



Report of the Trustee

FY 2016 through 3rd Qtr. FY 2017

September 27, 2017 Hearing

*Betty Johnson et al., v.
Ralph DLG. Torres, et al.*

Civil Case No. 09-00023



Overview

- Class Membership Data
- Settlement Agreement Payments
- Results of Membership Files Audit
- Consultants
- Financial Overview
- Investment Report
- Litigation Report
- Pending Legislation



Class Membership Data

Decrease in Membership

	September 30, 2016	September 30, 2015
Participant Counts		
Active Employees (Class I)	66	85
Active Employees (Class II)	<u>6</u>	<u>10</u>
Total Active Employees	72	95
Retirees	<u>2,956</u>	<u>2,998</u>
Total Participants	3,028	3,093

	Members	Decrease/Increase
2015	3,093	(53)
2016	3,028	(65)
2017*	2,871	(157)

*Through 8/31/17.

Membership based on:**1. Annual Benefits Paid****2. Classification****As of 8/31/2017**

Benefit Range per Municipality	RETIREE DISABLED	RETIREE	SURV CHILD DISABLED	SURV CHILD	SURV SPOUSE	Grand Total
ROTA	5	231	2	5	56	299
<= \$6,000.00		28	2	4	20	54
6,000.01 - 10,000	4	28		1	13	46
10,000.01 - 20,000	1	112			20	133
20,000.01 - 30,000		47			3	50
30,000.01 - 40,000		14				14
40,000.01 - 50,000		1				1
50,000.01 - 60,000		1				1
60,000.01 - 70,000						0
SAIPAN	30	1679	10	100	552	2371
<= \$6,000.00	2	143	10	90	249	494
6,000.01 - 10,000	11	182		9	144	346
10,000.01 - 20,000	14	709			144	867
20,000.01 - 30,000	3	475			11	489
30,000.01 - 40,000		122			1	123
40,000.01 - 50,000		31		1	1	33
50,000.01 - 60,000		10			1	11
60,000.01 - 70,000		4			1	5
70,000.01 - 80,000						0
80,000.01 - 90,000		3				3
> 100,000						0
TINIAN	4	139	1	8	49	201
<= \$6,000.00	1	13	1	7	18	40
6,000.01 - 10,000	1	14		1	16	32
10,000.01 - 20,000	2	59			15	76
20,000.01 - 30,000		39				39
30,000.01 - 40,000		11				11
40,000.01 - 50,000		2				2
50,000.01 - 60,000		1				1
60,000.01 - 70,000						0
70,000.01 - 80,000						0
GRAND TOTAL	39	2049	13	113	657	2871



Distribution of payments based on current place of residence and classification

Chart 1
(Period Ending 8/31/2017)

PLACE OF RESIDENCE	Total # of Members	NMISF Class Member Classification					Total Benefit Payment
		Retiree Disabled	Retiree	Surviving Child Disabled	Surviving Child	Surviving Spouse	
CNMI 78.35%	2268	\$633,792.15	\$ 36,034,676.32	\$28,764.07	\$370,412.76	\$ 5,288,852.28	\$ 42,356,497.58
U.S. 15.59%	526	\$ 13,797.30	\$ 7,269,868.01	\$ 8,529.40	\$ 76,506.65	\$ 1,056,869.10	\$ 8,425,570.46
FSM .42%	15		\$ 178,416.42		\$ 1,363.12	\$ 46,408.42	\$ 226,187.96
GUAM 3.75%	147	\$ 11,624.58	\$ 1,683,648.21		\$ 45,758.64	\$ 288,564.98	\$ 2,029,596.41
NON U.S. 1.08%	49		\$ 479,591.14		\$ 3,991.19	\$ 102,002.97	\$ 585,585.30
PALAU .81%	30		\$ 346,130.84		\$ 12,288.10	\$ 78,846.80	\$ 437,265.74
Total Payments @ 100%	3035*	\$659,214.03	\$ 45,992,330.94	\$37,293.47	\$510,320.46	\$ 6,861,544.55	\$ 54,060,703.45
Total Payments @ 75%		\$494,410.52	\$ 34,494,248.21	\$27,970.10	\$382,740.35	\$ 5,146,158.41	\$ 40,545,527.59

Trustee's Report (ECF 767, at 1).

*Covers members who received payments covering 10/1/16 through 8/31/17.



Membership and payments based on place of retirement and members' classification

PLACE OF RETIREMENT	Total # of Members	NMISF Class Member Classification					Total Benefit Payment
		Retiree Disabled	Retiree	Surviving Child Disabled	Surviving Child	Surviving Spouse	
ROTA 9.97%	316	\$ 66,971.34	\$ 4,657,769.41	\$ 5,917.12	\$ 29,986.16	\$ 631,231.90	\$ 5,391,875.93
SAIPAN 83.12%	2509	\$471,896.32	\$ 38,244,283.95	\$30,633.63	\$447,387.13	\$ 5,741,097.67	\$ 44,935,298.70
TINIAN 6.91%	210	\$ 54,970.02	\$ 3,155,653.93	\$ 742.72	\$ 32,947.17	\$ 489,214.98	\$ 3,733,528.82
Total Payments @ 100%	3035*	\$593,837.68	\$ 46,057,707.29	\$37,293.47	\$510,320.46	\$ 6,861,544.55	\$ 54,060,703.45
Total Payments @ 75%		\$445,378.41	\$ 34,543,287.17	\$27,970.15	\$382,740.73	\$ 5,146,159.86	\$ 40,545,536.32

*Covers members who received payments covering 10/1/16 through 8/31/17.



Settlement Agreement Payments



Minimum Annual Payment (“MAP”)

Fiscal Year	MAP	Source of Funds
FY 2014	\$25M (paid)	PL 18-18, PL 18-53
FY 2015	\$27M (paid)	PL 18-66
FY 2016*	\$30M (paid)	PL 19-08
FY 2017*	\$33M (paid)	PL 19-68
FY 2018*	\$45M	HB 20-105
FY 2019 – FY 2028*	\$44M	
FY 2029 – FY 2035*	\$43M	

*Actuarial Valuation Report (by Milliman)

- Regular weekly payments of \$1 million from December 2015
- Ease liquidity requirements of SF
- Avoid frequent draw downs on SF investments
- Extends the investment horizon



Alternative Payment of a Greater Amount ("APGA")

	FY 2014	FY 2015	FY 2016
TOTAL ANNUAL REVENUE:			
Taxes	154,831,829.00	149,719,538.00	226,119,758.00
Federal Contributions*	-	-	
Licenses and Fees	46,005,588.00	31,392,355.00	38,694,768.00
Charges for Sales and Services	5,805,208.00	6,133,601.00	7,209,159.00
Contributions from Component Units	653,737.00	5,438,928.00	2,779,810.00
Interest and Dividends	303,884.00	211,956.00	85,583.00
Other Sources	6,563,386.00	7,089,653.00	12,901,824.00
Recoveries	451,952.00	2,954,730.00	-
Total Annual Revenue	214,615,584.00	202,940,761.00	287,790,902.00
LESS DEDUCTIONS:			
Minimum Annual Payments	25,000,000.00	27,000,000.00	30,000,000.00
GHLI	7,399,419.94	7,729,032.37	10,761,848.77
Class Counsel Fees	335,000.00	2,275,000.01	2,708,333.33
Total Deductions	32,734,419.94	37,004,032.38	43,470,182.10
NET TOTAL ANNUAL REVENUE:	181,881,164.06	165,936,728.62	244,320,719.90

Equal to 17% of the Government's Total Annual Revenue, after deducting MAP (see, Sec. 4.2 of Settlement Agreement)

Paragraph 4.2 - Alternative Payment of a Greater Amount

17% of Net Total Annual Revenue	30,919,797.89	28,209,243.87	41,534,522.38
Less: Minimum Annual Payment	25,000,000.00	27,000,000.00	30,000,000.00
Amount Due to NMISF	5,919,797.89	1,209,243.87	11,534,522.38

Status of Payment - Alternative Payment of a Greater Amount



FY 2014	\$5,919,797.89	Paid
FY 2015	\$1,209,243.87	Paid
FY 2016	\$11,534,522.38	To be Paid

Installment Payments in FY 2018

1st Payment	10/17/2017	\$3,460,356.71 (30%)
2nd Payment	12/31/2017	\$4,037,082.83 (35%)
3rd Payment	3/31/2018	\$4,037,082.83 (35%)

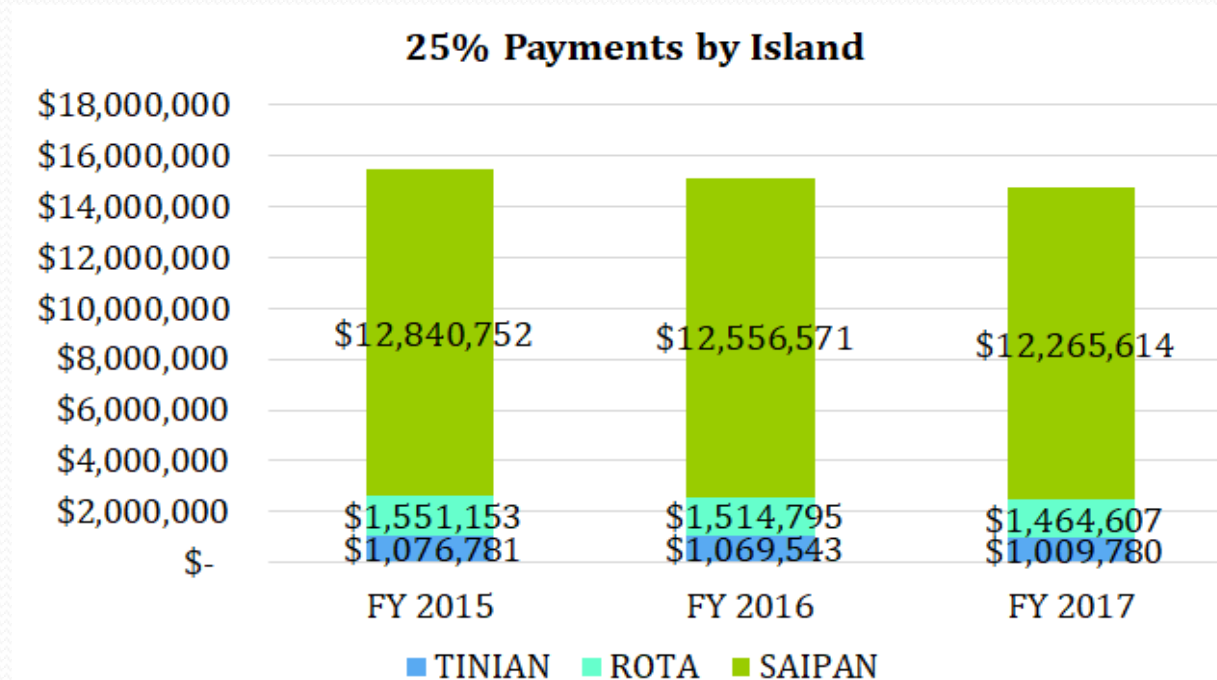


25% Benefit Payments

FY 2015 - \$15.5M was received

FY 2016 - \$15.1M was received

FY 2017 - \$14.7M was received





NMI GOVERNMENT FUNDING SOURCES

Payments	General Appropriations	PL 18-56 (Casino License Fee & GRT)	PL 20-09	Hotel Occupancy Tax (4 CMC § 1502)	Beverage Container Tax (4 CMC § 1405)
MAP	✓				
APGA		✓	✓		
25% Benefit Payments		✓		✓	✓



Other Settlement Agreement Payments

- **Status of Employer Contributions as of 9/25/17**
 - NMI Government is current
 - Public School System is current
 - Commonwealth Healthcare Corporation has an outstanding balance of \$89,044.68 and is making monthly installment payments

- **Reimbursement of Trustee Ad Litem Fees**
 - \$694,998 in fees paid in full on 6/15/16

- **Judicial Building Loan – Matured 3/1/15**
 - Principal balance as of 9/15/17 was \$3,664,852.40
 - In FY 2017, the Government paid \$942,772.53
 - Government's \$12M USDA loan is pending



Results of Membership Files Audit

Membership Files Audit Process

1. Benefits audit software identified 399 overpayment and underpayment Member files
2. Member files are manually reviewed – 5 step review process
3. After review is completed, Member files with no issues are closed out.
4. 247 files did not have issues; 152 files had issues
5. Members whose files have issues are given a formal notice, and an opportunity to respond or settle.

5 Stage Review Process

Audit Stages		Overpayment	Underpayment
Stage 1 – File is reviewed to identify issues pertaining to under/overpayment and to ensure all supporting documents are available.	Class 1	-	-
	Class 2	-	-
Stage 2 – Data is recomputed by Member Services staff in accordance with the applicable laws and regulations governing the member's annuity calculation.	Class 1	-	-
	Class 2	-	-
Stage 3 – File is forwarded to Member Services Manager for recalculation and final review.	Class 1	1	1
	Class 2	14	-
Stage 4 – Completed file is sent to the Audit department to ensure that calculations are accurate and in compliance with applicable laws and Fund rules and regulations.	Class 1	6	2
	Class 2	60	10
Stage 5 – Audited file is forwarded to Legal Department for legal review. For overpayments, adverse letters are issued by the Administrator. For underpayments, a findings and recommendations letter is forwarded to the Trustee for approval of underpayment pay out.	Class 1	8	8
	Class 2	42	-

Initial results:

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

Updated results:

	Overpayment		Underpayment	
Class I	15 members	\$73,478	11 members	\$28,068
Class II	116 members	\$348,121	10 members	\$29,683
Disability	0 members	\$ -	0 members	\$ -
TOTAL	131 members	\$421,599	21 members	\$57,751



152 files reviewed were found to have one or more of the following issues:

1. Amendment 19

- Additional 5-year credit incorrectly applied to members who did not qualify.

2. Average Annual Salary ("AAS")

- AAS for number of files miscalculated.

3. Benefit Calculation

- Errors in various numbers factored into the calculation, affecting the benefit amounts.

4. Class I

- Some Class I members improperly categorized as Class II members.

5. Cost of Living Adjustment ("COLA")

- Number of members improperly received COLA without satisfying the age requirement.

6. Credited Service

- Some members received credited service without requisite records of service.

7. Disability

- Noncompliance with requirement to undergo medical examination and continued receipt of annuity.



8. Double Dipping

- Reemployed retirees improperly received benefits and government salaries without satisfying any of the exceptions under 1 CMC § 8392.

9. Early Retirement Penalty

- Penalty was not applied or improperly applied to members who elect to retire before the age of 62.

10. Elected Official

- Computation of benefits for respective members did not consider additional 3% times the AAS and years of service for members elected as government officials and judges after 1/8/78.

11. Employee Contribution

- Some members paid the incorrect contribution rate.

12. Overtime/Compensatory Time ("OT/CT")

- Many members improperly given service credit instead of vesting service credit for OT/CT hours, and/or were not eligible for such credit because they did not meet the threshold 2,080 regular hour requirement.

13. Survivor Benefits

- Member received benefits when not eligible for such.

14. Underpayment

- Some members' benefits were improperly computed, resulting in benefit underpayments.



Chart 2
Class I Members (as of 9/15/2017)

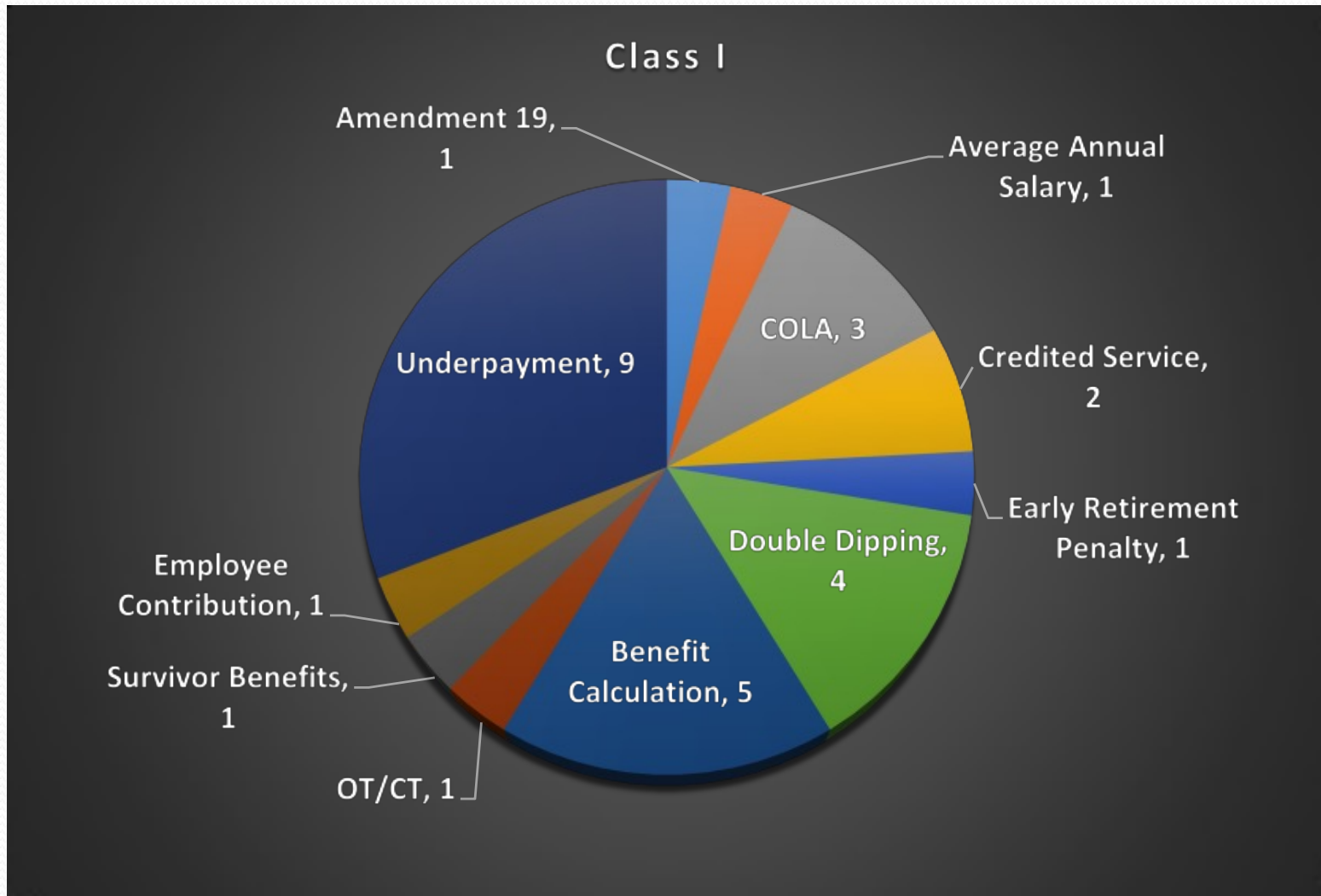
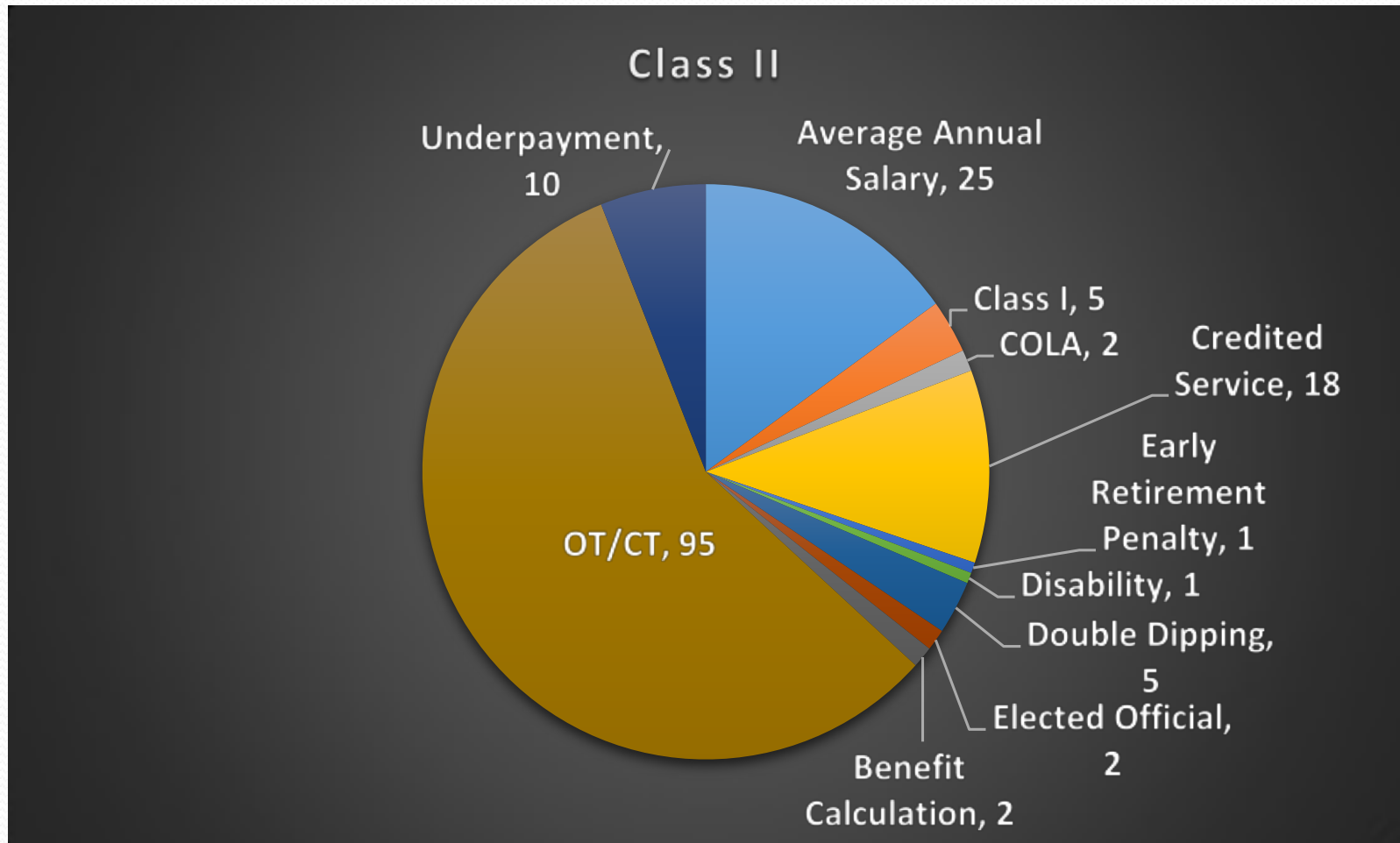


Chart 3
Class II Members (as of 9/15/2017)





Consultants



- **Wilshire Associates (Maggie Ralbolvsky) - Investment Consultant**
 - Provides investment advice to the SF

- **Milliman, Inc. (Rich Wright) – Actuary**
 - Prepared and issued FY 2016 Actuary Report

- **Ernst & Young (Jim Whitt) – Auditor**
 - FY 2014 Audit was issued in June 2017 (delayed due to disagreement with Government re Component Unit designation)

 - FY 2015 and FY 2016 will be issued by Dec. 31, 2017

 - FY 2017 will be issued by Sept. 30, 2018

Highlights of Audit of Financial Statements and Actuarial Valuation Report

AUDIT OF FINANCIALS

Settlement Fund received a Clean Audit for
FY 2014

ACTUARIAL VALUATION REPORT

- Purpose is to project the MAP to be made by Government to pay 75% of the full benefits
- MAP for FY 2017 should be \$33M and FY 2018 should be \$45M
- Assuming life expectancies based on the mortality table used in the 2012 actuarial valuation, the MAP is estimated to be \$44M for FY 2019, and to decline by \$1M per year from FY 2020 to FY2036.
- In FY 2036 the MAP is estimated to be \$27M



Financial Overview

Sources of Revenue

	<u>FY 2016</u>	<u>FY 2017</u>
1. Members Contribution	\$ 514,358	\$ 503,980
2. Gov't / Employer Contribution	\$ 1,566,224	\$1,525,798
3. Buy Back Revenue	\$ 7,293	\$ 2,373
4. Benefit Overpayment Revenue	\$ 65,027	\$ 60,619
5. Underpayment of Contributions	\$ 3,067	\$ 1,602
6. Buy Back Interest	\$ 2,274	\$ 1,573
7. Appeals - Fees	\$ 500	\$ 100
8. Other income	\$ 362	\$ 13,509
9. Interest from JB Loan	\$ 381,001	\$ 311,137
10. Interest + Dividend Income	\$ 2,280,556	\$ 2,027,431
11. Rental Income	\$ 94,920	\$ 0
12. Minimum Annual Payment	\$28,500,000	\$33,000,000
13. Litigation Settlements	\$ 5,154,918	\$ 57,863
13. Stock Market Gains/Losses (net)	<u>\$ 2,995,972</u>	<u>\$ 447,782</u>
TOTAL	\$41,569,475	\$ 37,952,775

Exhibit 8 of Trustee's Report (ECF 767-8 at pp. 1-4)

FY 2016 & FY 2017 Draw Down

	8/31/2017	8/31/2016
Minimum Annual Payment & Income	\$37,504,992	\$41,569,475
Total Expenses	(\$41,745,453)	(\$42,936,248)
Realized Gain/Loss on Investments	\$447,783	\$2,995,973
Difference	(\$3,792,678)	(\$1,366,772)

To cover the difference (shortage), the Settlement Fund liquidated investments as needed during the year to meet cashflow demands.

Proposed FY 2018 Budget



	Approved FY 2016 Budget	FY 2017 Tentative Budget	Proposed FY 2018 Budget	FY 2018 increase/ (decrease)	% (+/-) from previous budget
Benefits Payments					
Total Benefits Payment	46,315,000	45,850,000	44,890,000	(960,000.00)	-2.1%
Total Refunds	225,000	115,000	60,000	(55,000.00)	-47.8%
Total Benefits and Refunds Payment	46,540,000	45,965,000	44,950,000	(1,015,000.00)	-2.2%
General & Administrative Expenses					
Total Personnel Expenses	848,413	815,645	816,080	435.25	0.1%
Total Professional Fees	899,500	797,000	945,000	148,000.00	18.6%
Total General & Admin. Expenses	338,500	470,600	476,800	6,200.00	1.3%
Total Expenses	48,626,413	48,048,245	47,187,880	(860,364.75)	-1.8%
Total Fixed Assets	10,000	30,000	10,000	(20,000.00)	-66.7%
Total Expenditures	48,636,413	48,078,245	47,197,880	(880,364.75)	-1.8%

FY 2018 Proposed Budget \$47,197,880 (\$880,364 less an FY 2017 Budget)

Schedule 2 of Trustee's Report (ECF 767, at 17).



Investment Report



New Asset Depletion Date: End of 2024 - 2025

	\$ Millions		
Beginning of Fiscal Year	Contributions Per Settlement Agreement	Projected Payments and Expenses	Projected Asset Value @ Beginning of Fiscal Year
2018	45	49	72
2019	44	49	70
2020	43	49	66
2021	42	48	62
2022	41	48	56
2023	40	47	50
2024	39	46	44
2025	?	46	37

Government must continue to make timely and periodic payments of the MAP and APGA.



Asset Allocation Glidepath and Investment Strategy

	Settlement Fund current Target	FY2018	FY 2019	FY 2020	FY 2021	FY 2022
Equity	11%	6%	6%	5%	0%	0%
High Yield	30%	32%	22%	15%	10%	0%
Core Bond	47%	50%	60%	65%	70%	70%
Short Term	12%	12%	12%	15%	20%	30%
Expected Return	4.61%	4.15%	3.99%	3.77%	3.37%	2.50%
Expected Risk	6.48%	4.94%	4.70%	4.49%	4.23%	3.50%

Resumption of glidepath will gradually decrease expected return. In the past 2 years, moving the glidepath down was suspended due to suspension of cash draw downs. This is no longer the case and expected return will gradually decrease.



Investment Summary FY 2017 (as of 8/31/17)					
	Beg. Balance	Distributions & Adm Fees	Investment Gains/Losses	Inv. Fees	End. Balance
1st Quarter (Oct. - Dec. 2016)	\$ 75,665,000	\$(1,578,000)	\$ (39,000)	\$ -	\$ 74,047,000
2nd Quarter (Jan. - March 2017)	\$ 74,047,000	\$ (18,000)	\$ 1,734,000	\$ -	\$ 75,763,000
3rd Quarter (April - June 2017)	\$ 75,763,000	\$ (18,000)	\$ 1,406,000	\$ -	\$ 77,151,000
4th Quarter (interim) (July - Aug. 2017)	\$ 77,151,000	\$(5,511,000)	\$ 959,000	\$ -	\$ 72,599,000
		\$(7,125,000)	\$ 4,060,000		

Balance in Investment Accounts:

End of FY2016
As of 8/31/2017

\$75,665,000
\$72,599,000

Risks Going Forward

1. Government's heavy reliance on Casino GRT revenue
2. How long will the Casino GRT revenue last?
3. Lack of diversification of the Government's revenue sources



Full Funding of the Settlement Fund

An additional \$468 million
is required to fully fund the Settlement Fund today.



Litigation



NMIRF v. CNMI, Dist. Ct. Case No. 13-00006

- Joint Status Report filed 9/19/17
- Case to be closed pursuant to Paragraph 14.0 of the Settlement Agreement

NMISF v. CUC, Super. Ct. Case No. 11-0114-CV

- Originally filed by the Retirement Fund to collect \$3.2M in outstanding employer contributions
- Case assigned and transferred to the Settlement Fund under the Settlement Agreement
- Settlement Fund substituted in as plaintiff on 8/16/17
- Status conference scheduled 10/24/17

NMIRF v. Sword and Express Electronics, Super. Ct. Case No. 12-0086

- Originally filed by the Retirement Fund
- Case not Settlement Fund asset
- Dismissed by court on 4/27/16



Administrative Appeals

- 8 appeals filed in 2016 and 7 appeals in 2015
- Hearing records for matters pending mediation near completion
- 7 cases resolved--in repayment, fully paid, or settled
- New hearing officers



Pending Legislation



Retirement Benefits

House Bill 20-36

- To amend 1 CMC § 8357 to reinstate the special retirement annuity for former NMI Governors and Lieutenant Governors, except those “impeached or convicted of a felony while in office or convicted of other misconduct while in office,” and provides that eligible officials receive “65% of the last annual salary paid to them” during their tenure.

Senate Legislative Initiative 20-01

- To amend Article III, Section 20(b) of the NMI Constitution to permit reemployment of retirees as classroom teachers, doctors, nurses, and other medical professionals without losing their benefits for an unlimited duration.



Retiree Bonuses

House Bill 20-99, SS1

- To repeal and reenact 4 CMC § 2308 to earmark the first \$22 million of the casino gross revenue tax to pay the 25% payments and a bonus to class members.

House Bill 19-212, HD2

- To appropriate \$3.5 million to “be equally distributed to pay a bonus to the retirees and retiree’s beneficiaries.”



Funding Sources

House Bill 20-10

- To establish a Settlement Fund Revolving Fund Account, consisting of business gross revenue taxes collected every FY in 4 CMC § 1301, exclusively for the MAP obligations.

House Bill 20-28

- To amend 4 CMC § 2307 to cover the 25% payments and to reserve additional funds for deposit into a special account called the “Future Generation Pension Plan” and to amend 4 CMC § 2308 to pay a biannual bonus to retirees and other purposes.

House Bill 20-116, SD2

- To appropriate \$7,129,041.76 of funds from the Saipan casino operator’s business gross revenue tax to pay the FY 2014 and FY 2015 APGA due to the Settlement Fund.



Group Health and Life Insurance

House Bill 20-101

- To allow annuitants who did not enroll or re-enroll in health insurance within six months of the date of retirement to enroll later, as long as enrollment occurs during the open enrollment month.

Senate Bill 20-04, SD1

- To raise group life insurance benefits for government employees and retirees from 1.8 to 2 times the annual salary of the employee or retiree, and allow annuitants to continue coverage under the same terms and conditions offered to government employees each fiscal year. The life insurance premiums will be divided between the NMI Retirement Fund and annuitant.

Senate Bill 20-05, SD1

- To allow government employees and retirees who participated in the life insurance program for at least 5 years the option to continue coverage upon separation from service. The employee will be responsible for 100% of premium payments. The Bill also authorizes elected officials and government employees who retire under the U.S. Social Security System to continue coverage in the GHLI program, with premiums being divided between the Government and the retiree.



Biba Retirees!