



## NMI SETTLEMENT FUND

POST OFFICE BOX 501247, SAIPAN, MP 96950

January 27, 2023

### BY ELECTRONIC MAIL AND HAND DELIVERY

Honorable Celina R. Babauta  
Chair  
Senate Judiciary, Government and Law Standing Committee  
**23<sup>rd</sup> Northern Marianas Commonwealth Legislature**  
P.O. Box 500586  
Saipan, MP 96950

#### **RE: Senate Bill (SB) 23-01**

Dear Chairwoman Babauta:

Thank you for the opportunity to comment on Senate Bill 23-01 (“SB 23-01”). This bill, if enacted, will create a second retirement plan for current NMI Government employees. While this is not a bill that will directly impact the Settlement Fund, the cost of funding a second retirement plan (“New Retirement Plan”) will be extremely difficult for the Government given its existing obligations to the Settlement Fund and the financial challenges the Government is facing today.

Depending on the funding priority and sources for the New Retirement Plan, implementation of this plan may affect the Government’s ability to meet its financial obligations to the Settlement Fund. These obligations include payment of the Minimum Annual Payment, the Alternative Payment of a Greater Amount, the employer contributions for Class Members who are employed, and the health and life insurance premiums for Class Members. The total FY 2023 payment obligations to the Settlement Fund is estimated to be at least \$47 million (broken down below), which represents at least one-third of the Government’s budget:

- **MAP.** The projected MAP for FY 2023 is \$36 million, \$34 million for FY 2024, and \$33 million for FY 2025.
- **APGA.** Whether the Government will be required to pay APGA, which is calculated based on the difference of 17% of the Government’s Total Annual Revenue after deducting the MAP amount paid, for FY 2020, 2021, and 2022 will be determined once the Government releases its audited financial statements for these periods.
- **Employer Contributions.** The Settlement Fund anticipates the total FY 2023 employer contributions for active employees to be about \$200,000, and total FY 2023 premiums for health and life insurance to be about \$10.7 million.

The Settlement Fund's ability to pay the 75% benefits to its members is contingent upon the Government's satisfaction of these payment obligations. As you are aware, in addition to the 75% payment of benefits paid by the Settlement Fund, the Government appropriates additional funds to cover the remaining 25% benefit payments (including the 25% lump sum death benefits), which is estimated to be another \$13 million for FY 2023.

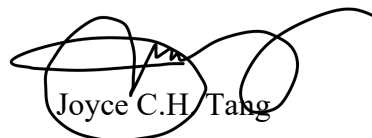
In light of the Government's financial challenges reported in the media, the Settlement Fund is especially concerned that the additional payment obligations proposed in SB 22-01 will affect the Government's ability to satisfy its obligations to the Settlement Fund. By creating additional financial obligations under SB 22-01, the Government risks defaulting on its payment obligations to the Settlement Fund.

Before a new retirement plan is created, there should be an in-depth discussion regarding the financial impact of this new plan, including the sources of funding, the estimated cost of the plan, projections of the cost of the plan, and the appropriation of funds for the New Retirement Plan. Much like purchasing a family home, there needs to be an analysis of the source of funds to cover the mortgage payments, the monthly mortgage, tax and other maintenance expenses, the repayment period (how long the mortgage payments will last), and a projection of all expenses and escalation over time. The Government should understand all of the financial impacts and risks involved before adopting a new retirement plan.

A suggestion that has been made by the Settlement Fund's investment advisor is for the Government to consider increasing its matching contribution to the defined contribution plan. By increasing the employer (Government's) contribution, this would avoid creating the possibility of future unfunded liabilities.

Please let me know if you would like to discuss further or have additional questions. Thank you.

Sincerely,



Joyce C.H. Tang

cc: Honorable Arnold I. Palacio, Governor  
Honorable David M. Apatang, Lieutenant Governor