effect on the ability of such person to perform his duties, and rights to insurance benefit under Sections 36 through 39 of the Act with respect to such person have not otherwise accrued, a lump sum benefit equal to 4% of his CCE shall be paid to such person in a lump sum payment;

If a worker or a self-employed worker dies and all rights to survivor’s insurance benefits with respect to such person have ceased, a lump sum benefit equal to 4% of his CCE, less the amount of the benefits actually received by such person, or his survivors, if any, shall be paid;

The lump sum benefit shall be paid to the spouse, and in the absence of the spouse, shall be paid to the children in equal shares, or guardian, if such children are minor, and in the absence of both, shall be paid to the parents in equal shares;

In the absence of the persons referred above, the lump sum benefit shall be paid to the persons specified under prevailing laws and customs with respect to intestate succession in the domicile of the deceased worker’s or self-employed worker’s at his death.

Payment to non-citizens - Unless modified by a totalization or bilateral agreement, no more than six (6) months of benefit payments shall be paid to any beneficiary who is not a citizen or national of the Republic while the beneficiary has been outside of RMI; provided, however, payments shall be made to citizens and nationals of the Federated States of Micronesia, the Republic of Palau and the United States of America as if they were citizens or nationals of the Marshall Islands.

The earnings test - a worker or self-employed worker who is in receipt of benefit and at the same time is in covered employment, shall have his quarterly benefit reduced by one dollar ($1.00) for every three dollars ($3.00) earned during that quarter in excess of fifteen hundred dollars ($1,500.00). The reduction shall be made as soon as practicable after the quarter in which the earnings were earned. However, the earnings test is not applicable in the quarter in which the worker or self-employed worker who is receiving the benefit attains sixty-two (62) years of age, or in any subsequent quarter thereafter.

STATISTICAL INFORMATION

Membership
As of September 30, 2009, MISSA’s estimated number of registered members is approximately 63,828 individuals, comprised of active contributors, past contributors who may have died, retired or are no longer actively employed, foreign workers who left RMI permanently, students and survivors of deceased workers.

Beneficiaries
Since FY 2001, there has been a steady increase of about 250 to 350 new beneficiaries each year. At the end of FY 2008, there were 3,562 beneficiaries receiving an average of $1.0 million per month. In FY 2009, it increased to 3,709, with aver-
age benefit payments of $1.1 million per month.

Active contributors
The number of workers and self-employed individuals whose tax contributions have been filed and paid has decreased abruptly in 2004 as a result of the closure of the PM& O Tuna Loining Factory, whereby more than 600 employees were laid off.

Fortunately, a new management, Pan Pacific Fishing (RMI) renovated and re-opened the plant in April 2008 which initially translated to more than 400 workers being hired. But due to financial losses and operational problems, it stopped temporarily its operations and reopened only in June 2009.

As of September 30, 2009, the total workers and self-employed workers reported reached 9,761 and is expected to increase gradually when Pan Pacific Fishing (RMI) step-up its hiring as it moves into a new production phase.

The number of employers whose tax contributions have been filed and paid has also increased steadily to 379 as of September 30, 2009.

EBEYE BRANCH OPERATION
Since 1987, MISSA has operated a branch in Ebeye which has successfully collected an average of about $3.5 Million annually for both Retirement and Health Funds. This represents about 20% of MISSA’s total annual collections.

In the past, the majority of Ebeye's collections come from Marshallese workers of Raytheon, the main contractor of the United States Army in Kwajalein Atoll (USAKA), until 2002. In early 2003, Raytheon was replaced by a new contractor, Kwajalein Range Services (KRS). Later, another contractor, Chugach Development Corporation started its operations in USAK.

Under the US-RMI Status of Forces Agreement and Compact of Free Association, as amended, all U.S. military and civilian personnel working for USAK in Kwajalein are exempt from paying social security contributions.

Aside from the two main contractors in USAK, about 110 employers operate in the island of Ebeye, comprised of mostly mom and pop stores, schools, transport and other services.

The operation of MISSA's Ebeye branch is basically similar to that of its head office on Majuro:
- Collection of social security contributions of workers, self-employed workers and employers in Ebeye and Kwajalein;
- issuance of SS Cards for employees and EIN cards for employers (the numbers are generated from the head office on Majuro);
- receiving of claims for retirement, disability, survivor and lump sum benefits
- customer service

In late 2007 through 2009, contributions by the two main contractors in Kwajalein decreased by about 17% as a result of manpower reduction.

Fortunately, a very generous offer was made in early 2009 by USAK on behalf of the Army & Air Force Exchange Service (AAFES) to gratuitously contribute amounts equal to the employer’s share of the MISSA and Health Fund contributions, on behalf of its 100 plus RMI citizen employees. This translates to nearly $170 thousand annually.

AAFES is an agency of the Department of Defense, operating service facilities on behalf of the Armed Forces of the United States and is exempt from all taxes, customs duties, fees, charges and license requirements of the Government of RMI, as authorized by Article VI of the U.S.-RMI Status of Forces Agreement.
The Prior Service Trust Fund (PSTF) is a U.S. funded program that provides benefits to Micronesians with five or more years of service with the Naval Administration or Trust Territory Government prior to 1968. This program is controlled by a Trust Agreement between the U.S. Department of Interior and the four Trust Territory governments of the Commonwealth of the Northern Mariana Islands, Republic of Palau, Federated States of Micronesia and the Marshall Islands.

The trust agreement became effective in 1987 and to date more than $16 million of benefits have already been paid.

In April 2004, John M. Niedenthal, MISSA's Board Chairman, started his term as Chairman of the PSTF. This was the result of a previous agreement that each PSTF Board Member shall act as the Chairman on a rotation basis per year.

In September 2004, PSTF officials met in Washington D.C. with U.S. Deputy Assistant Secretary Cohen and the Office of the Insular Affairs. The meeting was a success as a grant for $1.6 million was awarded to the PSTF which was used to bring the beneficiary payments up to date.

A portion of the fund amounting to $100,000 was granted as assistance fund for the decentralization of the PSTF effective October 1, 2005, which would cause the administration of the fund to be transferred to the social security system of each of the four former members of the Trust Territory.

The fund was subsequently decentralized in April 2006 and MISSA started administering the distribution of $105,000 leftover share it received.

In November 2007, the Administration was forced to put on hold (for the first time) all PSTF benefits as the fund was almost depleted and no additional funding was guaranteed during that time.

In January and July 2008, the Administration received again from PSTF a total of $115,896. This enabled the Administration to continue paying the monthly PSTF benefits until August 2008, after which the fund was depleted again (for the second time).

In September 2008, MISSA decided again to put on hold all PSTF benefit checks pending receipt of additional funding from the U.S. Government.

In November 2008, MISSA received $61,088 additional PSTF funding which enabled the Administration to release its September and October 2008 benefit checks which were put on hold earlier for lack of funds. This is the third funding received in 2008.

In March, May and August 2009, MISSA received a total of $68,458 which enabled the Administration to continue paying its PSTF beneficiaries every other month.

As of September 30, 2009, only the benefits for the month of September remain on hold while the October benefit checks will be released at the end of October 2009.

At present, the Administration needs at least $11,100 to meet its monthly PSTF benefit payments, including the 20% administrative fee that MISSA is entitled to. Unless additional funding is received, the current PSTF fund will only last until October 2009.

Additional funding received from PSTF in FY's 2008 and 2009:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 31, 2008</td>
<td>$108,109</td>
</tr>
<tr>
<td>June 22, 2008</td>
<td>7,784</td>
</tr>
<tr>
<td>November 4, 2008</td>
<td>61,088</td>
</tr>
<tr>
<td>March 9, 2009</td>
<td>7,400</td>
</tr>
<tr>
<td>May 05, 2009</td>
<td>47,293</td>
</tr>
<tr>
<td>August 31, 2009</td>
<td>13,765</td>
</tr>
<tr>
<td>Total</td>
<td>$245,439</td>
</tr>
</tbody>
</table>
On February 19, 1999, the RMI Government fully repaid a loan and related interest, totaling $1.94 million, through transferring its ownership of 94,485 shares of the Bank of the Marshall Islands (BOMI) stocks to MISSA. Later, 30,000 of these shares were sold to a third party that subsequently reduced MISSA’s shareholding to 31%.

Since MISSA’s acquisition of BOMI shares, the Administration received dividends from BOMI amounting to about $1.4 million, broken down as follow:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>293.8</td>
</tr>
<tr>
<td>2007</td>
<td>293.8</td>
</tr>
<tr>
<td>2006</td>
<td>261.1</td>
</tr>
<tr>
<td>2005</td>
<td>226.4</td>
</tr>
<tr>
<td>2004</td>
<td>161.2</td>
</tr>
<tr>
<td>2003</td>
<td>129.0</td>
</tr>
<tr>
<td>2002</td>
<td>96.7</td>
</tr>
<tr>
<td>Total</td>
<td>$1.4 million</td>
</tr>
</tbody>
</table>

MISSA also holds 3,000 shares of stock, at $10.00 par value, in the Marshall Islands Service Corporation (MISC).

Aside from MISSA’s stock ownership, the Administration also has Time Certificates of Deposit (TCDs) at BOMI which earn 5% interest per year.

MISSA’s funds that are deposited to BOMI are in turn loaned out to the community at an interest rate of about 18% per year. When BOMI makes a profit from the use of these funds, MISSA also benefits. If MISSA were to withdraw these funds from the bank, not only would the bank suffer, but also MISSA, and especially the residents of the Marshall Islands and the business community.

In addition, the MISSA Board and Administration anticipate that payments to beneficiaries and operating expenses will exceed revenues. The TCDs represent MISSA’s short-term reserves and will be utilized to ensure that MISSA has enough cash reserves available for uninterrupted payments to the retirees and other beneficiaries of the Retirement Fund. Therefore, the TCDs at BOMI are one of MISSA’s most important assets and will only be withdrawn to pay the retirees and beneficiaries.

As of September 30, 2009, MISSA’s total stock ownership at BOMI amounts to $8.4 million and $4.8 million worth of TCDs. Currently, BOMI is considered RMI’s strongest and most profitable financial institution with total assets worth $66.5 million as of December 31, 2009.

From that time on, workers and their employers each contribute a percentage of their wages to the Health Fund according to the following schedule:

- 3.5% for wages paid from Apr. 1997 to Dec. 2000
- 2.5% for wages paid from Jan. 2001 to Dec. 2001
- 3.5% for wages paid from Jan. 2002 to present

On April 11, 2002, the Nitijela passed Public law 2002-57 to repeal to the Social Security Health Fund Act of 1991 and to transfer the administration of the Health Fund to RMI's Ministry of Health (MOH). However, the formal turnover did not take effect until December 1, 2002, with MISSA's Deputy Administrator for Health Fund and the entire Medical Referral Team being absorbed by MOH.

For accounting purposes, all Health Fund contributions collected by MISSA starting January 1, 2003 were no longer reflected in MISSA's books. As part of an agreement with MOH, however, MISSA remains responsible for the quarterly collection of Health Fund contributions.

In an agreement dated November 4, 2003, MOH agreed to pay MISSA 3.5% on the first $4.0 million collected each year as administrative fees. (The average annual health fund collections amount to $4.5 million during that time). The administrative fee agreement took effect starting January 1, 2004.

From FYs 2003 through 2009, MISSA has collected $39.91 million health fund contributions which were subsequently remitted to MOH. In return, MOH has paid MISSA a total of $978 thousand as collection fees for the same period.

In October 2003, the Health Services Board also approved a five-year payment plan to pay off the $1.2 million owed by MOH to MISSA. The first installment of $60 thousand started in January 2004. The debt was totally paid-off in October 2009.

Health Fund contributions collected by MISSA in the last seven fiscal years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$ 3.95 million</td>
</tr>
<tr>
<td>2004</td>
<td>6.49</td>
</tr>
<tr>
<td>2005</td>
<td>5.70</td>
</tr>
<tr>
<td>2006</td>
<td>6.00</td>
</tr>
<tr>
<td>2007</td>
<td>5.85</td>
</tr>
<tr>
<td>2008</td>
<td>6.22</td>
</tr>
<tr>
<td>2009</td>
<td>5.70</td>
</tr>
<tr>
<td>Total</td>
<td>$39.91 million</td>
</tr>
</tbody>
</table>

In September 2009, the MISSA Board, upon the recommendation of the Administrator, approved that MISSA’s collection fee be increased to a fixed amount of $300 thousand a year. The decision to increase was in line with the Administration’s goal to supplement its tax collections with other sources of revenue to mitigate the impact of a huge cash deficit MISSA is anticipating in the coming fiscal year.

In late 2009, MISSA and MOH agreed to a collection fee of $200 thousand per annum beginning FY 2010.
As of October 1, 2008, the total accrued actuarial liability (AAL) of MISSA stood at $225.81 million and the market value of Trust Assets was $63.20 million, resulting in an unfunded accrued liability of $162.61 million (or 72%).

In addition, as of October 1, 2008, the estimated value of future employee contributions in excess of future benefits and system expenses was $13.01 million. Once this is subtracted from the unfunded AAL, this means that the deficiency is $149.60 million. The deficiency represents the value of benefits already earned that are not covered by existing assets and are not anticipated to be covered by expected future contributions.

Actuarially determined accrued liabilities represent the accumulated current value of benefits already earned or accrued as of any point in time. The comparison of current plan assets to accrued liabilities gives an indication of how well funded the system is at any point in time.

A funded ratio of 100% would indicate that the system’s current liability for benefits already earned was fully funded by current assets. A funded ratio of 25% indicates that current plan assets are only great enough to fund 25% of the benefits already earned. The greater the funded ratio, the better funded the system is with respect to benefits already earned.

The unfunded AAL is greatly affected by the level of Trust Assets which, in return is affected by the investment performance of the Trust. After experiencing positive investment return for fiscal years ending 2002 through 2007, the Trust has realized a negative return in 2008 with the trust losing 8.33%.

Although this is an improvement in funded status to years, there are warning signs showing future stresses to the System. Due to market decrease in 2008, the funded status of the system has hit a critical juncture. Adding to the stress on the system is the fact that the number of workers and taxable earnings continues to decrease.

<table>
<thead>
<tr>
<th>Accrued liability and market value of assets as of October 1</th>
<th>2008</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active workers earning benefits</td>
<td>$106,952,000</td>
<td>$99,713,000</td>
</tr>
<tr>
<td>Retirees, spouses, children and disabled</td>
<td>100,505,000</td>
<td>94,660,000</td>
</tr>
<tr>
<td>Fully or service insured inactive workers</td>
<td>18,349,000</td>
<td>13,280,000</td>
</tr>
<tr>
<td>Total AAL</td>
<td>225,806,000</td>
<td>207,653,000</td>
</tr>
<tr>
<td>Market value of assets</td>
<td>63,200,000</td>
<td>61,179,000</td>
</tr>
<tr>
<td>Unfunded AAL</td>
<td>$162,600,000</td>
<td>$146,474,000</td>
</tr>
<tr>
<td>Funded percent</td>
<td>28%</td>
<td>29%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Determination of the total deficiency as of January 1</th>
<th>2008</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total accrued liability</td>
<td>$225,806,000</td>
<td>$207,653,000</td>
</tr>
<tr>
<td>Market value of assets</td>
<td>(63,200,000)</td>
<td>(61,179,000)</td>
</tr>
<tr>
<td>Current value of excess employee Contributions from active workers</td>
<td>(13,008,000)</td>
<td>(65,228,000)</td>
</tr>
<tr>
<td>Total deficiency</td>
<td>$149,598,000</td>
<td>$81,246,000</td>
</tr>
</tbody>
</table>

* the current value of excess employee contributions from active workers include an allowance for future system expenses.

The unfunded AAL can also be further reduced by considering the current value of future employee and employer contributions that are in excess of future benefits earned and future expenses.

Currently, we estimate that a combined employee and employer contribution rate of approximately 12.5% would pay for future benefits earned by new worker who would enter the Administration in the future and would cover future expenses. Since the current combined tax rate is 14% of covered earnings, this excess can be used to reduce the unfunded AAL as shown below. It is important to note that because the current contribution rate is sufficient to cover future benefits, that the unfunded AAL and total deficiency shown below do not exist because of current system provisions, but rather are the result of prior benefits already earned.

Comments and Suggestions to Manage the Unfunded AAL
Benefit payments and administrative expenses exceeded the amount of contributions collected during each fiscal year from 2006 to 2008 and will continue to do so for fiscal
year 2009. Since a large portion of the contributions are for past due collections, the difference between the current year collections and disbursements are even greater. The trend of deficits shows no end. This puts the Administration in the position of having to dip into the Trust in order to meet its financial commitments. As the amount of benefit payments grows in the future, without further changes, it is certain that the Trust will run out of money. In fact, based on current provisions and worker demographics, the Trust will be diminished by 2022. This projection is based on no growth in the active workforce. The deficit will come even sooner should the workforce continue to decrease.

The accrued liability is expected to increase from year to year and in fact, the AAL has increased since the prior valuation. Because the unfunded AAL is simply the difference between the accrued liability and trust assets, the size of the unfunded AAL can be limited in three ways: increase the return of invested assets, increase revenue through additional funding, and limit the growth of future benefit payments.

**INCREASING REVENUE**

The most immediate source of additional revenue could come through an increase in the tax rate levied on workers, self-employed workers and employers. Contributions can increase two ways: first by increasing the percents, then by increasing the maximum taxable wage base.

Increasing the percent only increases contributions, not liabilities. If the maximum taxable wage base is increased the benefits earned on the additional amount should be lower than the current 2%. In fact, one option is to eliminate the taxable wage base maximum for contributions, but keep the gradual increase in place for benefits. This would increase current annual revenues by approximately $1.3 million. This change would be very difficult, but at least it provides a starting point to make decisions. Since most of the liability is based on benefits in pay status, continually increasing current worker and employer contributions will not fully fix the impending deficit.

Another source of additional funding is to look to the RMI Federal Government for additional funds. Keeping in mind that the more money there is in the Trust, the larger the potential dollar amount of investments return; the Federal Government could make investments in social security by allocating $5 million each of the next 3 to 4 years. This would push the exhaustion of Trust assets out past 20 years. Alternatively or in addition to a single payment, some of the funding received through Compact II could be allocated to social security on an annual basis.

**LIMITING BENEFIT GROWTH**

The following plan design scenarios that lower accrued liabilities are presented:

1. Increase normal retirement age to 65 - this change would decrease the unfunded AAL by approximately $30 million. It would also decrease the annual cost of the benefits from 11.5% to 9% and extend the date assets are exhausted out about 5 additional years;

2. Freeze benefits - this change would decrease the unfunded AAL by approximately $22 million. It would also decrease the annual cost of the benefits from 11.5% to about 8% and extend the date assets are exhausted well beyond the 20 year projection;

3. Freeze benefits and increase normal retirement age to 65 - this change would decrease the unfunded AAL by approximately $43 million. It would also decrease the annual cost of the benefits from 11.5% to about 6% and extend the date assets are exhausted well beyond the 20 year projection;

4. An additional plan design was to look at converting the social security system from a defined benefit (DB) plan to a defined contribution (DC) plan. Due to the poor funded status of the system, this conversion would be difficult without a large contribution from the RMI Government. For example, if the approximately $50 million in accumulated contributions were refunded to active workers in exchange for any benefit, this would leave $13.2 million to pay for those currently receiving benefits. The full 14% contributions would need to be put in the frozen DB plan for 15 years, leaving no contributions for current workers. SO not only would the workers be, in aggregate, forfeiting over 1/2 of their accrued benefits, they would receive no benefits for the next 15 years. It does not mean that a DC plan is not feasible. It means that no change is feasible unless benefit reductions involve both active workers and those currently in pay status.

In each of the above scenarios, drastic changes to the active worker benefits only is not enough to sustain the System. Without additional funding, the only way to make the System sustainable is to lower benefit for both active workers and those currently in pay status. One option is a flat percentage decrease to all benefits - for active workers and for those workers currently in pay status. The full 14% contributions would need to be put in the frozen DB plan for 15 years, leaving no contributions for current workers. SO not only would the workers be, in aggregate, forfeiting over 1/2 of their accrued benefits, they would receive no benefits for the next 15 years. It does not mean that a DC plan is not feasible. It means that no change is feasible unless benefit reductions involve both active workers and those currently in pay status.

There has been discussion to cap payments to a percent of contributions. Approximately 90% of those in pay status have already received benefits greater than the sum of the taxes related to their benefit. If benefits were limited to 100% of the taxes, only 10% would continue receiving benefits. For active, if benefits were limited to the sum of the taxes, they would be paid for, on average, 5 years. This is a significant decrease in liabilities - over half.
How MISSA addresses delinquency

The provisions of the Social Security Act of 1990 contain certain ambiguities that resulted in different interpretations. It has caused confusion and disagreements among taxpayers and tax authorities.

It is also a known fact that a number of individuals and businesses were able to illegally evade taxes due to weak enforcement of the law and, in certain cases, lack of the legal support necessary for successful prosecution.

This condition results in a significant amount of tax revenues being lost by the government, and it leads to unfair competition. As tax evaders pay little or no taxes, they can offer bids or sell their products at prices much lower than those who pay their taxes.

Delinquent taxpayers and tax evaders were also observed to have used the pretext of “not knowing the law” as an excuse for not paying the right amount of taxes. However, as is known worldwide, “ignorance of the law is no excuse.”

How MISSA addresses delinquency

When MISSA serves a notice of delinquency or tax assessment to a taxpayer, all efforts are exhausted until the amount due is totally paid-off. This is one of the primary responsibilities of Bryan Edejer, MISSA’s Tax Compliance Manager, who has handled effectively the post he held since he joined MISSA in 2007. He is being assisted by Brad Lamille, Tax Compliance Supervisor and four Tax Officers - Almitha Clement, Ruthann Korean, Jackson Henry and Rotis Jitiam.

If the amount of tax deficiency is significant and the employer does not have the financial capacity to pay-off the entire amount, an affordable payment plan is offered and a promissory note is signed. This is normally done out of court and without the services of a lawyer.

However, not all delinquent taxpayers who are given affordable payment options comply with MISSA. When all amicable efforts have been exhausted by MISSA’s Tax Compliance Department and the delinquent taxpayer remains adamant to not pay, the case is referred to David Strauss, MISSA’s current legal counsel, who either contacts the delinquent tax-payer regarding settlement or simply files an action to collect the delinquent taxes in the High Court.

Depending on the delinquent taxpayer's financial condition, and length of time in which the delinquent taxes are paid, the legal counsel may waive some of the penalties. By law, MISSA is authorized to impose a penalty of up to 100% of the contributions owed plus 12% interest per annum on the penalties. Additionally, MISSA is entitled to recover court costs and reasonable attorney’s fees (49 MIRC, Ch. 1, Sect. 149(1)).

In cases of promissory notes or monthly payments ordered by the court or by consent of the tax-payer, the periodic (usually bi-weekly or monthly) payments are closely monitored by MISSA and the legal counsel. A default in payments for three consecutive months results in a referral of the matter back to the legal counsel for further action.

Only a small number of the total delinquency cases result in court proceedings.

As of the last quarterly returns filed in Q3 2009, only 379 (or 53%) of the 717 employers in active operations on Majuro, Ebeye-Kwajalein and outer islands filed and paid their SS contributions on time. Their combined contributions represent about 80%-85% of MISSA’s total revenues. Consistently topping the list of those filing and paying on time is the RMI Government which contributes about one third (1/3) of the Administration’s Retirement and Health Fund collections.

The non-filers are comprised mostly of small mom and pop stores, schools and local governments who have long outstanding obligations with the Administration. For several years now, this group has been the focus of MISSA’s collection campaign. With the assistance of the legal counsel, a number of them have been ordered by the court to pay MISSA. However, as most of them are in financial distress, the Administration was unable to collect.

The positive cash flow enjoyed by the Administration in recent years was the result of MISSA’s intensified collection efforts and support from its legal counsel that resulted in the collection of long-outstanding receivables from certain delinquent employers. Likewise, the RMI Government, MalGov and the two main employers in Kwajalein (Chugach and KRS) have also provided MISSA with the much needed cash with their consistent and on-time remittances.

To date, at least $10 million worth of long-outstanding obligations to MISSA remain unpaid. This amount includes interest and penalty charges that have accumulated over the years. Considering the urgency of the matter, the Administration is determined to seek all possible legal remedies to col-
In 2006, more than 50 payroll audits have been completed. About a dozen more employers, including local governments, are currently under audit. Of the more than 50 audits completed by MISSA, only 3 were found to have completely reported the correct taxable wages of their employees and paid the right amount of social security taxes. The rest have not reported or have under-reported the taxable wages of at least one of its employees.

These alarming statistics prompted MISSA tax auditors to be more vigilant and thorough in the conduct of their audit. MISSA’s Tax Audit Department is currently headed by Tax Audit Manager Mathilda Lanwi. She is assisted by Tax Audit Supervisor Elvie John, and Stephen Tarbwilin, Tax Auditor. MISSA’s tax audit team has been in constant and close coordination with auditors of the Ministry of Finance. As both audit teams are tasked with the same responsibilities and use identical audit techniques and procedures, their sharing of information has been very useful in the early detection and identification of unreported and under-reported taxes. This concerted effort is the result of a memorandum of agreement (MOA) in 2006 signed by officials of MISSA, Ministry of Finance, Mal-Gov, KalGov, and the AG’s Office. The MOA’s primary purpose was to ensure a free flow of information between and among the said government agencies to promote fiscal stability through improving the internal revenue generation in the Marshall Islands.

Unemployment, disability of workers and decreasing workforce

One of the most important challenges that the Administration is facing nowadays is the shrinking labor force in the country. This situation is exacerbated by three factors: a very high unemployment rate, increasing claims for disability of workers and reduced salaries and working hours being enforced by certain employers to survive the current financial crisis. The burden of correcting this fund deficiency became more challenging in FY 2009 as MISSA’s total benefit payments reached $13.64 million (or 8.9% higher than the previous year) and administrative expenses totaled $0.97 million despite being 12.9% lower than the approved budget of $1.16 million.

Since 2006, MISSA had experienced an imbalance between contributions vis a vis benefit payments and administrative expenses. The burden of correcting this fund deficiency became more challenging in FY 2009 as MISSA’s total benefit payments reached $13.64 million (or 8.9% higher than the previous year) and administrative expenses totaled $0.97 million despite being 12.9% lower than the approved budget of $1.16 million.

Unless an unexpected $1.4 million (at the least) in long-outstanding obligations is collected in FY 2010 or the RMI Government offers a cash subsidy to MISSA, the Administration stands to face the inevitable - a huge cash shortfall in the next few months. The last time the Administration made a drawdown from the Trust Fund was in 2000 when the administration of the Health Fund was still under MISSA. During the 1990’s, MISSA had been regularly making drawdowns from the Retirement Trust Fund.

Unemployment, disability of workers and decreasing workforce

One of the most important challenges that the Administration is facing nowadays is the shrinking labor force in the country. This situation is exacerbated by three factors: a very high unemployment rate, increasing claims for disability of workers and reduced salaries and working hours being enforced by certain employers to survive the current financial crisis. These conditions translate to a significant loss of potential social security contributions that would have strengthened MISSA’s financial health.

Currently, there are hundreds of students who graduated from high school and a local community college who remain without any benefits.
One basic reason why there are lots of able-bodied individuals of employment age (especially the youth) who remain without a source of livelihood is that the current educational system is not adequately equipping school children with the basic skills needed to pursue further studies or training or to be competitive in the labor market, be it locally or off-island. Although the country provides free elementary, secondary and two-year college education that resulted to high rates of primary enrolment, many school children quit before completing basic education, or complete without the expected educational skills. These problems are associated with the poor quality of school facilities, school management, curriculum and learning materials and teachers, more particularly in the outer islands.

source of income The reason - they don’t have the academic background, work experience and skills required by potential employers.

While the country provides adequate healthcare to its populace, lifestyle diseases like diabetes, hypertension and heart ailments have shown an alarming trend in recent years, contributing to an increase in the number of medical disability and survivor benefit payments by MISSA.

The manpower downsizing in Kwajalein that started about two years ago has negatively impacted MISSA collections, reducing its Ebeye-Kwajalein revenues by at least 15%.

Adding more financial burden to the Administration is the expected reduction in working hours and salaries of employees from a certain local government and another government corporation this coming fiscal year. These two employers have a combined workforce of 686 workers. This reduction in contributions is expected to exacerbate the imbalance resulting from the ever increasing benefit payments expected to reach $14.75 million this coming fiscal year.

Proposed legislations detrimental to the Fund

On March 9, 2009, another proposed legislation (Bill# 50) was introduced in the Nitijela to repeal Sections 103(q), 136(1)(a), 136(2)(a)(c), 13 6(3)(4) and 144 of the Social Security Act of 1990 (The Act).

The bill seeks to remove the early retirement benefits in order to enable a worker or self-employed worker to be fully insured to the amount contributed at the normal retirement age of 60. It will also eliminate the earnings test which will get rid of reduction of quarterly benefits of a retiree aged 55 to 62 years who is still in covered employment.

Following is the Administrator’s response that was addressed to the Chairman of Nitijela’s Standing Committee on Health, Education & Social Affairs:

The Marshall Islands Social Security Administration (MISSA) wishes to express its objection to Bill no. 50 as eliminating both early/deferred retirement and earnings test will result to a net increase in benefit payments. As you are aware, the Marshall Islands Retirement Trust Fund is not yet ready to afford such benefit increases.

According to the study done by our actuary, eliminating early retirement would reduce benefit payments by $700 thousand a year which is in line with MISSA’s goal to remain financially viable. However, if the earnings test is likewise eliminated, it will translate to at least $1.1 million in additional benefits and the net effect will be a net benefit increase of $400 thousand which the Administration cannot afford at the moment.

Therefore, our actuary recommended that due to the current funded status, no change should be made to the system that would increase benefits.

With the current fiscal year ending in just a couple of weeks, the Administration projects that FY 2009 benefit payments will total $13.60 million while administrative expenses will amount to $0.95 million. If the total amount of benefits and administrative expenses are subtracted from the projected contributions of $13.80 million, MISSA will have a net operating deficit of $0.75 million before other income (from interest and dividends) in the current fiscal year.

Even if our investments will break-even in the current fiscal year and our net assets remain constant from last year, our unfunded actuarial accrued liability of 72% (as of October 1, 2008) will remain a serious threat to the long term viability of the Fund. In fact, according to our actuary, without significant future increases in contributions and with no change in the upward trend of benefit payments, it is projected that the Trust Fund will be completely depleted by 2022.

This serious financial condition is further aggravated by the current global financial crisis, as MISSA’s funds have declined significantly in value over the past two years. In FY 2008 alone, the market value of MISSA’s investments (except for MISC stocks and BOMI stocks and CDs) dropped by $8.5 million. It further declined by another $11.25 million in the first six months of FY 2009. Although stocks rebounded in the second half of the current fiscal year, it is not enough to recover such huge losses in the past.

Adding more financial burden to the Administration is the expected reduction in working hours and salaries of employees from a certain local government and another government corporation this coming fiscal year. These two employers have a combined workforce of 686 workers. This reduction in contributions is expected to exacerbate the imbalance resulting from the ever increasing benefit payments.
expected to reach $14.75 this coming fiscal year.

As we finalize our FY2010 budget, we are very much concerned with an impending cash deficit of at least $1.3 million which may leave us no other option but to dip into our Trust Funds, our first drawdown in nine (9) years. Such cash drawdown can only be avoided if the RMI Government will assist the Administration with a big amount of subsidy to ensure uninterrupted benefit payments in the coming months.

Citing the above reasons, I would like to once again solicit your kind support. It is our hope that we all have a unified position on this matter.

Lastly, let me take this opportunity to thank you and the RMI Government for your continuous support to MISSA.

Sincerely,
Saane K. Aho
MISSA Administrator

**Global economic downturn**

MISSA was not spared by the worldwide economic crisis as its investments dropped in value by as much as $8.50 million in FY 2008 and further, by another $12.87 million in the first five months of FY 2009. Consequently, these huge losses resulted to a big drop in MISSA’s net assets from $69.03 million as of the end of FY 2007, to $63.19, a year later, and further to $58.61 million in mid-FY2009.

As recommended by its investment advisor, the Administration did not make any immediate changes in its present investment policies and maintained its current allocation of 60% for equities and 40% for bonds/cash. The equity portfolio remained prudent, widely diversified, and divided into 12 separate classes to reduce risk while achieving global market returns.

MISSA investments are spread over 20,000 companies in the U.S. and worldwide.

Except for MISC stocks and BOMI stocks and CDs, the Administration’s investments are limited to institutional grade no load index funds and exchange traded funds (ETFs). All funds are registered in the United States. The foreign funds hold non-US securities from around the world. All the non-US securities are traded on Major Exchanges and marked to market daily.

All funds are in the custody of Fidelity Investments, MISSA’s Investment Custodian, in MISSA’s name. Investor Solutions, Inc., MISSA’s investment Advisor, does not hold a single individual security. The ETFs are a type of mutual fund that trades on the exchange rather than redeems shares at the end of the day. In practice, they look and feel just like a mutual fund that has instant liquidity instead of daily liquidity.

The real estate exposure is in mutual funds that hold traded stocks such as Real Estate Investment Trusts. MISSA does not hold any property that is not entirely liquid and traded on the world’s major exchanges.

MISSA’s funds may have declined in value, but did not go anywhere. We believe that the world market has started to recover and will continue to grow in value over the life of the fund. The life of the fund is infinite, and the current investment policy recognizes that markets are variable.

Markets around the world have suffered in the current crisis. Our funds accurately reflect the performance of the markets in which they invest. For about 18 months since late 2007, the investment results have not been rewarding to investors.

However, over the life of the MISSA account, the Administration expects that exposure to the world stock markets will be quite profitable. Although MISSA expects a difficult cash flow in the coming months but it has a huge allocation to fixed income of the highest quality with complete liquidity. As such, MISSA is well positioned to ride out the market downturn. The Administration believes that the current allocation is prudent, tailored to the needs of MISSA over the generations, and conforms to the agreed upon asset allocation.
Current global financial crisis

The twelve months of FY 2009 have been a bumpy rollercoaster ride for the Administration as it continued to bear the brunt of the global financial crisis. Fortunately, the Administration’s investments have been rallying hard since hitting multi-year lows in the first five months of FY 2009, with MISSA losing another $12.87 million.

Compounded by a very high level of unemployment in the country, the current situation brings a lot of uncertainties as to what lies ahead. With a declining economy, businesses and self-employed individuals will freeze hiring or much worse, resort to downsizing of their manpower in order to survive. A shrinking labor force will mean reduced revenues for the government and lower social security contributions for MISSA.

Viability of the Retirement fund

MISSA’s latest actuarial report is not promising either, although much better than the actuarial report five years ago. But what brought a new sense of urgency to the Administration is the distressing result of the actuarial study that if no drastic changes are made to the present benefit structure now, the Marshall Islands Retirement Fund will be fully exhausted in year 2022.

This new sense of urgency has impacted MISSA’s Board of Directors, management and staff who have now joined hands and doubled their resolve to do what is best for the people of the Marshall Islands. With the future of thousands of present and future beneficiaries at stake, MISSA is now seriously considering the following recommendations by the actuary in order to prolong the life of the Fund beyond 2023:

1. **Extend normal retirement age to 65**
   - Effect: Under this scenario, the earliest an active worker could retire would be age 65. Benefits for those in pay status would remain unchanged. The UAAL would decrease by about $11 million and the funded status would increase to about 31%. This change alone would not eliminate deficits in the future, but trust assets would not be exhausted until 2028.

2. **Freeze all benefits for active workers**
   - Effect: Although this change would not happen by itself, the purpose of this assumption is to show that the looming deficit cannot be fixed by limiting future benefits only. It will slow down future payments but will not eliminate the deficit between benefit payments and contributions. The UAAL would not decrease but trust assets would not be exhausted until well after 2040.

3. **Decrease by 25% all benefits across the board**
   - Effect: The decrease would be applied to both current and future beneficiaries. It is anticipated that current adjustments for early and late retirement that apply to the basic benefit would also apply to this cap. The UAAL would decrease by about $50 million and the funded status would increase to about 37%. This change alone would not eliminate deficits in the future, but would at least stabilize the funded percent for many years into the future.

An additional plan design was to look at converting the social security system from a defined benefit (DB) plan to defined contribution (DC) plan. Due to the poor funded status of the system, this conversion would be difficult without a large contribution from the government. For example, if the approximately $50 million in accumulated contributions were refunded to active workers in exchange for any benefit, this would leave...
$13.2 million to pay for those currently receiving benefits. The full 14% contributions would need to be put in the frozen DB plan for 15 years, leaving no contributions for current workers. So not only would the workers be, in aggregate, forfeiting over ½ of their accrued benefits, they would receive no benefits for the next 15 years. It does not mean that a DC plan is not feasible. It means that no change is feasible unless benefit reductions involve both active workers and those currently in pay status.

Weathering the storm

Despite these distressing facts, the Administration remains optimistic that the Fund will survive the crisis. Although the current global system is highly vulnerable and uncertain at the moment, MISSA's investment portfolio is designed to ride out market volatility and market cycles. It is prudent, widely diversified and divided into 12 separate asset classes to reduce risk while achieving global market returns. MISSA believes that it has more than adequate time for its investment portfolio to recover. Aside from routine rebalancing, the Administration anticipates no changes in its investment program and strategies in the new fiscal year.

MISSA's local investments continue to grow as interest from TCDs and equity earnings from BOMI were earned in FY 2009. At least another $300 thousand is expected to be received in the coming fiscal year. Despite the reduction in the number of workers reported by Kwajalein employers, MISSA was still able to maintain positive cash flows in FYs 2008 and 2009, and expects the continued prompt remittances by the RMI Government, KRS and Chugach Development Corporation – the two main employers in USAKA, and several big employers on Majuro who have consistently paid their contributions on time in the past. They are expected to be the same revenue driving forces in the coming fiscal year.

Another significant source of revenue that MISSA expects from Kwajalein is the very generous offer by USAKA on behalf of the Army & Air Force Exchange Service (AAFES) to gratuitously contribute amounts equal to the employer's share of the MISSA and Health Fund contributions, on behalf of its 100 plus RMI citizen employees. This translates to nearly $170 thousand annually.

Majuro's Pan Pacific Foods (RMI), Inc. (PPF), a tuna loining plant, is also expected to provide the much needed employment opportunities to at least 700 local workers as it stepped into a new production phase in mid-2009. Despite huge losses in their initial year of operation, the company is not giving up. With higher production expected in the coming months, more workers are expected to be hired. It can be recalled that MISSA lost a significant chunk of its revenues in late 2004 and subsequent years when PPF's predecessor, PM & O tuna loining plant closed down and more than 600 local workers lost their jobs. MISSA has used to collect about $313 thousand a year from the said company.

MalGov has also impacted positively on MISSA collections as it paid a total of $2.04 million since January 2008. With the payment plan still in place, $1.14 million is expected to be paid by MalGov annually. A third of this amount comprised of Health Fund contributions are remitted to the Ministry of Health.

MISSA's tax officers and auditors, with the support of the legal counsel, will continue their relentless campaign to collect past due contributions. Delinquent accounts collected in the past two years comprise of about 10% to 15% of MISSA's total revenues.

The Administration has also embarked into cost saving measures, more particularly in power consumption, utilities, off-island travels and supplies. This translates to about $150 thousand reduction in the budget for FY 2010 when compared to that of the previous year. The reduction in FY 2010 budget is based on a common conviction being shared by the MISSA Board, management and staff that belt-tightening must start first from within the Administration.

Likewise, the Administration has initiated a long-term scheme on beneficiary screening for continued entitlement aimed to identify recipients who are no longer eligible for benefits. This action plan will entail more rigorous efforts by MISSA personnel to seek for information that may lead to the discovery of deceased retirees and survivors whose families continue to receive benefits, disabled individuals who have recovered from their disabilities, surviving spouses who have remarried and surviving children who are no longer eligible for benefits, and non-citizens who have left the country permanently.

Lastly, although MISSA no longer enjoys substantial cash surpluses that it used to have in the past, the Administration guarantees that there will be no interruption in benefit payments in the coming months. In the event that a significant amount of contributions is not remitted on time, MISSA has TCDs in a local bank worth $4.78 million that can be used as the need arises. These TCDs represent MISSA's short-term reserves and will be utilized to ensure that retirees and other beneficiaries of the Retirement Fund continue to receive their benefits on time.
2009

* Net contributions for FY 2009 totaled $12.60 million, a $867 thousand decrease or 6.4% compared to $13.47 million for FY 2008. The net contributions include an allowance for doubtful accounts of $1.28 million.

* The fair market value of MISSA investments increased by $2.13 million and grew to $61.58 million as of September 30, 2009. This includes time certificates of deposit of $4.78 million.

* Net dividends and interest earned from local and offshore investments totaled $1.22 million. The net amount include $104 thousand investment and management fees. Other income of $362 thousand was also earned representing collection fees paid by the Ministry of Health and other miscellaneous income.

* Retirement, survivors, disability and lump sum benefits increased to $13.64 million, a $1.1 million increase or 8.7% compared to $12.55 million benefit payments for FY 2008.

* Administrative expenses amounted to $973 thousand, a decrease of $43 thousand or 4.3% from the previous fiscal year.

* Net assets grew by $1.7 million or 2.7%, from $63.19 million to $64.88 million at September 30, 2009 compared to September 30, 2008. This was attributed to MISSA investments not only surviving but overcoming the current financial crisis.

2008

* Total contributions for FY 2008 totaled $13.47 million, a $962 thousand increase or 13% compared to $12.51 million for FY 2007.

* The fair market value of MISSA investments decreased by $8.50 million and dropped to $54.02 million as of September 30, 2008. This includes time certificates of deposit of $4.55 million.

* Net dividends and interest earned from local and offshore investments totaled $1.90 million. The net amount include $125 thousand investment and management fees. Other income of $859 thousand was also earned representing collection fees paid by the Ministry of Health and other miscellaneous income.

* Retirement, survivors, disability and lump sum benefits increased to $12.55 million, an $895 thousand increase or 7.7% compared to $11.65 million benefit payments for FY 2007.

* Administrative expenses amounted to 1.02 million, an decrease of $33 thousand or 3.4% from the previous fiscal year.

* As of October 1, 2008, the total accrued actuarial liability (AAL) of MISSA stood at $225.81 million and the market value of Trust Assets was $63.20 million, resulting in an unfunded accrued liability of $162.60 million (or 72%). The unfunded AAL increased by $16.1 million or 1% compared to $146.47 million as of October 1, 2006.

* The drop in the fair market value of MISSA investments in FY 2008 resulted to a decrease in net assets from $60.03 million as of September 30, 2007 to $63.19 million, or 5.4%. As of September 30, 2008.