



**NORTHERN MARIANA ISLANDS
RETIREMENT FUND**

**ACTUARIAL VALUATION
AS OF OCTOBER 1, 2006**

**Prepared by:
Buck Consultants, LLC
April 2008**

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I. FOREWORD

SECTION I

FOREWORD

This report contains the results of an actuarial valuation of the Northern Mariana Islands Retirement Fund. The valuation was conducted as of October 1, 2006 and the results contained herein report costs applicable to the plan year ending September 30, 2007.

The purpose of the annual valuation is to:


- Provide a basis for determining and certifying the Commonwealth Government contribution to the Retirement Fund as required by Public Law No. 6-17.
- Provide information required to meet financial report requirements.
- Monitor the plan's actual experience relative to the current actuarial assumptions.

This actuarial valuation report is conducted as of October 1, 2006 and includes data and developments existing on that date.

Changes included for the first time in this report include 1) an update of actuarial assumptions for mortality, individual salary increases, and retirement age, 2) an updated assumption reducing expected growth in total payroll from 5% per year to 0%, and 3) the effect of Public Law 15-14 extending the funding period to 2045.

We note the following subsequent event is not analyzed in this 2006 report: Passage of Public Law 15-70 in June of 2007. It will be included in the 2007 actuarial valuation report.

Respectfully submitted,



Dylan Porter, FSA
Director and Consulting Actuary

April 2008

II. SUMMARY AND CERTIFICATION

SECTION II

SUMMARY AND CERTIFICATION

A. Summary of Current and Prior Valuation Results

The principal results of the current and prior actuarial valuations are summarized below in items 1 through 3. Detailed valuation results are contained in Section III.

	October 1, 2005 <u>Valuation</u>	October 1, 2006 <u>Valuation</u>
1. Annual Government Contributions:		
a. Dollar Amount	\$ 61,035,879	\$ 51,262,292
b. Payroll (est.)	147,584,792 (est.)	137,098,513 (est.)
c. Contribution as Percent of Pay	41.3565%	37.3909%
d. Estimated Earmarked Taxes	-	-
e. Adjusted Contribution	61,035,879	51,262,292
f. Adjusted Contribution as Percent of Pay	41.3565%	37.3909%
2. Present Value of Accrued Benefits:		
a. Vested	\$ 814,012,874	\$ 844,742,252
b. Non-Vested	<u>108,177,643</u>	<u>102,686,822</u>
c. Total	\$ 922,190,517 ^a	\$ 947,429,074 ^a
d. Market Value of Assets (including accrued contributions)	\$ 460,131,501	\$ 472,688,490
e. Percent Funded	49.9%	49.9%
3. Number of Participants who are:		
a. Active	5,394	4,936
b. Inactive	127	134
c. Receiving Benefits	<u>2,507</u>	<u>2,793</u>
d. Total	\$ 8,028	\$ 7,863

a Includes estimated employee contributions with interest of \$1,200,000 for non-vested inactive.

B. Actuarial Certification

The information and valuation results shown in this report are, to the best of my knowledge, complete and accurate and are based upon:

1. Employee census data as of October 1, 2006, submitted by the Northern Mariana Islands Retirement Fund.
2. Financial data as of September 30, 2006, submitted by the Northern Mariana Islands Retirement Fund.
3. Actuarial assumptions which, in the aggregate, are reasonably related to the experience of the plan, which are based on reasonable expectations as to future experience and which represent my best estimate of anticipated experience under the plan.
4. Actuarial methods and plan provisions as summarized in the report.

Certified by:



Dylan Porter, FSA
Director and Consulting Actuary
Enrolled Actuary (No. 05-05426)

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April 2008

III. ACTUARIAL VALUATION RESULTS

SECTION III

ACTUARIAL VALUATION RESULTS

A. Introduction

This section contains the detailed results of the actuarial valuation. These results are classified in subsections B through G as noted below:

- B. Normal Cost and Unfunded Accrued Liability as of October 1, 2006
- C. Determination of Actuarial Gain or Loss
- D. Determination of the Government Annual Contribution
- E. Plan Asset and Investment Return Information
- F. Present Value of Vested and Non-Vested Accrued Benefits
- G. Historical Trend Information

B. Normal Cost and Unfunded Accrued Liability as of October 1, 2006

The normal cost is that portion of the total cost of future benefits which is assigned to the current year by the actuarial valuation method used in the annual valuation. This is one of two primary components used to determine the total contribution requirement for the year. The other primary component is the unfunded accrued liability.

The accrued liability is the portion of the cost of future benefits which is assigned to prior years by the actuarial valuation method. The unfunded accrued liability is that part of the accrued liability which exceeds plan assets accumulated to date.

	<u>Class II</u>	<u>Class I</u>	<u>Total</u>
1. Normal Cost:			
a. Employee	\$ 1,093,848	\$ 8,121,402	\$ 9,215,250
% of Payroll	9.0000%	6.5000%	6.7216%
b. Government	\$ 209,157	\$ 10,139,379	\$ 10,348,536
% of Payroll	1.7209%	8.1151%	7.5482%
c. Total	\$ 1,303,005	\$ 18,260,781	\$ 19,563,786
	10.7209%	14.6151%	14.2699%
2. Accrued Liability:			
a. Active	\$ 71,340,396	\$ 200,648,082	\$ 271,988,478
b. Inactive, including contributions held for non-vested terminated employees	\$ 1,972,864	\$ 4,748,169	\$ 6,721,033
c. Retired and Beneficiaries	<u>\$ 604,188,610</u>	<u>\$ 104,250,818</u>	<u>\$ 708,439,428</u>
d. Total	\$ 677,501,870	\$ 309,647,069	\$ 987,148,939
3. Valuation Assets	\$ 204,608,252	\$ 268,080,238	\$ 472,688,490
4. Unfunded Accrued Liability: item 2d - item 3	\$ 472,893,618	\$ 41,566,831	\$ 514,460,449

C. Determination of Actuarial Gain or Loss

One important purpose of the annual actuarial valuation is to make the financial impact of a retirement plan on its sponsor predictable to the greatest extent possible. The degree of success the plan actuary has in achieving this goal will depend on how well the actuarial assumptions used by the actuary predict the actual plan experience.

One important measure of how well the actuarial assumptions compare to the actual plan experience is a determination of the actuarial gain or loss occurring each year. Simply stated, the actuarial gain or loss is determined by calculating the unfunded accrued liability that would be expected if all actuarial assumptions were realized exactly and comparing that amount to the unfunded accrued liability that results from actual plan experience. If the actual unfunded accrued liability is higher than expected, the plan has suffered a loss. If it is lower, the plan has realized a gain.

The development of the gain or loss and the unfunded accrued liability as of October 1, 2006 is as follows:

1. Unfunded Accrued Liability as of October 1, 2005	\$ 547,199,484
2. Normal Cost for 2005-2006 plan year	26,637,230
3. Interest on item 1 and item 2 at 7.5%	43,037,754
4. Government & Member Contributions for 2005-2006 Plan Year	51,631,271
5. Interest on item 4 at 7.5% from date of contribution to October 1, 2006	1,936,173
6. Expected Unfunded Accrued Liability as of October 1, 2006: item 1 + item 2 + item 3 - item 4 - item 5	563,307,024
7. Actual Unfunded Accrued Liability as of October 1, 2006	514,460,449
8. (Gain) Loss during 2005-2006 Plan Year: item 7 - item 6	(48,846,575)

D. Determination of the Government Annual Contribution

	<u>Class II</u>	<u>Class I</u>	<u>Total</u>
1. Government Normal Cost % of Payroll	\$ 209,157 1.7209%	\$ 10,139,379 8.1151%	\$ 10,348,536 7.5482%
2. Amortization of Unfunded Accrued Liability ¹ % of Payroll	\$ 34,722,157 285.6882%	\$ 3,444,225 2.7566%	\$ 38,166,382 27.8387%
3. Interest on Accrued but Unpaid Government Contributions % of Payroll	\$ 777,559 6.3976%	\$ 461,731 0.3695%	\$ 1,239,290 0.9039%
4. Allowance for Administration Expenses % of Payroll	\$ 133,693 1.1000%	\$ 1,374,391 1.1000%	\$ 1,508,084 1.1000%
5. Total Government Contribution % of Payroll	\$ 35,842,566 294.9067%	\$ 15,419,726 12.3412%	\$ 51,262,292 37.3909%
6. Expected Earmarked Taxes and Fees			-
7. Remaining Government Contribution % of Payroll			\$ 51,262,292 37.3909%

Notes

1. Amortization as a level percentage of total payroll over 40 years commencing on October 1, 2006

E. Plan Asset and Investment Return Information

1. Statement of Assets

Market Value as of September 30, 2005 and September 30, 2006:

	<u>09/30/2005</u>	<u>09/30/2006</u>
Invested Assets:		
Cash, TCD's, and Savings Account	\$ 3,058,039	\$ 1,255,652
Money Market Funds	28,510,981	11,035,779
Common and Preferred Stock	313,000,856	338,660,177
U.S. Gov't Securities	73,650,400	66,690,271
Corporate Debt Instrument	18,124,019	31,824,186
Notes and Mortgages	7,820,238	7,328,395
Real Property	<u>546,650</u>	<u>546,650</u>
 Total Invested Assets	 \$ 444,711,183	 \$ 457,341,110
Other Assets & Receivables:		
Accrued Interest and Dividend Receivable	\$ 945,462	\$ 1,146,921
Early Retirement Bonus Program	98,855	95,986
Other Receivables	17,346,159	15,665,718
Property and Equipment	3,541,578	3,395,939
Prepaid Expenses	<u>3,928</u>	<u>8,057</u>
 Total Other Assets	 \$ 21,935,982	 \$ 65,440,206
 Total Assets	 \$ 466,647,165	 \$ 522,781,316
Liabilities:		
Accrued Benefits/Accts	\$ 685,651	\$ 878,896
Accrued Expenses	<u>\$ 5,830,013</u>	<u>\$ 49,213,930</u>
 Total Liabilities	 \$ 6,515,664	 \$ 50,092,826
 Net Assets Available for Benefits	 \$ 460,131,501	 \$ 472,688,490

2. Reconciliation of Assets

Market Value for the Plan Years Ending September 30, 2005 and September 30, 2006:

	Plan Yr. Ending <u>09/30/2005</u>	Plan Yr. Ending <u>09/30/2006</u>
Net Assets, Beginning of Year	\$ 399,806,956	\$ 460,131,501
Receipts:		
Employer Contribution	\$ 40,284,859	\$ 40,747,619
Member Contributions	11,836,454	10,883,652
Other	<u>7,526,317</u>	<u>1,735,501</u>
	\$ 59,647,630	\$ 53,366,772
Investment Returns:		
Interest	\$ 5,831,686	\$ 5,897,626
Dividends	5,208,939	5,480,971
Realized and Unrealized Gains (Losses)	57,895,276	26,734,902
Investment Expenses	<u>(1,650,571)</u>	<u>(2,959,472)</u>
	\$ 67,285,330	\$ 35,154,027
Disbursements:		
Benefit and Refund Payments:		
Retirement Benefits	\$ 43,209,342	\$ 49,068,320
Disability Benefits	1,404,326	1,745,555
Survivor Benefits	4,125,910	4,761,419
Death Benefits	48,651	60,628
Contributions and Interest Refunded	<u>2,934,331</u>	<u>4,577,740</u>
	\$ 51,722,560	\$ 60,213,662
Administration Expenses	<u>\$ 1,727,688</u>	<u>\$ 1,949,985</u>
Total Disbursements	\$ 53,450,248	\$ 62,163,647
Provision for uncollectible receivables	\$ 13,158,167	\$ 13,800,163
Net Assets, End of Year	\$ 460,131,501	\$ 472,688,490

3. Estimated Market Value Investment Return

	<u>Return on Invested Assets</u>	<u>Return on Total Assets</u>
1. Return on Assets:		
Plan Years Ending:		
a. September 30, 2006	8.1%	7.8%
b. September 30, 2005	17.7%	17.0%
c. September 29, 2004	11.1%	10.3%
d. September 30, 2003	17.4%	15.6%
e. September 30, 2002	-6.5%	-5.8%
f. September 30, 2001	-20.0%	-18.1%
g. September 29, 2000	19.6%	17.6%
h. September 30, 1999	19.3%	17.0%
i. September 30, 1998	0.7%	0.7%
j. September 30, 1997	19.0%	18.4%
2. Average Annual Returns:		
a. Five-Year Average	9.2%	8.7%
b. Ten-Year Average	7.8%	7.4%

F. Present Value of Vested and Non-Vested Accrued Benefits

1. The present values of vested and non-vested accrued benefits provide a measure of the value of future plan benefit payments resulting from service earned to the valuation date. It is intended that when these measures are compared to plan assets, they will be useful in assessing the progress being made towards funding such benefits. These amounts meet the reporting requirements of the Financial Accounting Standards Board (FASB) Statements No. 35.

The total present value of accrued benefits measures the value of that part of all expected future plan benefit payments to current participants (active and inactive) which may be considered to result from service rendered and compensation earned prior to the valuation date. (Probable future service is, however, considered in determining eligibility for, and the anticipated dates of, retirement, disability, or death.)

The present value of vested accrued benefits measures the value of only some of the benefits considered in determining the total present value of accrued benefits. The benefits for which a value is calculated under this measure are only those to which a participant has a right that is based solely on service rendered prior to the valuation date, and that is not contingent on continuation of employment.

The present value of non-vested accrued benefits is the excess of the total present value of accrued benefits over the present value of accrued benefits.

The present values shown on the following page have been calculated as of October 1, 2006 in accordance with Actuarial Principles and Practices recommended in the American Academy of Actuaries' Interpretations 1 and 2 and using the assumptions described in Section IV-A.

F. Present Value of Vested and Non-Vested Accrued Benefits (continued)

	<u>Class II</u>	<u>Class I</u>	<u>Total</u>
2. <u>Present Value of Vested Accrued Benefits</u>			
Active Participants	\$ 40,413,806	\$ 89,167,985	\$ 129,581,791
Terminated with Vested Benefits	1,972,864	4,748,169	6,721,033
Retired and Beneficiaries	<u>604,188,610</u>	<u>104,250,818</u>	<u>708,439,428</u>
Total as of October 1, 2006	\$ 646,575,280	\$ 198,166,972	\$ 844,742,252
3. <u>Present Value of Non-Vested Accrued Benefits</u>			
Active Participants as of October 1, 2006	\$ 21,352,368	\$ 81,334,454	\$ 102,686,822
4. <u>TOTAL Present Value of Accrued Benefits</u>	\$ 667,927,648	\$ 279,501,426	\$ 947,429,074
5. <u>Market Value of Assets, October 1, 2006</u> (including accrued contributions)	\$ 204,608,252	\$ 268,080,238	\$ 472,688,490
6. <u>Changes in Present Value of Accrued Benefits</u>			
a. Actuarial Present Value of Accrued Benefits, October 1, 2005	\$ 922,190,517		
b. Increase in Year Attributable to:			
(i) Benefits Accrued and Other Sources	\$ 18,545,943		
(ii) Interest	66,906,276		
(iii) Benefits and Refunds to Participants	(60,213,662)		
(iv) Total	25,238,557		
c. Actuarial Present Value of Accrued Benefits, October 1, 2005	\$ 947,429,074		

G. Historical Trend Information

1. Schedule of Funding Progress

	<u>Net Assets Available for Benefits</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Assets as % of AAL</u>	<u>Unfunded AAL</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as % of Payroll</u>
October 1, 1997	316,106,244	675,788,295	46.8%	359,682,051	163,887,220	219.5%
October 1, 1998	336,295,338	668,922,933	50.3%	332,666,001	133,909,472	248.4%
October 1, 1999	385,376,003	790,469,942	48.8%	405,093,939	156,911,826	258.2%
October 1, 2000	453,519,324	809,397,124	56.0%	355,877,800	144,720,672	245.9%
October 1, 2001	375,089,058	863,782,365	43.4%	488,693,307	151,695,905	322.2%
October 1, 2002	335,285,391	909,298,181	36.9%	574,012,790	147,433,030	389.3%
October 1, 2003	385,672,027	902,640,147 ^a	42.7%	516,968,120	150,272,175	344.0%
October 1, 2004	399,806,956	951,849,098 ^a	42.0%	552,042,142	150,265,226	367.4%
October 1, 2005	460,131,501	1,007,330,985 ^a	45.7%	547,199,484	147,584,792	370.8%
October 1, 2006	472,688,490	987,148,939 ^a	47.9%	514,460,449	137,098,513	375.2%

^a Includes estimated employee contributions with interest of \$1,200,000 for non-vested inactive.

2. Revenues by Source and Expenses by Type

REVENUES BY SOURCE

<u>Fiscal Year</u>	<u>Employee Contributions</u>	<u>Government Contributions¹</u>	<u>Investment Income</u>	<u>Total</u>
1997	12,002,622	36,725,988	47,568,335	96,296,945
1998	11,812,984	40,478,534	1,225,056	53,516,574
1999	11,249,567	38,429,440	56,628,809	106,307,816
2000	11,017,358	39,407,510	67,878,721	118,303,589
2001	11,386,721	41,172,999	(82,555,191)	(29,995,471)
2002	10,525,660	38,297,318	(21,079,068)	27,743,910
2003	12,171,783	41,968,946	52,007,089	106,147,818
2004	12,156,404	62,156,368	38,572,608	112,885,380
2005	11,836,454	47,811,176	67,285,330	126,932,960
2006	10,883,652	42,483,120	35,154,027	88,520,799

EXPENSES BY TYPE

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Administrative Expenses</u>	<u>Refunds</u>	<u>Total</u>
1997	23,357,253	1,683,942	3,002,071	28,043,266
1998	26,506,259	1,692,359	5,128,862	33,327,480
1999	30,730,598	1,789,188	5,416,554	37,936,340
2000	34,739,713	2,248,215	3,981,558	40,969,486
2001	36,510,606	1,757,662	3,203,283	41,471,551
2002	38,850,979	1,734,819	4,173,961	44,759,759
2003	42,225,750	1,686,707	3,595,133	47,507,590
2004	45,374,873	1,646,748	3,039,142	50,060,763
2005	48,788,229	1,727,688	2,934,331	53,450,248
2006	55,635,922	1,949,985	4,577,740	62,163,647

The Retirement Fund recognizes the employer contribution based on actuarially determined funding requirements with the difference between that amount required and the actual funds received booked as a "Contribution Due from the General Fund and Other Agencies." These cumulative contributions due were as follows for the foregoing fiscal years:

1997	7,808,503	2002	12,790,899
1998	16,949,155	2003	16,826,266
1999	19,123,069	2004	-
2000	15,826,891	2005	-
2001	24,200,862	2006	16,523,871

As of September 30, 2006, a total of \$100,682,971 of government contributions was classified as uncollectible, compared with \$86,769,484 as of September 30, 2005 (the Auditor's September 30, 2005 amount published last year of \$86,769,484 was revised upward in his 2006 report).

1 Government Contributions include other receipts including contributions from P.L. 10-41 and P.L. 11-41 (suspended in 2002).

IV. ACTUARIAL ASSUMPTIONS AND METHOD, PLAN SUMMARY, AND PARTICIPANT DATA

SECTION IV

ACTUARIAL ASSUMPTIONS AND METHOD, PLAN SUMMARY, AND PARTICIPANT DATA

This section of the report contains the actuarial assumptions and method used in the valuation, a summary of the major provisions of the plan, and a tabulation of the employee data used in the calculations.

A. Actuarial Cost Method and Assumptions

Actuarial Cost Method:	Entry Age Normal.
Valuation of Assets:	Market Value, including accrued but unpaid contributions.
Investment Income:	7.5% per year.
Salary Increase:	3% per year for each covered person. Covered pay of the overall population is assumed to remain constant.
Expenses:	1.1% of payroll.
Mortality:	The 1971 Group Annuity Mortality Table for Males, using rates for ages three years older for males.
Retirement Age:	For actives, earlier of age 58, if eligible, and 25 years of membership service. For Inactives, age 62 for Class I and age 60 for Class II.
Pre-retirement Spouse Benefit:	94% of participants are assumed to be married and males are assumed to be five years older than their female spouses. Married participants are assumed to have two minor children aged 13 on benefit commencement date.

Turnover: In accordance with a table of which the following are sample annual rates:

<u>Age</u>	<u>Rate of Turnover</u>
20	.1325
25	.1100
30	.0875
35	.0700
40	.0525
45	.0350
50	.0175
55 and over	.0000

Disability: In accordance with a table of which the following are sample annual rates:

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	.00020	.00020
30	.00022	.00033
35	.00033	.00058
40	.00055	.00089
45	.00103	.00130
50	.00197	.00178
55	.00323	.00252
60	.00430	.00343

75% of disabilities occurring in the first 5 years of employment is assumed to be occupational disability.

Choice of Membership Class: All Class II active members are assumed to choose to remain as Class II Members.

Retirement Bonus: Bonus is assumed to be paid by employer, not by Retirement Fund.

Cost of Living Adjustment: 3% compound interest.

Postretirement Life Insurance Coverage: All future retirees elect coverage of 2 times their final salary.

Postretirement Health Insurance Coverage: Value an annual benefit equal to the Government premium for Family High Option coverage. Assume 5.5% annual increase. 75% of active participants are expected to continue medical coverage.

B. Summary of the Principal Provisions of the Plan

Effective Date: October 1, 1980.

Amended through: Public Law 6-17 effective May 7, 1989 as amended through December 5, 2003. Class II & Class I provisions are summarized below:

Eligibility to Participate:

Class II Members are all persons who were Fund members prior to the effective date of Public Law 6-17 and who did not choose to become Class I Members. All employees of the government, public corporations, agencies and instrumentalities of the government hired on or after the effective date of Public Law 6-17 who are not Class II Members become Class I Members.

Membership Service:

Membership Service is earned for actual compensated government employment after becoming a Fund Member. 1/12 year of service is earned for each month of employment.

Benefit Formulas:

Class I Formula: The sum of (i) and (ii) below, but not less than \$6,000 nor greater than 85% of Average Annual Salary.

- (i) The sum of 2.5% of Average Annual Salary for each of the first 25 years of service with a maximum of 50% of Average Annual Salary plus
- (ii) 2.5% of Average Annual Salary for each year of service in excess of 25.

Class II Formula: The sum of (i) and (ii) below, but not less than \$6,000 nor greater than 85% of Average Annual Salary.

- (i) The sum of 2% of Average Annual Salary for each of the first 10 years of service and 2½% of Average Annual Salary for each year of service in excess of 10, plus
- (ii) Twenty dollars for each year of service, reduced by 1/100th of 1% for each dollar that Average Annual Salary exceeds \$6,000.

Class II members receive the greater of the benefit determined using the Class II formula or the benefit determined using the Class I formula as if all service had been rendered as a Class I member.

Average Annual Salary is the average of the three highest annual salaries, but not less than \$6,000.

Normal Retirement:

Eligibility - Class I: Age 62 and 10 years of contributing membership service after May 7, 1989. Class II: Age 60 or 25 years of membership service.

Amount of Benefit - The annual retirement benefit is the benefit using the Class I formula for Class I Members and the greater of the Class I or Class II formula for Class II Members.

Time and Form of Payment - Payment will be in the form of a life annuity with a cost of living increase each year equal to that which is used by the United States of America Social Security System commencing on January 1 subsequent to the anniversary of retirement after attainment of age 55.

Early Retirement:

Eligibility - Age 52 and 10 years of membership service or 25 years of membership service for a Class I Member. At least 10 years of membership service must be earned after May 7, 1989. Class II Members are not eligible.

Amount of Benefit - Same as for normal retirement, but not less than \$6,000; provided that the member pay a contribution set by the Fund, but no more than the contribution required of Class II Members.

Time and Form of Payment - Same as Normal Retirement Benefit.

Retirement Bonus:

If a member who was hired on or prior to December 15, 1999 retires with at least 20 years of Vesting Service, he or she will receive from the participant's hiring authority a retirement bonus equal to 30% of annual salary. The member's Normal Retirement Benefit is recomputed to reflect the bonus. No retirement bonus shall be paid to a member electing to retire after December 31, 2005.

Termination:

Eligibility - Class I Members with 10 years of contributing membership service. Class II Members who accumulate at least 3 years of membership service.

Amount of Benefit - Same as the Normal Retirement Benefit.

Time and Form of Payment - Same as the Normal Retirement Benefit, except annuity commences at age 62 for Class I Members and age 60 for Class II Members.

Disability Retirement:

Eligibility - Members who are less than age 62, who are totally and permanently disabled, and, in the case of a non-occupational cause, who accumulate 5 years of membership service.

Amount of Benefit - 50% of the member's salary in effect as of the date of disability, less any special compensation allowances or reductions due to subsequent earnings. At age 62 the member will receive a normal retirement benefit calculated assuming service had continued to age 62 at the same salary received at time of disability and the Class I formula is used. Disability benefits will be reduced by U.S. Social Security, Workers' Compensation or other disability insurance payments.

Time and Form of Payment - Same as the Normal Retirement Benefit.

Survivor's Benefits:

Eligibility - Members who are active employees with at least 18 months of service for Class I and at least 3 years of service for Class II or members who are receiving retirement or disability benefits.

Amount of Benefit - A surviving spouse will receive 50% of the member's normal retirement benefit, or benefit being paid at death, but not less than \$6,000. Each surviving minor child (with a maximum of three children) will receive the greater of \$1,080 and 16-2/3% of the member's normal retirement benefit or the benefit being paid at death.

Time and Form of Payment - The surviving spouse's benefit commences immediately if there are minor children, otherwise at the spouse's attainment of age 35, and continues until remarriage or death. Payment will be in the form of a life annuity with a cost of living increase each year equal to that which is used by the U.S. Social Security System, commencing on January 1 subsequent to the anniversary of the spouse's annuity date after attainment of age 55.

The children's benefit commences immediately and continues until the respective child's attainment of age 18 (age 22 if a full-time student) unless the child is disabled.

Lump Sum Death Benefit:

Eligibility - Members who are active employees or members who are receiving retirement or disability benefits.

Amount of Benefit - A lump sum payment of \$1,000 plus, if there are no surviving spouse or children, a refund, reduced by pension payments already received, of 1/3 of the accumulated employee contributions with interest.

Contributions:

Class I Members who are active employees contribute 6.5% of salary. Refund is made on termination with less than 10 years of service. Class II Members who are active employees contribute 9% of salary. Members who terminate with less than 3 years of service will receive a refund of their accumulated contribution with interest. The Class I and Class II refunds stated above are subject to an early withdrawal penalty of 10% of the total contributions, excluding interest. Class II Members who terminate with 3 but less than 20 years of service may request a refund of their accumulated contributions with interest in lieu of their termination benefits. If a member or survivor dies before receiving annuity payments which equal or exceed 1/3 the member's accumulated contributions with interest, the balance will be paid to the beneficiary.

Life and Health Insurance:

Annuitants may elect to continue their CNMI Government life and health insurance coverage under the same terms and conditions in force at the time of their retirement. Half of the life insurance premium will be paid by the Fund. The Fund will pay the same portion of the health insurance premium as paid for active employees by the government.

Subsequent Event

This valuation does not include the effect of Public Law 15-70, passed in June of 2007 which is after the 2006 valuation date. Benefit changes included in that law are intended to slow the growth of benefit liabilities. The new law will be reflected in the 2007 actuarial valuation.

C.

1. Characteristics of Class II Members Included in the October 1, 2005 and Prior Valuations:

ACTUARIAL VALUATION AS OF OCTOBER 1

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Actives:</u>					
Vested	744	682	602	496	348
Non-Vested	4	9	26	11	5
Number	748	691	628	507	353
Average Age	44.1	44.8	45.5	46.0	46.4
Average Years of Service	18.1	17.7 ^a	17.7 ^a	19.0 ^a	19.6 ^a
Average Salary (est.)	\$36,289	\$36,103 ^a	\$34,265 ^a	\$33,309 ^a	\$34,430 ^a
Average Accrued Monthly Benefit (est.)	\$1,417.22	\$1,312.90	\$1,266.45	\$1,314.47	\$1,405.22
<u>Retired and Disabled</u>					
<u>Less than Age 50:</u>					
Number	339	343	356	359	410
Average Age	45.3	45.4	45.1	45.2	45.2
Average Monthly Benefit	\$2,101.62	\$2,110.69	\$2,157.07	\$2,201.97	\$2,243.50
<u>Between Age 50 and 60:</u>					
Number	503	527	576	605	646
Average Age	54.4	54.6	54.8	55.0	55.0
Average Monthly Benefit	\$2,183.99	\$2,199.76	\$2,226.53	\$2,224.07	\$2,236.62
<u>Age 60 and Over:</u>					
Number	494	513	526	540	573
Average Age	68.5	68.7	68.9	69.0	68.9
Average Monthly Benefit	\$1,781.14	\$1,855.87	\$1,974.28	\$2,079.17	\$2,134.61

^a Salary and Service redefined by PL 13-60.

Characteristics of Class II Members Included in the October 1, 2006 and Prior Valuations: (continued)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>All Retired and Disabled</u>					
<u>Combined:</u>					
Number	1,336	1,383	1,458	1,504	1,629
Average Age	57.3	57.5	57.5	57.7	57.4
Average Monthly Benefit	\$2,014.13	\$2,050.11	\$2,118.57	\$2,166.77	\$2,202.47
<u>Surviving Spouses:</u>					
Number	281	292	310	321	341
Average Age	62.4	62.5	62.7	63.1	63.7
Average Monthly Benefit	\$735.85	\$759.93	\$767.20	\$796.47	\$835.79
<u>Surviving Children: ¹</u>					
Number	121	129	134	130	133
Average Monthly Benefit	\$185.52	\$204.17	\$212.97	\$228.09	\$255.51
<u>Terminated Vested: ²</u>					
Number	24	24	17	17	16
Average Age	45.7	46.4	47.1	47.2	46.7
Average Monthly Benefit	\$922.08	\$905.66	\$785.53	\$741.46	\$782.23

¹ Surviving children are accounted for separately rather than included with the spouse.

² Terminated vested only includes members with a non-forfeitable deferred income benefit commencing at retirement age.

Characteristics of Class I Members Included in the October 1, 2006 and Prior Valuations:

ACTUARIAL VALUATION AS OF OCTOBER 1

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Actives:</u>					
Vested	2,223	946	1,068	1,225	1,292
Non-Vested	2,170	3,582	3,821	3,662	3,291
Number	4,393	4,528	4,889	4,887	4,583
Average Age	37.9	38.2	38.4	38.9	39.0
Average Years of Service	5.7	5.9 ^a	6.1 ^a	6.6 ^a	7.0 ^a
Average Salary (est.)	\$27,382	\$27,678 ^a	\$26,334 ^a	\$26,744 ^a	\$27,263 ^a
Average Accrued Monthly Benefit (est.)	\$594.74	\$599.70	\$591.45	\$607.98	\$626.90
<u>Retired and Disabled</u>					
<u>Less than Age 50:</u>					
Number	29	37	37	35	53
Average Age	43.7	43.8	43.2	42.7	43.3
Average Monthly Benefit	\$1,132.88	\$1,337.18	\$1,279.34	\$1,392.48	\$1,687.32
<u>Between Age 50 and 60:</u>					
Number	45	54	72	89	126
Average Age	56.0	55.8	55.8	55.4	55.4
Average Monthly Benefit	\$1,450.48	\$1,514.46	\$1,567.09	\$1,441.48	\$1,550.22
<u>Age 60 and Over:</u>					
Number	167	191	226	248	299
Average Age	68.2	68.5	68.5	68.5	68.2
Average Monthly Benefit	\$783.62	\$818.42	\$845.63	\$958.14	\$1,054.15

^a Salary and Service redefined by PL 13-60.

Characteristics of Class I Members Included in the October 1, 2005 and Prior Valuations: (continued)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>All Retired and Disabled</u>					
<u>Combined:</u>					
Number	205	241	282	335	372
Average Age	63.6	63.0	62.8	63.0	62.9
Average Monthly Benefit	\$927.07	\$950.16	\$1,019.77	\$1,048.59	\$1,114.64
<u>Surviving Spouses:</u>					
Number	52	60	70	78	86
Average Age	49.7	52.0	52.8	54.1	54.7
Average Monthly Benefit	\$603.61	\$604.79	\$609.18	\$612.06	\$641.26
<u>Surviving Children: ¹</u>					
Number	72	71	80	86	94
Average Monthly Benefit	\$138.59	\$134.77	\$141.55	\$133.79	\$146.55
<u>Terminated Vested: ²</u>					
Number	89	90	101	94	110
Average Age	46.7	46.6	47.5	47.6	46.1
Average Monthly Benefit	\$576.21	\$630.87	\$749.91	\$750.06	\$757.01

¹ Surviving children are accounted for separately rather than included with the spouse.

² Terminated vested only includes members with a non-forfeitable deferred income benefit commencing at retirement age.

2. Number and Annual Earnings of Active Participants Grouped by Nearest Age

Class II

<u>Nearest Age</u>	<u>Number of People</u>	<u>Total Annual Earnings</u>	<u>Average Annual Earnings</u>
15	-	\$ -	\$ -
20	-	-	-
25	-	-	-
30	-	-	-
35	42	1,396,018	33,239
40	144 ¹	4,601,627	31,956
45	139	4,657,466	33,507
50	101	3,772,584	37,352
55	48	1,551,133	32,315
60	17	430,104	25,300
63+	<u>16</u>	<u>478,913</u>	<u>29,932</u>
Total	507	\$ 16,887,845	\$ 33,309

Class I

<u>Nearest Age</u>	<u>Number of People</u>	<u>Total Annual Earnings</u>	<u>Average Annual Earnings</u>
15	4	\$ 53,660	\$ 13,415
20	164	2,576,506	15,710
25	596	11,233,129	18,848
30	832	19,310,987	23,210
35	950	25,003,439	26,319
40	763 ²	19,836,585	25,998
45	604	19,057,562	31,552
50	431	13,906,399	32,265
55	261	9,637,945	36,927
60	176	6,457,762	36,692
63+	<u>106</u>	<u>3,622,972</u>	<u>34,179</u>
Total	4,887	\$ 130,696,946	\$ 26,744

¹ 1 participant with no date of birth was assumed to be age 40.

² 45 participants with no date of birth were assumed to be age 40.

3. Number and Annual Earnings of Active Participants Grouped by Nearest Service as of October 1, 2005

Class II

<u>Nearest Service</u>	<u>Number of People</u>	<u>Total Annual Earnings</u>	<u>Average Annual Earnings</u>
1	8	\$ 138,936	\$ 17,367
5	11	285,272	25,934
10	11	326,875	29,716
15	140	4,727,939	33,771
20	239	7,976,790	33,376
25	66	2,354,902	35,680
30+	<u>32</u>	<u>1,077,131</u>	<u>33,660</u>
Total	507	\$ 16,887,845	\$ 33,309

Class I

<u>Nearest Service</u>	<u>Number of People</u>	<u>Total Annual Earnings</u>	<u>Average Annual Earnings</u>
1	1,320	\$ 31,877,361	\$ 24,150
5	1,767	44,319,834	25,082
10	987	28,873,816	29,254
15	747	23,274,388	31,157
20	50	1,732,424	34,648
25	13	496,244	38,173
30+	<u>3</u>	<u>122,879</u>	<u>40,960</u>
Total	4,887	\$ 130,696,946	\$ 26,744

4. Distribution of Active Members by Nearest Age and Service as of October 1, 2005

Class II

		S E R V I C E							
		1	5	10	15	20	25	30 +	Total
A G E	15	-	-	-	-	-	-	-	-
	20	-	-	-	-	-	-	-	-
	25	-	-	-	-	-	-	-	-
	30	-	-	-	-	-	-	-	-
	35	-	1	-	27	14	-	-	42
	40	5	5	6	54	72	2	-	144
	45	2	2	2	33	70	27	3	139
	50		2		15	47	21	16	101
	55	1	1	1	6	23	9	7	48
	60	-	-	2	3	6	3	3	17
	63 +	-	-		2	7	4	3	16
	Total	8	11	11	140	239	66	32	507

4. Distribution of Active Members by Nearest Age and Service as of October 1, 2005

Class I

S E R V I C E									
		1	5	10	15	20	25	30 +	Total
A G E	15	1	-	-	-	-	-	-	1
	20	114	13	-	-	-	-	-	127
	25	276	277	19	-	-	-	-	572
	30	218	364	200	22	-	-	-	804
	35	204	334	192	206	3	-	-	939
	40	199	259	164	186	6	-	-	814
	45	126	189	147	125	9	2	-	598
	50	85	149	102	89	19	3	1	448
	55	48	88	78	55	7	4	2	282
	60	33	47	60	38	4	3	-	185
	63 +	16	47	25	26	2	1	-	117
	Total	1,320	1,767	987	747	50	13	3	4,887