



Report of the Trustee

FY 2014 (4th Qtr.) & FY 2015 (1st Qtr.)

March 20, 2015 Hearing
9:30am

Betty Johnson et. al., v.
Benigno R. Fitial et. al.

Civil Case No. 09-0023



➤ **Overview**

Payment Status

Audit Pension Software

➤ **Financial Report**

Snapshot & Budget Review (FY2014 & FY2015)

Investment Strategy and Update (Presented by Maggie Ralbovsky)

➤ **Legal Matters**

Merrill Lynch Arbitration

Administrative Proceedings

Pending Legislation and Initiative

➤ **Administrative Matters**



OVERVIEW



➤ **Annual Payment from NMI Government**

FY2014 - \$25M - Government paid timely

FY2015 - \$27M

1st Qtr. (15%) - \$4.05 Million paid timely

2nd Qtr. (50%) - \$9.45 Million Due

(balance of \$4.7 M due by 3/31/15)

➤ **Employer contributions (as of PPE 1/24/15)**

NMI Government and most Agencies are current

Northern Marianas College owes \$71,749.43

➤ **25% Payment to Retirees from NMI Government**

- Casino Gaming Law (PL 18-56) requires Casino license holder to pay \$15 million fee for the first 5 years.
- \$10 Million – appropriated to pay 25% payment
- House Bill 19-21 will amend PL 18-56 to appropriate \$15M for the 25% payment.



- **Trustee *Ad Litem* Fees**

- Balance \$434,373 (originally \$694,998)
- Repayment plan \$ 28,958.26/month - 24 months
- NMI Government is current through March 2015

- **Judicial Building Loan**

- Matured on 3/1/15
- 3/1/15 Payoff Balance: **\$5,001,480** (\$4,814,903, plus 7.75% compounded interest)
- NMI Government is seeking to modify Loan terms

Pension Audit Software

- Design and Installation Complete
- Target launch date: May 2015
- Initial, tentative results:

	Overpayment		Underpayment	
Class 1	75 members	\$617,293	33 members	\$58,201
Class 2	193 members	\$820,068	80 members	\$209,182
Disabled	8 members	\$56,448	11 members	\$63,143
TOTAL	276 members	\$1,493,809	124 members	\$330,526



Financial Snapshot & Budget Review



FY2014 (Oct. 1, 2013 – Sept. 31, 2014)

Budget Review

- FY2014 Budget - \$51,587,501
- Under budget - \$1.96 million (3.81%)

Building Depreciation expense of \$102,209 resulted in a negative balance

Actual v. Budget Results FY2014 (9/1/13 to 10/30/14)

	9/2014 Actual	9/2014 Budget	FY 2014 Actual	FY2014 Approved Budget	Remaining Budget Favorable (Unfavorable)
Pension Benefits and Refunds					
Total Benefits Payment	3,950,411.68	4,032,615.65	47,623,462.46	48,391,387.80	767,925.34
Total Refunds	25,919.79	86,146.78	615,292.24	1,033,761.36	418,469.12
Total Benefits and Refunds Payment	3,976,331.47	4,118,762.43	48,238,754.70	49,425,149.16	1,186,394.46
General & Admin.					
Total Professional Fees	19,250.47	68,555.83	390,807.45	822,670.00	431,862.55
Advertisement	-	125.00	312.50	1,500.00	1,187.50
Other General and Administrative Expenses	125,109.04	18,758.33	318,591.52	225,100.00	(93,491.52)
Total Gen & Admin.	144,359.51	87,439.16	709,711.47	1,049,270.00	339,558.53
Personnel Expenses	92,858.16	74,840.21	477,298.76	898,082.49	420,783.73
Total Gen Admin and Personnel Exp.	237,217.67	162,279.37	1,187,010.23	1,947,352.49	760,342.26
Total Pension, Gen Admin & Personnel Exp.	4,213,549.14	4,281,041.80	49,425,764.93	51,372,501.65	1,946,736.72
Capital Expenses	95,262.13	17,916.67	195,262.13	215,000.00	19,737.87
Total Expenses	4,308,811.27	4,298,958.47	49,621,027.06	51,587,501.65	1,966,474.59

FY2015 Budget Update

- Budget - \$50,760,878
- Reduction of 1.60% from FY2014

Actual v. Budget Results 1st Quarter FY2015 (10/1/14 to 12/31/14)

	F-Y-T-D Actual	F-Y-T-D Budget	F-Y-T-D Favorable (Unfavorable)	FY 2015 Approved Budget	FY 2015 Remaining Budget
Pension Benefits & Refunds					
Total Benefits Payment	11,768,760.51	11,954,250.00	185,489.49	47,817,000.00	36,048,239.49
Total Refunds	44,274.47	212,500.00	168,225.53	850,000.00	805,725.53
Total Benefits and Refunds	11,813,034.98	12,166,750.00	353,715.02	48,667,000.00	36,853,965.02
General & Admin. Expenses					
Total Personnel Expenses	181,078.18	221,969.56	40,891.38	887,878.25	706,800.07
Total Professional Fees	289,021.83	235,000.00	(54,021.83)	940,000.00	650,978.17
Total Other Gen. & Admin. Expenses	49,450.29	64,000.00	14,549.71	256,000.00	206,549.71
Total General & Admin. Expenses	519,550.30	520,969.56	1,419.26	2,083,878.25	1,564,327.95
Total Fixed Assets	-	2,500.00	2,500.00	10,000.00	10,000.00
Total Expenses	12,332,585.28	12,690,219.56	357,634.28	50,760,878.25	38,428,292.97

Chart 2 of Trustee's Report

\$95,353,000 (FY2014 ending balance)
\$84,735,000 (as of 2/28/15)

Quarter	Beginning Value \$(000)	Net Contrib \$(000)	Distrib & Adm Fees \$(000)	Invest Fees \$(000)	Invest Gain/Loss \$(000)	Ending Value \$(000)	Time Wtd Return (%)
12/13	128,417	252	23,711	46	215	105,127	0.11
03/14	105,127	1	3,514	28	1,339	102,926	1.24
06/14	102,926	6	2,520	0	2,519	102,929	2.48
09/14	102,929	13	6,333	9	-1,248	95,353	-1.27
12/14	95,353	14	8,678	0	129	86,818	0.11
2014	105,127	33	21,045	36	2,740	86,818	2.55
Total Period	128,417	285 (Sum)	44,757 (Sum)	82 (Sum)	2,954 (Sum)	86,818	2.13 (Annualized)

Ex. 6 of Trustee's Report

Anticipated Depletion Date is 2019



Investment Strategy and Update

FY2014 Asset Allocation Glidepath and Investment Strategy



- FY2014: 85% Bonds / 15% Equity
- FY2015: 90% Bonds / 10% Equity
 - *1% decrease of expected return of the investment
- FY2016: 95% Bonds / 5% Equity
- FY2017-2018: 100% Bonds

NMI Settlement Fund Glidepath							
Asset	Current	2014 Target	2015 Target	2016 Target	2017 Target	2018 Target	Implementation
Global Equity	2	15	10	5	0	0	Blackrock ACWI Fund
Intermediate Bond	28	20	20	30	40	100	Blackrock Intermediate Bonds
Core Plus Bond	50	45	50	50	50	0	PIMCO Total Return
High Yield Bonds	0	20	20	15	10	0	Hotchkis & Wiley
Expected Return	2.98	4.49	4.3	3.78	3.25	1.55	
Expected Risk	2.86	5.04	4.57	3.68	3.02	1.25	

Chart 2 of Trustee's Report for 2nd & 3rd Quarters FY2014

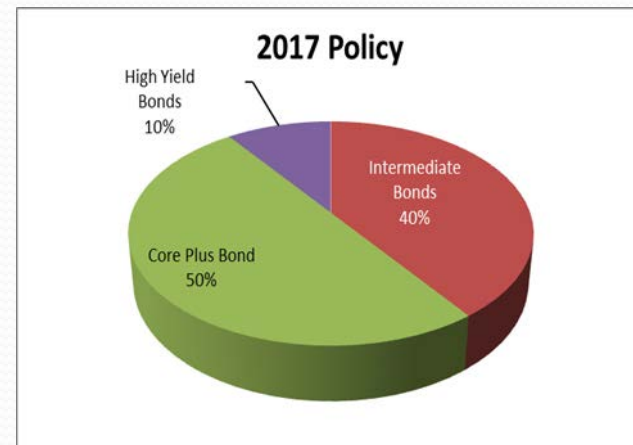
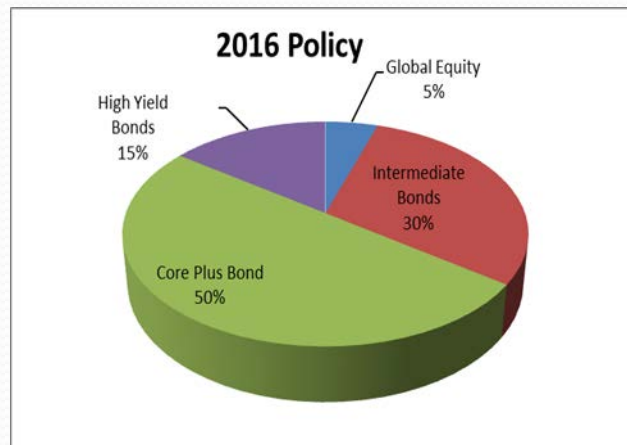
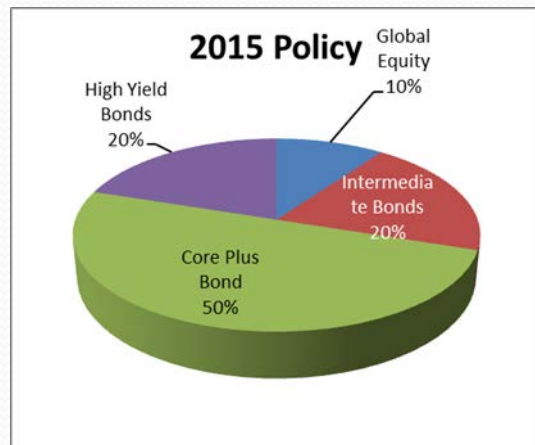
Capital Markets Assumption Changes



	Total Return (%)			Risk (%)
	Dec. 2013	Dec. 2014	Change	Dec. 2014
Investment Categories:				
U.S. Stocks	7.25	6.25	(1.00)	17.00
Dev ex-U.S. Stocks	7.25	6.25	(1.00)	18.00
Emerging Mkt Stocks	7.25	6.25	(1.00)	26.00
Global Stocks	7.45	6.45	(1.00)	17.15
Private Markets	10.40	8.80	(1.60)	27.50
Cash Equivalents	1.55	1.45	(0.10)	1.25
Core Bonds	4.10	3.35	(0.75)	5.00
LT Core Bonds	4.70	3.45	(1.25)	10.00
TIPS	4.00	2.90	(1.10)	6.00
High Yield Bonds	5.15	5.15	-	10.00
EMD Local Currency (h)	6.05	5.60	(0.45)	5.00
U.S. RE Securities	5.20	4.85	(0.35)	17.00
Private Real Estate	5.95	5.70	(0.25)	14.00
Commodities	4.25	3.70	(0.55)	15.00
MLPs	9.10	8.85	(0.25)	17.00
Real Asset Basket	6.55	6.15	(0.40)	8.35
Inflation:	2.25	1.70	(0.55)	1.75
Returns minus Inflation:				
U.S. Stocks	5.00	4.55	(0.45)	
U.S. Bonds	1.85	1.65	(0.20)	
Cash Equivalents	(0.70)	(0.25)	0.45	
Stocks minus Bonds:	3.15	2.90	(0.25)	
Bonds minus Cash:	2.55	1.90	(0.65)	

- At the beginning of 2015, Wilshire reduced expectations of returns for most asset classes, due to:
 - Deflationary pressure in Europe and Japan
 - Lower energy prices
 - Lower intermediate term inflation expectations
 - Higher levels of asset class valuations
- This results in a revision downward of the Settlement Fund investment return expectations.

Revised Expected Return for FY2015

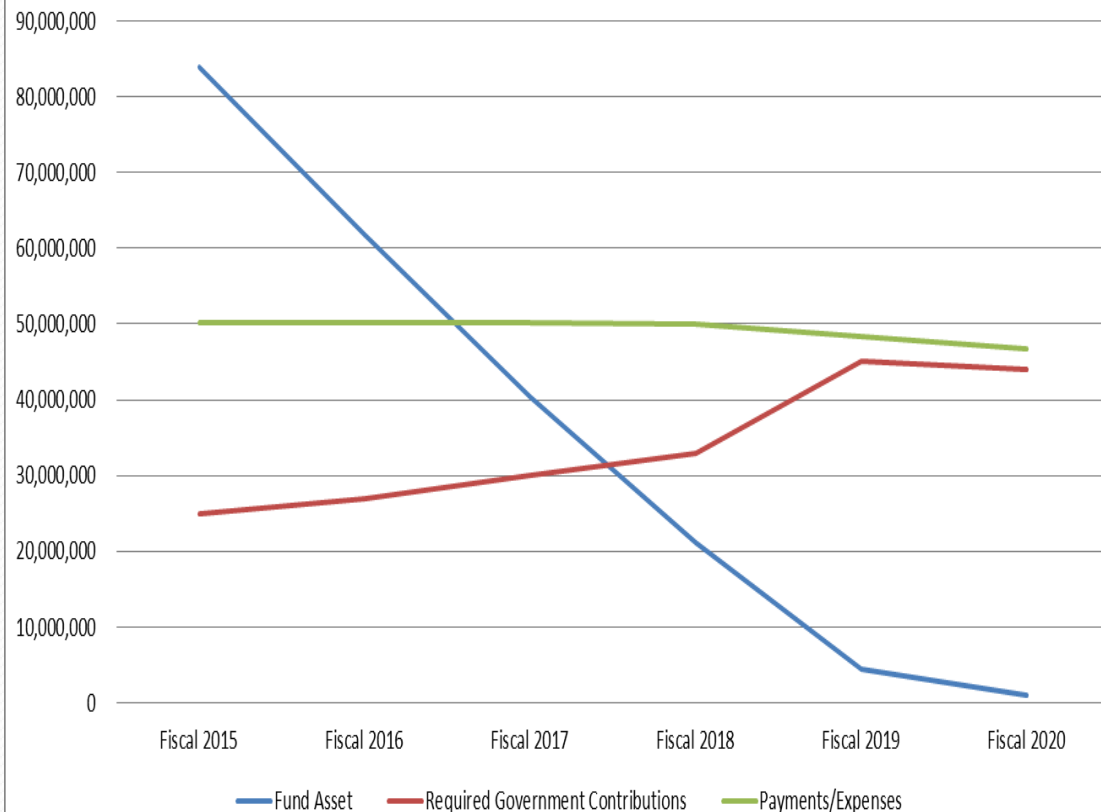


NMI Settlement Fund Glidepath				
Asset	2015 Target	2016 Target	2017 Target	2018 Target
Global Equity	10	5	0	0
Intermediate Bonds	20	30	40	100
Core Plus Bond	50	50	50	0
High Yield Bonds	20	15	10	0
Expected Return	3.95	3.55	2.75	1.55
Expected Risk	4.57	3.68	3.02	1.25

Current Investment Trajectory (2019)



Fund Assets are Expected to Deplete at the end of Fiscal 2019
- Current Settlement Agreement Trejectory



- Under the current Settlement Agreement:
 - The Fund is expected to deplete at the end of FY2019.
 - The Fund's investment portfolio is expected to earn on average around 3% a year during this life span.
 - Government Contribution will equal to annual payments after that for decades.

Assuming Contributing \$15 Million Additional for 10 Years



- If the contribution is increased by \$15 million annually for the first 10 years, the Fund:
 - Can invest more aggressively and achieve investment return at least 5% per year;
 - Government contribution to the Fund can be reduced to \$10 million a year starting Fiscal 2026, and the Fund can be self sustaining.
- The total contribution savings to the Government are estimated to be over \$100 million in the next 30 years.



Merrill Lynch Arbitration

FINRA Arbitration Proceeding Against Merrill Lynch

- Court approved assignment of claims against Merrill Lynch from plaintiffs to the Settlement Fund
- Trustee substituted as the Claimant in the FINRA arbitration
- The law firm of Levin, Papantonio, Thomas, Mitchell, Rafferty, P.A. serves as lead counsel
- Case is in mediation and discovery is ongoing
- Any settlement will require this Court's approval



Administrative Proceedings



Highlights

- Approval of Administrative Appeal Rules and Procedures
- Proposed Fee Schedule

Notice of Review (Appeal to Hearing Officer)	\$100
Notice of Appeal (Appeal to Administrator)	\$100
Service of Subpoenas	\$35 each
Photocopy of any document	\$0.50 page
Transcripts	\$2.50 page (Original) \$1 page (Additional copies)

Ex. 10 of Trustee's Report



Pending Legislations & Initiative



➤ **House Bill 19-21**

To amend the Casino Gaming Law (PL 18-56) to dedicate entire \$15M annual license fee for 25% portion of pension payments

➤ **House Bill 19-24**

To create a Supplemental Retirement Benefit for retirees who are reemployed in the NMI Government

➤ **SB 19-10**

To amend Retirement Fund Act to allow retirees to enroll in the Government Health Insurance Program anytime after retirement

➤ **SLI 19-01**

To amend the CNMI Constitution to allow retirees to be reemployed without losing retirement benefits



Administrative Matters



➤ **Consultants**

Investment Consultant – Wilshire

Auditor – Ernst & Young

Actuary – Milliman, Inc. – Report Due

➤ **Staff Matters**

Deputy Administrator and Controller vacancies

Health and dental insurance coverage

Life insurance (\$25,000/employee)

401K Plan with Vanguard