



NMI Retirement Fund

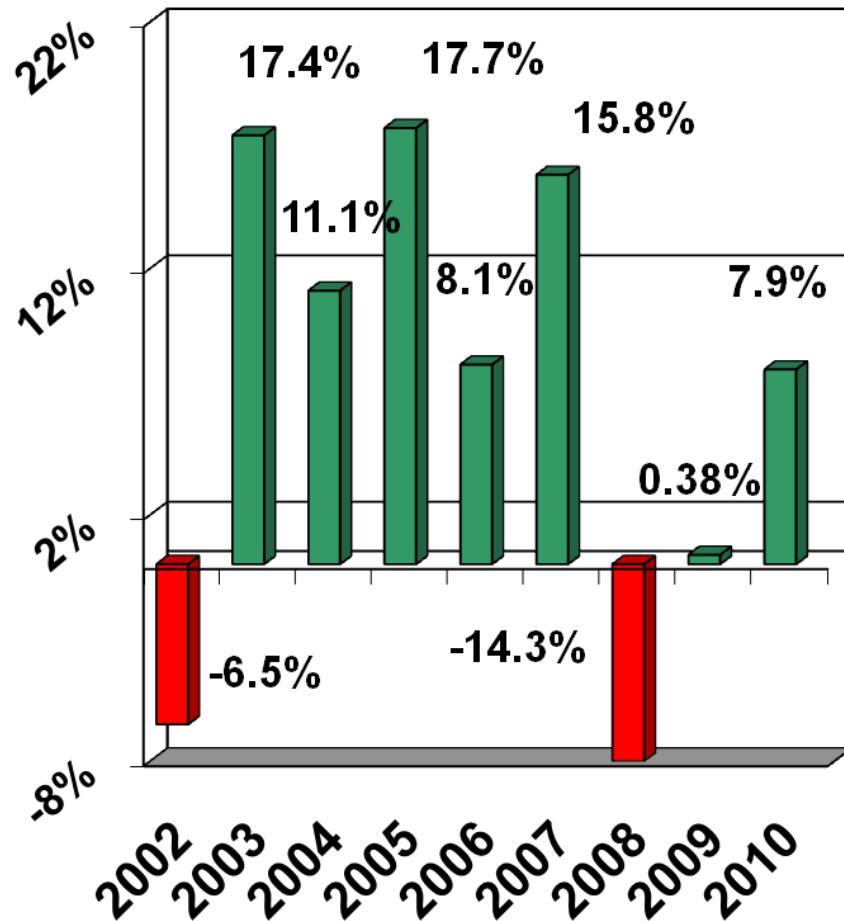
Overview Investment Status

Recommendation to Ensure the
Fiscal Solvency and Viability of
the CNMI Retirement System

April 2010

Overview

Historical Investment Returns



Average Annual Returns:

a. Five-Year Average

3.7%

b. Ten-Year Average

2.3%

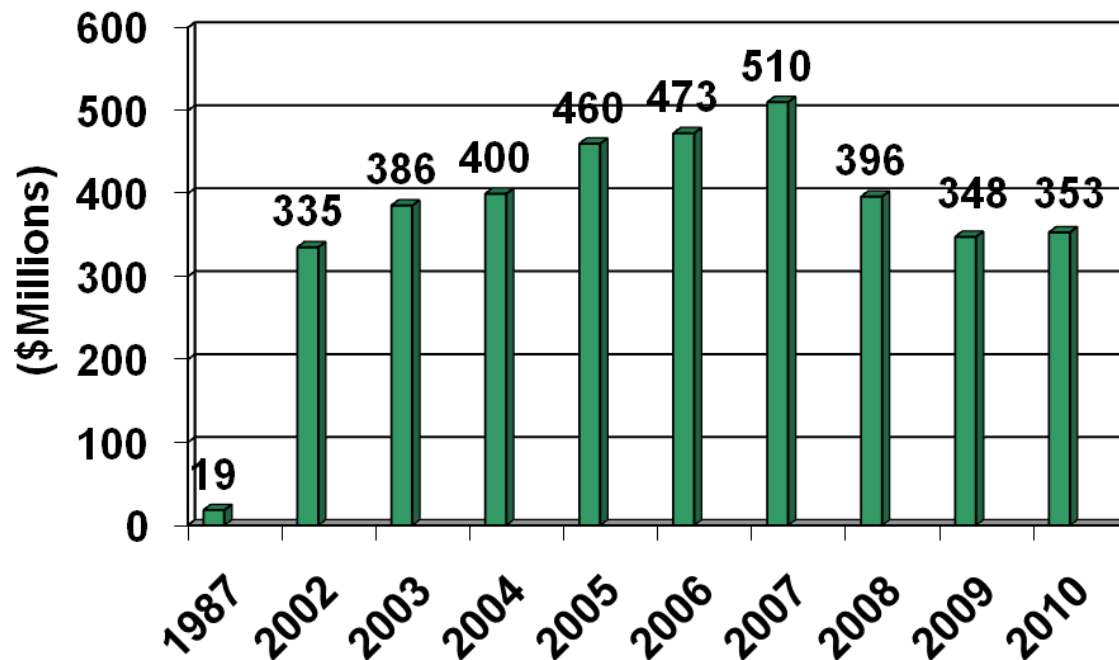
c. Twenty-Year Average

7.5%

Calendar Year Ending

12/31/2009 +19.97%

Investment Assets



Stock Market Portfolio

Beginning Value	(\$millions)
(3/87)	\$18.5
Net Contributions	<u>-48.8</u>
NMIRF Invested	-30.3
Investment Earnings	<u>+369.6</u>
Stock Market Value	\$339.3

Local ETI's	
(JBF, MHL, CU)	<u>\$14.0</u>

April 2010 **\$353.3**

Estimated Expenditures Fiscal Year 2011

➤ Pensions	\$54,115,846	69.4%
➤ Survivors	\$ 6,790,030	8.7%
➤ Disability	\$ 1,706,234	2.2%
➤ Death Lump Sum	\$ 87,400	0.1%
➤ Life Ins. PL8-31	\$ 870,000	1.1%
➤ Health Ins. PL8-31	\$ 5,474,283	7.0%
➤ Refund	<u>\$ 3,500,000</u>	4.5%
Subtotal Benefits	\$72,543,620	
➤ COLA/Special Annuity (DA)	\$ 782,639	1.0%
➤ Personnel	\$ 1,353,669	1.7%
➤ Administrative Costs	\$ 534,620	0.7%
➤ Professional Fees	<u>\$ 2,798,278</u>	<u>3.6%</u>
 TOTAL	 <u>\$78,012,999</u>	 100.0%

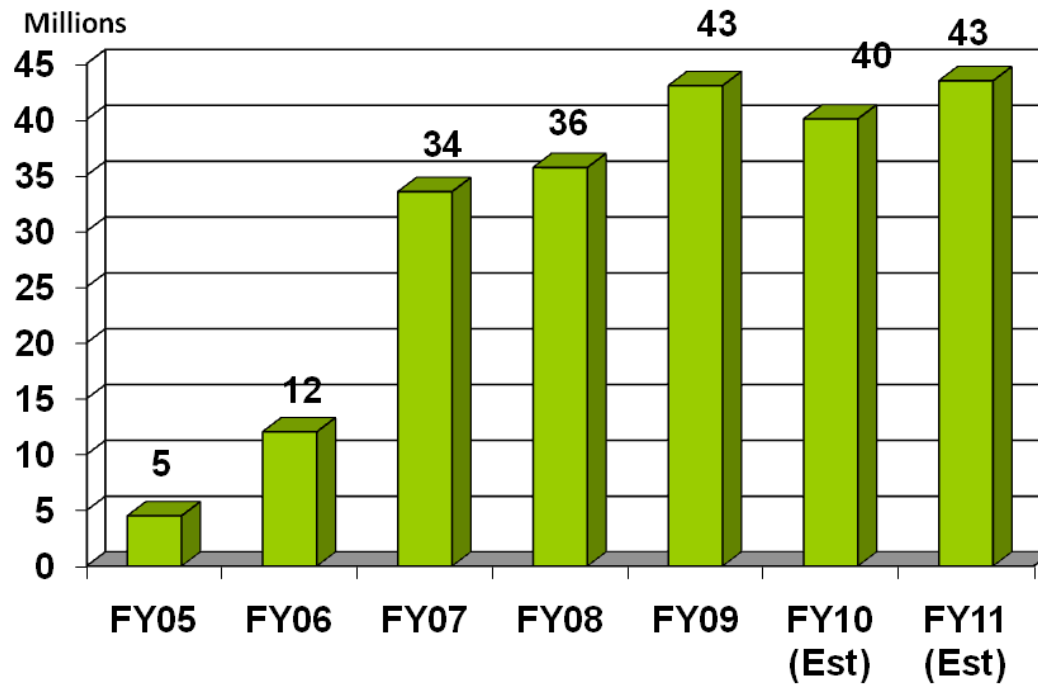
Estimated Revenue Sources Fiscal Year 2011

• Contribution EE	\$ 9,929,752	12.7%
• Autonomous ERC	\$ 7,038,551	9.0%
• Executive ERC	<u>\$12,116,898</u>	15.5%
Sub-total Contributions	\$29,085,201	
• PL 8-31/13-60	\$ 354,663	0.5%
• COLA/Special Annuity	\$ 782,639 (DA)	1.0%
• Other Income	\$ 517,678	0.7%
• Local Investments	<u>\$ 2,915,854</u>	3.7%
Sub-total Other Revenues	\$4,570,834	
• Taxes 1 CMC §8365	\$ 896,730	1.1%
• Inv. Drawdowns	<u>\$43,460,233</u>	<u>55.7%</u>
Total	<u>\$78,012,999</u>	100.0%

Overview

Historical Trend

Withdrawals



Total Withdrawal
Ending FY 2009
\$128.755 Million

Total Withdrawal
Current FY 2010
\$19.23 Million

Recommended PLAN

I. LINE-ITEM APPROPRIATION

- A. The Fund receives ERC as mandated by Public Law 6-17.
 - 1. The Actuary determines the funding level required to retire the Unfunded Actuarial Accrued Liability (UAAL) that must be funded by adjusting the ERC rate.
 - 2. The Board of Trustees adopts this recommended ERC rate for the CNMI Government.
 - 3. PL 15-13 did not take into account the effects of DCP on DB plan.

Actuarially Determined ERC

- Determined under actuarial valuation as directed in P.L. 6-17
- Results become available 12-18 months after year end

<u>Valuation</u>	<u>Amount Required</u>
------------------	------------------------

- | | |
|--------------------------------------|---|
| • Oct 1 2005 | \$ 61m (presented Jan 2007) |
| • Oct 1 2006 | \$ 51m (presented Apr 2008) |
| • Oct 1 2007 | \$ 35m (presented Jan 2009) |
| – Decrease is due to | |
| • Benefit reductions in P.L. 15-70 | |
| • Strong investment return in FY '07 | |
| • Members transferring to DC plan | |
| • Oct 1 2008 | \$ 50m (Actuary estimate based on 2008 investment losses) |

* **Note:** ERC currently insufficient to meet annual expenditures of the Fund (refer to slide #5)

Recommended PLAN

I. LINE-ITEM APPROPRIATION Con't.

- B. The Creation of the DCP effectively Closed the Defined Benefit Plan (DBP). DBP Members are the current Retirees plus Class I & II employees who were not qualified or did not convert to the DCP.
- C. Less money has been coming in to the DB Plan because of retirement, termination/ resignation of DBP Members, and New hires who contribute to the new DCP.

Recommended PLAN

- I. LINE-ITEM APPROPRIATION Con't.
 - D. The Percentage of Payroll, or Employer Contribution Rate (ERC), **is outdated and should no longer be used** as a tool to calculate the DBP's required funding levels.
 - E. The only solution is to provide for a fixed **line-item appropriation**.
 - a. The required amount will still be determined by an actuarial valuation report.

Recommended PLAN

II. PENSION OBLIGATION BOND (POB)

- A. POB's are debt instruments issued by the Government (Plan Sponsor/Employer) to fund the Unfunded Actuarially Accrued Liabilities (UAAL).
- B. POB's convert the UAAL to a Bonds Payable Liability on the Government's Balance Sheet.

Recommended PLAN

II. PENSION OBLIGATION BOND (POB)

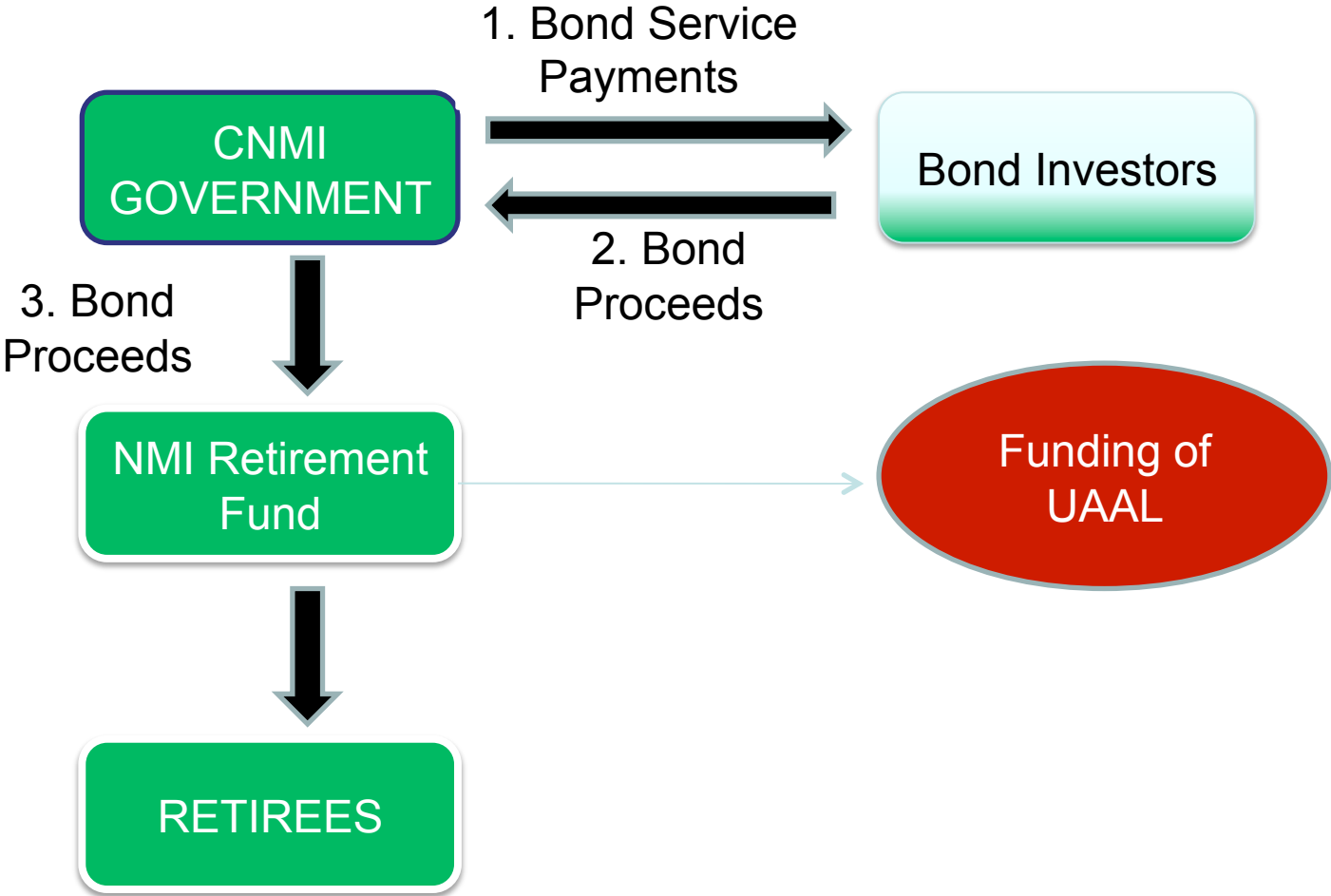
C. Procedures to issue a POB:

1. The Government Issues a Bond.
2. Monies from the Bond are directly invested into the Fund.
3. Lump Sum deposit of bond monies directly reduces the UAAL.

D. Required Line-Item Appropriation from the Government are substantially reduced in subsequent years.

Recommended PLAN

II. PENSION OBLIGATION BOND Con't.



Recommended PLAN

II. PENSION OBLIGATION BOND Con't.

E. The 17th CNMI Legislature introduced HLI 17-4.

1. Determine if possible to include in November 2010 Ballot.

G. HLI17-4: *To add a new Section 10 of Article X of the Constitution of the CNMI to authorize the CNMI to issue a POB and for other purposes.*

Recommended PLAN

III. OTHER LEGISLATIVE AMENDMENTS

1. Passage of HLI 17 -4 (POB).
2. Amend PL 6-17
 - a. Budget Act to provide a Line-Item Amount for the Pension Fund vs. current ERC.
3. Allow Conversion of Non Vested DBP members to the DCP.
4. COLA revised to reflect Annual Bonus ONLY.
5. Introduce the Omnibus Bill or certain provisions of it.

Recommended PLAN

IV. No Additional Benefits Accrual

1. “*HARD FREEZE*” of the Pension Plan.

Zero Benefit Accrual, but No Accruals lost.

- **A “hard freeze” of the plan for only those members who are younger than a specified age and/or have less than a specified number of years of service.¹**

¹ H. Tepfer, *Analysis and Review of CNMI Pension Programs* (2007)

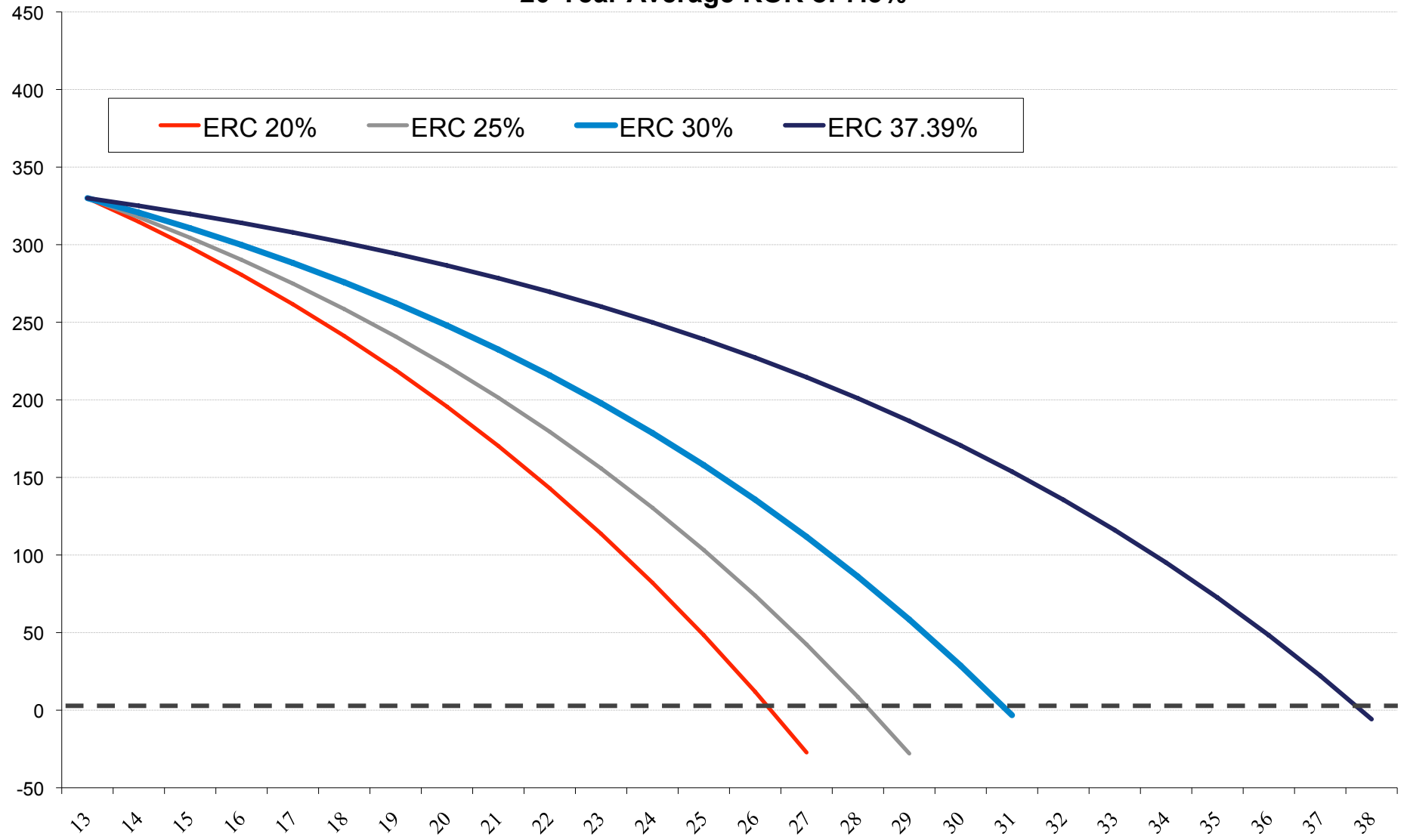
Recommended PLAN

V. PHASE OUT THE RETIREMENT FUND

1. Issue RFP for a reputable Insurance Company or Bank to Guarantee Annuities to all current retirees and active DB Members.
2. Sub-contract administrative functions of Fund:
 - a. Bank to process benefit checks
 - b. Insurance Company to process retirement claims
 - c. Health and Life Insurance already privatized
3. Transfer all Assets of the Fund (Credit Union, Judicial Loan, all real estate and other assets) to the Government.

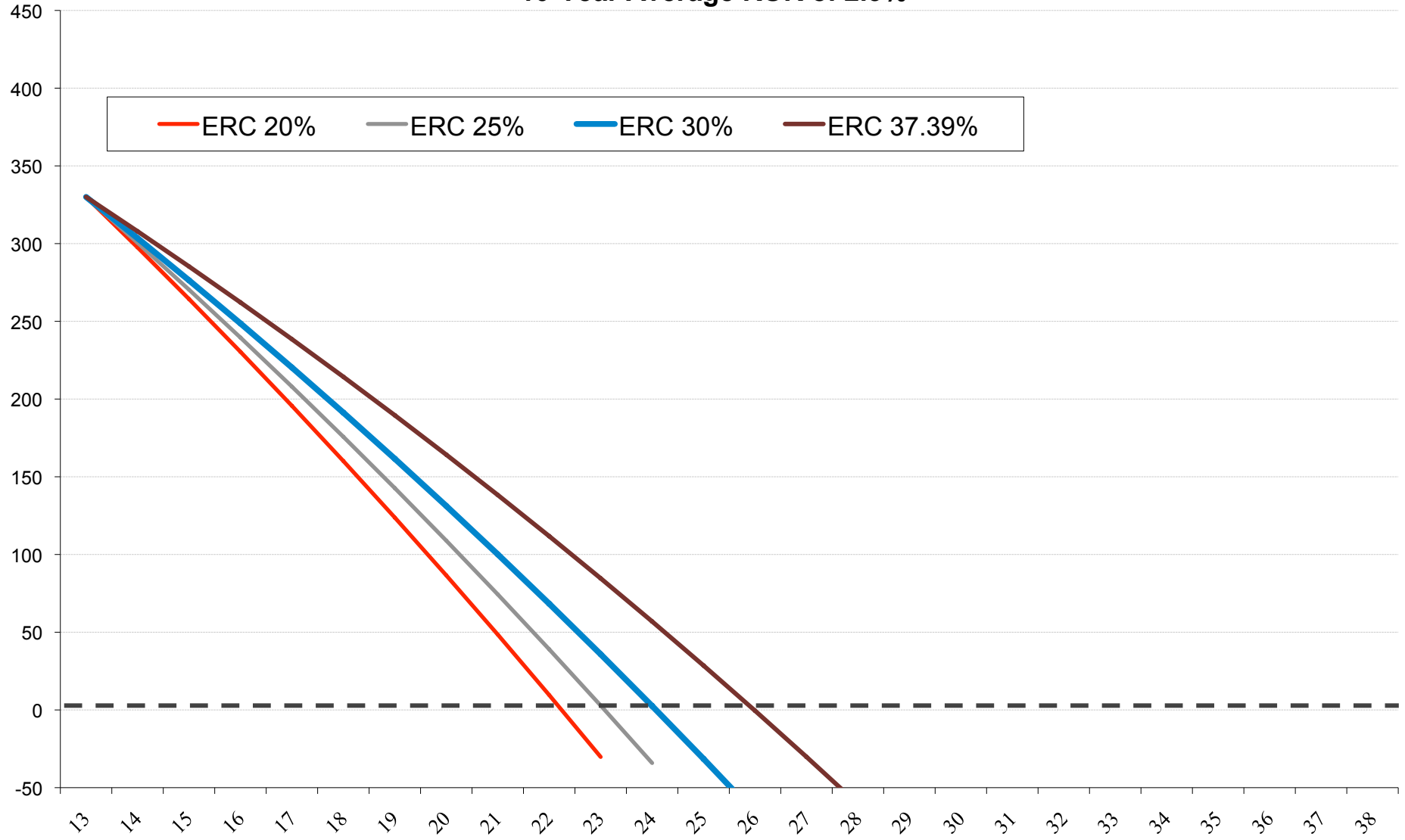
Assets (Millions)

Effects of Drawdown
20-Year Average ROR of 7.5%



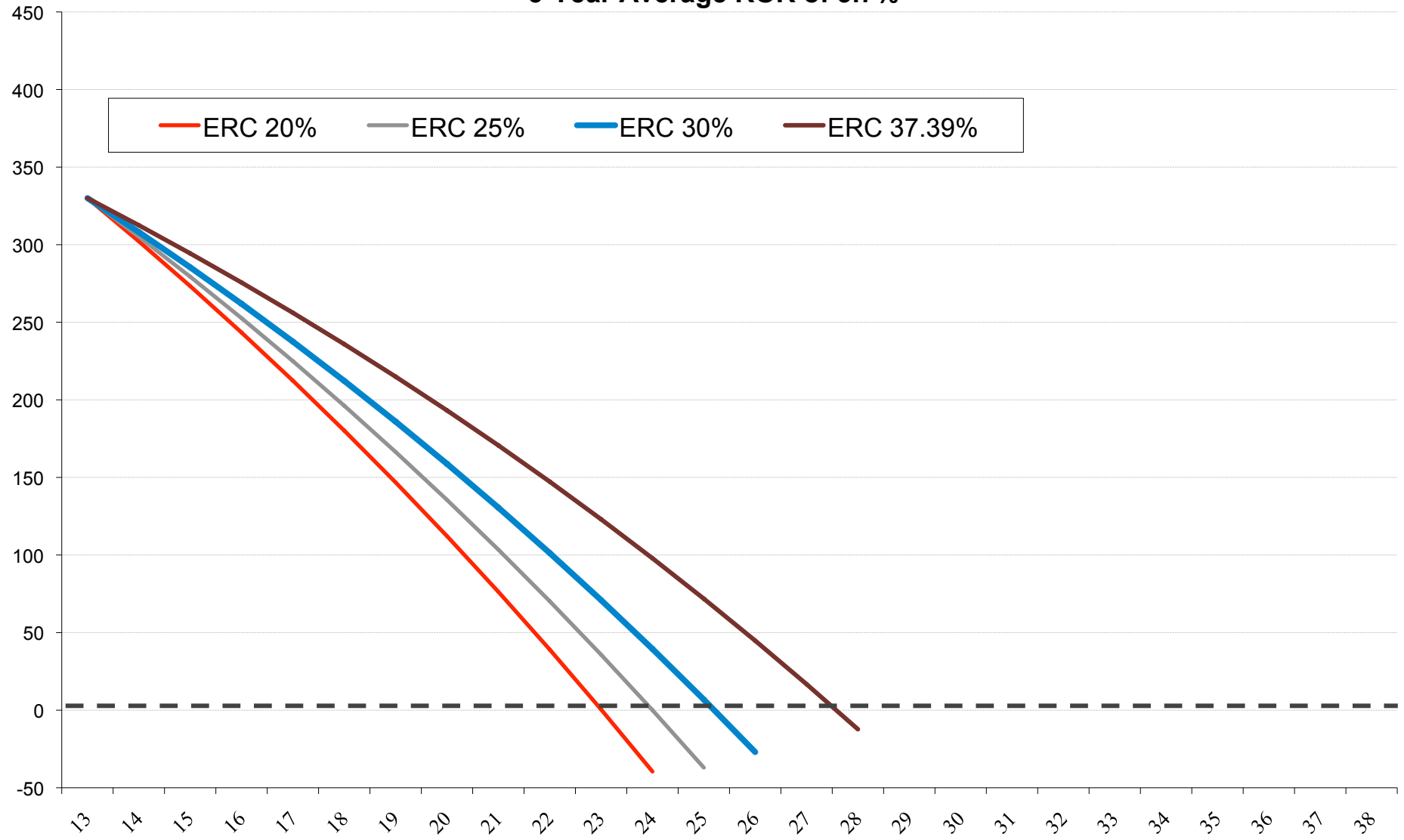
Assets (Millions)

Effects of Drawdown
10-Year Average ROR of 2.3%



Millions

Effects of Drawdown 5-Year Average ROR of 3.7%



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Questions / Comments