

STANDING COMMITTEE REPORT NO. 20-102

RE: C.B. NO. 20-158/H&SA

SUBJECT: TO AMEND TITLE 53 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA REGARDING THE ADMINISTRATION, CONTRIBUTIONS AND BENEFITS OF THE FSM SOCIAL SECURITY.

NOVEMBER 15, 2018

The Honorable Wesley W. Simina
Speaker, Twentieth Congress
Federated States of Micronesia
Sixth Special Session, 2018

Dear Mr. Speaker:

Your Committee on Health and Social Affairs to which was referred C.B. No. 20-158, entitled:

"A BILL FOR AN ACT TO AMEND SECTIONS 603, 604, 607, 708, 801 803, 804 AND 806 OF THE CODE OF THE FEDERATED STATES OF MICRONESIA (ANNOTATED) TO CLARIFY, DEFINE AND REVISE THE ADMINISTRATION, CONTRIBUTION COLLECTIONS AND BENEFITS OF THE FEDERATED STATES OF MICRONESIA SOCIAL SECURITY AND FOR OTHER PURPOSES.",

begs leave to report as follows:

The intent and purpose of this bill are expressed in its title.

Your Committee has held informal meetings and public hearings regarding this bill during last year. The most recent public hearing having taken place during the regular session in May 2018, the witnesses present included: the Administrator of the FSM Social Security Administration and

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his key staff, representatives from the Office of the President, the Department of Finance and Administration, and the Department of Justice.

It is well understood by this Committee that the FSM Social Security Plan is not financial viable on funding from the legally mandated contributions from employers and employees alone. Every year the Congress appropriates at least \$1 million to augment the contributions and the FSM Social Security Administration withdraws an equal amount from its trust fund to meet its obligations to its beneficiaries. Although the FSM Social Security Administration has been fortunate to have good management and to avoid the financial crisis' that have befallen several of the pension programs in the region it is time to further amend the law to ensure that social security benefits are available for future generations. Your Committee understands the financial reality of this situation and strongly endorses the amendments proposed by the FSM Social Security Administration for the reasons set forth below:

The FSM Social Security Administration has been working on the amendments included in C.B. No. 20-158 for two years. It has calculated that the contributions to benefits gap is only going to increase in the near to mid term as more individuals retire and live longer, and more of our young working age adults move overseas. Although this bill was not transmitted by the President it was originally designed and drafted by the FSM Social Security Administration. The witnesses from the Office of the President, Departments of Justice, and Finance and Administration did not disagree with necessity of the amendments. In the nine months since review of this bill began no requests for revision of the bill has been transmitted from the President.

The most noticeable amendment to the public is a proposed second option for beneficiaries of retirement benefits.

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Under the current law beneficiaries receive half of their entitled retirement benefits from age 60-64. Upon turning 65 the benefits will increase to 100% but be subject to an earnings test—for every two dollars earned a dollar will be subtracted from the social security benefit. To streamline administration and long-term financial solvency the Administration proposes to offer retirees turning 60 a second possible option: 70% social security benefit at age 60 for life without earnings test. The Administration believes that this will encourage people who would like a slightly higher payout starting at 60 and not have to worry about an earnings test after 65 to chose the new second option, which will be more financially beneficial for the Administration in the long-term.

As merely giving beneficiaries a second option should only have a positive impact on the public the Committee does not have concerns with this amendment as a general policy, however, it did request that the Administration provide the analysis done to show that this would be beneficial for the Plan in the long-term. In the May 2018, regular session the Administration provided an overview of its financial status and a presentation regarding the predicted impact of this amendment. He stated that it was estimated that if everyone opted for the 70% that there would be a yearly savings of approximately \$1,321,490 to the program. The Administration did admit that in the short-term, approximately the first five years, the amendments would cause additional small deficits as the population between the ages of 60-64 opt to receive the 70% rather than the 50%.

Another cost saving amendment would have all employees in the FSM engaged in covered employment will have to pay FSM social security contributions whether or not they contribute to another countries' social security or pension scheme. This will close a current gap in contribution

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collection that will allow the FSM to collect from employees on vessels, which are flagged under FSM law. The FSM Social Security Administration has commented that this will greatly improve the contributions to the program.

There is also a proposed amendment to remove the maximum quarterly amount on wages; therefore, the highest wage earners will pay social security contribution on their entire earnings. As this is a social program the Committee agrees with the Administration, those who have the highest earnings in the Nation should contribute in proportion to their wages. Likewise, a second amendment to cap the monthly benefit at \$1,000 will decrease the outgoing benefits, but only affect those at the highest salary levels.

Some more modest amendments were proposed to clarify and benefit the program: 1) the attachment and/or garnishment to social security benefits is usually not allowed, however, by the proposed amendment the program could recoup contributions that were outstanding to the program. This provision would almost exclusively apply to those who are self-employed and paying the employer share to the program, 2) the law would be amended to allow the program to collect attorney's fees and costs where a lawsuit is deemed to have been filed in bad faith, 3) an adopted dependent child of a beneficiary shall be presumed to satisfy the dependency requirement if the employee has been contributing to the majority of the child's support, and 4) Beneficiaries will be required to fill out an eligibility questionnaire periodically provided by the program to determine if benefits should continue for the individual, and beneficiaries will also be required to fill out a questionnaire for all dependents claimed under the program.

The Committee is satisfied that the Administration has done adequate review and accepts its conclusions. The Committee

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strongly supports these amendments and all efforts to assist our Nation's social security beneficiaries.

Your Committee is strongly supportive of the FSM Social Security Administration's efforts in fiscal discipline, and it is therefore, for the reasons set forth above, your Committee on Health and Social Affairs supports the above discussed amendments, it is in accord with the intent and purpose of C.B. No. 20-158, and recommends its passage on First Reading and that it be placed on the Calendar for Second and Final Reading in the form attached hereto.

Respectfully submitted,

/s/ Ferny S. Perman
Ferny S. Perman, chairman

Alik L. Alik, vice chairman

/s/ Tiwiter Aritos
Tiwiter Aritos, member

/s/ Florencio S. Harper
Florencio S. Harper, member

/s/ David W. Panuelo
David W. Panuelo, member

Joseph J. Urusemal, member

/s/ Derensio S. Konman
Derensio S. Konman, member