



NMI SETTLEMENT FUND

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May 22, 2018

BY ELECTRONIC MAIL AND HAND DELIVERY

Honorable Ivan A. Blanco
Chairman
House Committee on Judiciary and Governmental Operations
20th Northern Marianas Commonwealth Legislature
House of Representatives
P.O. Box 500586
Saipan, MP 96950

RE: House Bill (HB) 20-157

Dear Chairman Blanco:

Thank you for the opportunity to comment on House Bill 20-157 (“HB 20-157”), a bill which if passed, will create a new retirement program for current NMI government employees currently, and the employees who withdrew retirement contributions from the NMI Retirement Fund.

While we can appreciate the Government’s desire to provide for the retirement needs of government employees, a major concern of the Settlement Fund is the impact HB 20-157 would have on the Government’s financial ability to satisfy its payment obligations to the Settlement Fund. The Settlement Fund’s ability to pay the 75% benefits to its members is contingent upon the Government’s satisfaction of its payment obligations. These payment obligations include:

1. **Minimum Annual Payments (“MAP”)**: The MAP are payments which the Government is required to make to the Settlement Fund each year, in increasing amounts under the Settlement Agreement. The MAP was \$25 million for FY 2014, \$27 million for FY 2015, \$30 million for FY 2016, and \$33 million for FY 2017. In respect to FY 2018, the Government, the MAP is significantly higher in the amount of \$45 million. For years subsequent to FY 2018, the Government is required to make MAP to the Settlement Fund sufficient to enable the Settlement Fund to pay 75% of the Settlement Class Members’ full retirement benefits for the Settlement Fund’s expected life. These payments represent a significant portion of the Government’s income, and have been funded in large part by casino revenues.
2. **Alternative Payment of a Greater Amount (“APGA”)**: The APGA is required to be paid under the Settlement Agreement and is calculated based on the difference of 17% of the Government’s Total Annual Revenue, after deducting the MAP amount paid. In FY 2016, an outstanding balance of \$11.5 million is due to the Settlement Fund.

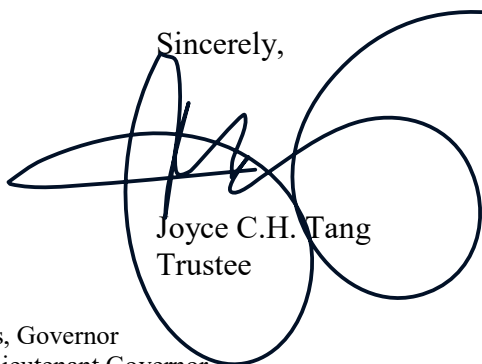
3. **Employer Contributions.** For every pay period, the Government is required to pay employer contributions for Class Members who are currently employed by the Government. In FY 2015, FY 2016, and FY 2017, the Government paid over \$500,000 in employer contributions to the Settlement Fund for those years. The Settlement Fund anticipates the sum of employer contributions for FY 2018 to be the about the same.

4. **Employer Contributions for Health and Life Premiums.** The Government is responsible for paying the group health and life insurance premiums for Settlement Fund members each year. In FY 2014, this amount was \$7.4 million, in FY 2015 it was \$7.7 million, in FY 2016 it was \$10.8 million, and in FY 2017 it was \$11.2 million. We estimates that total premiums for FY 2018 will be about \$11 million. In addition, Public Law 20-40 was recently enacted to allow government retirees to re-enroll in health insurance. Currently, about half of the members who are eligible to enroll are not currently enrolled for group health coverage. Therefore, the Government's share of contributions for health and life insurance premiums for Settlement Fund members could potentially double to \$22 million per year, depending on the cost of coverage and which members enroll.

For FY 2018, the Government is obligated under the Settlement Agreement to pay the pensions and benefits to Settlement Fund members of an amount between \$68 million to \$79 million. This amount represents between 46.8% and 54.4% of the Government's FY 2018 budget. It is not an insignificant amount, and is especially risky when the bulk of the Government's income is from casino license fees and taxes. In addition to the \$68 million to \$79 million obligations to the Settlement Fund members, the Government has yet committed itself to covering the remaining 25% benefit payments (including the 25% lump sum death benefits). The Government's reliance on casino license and fees to fund many of its new programs, including the new retirement plan is imprudent and could be disastrous for the Government. Because the Government's income source is not diversified, if the casino license and fees are suspended or uncollectable, the Government has no other reliable significant source of income to cover these obligations, and could find itself defaulting on the Settlement Agreement and its payments to creditors.

The Settlement Fund does not support a bill which could create additional long-term liabilities for a Government which relies on an income base that is not diversified and unreliable.

Sincerely,



Joyce C.H. Tang
Trustee

cc: Honorable Ralph DLG. Torres, Governor
Honorable Victor B. Hocog, Lieutenant Governor