

SECOND CONGRESS OF THE FEDERATED STATES OF MICRONESIA

FOURTH REGULAR SESSION, 1982

CONGRESSIONAL BILL NO. 2-307, C.D.1

AN ACT

To establish the Federated States of Micronesia Social Security System, to provide for devolution from the Trust Territory Social Security System, and for other purposes.

BE IT ENACTED BY THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA:

1 CHAPTER 1.

2 GENERAL PROVISIONS

3 Section 101. Short title. This act is known and may be cited
4 as the "Federated States of Micronesia Social Security Act."

5 Section 102. Declaration of policy. The purpose of this act
6 is to effect economy and efficiency in the fields of government and
7 business by providing a means whereby employees may be ensured a
8 measure of security in their old age and given an opportunity for
9 leisure without hardship and complete loss of income. Further, to
10 provide survivors' insurance for wage earners and their dependents.

11 Section 103. Definitions. In this act, unless the context
12 otherwise requires, the following definitions shall be applicable:

13 (1) "Became disabled" means the first month in which an
14 individual is under a disability and is both fully and currently
15 insured.

16 (2) "Board" means the Federated States of Micronesia Social
17 Security Board provided for by section 201 of this act.

18 (3) "Child or spouse" means that an applicant is the child
19 or spouse of an individual if the court of the State in which the
20 individual was domiciled at the time of his death has or would find
21 the applicant to be the individual's child or spouse in determining the
22 devolution of intestate personal property.

1 (4) "Contributions" means the tax imposed upon income of
2 covered employees and the tax imposed upon employers on account of
3 wages paid to a covered employee.

4 (5) "Disability" means inability to engage in any
5 substantial gainful employment by reason of any medically determinable
6 physical or mental impairment which can be expected to result in
7 death or which has lasted or can be expected to last for a continuous
8 period of not less than 12 months.

9 (6) "Earning test" means that an individual who receives a
10 retirement, disability, or survivor benefit and who works in covered
11 or noncovered employment shall have his quarterly benefit reduced by
12 \$1 for each \$2 earned in a quarter, except there shall be no reduction
13 for the first \$200 earned in a quarter. The reduction shall be applied
14 in one of the subsequent two quarters immediately after the quarter
15 in which the earnings were made, or as soon as possible thereafter.

16 (7) "Employee" means:

17 (a) Any officer of a corporation; or

18 (b) Any individual who, under the usual common law
19 rules applicable in determining the employer-employee relationship,
20 has the status of an employee; or

21 (c) Any self-employed person who has at least one
22 employee for whom he is required to report in a given quarter; or

23 (d) Any self-employed person who had more than \$10,000
24 of annual gross revenue in the preceding calendar year.

25 (8) "Employment" means any service by an employee for an

1 employer incorporated or doing business within the Federated States
2 of Micronesia employing him, irrespective of where such employment
3 shall be performed, except family employment.

4 (9) "Family employment" means employment of a worker by a
5 member of the household, a parent or a son or daughter except that
6 the worker may apply to the Board for a determination that such
7 employment is bona fide covered employment subject to this act.

8 (10) Insured status can mean any of the following:

9 (a) "Fully insured individual" means any individual
10 who has not less than one quarter of coverage for each year beginning
11 after June 30, 1968, or for each year after attaining the age of 21,
12 whichever is later, and up to but excluding the year in which he
13 attained retirement age, became disabled, or died, whichever first
14 occurred, except that in no case shall an individual be a fully insured
15 individual unless he has at least 12 quarters of coverage.

16 (b) "Currently insured individual" means any individual
17 who has had not less than 8 quarters of coverage during the 13
18 quarter period ending with:

19 (i) The quarter in which he died, or

20 (ii) The quarter in which he became entitled to
21 old age insurance benefits, or

22 (iii) The quarter in which he became disabled,
23 whichever first occurs.

24 (11) "Quarter" and "calendar quarter" mean a period of
25 three calendar months ending on March 31, June 30, September 30, or

1 December 31. "Quarter of coverage" means a quarter in which the
2 individual has been paid \$50 or more in wages in employment subject
3 to this act.

4 (12) "Wages" means remuneration paid subject to the
5 provisions of this act, including the cash value of all remuneration
6 paid in any medium other than cash and remuneration accruing to a
7 self-employed person. Remuneration accruing to a self-employed person
8 shall be deemed to be twice the amount paid to the highest paid
9 employee reported by the self-employed person in a quarter, \$1,500
10 maximum per quarter. Remuneration accruing to a self-employed person
11 who has no covered employees shall, for each quarter of a year, be
12 deemed to be 2.5 percent of the gross revenue of the business for the
13 previous calendar year, subject to \$1,500 maximum. Remuneration paid
14 for any service which is more or less than a whole dollar shall, as
15 may be prescribed by regulations, be computed to the nearest dollar.
16 Wages shall not include:

17 (a) That part of remuneration in excess of \$1,500
18 paid in a quarterly reporting period by one employer;

19 (b) Any payment on account of sickness or accident
20 disability, or medical or hospitalization expenses made by an
21 employer to or on behalf of an employee;

22 (c) Any payment made to or on behalf of an employee
23 or to his beneficiary from a trust or annuity;

24 (d) Remuneration paid in any medium other than cash
25 to an employee for service not in the course of the employer's trade

1 or business or for domestic service in a private home of an
2 employer;

3 (e) Remuneration paid for casual or intermittent
4 labor not performed in the course of the employer's trade or business
5 when such employment does not exceed employment in more than one
6 week in each calendar month of each quarterly reporting period; and

7 (f) Remuneration from family employment subject to
8 the provisions of this act.

9 Section 104. Susceptibility of benefits, contributions, and
10 funds to legal process or assignment. The benefits, the employee
11 and employer contributions, and the securities in the several funds
12 from all taxes presently or hereinafter levied shall not be subject
13 to execution, attachment, or garnishment and shall be nonassignable
14 except as specifically provided in this act.

15 Section 105. Violations; Penalties.

16 (1) Any person who knowingly makes any false statement or
17 who falsifies any report to or record of the Federated States of
18 Micronesia Social Security System in an attempt to defraud the system
19 shall be guilty of a misdemeanor and upon conviction thereof shall be
20 imprisoned for a period of not more than one year, or fined not more
21 than \$2,000 or both.

22 (2) Any person who willfully fails to report wages paid or
23 pay contributions required thereon shall be guilty of a misdemeanor
24 and, in addition to any other penalty prescribed by law, such a
25 person shall also pay penalties not in excess of 100 percent of the

1 tax due plus interest to the Board as it by regulation shall
2 require.

3 (3) Any covered employer who fails to submit the
4 quarterly report and pay the social security tax within 10 days after
5 the end of the quarter shall be considered delinquent. The Board
6 or its authorized representatives shall be vested with the
7 authority to levy a penalty of not more than \$250 on delinquent
8 employers.

9 Section 106. Accounts, budget, and costs of administration.

10 (1) At such time as the Social Security Board may
11 prescribe, the Social Security Administrator shall submit to the
12 Board on forms and in the manner prescribed by the Board a detailed
13 estimate of the budget for the next ensuing fiscal year for the
14 proper conduct of the Social Security System. The Social Security
15 Administrator shall submit to the Board:

16 (a) The audited accounts of the income and expenditure
17 and the balance in the Social Security Retirement Fund for the last
18 completed fiscal year,

19 (b) A statement showing the estimated income and
20 expenditure for the fiscal year in progress, together with such
21 summaries, schedules, and supporting data as may be deemed necessary,

22 (c) A statement showing the estimated balance of the
23 Social Security Retirement Fund at the close of the fiscal year in
24 progress, and

25 (d) A budget showing the estimated income and

(2) For the next ensuing fiscal year, the estimated costs of administration including salaries and wages, purchase of office supplies, operational expenses, and the maintenance of branch offices shall not exceed an expenditure maximum equal to 12 percent of the estimated income for that year from contributions and interest and dividend income on investments less investment expenses. The audited accounts and the budget for the ensuing fiscal year shall be approved by the Board and submitted to the President and the Congress of the Federated States of Micronesia. Should the estimated costs of administration exceed the expenditure maximum, legislative approval of the budgeted administration expenses is required.

SOCIAL SECURITY BOARD AND ADMINISTRATION

15 Section 201. Creation; Composition; Terms; Organization and
16 procedure; Compensation. There is hereby created a Federated States
17 of Micronesia Social Security Board of five members nominated by the
18 President and confirmed by the Congress of the Federated States of
19 Micronesia to operate the Social Security Program authorized by this
20 act. Nominations to the Board shall take into account the need to
21 have adequate geographical representation and to have representatives
22 from public and private sector employers and employees. Members of
23 the Board shall serve 3-year terms, and the Board shall provide for
24 its own organization and procedure. Any vacancies on the Board shall
25 be filled for the unexpired term only. Where a vacancy is for one

1 year or less, it shall be filled by appointment by the President,
2 otherwise vacancies shall be filled by nomination by the President
3 and confirmation by the Congress. The Social Security Administrator
4 shall be an ex-officio member of the Board. Members of the Board
5 who are not Government employees shall be paid at the rate of \$30
6 per day and necessary travel expenses when actually attending
7 meetings of the Board. If a member of the Board is concurrently
8 employed by the National Government of the Federated States of
9 Micronesia, he shall receive his salary during attendance at Board
10 meetings; PROVIDED that if his daily salary shall be less than \$30,
11 he shall also be entitled to receive the difference between his daily
12 salary and \$30.

13 Section 202. Powers and duties generally. The Board shall have
14 the powers and privileges of a corporation; shall have an official
15 seal; and shall in the name of "Federated States of Micronesia Social
16 Security Administration" transact all business, enter into contracts,
17 invest all funds or retain a firm to invest or reinvest funds under
18 the Board's supervision; and, under its rules, regulations, and
19 conditions, transfer or assign such funds as herein authorized,
20 purchase annuities, and hold in trust for the purposes for which
21 received, all cash, securities, and other properties of the system.
22 In the name "Federated States of Micronesia Social Security
23 Administration" it may sue and be sued. The responsibility for the
24 proper operation of this act shall be vested in the Board. The
25 Board shall appoint a Social Security Administrator who shall have

1 responsibility for the general administration of the Social
2 Security System, and who shall have power to employ and to delegate
3 duties to such employees of the Social Security Administration as
4 deemed feasible and desirable to carry out the provisions of this
5 act.

6 Section 203. Promulgation of regulations; Hearings; Employees;
7 Annual report. The Board may adopt, amend, or rescind regulations
8 for the administration of this act pursuant to title 17, chapter 1,
9 of the Code of the Federated States of Micronesia. It may hold
10 hearings or make decisions upon hearings delegated to others for the
11 purpose of determining any question involving any right, benefit, or
12 obligation of any person subject to this act. It may fix the
13 compensation of such employees it deems necessary within the limits
14 of available administrative funds budgeted for its operation, and it
15 may contract for special actuarial and other counseling on a fee basis.
16 It shall bond itself and its employees in such amounts as it shall fix.
17 It shall receive audited accounts of the Social Security System within
18 90 days of the end of the fiscal year of the system and transmit these
19 accounts to the President and the Congress of the Federated States of
20 Micronesia. The annual accounts and report shall be made available to
21 the public. It shall submit to the President and the Congress for each
22 fiscal year a report on its operations and the condition of its funds,
23 and subject to section 207, in such report shall make recommendations
24 for amendments to this act as it deems desirable.

25 Section 204. Maintenance of records; Disclosure of records. The

1 Administrator shall receive and maintain files and records of all
2 employers and all employees subject to this act. Such records
3 shall not be disclosed to any person except as may be required in
4 the administration of this act, or in connection with a hearing
5 conducted in accordance with the provisions of this act.

6 Section 205. Appointment of branch managers. The Administrator
7 shall have the authority to employ branch managers and delegate such
8 power to such branch managers as may by regulation be prescribed.

9 Section 206. Audit of records; Power to subpoena; Administration
10 of oaths. The Board and its authorized representatives shall have the
11 power to audit employer records, issue subpoenas, and administer oaths
12 appropriate to the administration of this act.

13 Section 207. Actuaries and actuarial valuations. The Board shall
14 employ or contract with actuaries or actuarial firms for the purpose
15 of making actuarial valuations of the Federated States of Micronesia
16 Social Security System not less frequently than each 3 years after
17 the date of commencement of the system. Such reports made to the
18 Board shall be submitted with appropriate recommendations for changes
19 in the system and amendments to this act to the President and to the
20 Congress of the Federated States of Micronesia. An actuarial report
21 prepared by a qualified actuary which analyzes the impact on the
22 system of any proposed amendment which has financial implications must
23 accompany the proposed amendment. In particular, proposals to amend
24 section 103, sections 301 to 307 inclusive, sections 401 and 402, or
25 chapter 5 must be accompanied by an actuarial report.

25 CHAPTER 3.

1 COVERAGE AND BENEFITS

2 Section 301. Scope of coverage.

3 (1) All employees, wherever employed by an employer
4 incorporated or doing business in the Federated States of Micronesia,
5 shall be covered unless both the employer and the employee are
6 currently subject to any other recognized Social Security System.
7 For the purposes of this act, any elected official in any Government
8 unit or body in the Federated States of Micronesia is deemed to be an
9 employee employed by a Federated States of Micronesia employer. The
10 governmental unit or body to which such person is elected is subject
11 to the provisions in this act relating to the duty and obligations of a
12 Federated States of Micronesia employer.

13 (2) Every person who:

14 (a) Is a fully insured individual, as defined in this
15 act;

16 (b) Has attained age 60 years; and

17 (c) Has filed application for old age insurance shall
18 be entitled to an old age insurance benefit for each month, beginning
19 with the month for which both paragraphs (a) and (b) of this subsection
20 are satisfied and ending with the month preceding the month in which
21 he dies, subject to the earnings test as defined in this act.

22 Section 302. Surviving spouse's benefits. The surviving spouse
23 of an individual who died fully insured, if such spouse has filed
24 application, shall be entitled to a survivor insurance benefit for
25 each month beginning with the month of death of the fully insured

1 spouse and ending with the month preceding the month in which the
2 surviving spouse dies or remarries; PROVIDED that such benefit shall
3 be subject to the earnings test as defined in this act.

4 Section 303. Dependent's benefits; Disability benefits.

5 (1) Every surviving child who is dependent upon an
6 individual entitled to old age benefits or who was dependent upon an
7 individual who died fully insured or currently insured, shall be
8 entitled, upon filing application, to a child's insurance benefit
9 for each month beginning with the month of death of such individual and
10 ending with the month preceding whichever of the following first occurs:

11 (a) Attainment of age 18 years, except that benefits
12 are payable until the month before the attainment of age 22 so long as
13 the beneficiary is a bona fide student, and except that benefits are
14 payable during the disability of a child who was disabled before the
15 attainment of age 22;

16 (b) Marriage; or

17 (c) Adoption.

18 (2) A child shall be deemed dependent upon his parent or
19 adopting parent unless such individual was not living in the same
20 household with or contributing to the support of such child. Child's
21 insurance benefits shall be paid to the individual upon whom the child
22 is currently dependent, except such benefit shall be subject to the
23 earnings test as defined in this act.

24 (3) Every individual who is a fully and currently insured
25 individual and is disabled and has been disabled for at least 3 full

1 calendar months, upon filing an application for disability
2 insurance benefits, shall be entitled to a disability insurance
3 benefit for each month beginning with the first month of the
4 waiting period and ending with the month preceding the month in
5 which he dies or recovers from his disability, subject to the
6 earnings test as defined in this act.

7 Section 304. Amount of retirement and disability insurance
8 benefits.

9 (1) An insured eligible individual shall be paid a
10 monthly old age benefit for life, except for any month of
11 disqualification as provided by this act, in an amount calculated
12 upon an annual basis of 12.6 percent of the first \$10,000 of
13 cumulative covered earnings, plus 2.1 percent of cumulative covered
14 earnings in excess of \$10,000 but not in excess of the next \$30,000,
15 plus 1.05 percent of cumulative covered earnings in excess of \$40,000.
16 Earnings for employment after commencement of payments for old age
17 or disability insurance benefits shall be included in benefit
18 calculations upon subsequent application for benefits, but such
19 earnings shall be applicable for benefits for months after the
20 calendar year in which such earnings occurred. For the purpose of
21 this section cumulative covered earnings includes earnings on which
22 contributions have been paid by the individual to the Trust Territory
23 Social Security System.

24 (2) An insured, eligible individual shall be paid a
25 minimum monthly benefit of \$33.60 if the benefit amount calculated

1 in accordance with subsection (1) of this section is less than
2 \$33.60 monthly.

3 (3) An individual who is both fully and currently insured
4 and who has been under a disability for 3 full calendar months shall
5 be paid a monthly benefit for life or until recovery from the
6 disability, except for any month of disqualification as provided by
7 this act, in an amount calculated in accordance with the preceding
8 subsections of this section. Further, the amount of the benefit as
9 so determined shall, if the individual is receiving a periodic
10 workmen's compensation benefit, be reduced each month by the excess of
11 the sum of the workmen's compensation benefit for that month and the
12 benefit payable under this act over 80 percent of one-twelfth of the
13 highest annual covered wages in the period consisting of the year in
14 which the disability occurred and the preceding five years. If a
15 workmen's compensation benefit was payable in periodic benefits but
16 was commuted to a lump sum, for purposes of this subsection it will
17 be considered that the periodic benefit originally available was paid
18 in each month that it would have been paid if the commutation had not
19 occurred.

20 Section 305. Reemployment after retirement. In the event an
21 individual who is receiving retirement insurance benefits returns to
22 covered employment, the benefit shall be recomputed at the end of
23 the calendar year and paid as provided in this act beginning with the
24 year after the calendar year the earnings were made.

25 Section 206. Amount of survivor insurance benefits.

1 (1) The surviving spouse of a fully insured worker
2 eligible in accordance with section 303 shall be paid a monthly
3 benefit or disability in an amount equal to 60 percent of the
4 retirement or disability insurance benefit calculated for the
5 deceased spouse at the date of death.

6 (2) Each eligible child of an insured worker shall be
7 entitled to a monthly benefit of 15 percent of the retirement
8 insurance benefit calculated for the deceased parent at the date of
9 death.

10 (3) If the spouse of the deceased insured worker is eligible
11 for retirement benefit based on his or her own employment coverage,
12 the survivor insurance benefit shall be reduced by the amount of such
13 retirement benefit.

14 (4) In no event shall the total survivor benefit paid to
15 the spouse and children exceed the retirement benefit calculated
16 for the decedent as of the date of death, nor shall it be less than
17 \$33.60 a month computed prior to the application of subsection (3)
18 of this section.

19 Section 307. Lump sum benefits.

20 (1) When a worker dies and the benefits paid, including
21 survivor benefit, have been less than 4 percent of his cumulative
22 covered earnings, the survivors, heirs, or the estate of such
23 individual shall be paid a lump sum benefit, after all rights to
24 survivor benefits have terminated, in an amount equal to 4 percent
25 of the decedent's cumulative covered earnings, reduced by the amount

1 of any benefits paid to the insured worker and his eligible
2 dependents. For the purpose of this section, cumulative covered
3 earnings includes earning on which contributions have been paid
4 by the individual to the Trust Territory Social Security System.

5 (2) In the absence of a will, survivors shall be paid
6 in the following order:

7 (a) Spouse, if living, otherwise children in equal
8 shares or guardian, if such children are minors;

9 (b) Parents in equal shares; or

10 (c) Duly appointed legal representatives of the
11 deceased or, if none, person or persons determined to be entitled
12 thereto under the laws and customs of the last domicile of the
13 deceased person.

14 Section 308. Adjustments to correct for overpayments and
15 underpayments to an individual.

16 (1) Whenever an error has been made with respect to
17 insurance payments to an individual, proper adjustment shall be made,
18 under regulations promulgated by the Board by increasing or decreasing
19 subsequent payments to which such individual is entitled. If such
20 individual dies before such adjustment has been completed, adjustment
21 shall be made by increasing or decreasing subsequently paid survivor
22 benefit payments payable with respect to the wages which were the
23 basis of benefits of such deceased individual.

24 (2) No adjustment shall be made when adjustment or recovery
25 would be against equity and good conscience.

1 Section 309. Payment of benefits to foreign citizens outside
2 Federated States of Micronesia.

3 (1) Notwithstanding any other provision of this chapter,
4 no monthly benefits shall be paid under this chapter to any individual
5 who is not a citizen or national of the Federated States of Micronesia
6 for any month which is:

7 (a) After the sixth consecutive calendar month
8 during all of which the administrator finds, on the basis of
9 information furnished to him by the Attorney General or information
10 which otherwise comes to his attention, that such individual is outside
11 the Republic of the Marshall Islands, the Federated States of Micronesia,
12 and the Republic of Palau; and

13 (b) Prior to the first month thereafter for all of
14 which such individual has been in the Federated States of Micronesia.
15 For purposes of this paragraph (1), after an individual has been
16 outside the Federated States of Micronesia for any period of 30
17 consecutive days he shall be treated as remaining outside the Federated
18 States of Micronesia until he has been in the Federated States of
19 Micronesia for a period of 30 consecutive days.

20 (2) Subsection (1) of this section shall not apply to any
21 individual who is a citizen of a foreign country which the Administrator
22 finds has in effect a social insurance or pension system which is of
23 general application in such country and under which:

24 (a) Periodic benefits, or the actuarial equivalent
25 thereof, are paid on account of old age, retirement, or death, and

1 (b) Individuals who are citizens of the Federated
2 States of Micronesia but not citizens of such foreign country and
3 who qualify for such benefits are permitted to receive such benefits
4 or the actuarial equivalent thereof while outside such foreign country
5 without regard to the duration of the absence.

6 CHAPTER 4.

7 CONTRIBUTIONS

8 Section 401. Employee contributions.

9 (1) There is hereby imposed on every employee a tax equal
10 to the following percentages of wages received by him with respect to
11 employment subject to this act:

12 (a) With respect to wages paid from the effective date
13 of this act through June 30, 1985, the rate shall be 2 percent;

14 (b) With respect to wages paid from July 1, 1985,
15 through June 30, 1990, the rate shall be 3 percent;

16 (c) With respect to wages paid from July 1, 1990,
17 through June 30, 1995, the rate shall be 4 percent;

18 (d) With respect to wages paid from July 1, 1995,
19 through June 30, 2000, the rate shall be 5 percent;

20 (e) With respect to wages paid after June 30, 2000,
21 the rate shall be 6 percent.

22 (2) The tax imposed shall be collected by the employer
23 of the employee by deducting the amount of the tax from the wages as
24 and when paid. Every employer required to so deduct the tax shall be
25 liable for the payment of such tax to the Board and shall be indemnified

1 against the claims and demands of any person for the amount of any
2 such payment made by such employer.

3 Section 402. Employer contributions. There is hereby imposed
4 on every employer an excise tax, with respect to having an individual
5 in his employ, equal to the following percentages of wages, paid by
6 him with respect to employment subject to this act:

7 (1) With respect to wages paid from the effective date of
8 this act through June 30, 1985, the rate shall be 2 percent;

9 (2) With respect to wages paid from July 1, 1985, through
10 June 30, 1990, the rate shall be 3 percent;

11 (3) With respect to wages paid from July 1, 1990, through
12 June 30, 1995, the rate shall be 4 percent;

13 (4) With respect to wages paid from July 1, 1995, through
14 June 30, 2000, the rate shall be 5 percent;

15 (5) With respect to wages paid after June 30, 2000, the
16 rate shall be 6 percent.

17 Section 403. Employee refunds. When a covered employee is
18 reported with earnings in excess of the quarterly maximum and taxes
19 on the excess are withheld and paid into the Federated States of
20 Micronesia Social Security Retirement Fund, the excess employee tax
21 during the four quarters ending June 30 of each year shall be refunded
22 to the employee within 90 days of that date; PROVIDED that the excess
23 employee taxes are \$1 or more. No refund, however, shall be granted
24 to the employer or employers of such employee of taxes paid by such
25 employers on account of wages paid by them to the employee.

1 Section 404. Reporting; Social security card and number. The
2 Administration shall furnish each employer forms for record keeping
3 and reporting of contributions which shall show in addition to other
4 information specified by the Board the employer account number and
5 the employee social security number. Numbers shall be issued by the
6 employee social security number. Numbers shall be issued by the
7 Administration from a permanent register maintained by it. Each
8 employer shall report quarterly, on the prescribed forms, and pay
9 taxes due thereon to the Administration in accordance with the Board's
10 regulation and subject to interest and penalty for failure so to do.
11 Each employee shall be assigned a social security number and a card
12 bearing this number.

13 CHAPTER 5.

14 RETIREMENT FUND

15 Section 501. Creation; Administration. There shall be a Federated
16 States of Micronesia Social Security Retirement Fund separate and apart
17 from all public monies or funds of the Federated States of Micronesia,
18 which shall be administered by the Social Security Administration
19 exclusively for the purposes of this act.

20 Section 502. Composition; Handling.

- 21 (1) The retirement fund shall consist of:
- 22 (a) All employee contributions;
- 23 (b) All employer contributions;
- 24 (c) All penalties and interest collected on account
25 of contributions;

1 (d) All gifts, donations, and fund transfers

2 authorized by law;

3 (e) All interest and earnings from investment of the

4 funds; and

5 (f) Funds or assets which are transferred from the

6 Trust Territory Social Security Retirement Fund to the Federated

7 States of Micronesia Social Security Retirement Fund.

8 (2) Expenses incurred in the operation of the Federated

9 States of Micronesia Social Security System shall be paid from the

10 Federated States of Micronesia Social Security Retirement Fund.

11 Section 503. Investment of funds; Generally. The Board, after

12 investigation and study, shall determine the methods of investing its

13 trust funds to ensure the greatest return commensurate with sound

14 financing adequately safeguarded. The Board may invest and reinvest

15 the monies in its funds and may hold, purchase, sell, assign, transfer,

16 and dispose of any of the securities and investments in which any of

17 the monies of its funds are invested, and, upon such sale, the proceeds

18 thereof shall be redeposited in the funds of the Board subject to

19 reinvestment and payment therefrom by order of the Board.

20 Section 504. Investment of funds; Authorized investments

21 enumerated. The Board may invest and reinvest its monies:

22 (1) In bonds or other evidences of indebtedness of the

23 Federated States of Micronesia or the United States.

24 (2) In bonds or other evidences of indebtedness of any State

25 of the Federated States of Micronesia or of the United States, PROVIDED

1 that such bonds or other evidences of indebtedness are guaranteed
2 as to principal and interest or PROVIDED that such bonds or evidences
3 of indebtedness are payable from revenues or earnings specifically
4 pledged for the payment of principal and interest on such obligations,
5 and for the payment of which a lawful sinking fund or reserve fund has
6 been established and is being maintained, but only if no default in
7 payment of principal or interest on the obligations to be purchased
8 has occurred within 5 years of the date of investment therein, or, if
9 such obligations were issued less than 5 years prior to the date of
10 investment, no default in payment of principal or interest has occurred
11 on the obligations to be purchased nor on any other obligations of the
12 issuer within 5 years of such investments; PROVIDED always that at the
13 time of purchase the total cost price of all bonds or evidences of
14 indebtedness in any one State does not exceed 25 percent of the value
15 of the invested assets of the fund at that time.

16 (3) In bonds, debentures, notes, and other evidences of
17 indebtedness issued or assumed by Federated States of Micronesia
18 institutions, created or existing under the laws of the Federated States
19 of Micronesia, including housing authorities, when such obligations are
20 guaranteed as to principal and interest by the Government of the
21 Federated States of Micronesia; PROVIDED always that at the time of
22 purchase the total cost price of all investments in any single
23 institution does not exceed 25 percent of the value of the invested
24 assets of the fund at that time.

25 (4) Bonds, debentures, notes, and other evidences of

1 indebtedness issued, assumed, or guaranteed by any solvent
2 institution created or existing under the laws of the United States
3 or of any State or territory thereof, or of the Federated States of
4 Micronesia, which are not in default as to principal or interest
5 and which are secured by collateral worth at least 50 percent more
6 than the par value of the entire issue of such obligations, but only
7 if not more than one-third of the total value of such required
8 collateral shall consist of common stock; PROVIDED always that at the
9 time of purchase the total cost price of all investments in any single
10 institution does not exceed 25 percent of the value of the invested
11 assets of the fund at that time.

12 (5) Common stock, PROVIDED that:

13 (a) The stock is listed on a recognized United States
14 stock exchange,

15 (b) No dividends on the stock have been omitted or
16 deferred during the 5 years prior to the date of purchase, and

17 (c) Purchase of a stock would not result in the fund
18 holding stock in one corporation in excess of 5 percent or in one
19 industry group in excess of 10 percent of the value of the invested
20 assets of the fund at that time, subject always to a maximum investment
21 at cost price in any one corporation of \$350,000.

22 CHAPTER 6.

23 TRANSITIONAL PROVISIONS

24 Section 601. Appointment of initial Board.

25 (1) Upon the effective date of this act the President shall

1 make nominations for members of the Federated States of Micronesia
2 Social Security Board which shall be subject to confirmation by the
3 Congress. Notwithstanding section 201 the initial Board shall be
4 appointed for the following terms: two members for a period of 3 years,
5 2 members for a period of 2 years, and 1 member for a period of 1
6 year. At the conclusion of the term of each Board member the vacancy
7 will be filled in accordance with section 201.

8 (2) Notwithstanding section 202 and subject to other
9 provisions of this chapter, upon confirmation by the Congress of the
10 initial Board nominations, the Federated States of Micronesia Social
11 Security Board shall enter into an agreement in accordance with section
12 602 with the Trust Territory Social Security Board providing, inter
13 alia, that the Trust Territory Social Security Administration shall,
14 as the agent of the Federated States of Micronesia Social Security
15 Board, undertake the proper and efficient operation of the Social
16 Security System defined by this act during the transitional period
17 insofar as it pertains to persons covered under this act and until
18 such time as the Federated States of Micronesia Social Security Board
19 and the Trust Territory Social Security Board agree to implement
20 section 604 and the Federated States of Micronesia Social Security
21 Board exercises its prerogatives under sections 603(4) and 605.

22 Section 602. Agreement between Federated States of Micronesia
23 Social Security Board and Trust Territory Social Security Board.

24 (1) In order to ensure the continuous efficient operation
25 of the Federated States of Micronesia Social Security System, the

1 Board of the Federated States of Micronesia Social Security System
2 shall enter into an agreement with the Trust Territory Social
3 Security Board providing that the Trust Territory Social Security
4 Board shall undertake the investment and reinvestment of funds
5 accruing to the Federated States of Micronesia Social Security
6 System, and that the Trust Territory Social Security Administration
7 shall undertake:

8 (a) The administration of the Federated States of
9 Micronesia Social Security System, including, but not limited to:

10 (i) Collection of contributions,
11 (ii) Payment of benefits,
12 (iii) Maintenance of individual records,
13 (iv) Registration of employers and employees,
14 (v) Enforcement of compliance,
15 (vi) Adjudication of claims,
16 (vii) Review of eligibility of claims in payment,
17 (viii) Maintenance of separate accounts and
18 preparation of financial statement, and

19 (ix) Preparation of budget;

20 (b) The provision of technical advice;

21 (c) The training of staff recruited by the Federated
22 States of Micronesia Social Security Board;

23 (d) Assistance in the establishment of an automatic
24 data processing facility for the Federated States of Micronesia Social
25 Security Administration; and

1 (e) Other functions as may from time-to-time be
2 required by mutual agreement between the Federated States of
3 Micronesia Social Security Board and the Trust Territory Social
4 Security Board.

5 (2) The term of the agreement shall be decided by the
6 Board of the Federated States of Micronesia Social Security System
7 and the Board of the Trust Territory Social Security System, taking
8 into account the nature and complexity of the functions which are to
9 be performed and the period of training which is required so that
10 these functions may be properly performed by the staff of the Federated
11 States of Micronesia Social Security Board. By mutual agreement of the
12 Board of the Federated States of Micronesia Social Security System
13 and the Trust Territory Social Security Board, the term of the agreement
14 may be extended or the provisions of the agreement modified.

15 (3) The agreement shall provide that the cost of
16 administration of the Federated States of Micronesia Social Security
17 System by the Trust Territory Social Security Administration shall be
18 paid from the income of the Federated States of Micronesia Social
19 Security System. This cost shall be estimated from the share of the
20 budgeted cost of administration for the Trust Territory Social Security
21 System which is allocable to the Federated States of Micronesia Social
22 Security System. The cost of remuneration, travel, per diem and other
23 expenditures on account of staff recruited by the Federated States of
24 Micronesia Social Security Board shall be paid from the income of the
25 Federated States of Micronesia Social Security System.

1 Section 603. Apportionment of assets of the Trust Territory
2 Social Security Retirement Fund.

3 (1) As of the end of the first calendar quarter following
4 the effective date of this act, the portion of the Trust Territory
5 Social Security Retirement Fund and accrued items allocable to the
6 Federated States of Micronesia Social Security System shall be
7 determined.

8 (2) This determination shall be made by an actuary in
9 accordance with generally accepted actuarial principles, and it shall
10 be done in such a manner so as to ensure the equitable treatment of
11 employees and beneficiaries of the Federated States of Micronesia
12 Social Security System, other successor Social Security Systems to the
13 Trust Territory Social Security System, and the Trust Territory Social
14 Security System. The allocation shall be based on the contributions
15 of employees and persons in receipt of retirement and disability
16 insurance benefits.

17 (3) The actuary shall be appointed by the Trust Territory
18 Social Security Board with the concurrence of the Federated States of
19 Micronesia Social Security Board and the cost of the actuarial
20 valuation shall be paid by the Trust Territory Social Security System
21 and allocated on a pro-rata basis among the successor systems to the
22 Trust Territory Social Security System.

23 (4) The portion of the invested assets of the Trust
24 Territory Social Security System which is allocated to the Federated
25 States of Micronesia Social Security System shall continue to be

1 invested in a pool with the funds of Trust Territory Social
2 Security System and other successor Social Security Systems until
3 such time following the termination of the agreement described in
4 section 602 that the Federated States of Micronesia Social Security
5 Board as trustees on behalf of covered employees and beneficiaries
6 deems it prudent and advisable and in the best interest of persons
7 insured under the Federated States of Micronesia Social Security
8 System to modify the investment policy which has been followed by
9 the Trust Territory Social Security Board. Until this time, separate
10 accounts of each national system's proportionate share of the total
11 invested assets shall be maintained.

12 (5) At such time or times following the termination of the
13 agreement described in section 602 as the Federated States of
14 Micronesia Social Security Board wishes to realize all or a portion
15 of its invested assets, the Board shall negotiate arrangements with
16 the investment management firm as to how, in what form, and at what
17 times the assets are to be realized and these arrangements shall be
18 equitable to members of the Federated States of Micronesia Social
19 Security System and other social security systems then participating
20 in the pool.

21 (6) Notwithstanding section 603(5), a firm managing the
22 pooled investments of the Federated States of Micronesia Social
23 Security System, or other successor systems to the Trust Territory
24 Social Security System, and of the Trust Territory Social Security
25 System shall be entitled to a period of 6 months following written

1 notification of the intention of the Federated States of Micronesia
2 Social Security Board to realize all or a portion of its invested
3 assets before these assets or the cash equivalent of these assets
4 must be delivered over to the Board.

5 Section 604. Collection and remittance of contributions;
6 Payment of benefits. As of the end of a calendar quarter to be
7 determined by agreement between the Federated States of Micronesia
8 Social Security Board and the Trust Territory Social Security Board,
9 following the termination of the agreement described in section 602,
10 contributions shall be paid directly to and benefits paid directly
11 by the Federated States of Micronesia Social Security Administration.
12 Until such time as this occurs, the Trust Territory Social Security
13 System shall maintain a separate account and collect contributions,
14 pay benefits, and invest the excess of contribution income over
15 benefit payments and administration expenses as an agent of the
16 Federated States of Micronesia Social Security Board.

17 Section 605. Other administrative functions. Following the
18 implementation of section 604, and until such time as the Federated
19 States of Micronesia Social Security Board determines that in addition
20 to those functions described in section 604, its Social Security
21 Administration can effectively and efficiently assume all administrative
22 functions associated with the operation of the Social Security System,
23 including settlement and review of claims, enforcement of compliance,
24 registration of employers and insured persons, and maintenance of
25 individual records, the administration of the Trust Territory Social

1 Security System shall continue to perform these functions as an
2 agent of the Federated States of Micronesia Social Security Board.

3 Section 606. Administration expenses. During the period the
4 Administration of the Trust Territory Social Security System
5 performs the functions described in sections 604 and 605 as an agent
6 of the Federated States of Micronesia Social Security Board, it
7 shall be paid an administration fee which will be established by
8 agreement between the Federated States of Micronesia Social Security
9 Board and the Trust Territory Social Security Board.

10 Section 607. Physical assets.

11 (1) As of the effective date of this act, ownership of the
12 physical assets including property of the Trust Territory Social
13 Security System in the Federated States of Micronesia shall be
14 transferred to the Federated States of Micronesia Social Security
15 Board. While the Trust Territory Social Security Administration
16 is performing administrative operations as agents of the Federated
17 States of Micronesia Social Security System in accordance with
18 sections 603, 604, and 605, it shall have the right of access to and
19 use of these physical assets in order to properly carry out its
20 administration of the Federated States of Micronesia Social Security
21 System.

22 (2) At such time as the Trust Territory Social Security
23 Administration ceases to have responsibility for any employees and
24 beneficiaries under the Trust Territory Social Security System or
25 any successor systems, and its affairs are wound up, the movable

1 property of the Trust Territory Administration shall be distributed
2 among the successor systems in the same proportions as the assets
3 are apportioned under section 603.

4 Section 608. Reciprocal agreements. In view of the considerable
5 intercountry migration among those countries whose nationals were or
6 are members of the Trust Territory Social Security System, the
7 Federated States of Micronesia Social Security Board may endeavor to
8 negotiate reciprocal agreements for social security coverage with the
9 other successor systems to the Trust Territory Social Security System.

10 Section 609. Saving of title 53 of the Code of the Federated
11 States of Micronesia for certain purposes.

12 (1) The provisions of this section apply notwithstanding
13 the repeal of title 53 of the Code of the Federated States of
14 Micronesia, the "Trust Territory Social Security Act," by sections of
15 this act, but subject to any other provisions of this act.

16 (2) The Trust Territory Social Security Board continues in
17 existence, and the provisions of title 53 of the Code of the Federated
18 States of Micronesia relating to the Board continue in effect, so
19 long as it's necessary:

20 (a) For the performance of the functions of the Board
21 under this act and any corresponding laws of the Republic of the
22 Marshall Islands and the Republic of Palau; and

23 (b) Thereafter for the purposes of the winding up of
24 its affairs.

25 (3) Upon the certification by the Federated States of

1 Micronesia Social Security Board, of the completion of the winding
2 up of the affairs of the Trust Territory Social Security Board,
3 the Trust Territory Social Security Board is dissolved.

4 (4) The provisions of title 53 of the Code of the
5 Federated States of Micronesia applying to or in relation to prior
6 service credits and prior service benefits continue in effect.

7 CHAPTER 7.

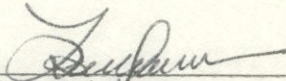
8 EFFECTIVE DATE

9 Section 701. Effective date. This act shall become law upon
10 its approval by the President of the Federated States of Micronesia
11 or upon its becoming law without such approval, and the effective
12 date of this act shall be:

13 (1) The date on which it becomes effective in accordance
14 with Secretarial Order No. 3039; or

15 (2) The date on which Secretarial Order No. 3039, section
16 7, ceases to prevent its becoming effective, whichever is the
17 earlier date.

18
19 February 8, 1983

20
21
22 
23 Tosiwo Nakayama
24 President
25 Federated States of Micronesia