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September 3, 1975

Mr. James R. Leonard
James R. Leonard Associates
1601 Connecticut Avenue, N.W.
Suite 301
Washington, D. C. 20009

Dear Jim:

I thought you might be interested in the attached "blast" that one Robert J. Myers gave to Section 606 of the Covenant and the MPSC section-by-section analysis.

I am told by Adrian deGraffenreid that all of these problems are considered technical and solvable by the U. S. Social Security Administration.

Best regards.

Sincerely,

Michael S. Helfer

Att.

cc: Howard P. Willens
(with attachment)

14957

TRUST TERRITORY OF THE PACIFIC ISLANDS — *Social Security Office, Saipan*

MEMORANDUM No. 1

TO : Social Security Administrator — DATE: 8/8/75

FROM : Robert J. Myers, Actuarial Consultant

SUBJECT: Comments on Social Security Section of Covenant

This memorandum will comment on the Social Security portion of the Covenant to establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America -- namely, Section 606 thereof. The material contained in this Section is not well defined or well drafted with regard to the complex matters involved in transferring Social Security coverage from the Trust Territory Social Security System, first to a separate system for the Northern Mariana Islands and then to the general system for the United States. The drafters of the Covenant apparently thought that a very simple matter was involved, such as if the TT System consisted solely of individual savings accounts. Unfortunately, the TT Social Security Administrator and his staff were apparently not consulted in the drafting of Section 606.

In this memorandum, I shall point out the various weaknesses in the Covenant as it relates to Social Security and also will give certain suggestions as to how it should be implemented in those matters where it is not specific. It is possible that some of the necessary suggested changes could be accomplished only by a revision of the Covenant, or else by a very broad interpretation of its present loose language.

Section 606 (a) provides that, not later than when the Covenant is approved, the TT Fund attributable to NMI will be transferred to the U. S. Treasury and held as a separate fund. No explanation whatsoever is given as to how the portion attributable to NMI is to be determined or even the mechanism for transferring any amount determined. This very simple statement in the Covenant is not at all easily made operable. In the subsequent paragraphs, I will discuss this extremely important matter and how it might be solved in an equitable and administratively feasible manner.

Before discussing the general theory of this division procedure, it should first be pointed out that it is impossible to carry it out on a completely precise and final basis and in the timely basis so blithely stated in the Covenant. There must necessarily be some time lag between when the Covenant is approved and when the transfer of funds is made.

The transfer of funds could hardly be done before the Covenant is approved, because there would always be the possibility that such approval would not occur for some reason or other at the last moment.

And it could hardly be done on the very day of approval of the Covenant because of the complicated technical problems involved. In fact, it would have been quite possible for the Covenant to have been approved as of today (or even earlier), if the U. S. Senate had quickly taken the same action as the U. S. House of Representatives, and the President of the United States had approved of the congressional action. Certainly, as of today, there would have been no definite plans developed for implementing this division, which involves many complex technical and administrative problems.

A much more logical and reasonable effective date for the transfer would have been a specific date, such as 60 days after the end of the calender quarter following the calendar quarter in which the Covenant is approved. Not only is the time lag necessary so as to make the necessary computations, but also the effective date should be the end of a calendar quarter, because the taxes are paid and collected on a quarterly basis (and the benefits are on a monthly basis). In further explanation of the foregoing desirable approach, although the transfer would be made 60 days after the end of a designated calendar quarter, the actual coverage and related contributions would be measured only up through the end of such calendar quarter, which would be designated as the effective date of division.

Although the foregoing approach for making the transfer of funds from the TT system to the NMI system would be very desirable, the strict language in the Covenant would prohibit this. Accordingly, the best possible procedure that I can see would be to make the transfer as of September 30 (desirable since this is the end of a calendar quarter) on the expectation and hope that the Covenant would not be approved until at least some time after this date. In fact, efforts should be made so that, if approval could be delayed until at least September 30, this should be done.

Under these circumstances, the determination of the transfer amount would be made as of September 30, but no funds would actually be transferred until a short period after the date of approval (but with the appropriate 6% interest from September 30 to the actual date of transfer of the funds). Further, the payment then made would clearly be a preliminary and tentative amount, which would be adjusted later (probably in the next six months) when complete data would be available to make the necessary computations. An estimate of this preliminary amount will be developed and presented in Memorandum No. 5, along with a description of how the subsequent adjustment procedure would be specifically carried out.

14959

Now, let us consider the general matter of what portion of the existing TT Fund on the effective date of the division is "attributable" to NMI. This term would, in theory, be subject to varying definitions. At one extreme, it might be said that none of the Fund is really attributable to NMI, because such persons leaving the system should have no rights, since their continued coverage was counted on in the overall long-range financing of the program.

Looking at the situation from another standpoint -- namely that of a private insurance or pension plan -- the present value as determined actuarially (for each individual covered worker) of the benefits accrued to date for all members of the TT Social Security System is undoubtedly far in excess of the approximately $3 million of current assets. It could therefore be argued that persons leaving the system should have no monies transferred as being attributable to them.

Another factor involved in considering the rights of the NMI "members" (i.e., those whose earnings records are to be transferred from the TT system to the NMI system) is that a division of the system will mean that the relative administrative expenses of the program for those remaining in the TT system will be higher. To a very considerable extent, the administrative overhead expenses are the same whether NMI is in or out. Therefore, by a separation of NMI, the dollar costs of administration will not decrease very much, so that, as a percentage of total disbursements, they will rise. There is a question, then, whether somehow or other, in the division, the NMI should take out proportionately its full share of the assets (however they might be determined). Consideration should be given as to whether somebody should reimburse the TT system for this added cost, which was not anticipated when the system was established or when the present basis of shifting the administrative costs to the Fund was developed.

Another approach would be to determine the present value of benefit rights earned to date by NMI members and express these as a percentage of the total of the present values of benefit rights earned to date by all members. This percentage could then be applied to the assets as of the effective date of the division. Although in theory this might be the best possible procedure from some viewpoints, it is impractical from a practical standpoint, because of the extremely large amount of actuarial work that would have to be done with respect to each individual member of the system -- and correspondingly, the long time and expense that would be involved.

Perhaps the most practical approach for division of the assets -- and one which is reasonable in theory too -- would be to divide the assets in proportion to the total taxes paid by or on behalf of NMI members as against the grand total of taxes over the years since the system began operation up to the effective date of the division. This could readily be accomplished from the earnings records maintained by the TT Social Security System. As indicated previously, some time after the effective date of the division (i.e., the date when coverage of NMI members under the TT system would cease) would be required so that the necessary data would be available. Furthermore, the transfer should be made on a preliminary basis, because, undoubtedly, there will be many instances where adjustments will later be found necessary. Also, it should be provided that there should be proper interest adjustments as between the TT and NMI funds to allow for the time lag in payments as against the effective date of the determination (both as to the lag for the initial preliminary transfer and for any subsequent adjustments), using a uniform, equitable rate such as 6% per annum.

Up to this point, the discussion has been based on the simplistic assumption that it is readily determinable who is an NMI "member". Such, of course, is the case for many individuals, but conversely, there is a sizable number of people for whom there is uncertainty, which will not be resolved by the effective date of the division, or even shortly thereafter. The procedure should be for the proper authorities to inform the TT Social Security System as to all persons on the Social Security earnings records and beneficiary rolls who will be considered by the Covenant to be an NMI member (and thus, in turn, eventually a U. S. citizen or national). The TT Social Security System could then readily determine which earnings records and beneficiaries are to be transferred to the new NMI Social Security System and, correspondingly, could use such transferred records as a method of determining the total taxes paid by or on behalf of the transferees.

The reference to the transfer of the earnings record from the NMI system to the U. S. system in Section 606(b)(2) is in terms of "persons domiciled". This raises a serious question as to what is meant or intended here. One would think that the reference should really be to what I have termed as NMI "members", or who will eventually be U. S. citizens or nationals, as described previously in the Covenant. There could well be persons domiciled in NMI who are not NMI citizens and will not eventually be U. S. citizens and thus involved in the transfer of earnings records. One example of such a person who is domiciled in the NMI, but who cannot become a U. S. citizen, and who thus should not be considered in the Social Security transfer is a person who was not born in NMI, who is a citizen of TT, who has been domiciled continuously in NMI, but for less than 5 years preceding the effective date, and who, despite being at least of voting age, never registered to vote in an election in NMI before 1975; such an individual would be disqualified from U. S. citizenship on either of the last two grounds.

A similar procedure would be followed with regard to the beneficiaries on the roll at the effective date of the division. Those beneficiaries who are NMI "members" would thereafter be paid by the new NMI system, and the taxes paid with respect to them (or, for survivor beneficiaries, with respect to the deceased worker) would be determined from their earnings record for the purpose of the computations involved in the division of the assets of the TT Fund. Necessarily, for survivor beneficiaries, the determination of whether they are NMI members would depend upon the status of the survivor beneficiary, rather than that of the deceased worker (because, in some instances, it may be impossible to determine the latter).

In actual application of the foregoing approach, it would be necessary to make a detailed semi-final computation of the transfer amount within about 3 months after the division date, since it will only be by then that the earnings data for the calendar quarter ended September 30 will be available and recorded. An adjustment between the TT and NMI Funds would then be made to take into account the difference between the initial estimate and this semi-final figure (along with 6% interest from the effective date of the division to the date of transfer of such difference). Then subsequently, there would be adjustments, along with appropriate interest payments, to reflect changes due to additional persons being recognized as NMI members (or possibly, reverse actions if it were found that persons originally thought to be NMI members were not).

The following portion of this memorandum concerns only matters dealing with the NMI system and its eventual merger with the U. S. system. Although such matters do not concern the TT system, it is believed that they may be of interest to those who are responsible for the NMI system.

The last sentence of Section 606(a) provides that the United States will supplement the NMI Fund "if necessary to assure that persons receive benefits comparable to those under the TT system as it was just before the division if the contribution rates under the TT and NMI systems remain comparable". The preceding sentence had stated that benefits under the NMI system can be changed by the NMI Government only if there are not created any additional differences in the provisions of the NMI system and the U. S. system.

These two sentences are not well thought out, because they can permit certain anomalous situations. For example, the TT system could be changed so as to widen the differences between it and the U. S. system (for example, a reduction in the minimum retirement age under the TT system), and yet the NMI system could not be so changed even though it might have to follow the higher contribution rate then provided under the TT system.

14362

Furthermore, the last sentence is really of no significance, because, in the likely short period during which the NMI system will function before being merged with the U. S. system, it is extremely unlikely that any benefit liberalizations or changes in contribution rates could have the effect of depleting the fund so that it would need any supplementation from the United States; as a matter of fact, the fund balance will almost certainly increase significantly in the next few years (as the TT Fund has been doing in the past).

Section 606(b) provides that, when the Trusteeship Agreement is terminated (or earlier, if agreed to by the NMI and US governments), the NMI will be subject to the U. S. Social Security System. It should be realized that this simple statement has certain apparent effects that are not at all spelled out in the Covenant. These will be described in the following paragraphs, at least as they logically would seem to follow from the spirit and intent of the Covenant.

In connection with the two-step procedure of transferring first from the TT system to the NMI system and then from the NMI system to the U. S. Social Security System, I am constrained to say that this approach in the Covenant was very poorly thought out. I can see absolutely no reason why the intermediate step of creating a separate NMI system should have been devised. It can only create confusion and additional work, and it cannot produce any desirable results.

What should have been done instead would have been to continue the TT system up until the time of termination of the Trusteeship Agreement (or rather, preferably, the January 1 preceding that date) and then transfer the NMI portion of the TT system directly to the U. S. Social Security System.

In actual operation of the Covenant, it would be most desirable from all standpoints and for all parties concerned if the actual administration is as close to the ideal of a one-step procedure as is possible. This can be accomplished insofar as the collection of contributions, the maintenance of earnings records, and the payment of benefits by having a physically unified administration (by the present TT system staff), but with a proper accounting subdivision between the NMI portion and the remaining TT portion. In other words, the tax receipts collected will, in the ultimate analysis, be subdivided between NMI and TT, while the individual earnings records will be tabbed as either NMI members or TT members.

If this procedure is followed, administration will continue to be efficient and simple. The only physical separation would therefore be in connection with the invested assets. New contribution income under the NMI system would be periodically turned over to the U. S. Treasury on a

net basis, after deduction for the benefits paid by the TT system, as agent, to the NMI member beneficiaries and after deducting the administrative expenses with respect to the NMI system that would be paid through the TT system as agent for the United States Government in connection with the NMI system.

When the NMI Social Security system begins operations, all NMI members will be covered by it and will have their earnings records transferred to it from the TT system. At the same time, all NMI members who are beneficiaries in current payment status under the TT system will be transferred to the NMI system. NMI members who are employees of the TT Government anywhere in the TT will be covered by the NMI system. Conversely, TT citizens who are not NMI members who are working for the TT Government in NMI will continue to be covered by the TT system. This still leaves the problem situations of (a) TT citizens who are not NMI members who are working for a private employer in NMI and (b) NMI members working for private employers in other parts of the TT than NMI. I believe that both of the foregoing two categories should continue to be covered under the TT system.

Then, at such future date when NMI comes under the U. S. system, there would have to be some change. The TT citizens who are not NMI members who are working for the TT Government in NMI would continue to be covered by the TT system, since they would be excluded from U. S. Social Security coverage as "aliens employed by a foreign government in the U. S." However, at that time (it very desirably should be the beginning of a calendar year), the coverage situation of TT citizens who are not NMI members who are employed by private employers in NMI would change, because they would be compulsorily covered then by U. S. Social Security, and so their coverage under the TT system would have to cease.

Section 606(c) provides for the transfer of the NMI Fund to the U. S. Social Security System upon termination of the Trusteeship Agreement or an earlier agreed-upon date. As indicated previously, it would be most desirable that such changeover date should be the beginning of a calendar year (because a number of features of the U. S. system operate on a calendar-year basis, such as the contributions of the self-employed and of farm workers, the maximum taxable earnings base, etc.). Under the strict terms of the Covenant, it should be arranged so that such date could be the first day of the calendar year before the termination of the Trusteeship Agreement.

Section 606(c) also apparently intends to have the earnings records under the NMI system (which in turn would include the earnings records transferred from the TT system for those so affected) transferred to the U. S. Social Security program. The description here should have been much

more explicit so as to indicate that such earnings record would be completely applicable to both the Old-Age, Survivors, and Disability Insurance system and the Hospital Insurance system. Also, there should have been some provision in the Covenant to alleviate the possible handicaps for NMI citizens if they did desire to be covered by the U. S. Supplementary Medical Insurance System (which is one of the two parts of the Medicare program). Although it is unlikely that many NMI citizens will wish to participate in SMI, any who do so will likely be severely penalized because of late entry (an extra premium of 10% per year beyond age 65 up to time of entry is applicable).

Finally, Section 606(c) states that persons eligible or entitled to benefits under the NMI Social Security system "will not lose entitlement and will be eligible or entitled to U. S. Social Security benefits". Properly read, this would seem to mean that such individuals could receive both their previous NMI benefits and, in addition, the U. S. Social Security benefits based on their NMI earnings record. What was probably intended, and what would seem proper, is that such individuals will receive, each month, whichever of the two benefits is larger.

There are some cases where the NMI system pays benefits, but the U. S. system does not (for example, a person who retires at age 60 under the NMI system would not be eligible for benefits under the U. S. system until age 62). This provision is also undesirably vague as to where the money will come from if the NMI benefit is more favorable to the beneficiary. Presumably, such amounts would come from the U. S. Social Security trust funds, although it could well be argued that these trust funds should be reimbursed for such costs by the U. S. General Treasury.

Specifically, I believe that the situation should work out in the following manner: In any month when the beneficiary would have received a larger benefit under the NMI system, if it had continued, than he would under the U. S. Social Security System (after transfer of the NMI earnings record thereto), the former benefit would be paid. However, in any month where the reverse situation prevails, then the U. S. Social Security benefit would be payable. For example, if a person has just retired at age 60 under the NMI system and then that system is merged with the U. S. one, he would receive his NMI benefits for two years and thereafter would be paid the U. S. Social Security benefit amount for early retirement at age 62 if it was larger (as it undoubtedly would be).

This still leaves a rather undesirable situation which apparently is not taken care of by the Covenant as it is now written. For example, what happens to a man who is aged 59 when the NMI system is merged into the U. S. system? He had been counting on retiring at age 60 under the NMI system, but apparently this will no longer be possible, and instead he must wait until age 62 under the U. S. system. Is anything to be done about such situations?

One possibility, although administratively difficult and having some added cost, but quite equitable, would be as follows: this would be applicable only to persons who are permanently fully insured under the NMI system as of the changeover date (that is, he or his survivors would have been entitled to benefits at the time of later retirement or death if he had done no further work under the NMI system. Such persons would be entitled to the benefits provided by the NMI system as it was at the changeover date (if it had continued in effect) on the basis that they had no further earnings under such system, if such benefits were larger than those actually payable to the individual or his survivors under the U. S. Social Security System, on a month by month basis.

Robert J. Myers

Robert J. Myers

TRUST TERRITORY OF THE PACIFIC ISLANDS

Social Security Office, Saipan

MEMORANDUM NO. 2

DATE:8/11/75

TO : Social Security Administrator

FROM : Robert J. Myers, Actuarial Consultant

SUBJECT: Comments on "Section-by-Section Analysis of the Covenant to Establish a Commonwealth of the Northern Mariana Islands"

This memorandum will comment on the above document prepared by the Marianas Political Status Commission, dated February 15, insofar as it applies to the subject of Social Security.

This document is a description of the intent and purposes of the Covenant and therefore should amplify the basic document. In my Memorandum No. 1, I have pointed out a number of places in Section 606 of the Covenant where the Social Security situation is not properly handled or else is overlooked. This Section-by-Section Analysis does little to help the matter. On the whole, this Analysis merely repeats the language in the Covenant.

Curiously, the Analysis seems to say that the division of the TT Social Security Fund may occur in final, complete manner before the Covenant is generally approved by the U. S. This would seem to be an extremely unfair and unwise procedure, like writing a blank check insofar as the TT and NMI are concerned -- as well as being technically impossible. (However, a preliminary estimated advance subdivision could be made, but the monies involved should not be transferred before the approval date).

It is interesting to note that the Analysis is technically inaccurate in some places, and erroneous and misleading in other places. For example, in the first full paragraph on page 80, the U. S. Social Security trust funds are misnamed (e.g., the "Federal Old Age and Survivors Trust Fund" is really the "Federal Old-Age and Survivors Insurance Trust Fund"). Also, here it is not true that the full benefits available under the U. S. Supplementary Medical Insurance system will be available to NMI citizens -- unless remedial legislative action in connection with the U. S. Social Security Act is taken (both as to starting dates of enrollment and coverage and other conditions of enrollment and premium determination). No recognition is given here as to the great, even insurmountable, difficulties that would occur if the changeover date is not a January 1st.

The Analysis fails completely to recognize that, in some instances, higher benefits are paid under the TT and NMI systems than under the U. S. system. Thus, it does not explain what should be done about such situations.

On page 82, the Analysis erroneously implies that Public Assistance payments under the Supplemental Security Income program (not the "Supplementary Security Income program") will be available for persons in the NMI. This is not correct, because under present law, SSI applies only to persons in the 50 states and the District of Columbia, and not to American Samoa, Guam, Puerto Rico, and the Virgin Islands. Incidentally, the guaranteed monthly income under SSI is not $140 for single persons and $210 for a married couple, but rather in February, when the Analysis was written, was $146/$219.

Page 83 of the Analysis attempts to portray the much higher benefit level of the U. S. Social Security system. It is quite correct that this is generally the case, but the data presented contain several serious factual errors (considering the situation as of February 1975, when the Analysis was prepared).

As to the retirement benefits for a married person, it should have been made clear that it was assumed that the wife was the same age as the husband. Also, as to the retirement benefits, the maximum total family benefits shown are completely incorrect. The figure for the man aged 65 should have been $296.80, rather than $490.90 (the same is also true with respect to the disabled worker), while the figure for the man aged 62 with a wife the same age should have been $233.80, instead of $452.10.

It is stated that a single worker may have survivor benefits for a dependent parent or a lump sum may be paid to his estate. Actually, surviving dependent parents aged 62 and over can receive benefits not only with respect to single persons, but also with respect to married persons. Also, the lump sum of $255 is available in all cases of death of an insured worker, whether single or married, and whether or not leaving dependent parents.

It is stated that a widow aged 62 or over will receive a benefit of $194.10. This is incorrect, because such an amount applies only if the widow is aged 65 or over at initial claim, and a smaller amount is available for widows between ages 60 and 65 at first claim (or at ages 50-59 if disabled).

It is stated that the benefit for a widow under age 62 caring for dependents or disabled is $145.58 before application of the family maximum. Actually, such a benefit is not payable to disabled widows, but rather in this case amounts graded between $97.10 at age 50 at disablement and $138.80 at age 60 at disablement (incidentally, the figure of $145.58 should have been $145.60, while the family maximum benefit shown as $291.16 should have been $296.80).

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It is also stated that the Social Security tax for the employer and for the employee is 6.85% each on a maximum earnings base of $14,200; the correct basis is 5.85% on a maximum of $14,000.

Finally, it is stated in footnote a that a fully insured person must have worked for 40 quarters; actually, this is the maximum requirement, and many persons currently have a far lower requirement to meet.

Robert J. Myers

Robert J. Myers

14369

TRUST TERRITORY OF THE PACIFIC ISLANDS *Social Security Office, Saipan*

MEMORANDUM NO. 3

DATE: 8/8/75

TO : Social Security Administrator

FROM : Robert J. Myers, Actuarial Consultant

SUBJECT: Specific Details as to Methodology for Transfer from TT Fund to NMI Fund

Memorandum No. 1 discussed, among other things, the general basis for making the transfer from the TT Fund to the NMI Fund in the U. S. Treasury in accordance with the strict requirements of the Covenant. It was brought out in the previous memorandum that it is virtually essential that the division date should be the end of a calendar quarter (because the TT earnings reports are on a quarterly basis, as are also the financial reports giving the value of the invested assets). Since the division date can occur before the date of approval of the Covenant, it would seem that the foregoing result could best be accomplished if the division date is taken to be September 30, 1975.

As brought out in the previous memorandum, the actual transfer of funds should naturally be delayed to at least the approval date and, in fact, somewhat beyond then for the obvious practical reasons of administrative needs (but with appropriate interest adjustments at a rate of 6% per annum). Also, as was brought out previously, the initial payment would necessarily have to be based on a preliminary estimate of the transfer amount, and there would be a semi-final adjustment within about six months, and then perhaps relatively minor adjustments thereafter as the final data would be received. It would also seem logical and reasonable for the transfer to recognize the additional administrative work (and expense) involved in making the transfer as a deductive amount.

This memorandum will describe in detail the procedure to be followed, as well as giving an estimate of a preliminary initial amount on the basis of a division date of September 30, 1975.

I have estimated the preliminary transfer amount at $791,000. This estimate is based on (a) the percentage of taxes paid on covered employment from the beginning of the system on July 1, 1968 through September 30, 1975 by individuals who are classified as Marianas "members" relative to the total taxes for such period by all covered persons, multiplied by (b) the amount in the Social Security Fund on September 30, 1

(determined on a full accrual basis) and then reduced by the additional administrative expense to the TT system for dividing the system and making the transfer. By "Marianas members" is meant those individuals who will qualify to be U. S. citizens or nationals at the time the Trusteeship Agreement is terminated for the Mariana Islands.

My estimate is based on a projection of a number of factors, such as the tax receipts for employment in the previous and present calendar quarters, the benefit payments in the current calendar quarter, and, most importantly, the proportion of the past receipts applicable to the NMI members. With respect to the latter, it should be noted that the data available for tax payments by district must be modified to take into account that many persons employed in NMI or having their earnings reported by an organization in the Mariana Islands will not be NMI members and that there will be some persons who have been employed elsewhere in the TT than in NMI who will be NMI members.

It will, of course, be recognized that any error made in the initial estimate will be corrected subsequently by adjustment payments, since about six months after the division date almost complete and accurate data for the determination will be available (as will be described hereinafter).

The size of the TT Social Security fund on September 30, 1975 on a complete accrual basis can readily be determined but only after about six months has elapsed. The market value of the real assets -- cash on hand and investments -- can readily and quickly be determined, largely from the report of the Hawaiian Trust Company, which makes and holds all of the investments except the SBA loans and the small balance in a local checking account. To such amount, however, must be added certain accrual items, whose exact size cannot be accurately determined for about six months.

The major accrual item is the contributions with respect to employment before October 1975. Most of such accrued contributions will be with respect to the third quarter of CY 1975 and will be reported to the TT system predominantly in October 1975, but with a considerable amount being reported in the next few months (as is also the case, to some extent, for delinquent returns for periods before the third quarter of 1975). Another accrual item is benefits that are paid retroactively for periods before October 1975; the TT system can readily keep track of these payments, virtually all of which should be made within six months after the division date. Yet another accrual item is the interest and dividends earned on a pro rata basis up to September 30, 1975, but paid at a later date. Also, there must be considered any expense (such as for investment counsel) accrued but not paid.

The determination of the exact percentage of contributions for the period July 1, 1968 through September 30, 1975 that were paid by NMI members cannot be determined for some time after the division date of September 30, 1975, because of the lag in filing the earnings reports and the delinquency of some of such reports. At some time about six months from the division date, if the responsible authorities can give the TT Social Security staff a complete, precise list of who are NMI members by then, a tabulation should be made of all earnings recorded for employment from July 1, 1968 through September 30, 1975. Such tabulation should be made in two parts --(1) for the total persons covered by the TT system and (2) for persons designated as NMI members. The appropriate percentage to be applied to the assets on an accrual basis as of September 30, 1975 is then determined from the two previous items. The result will give what I would term as the semi-final transfer figure as of September 30, 1975. At some later date, perhaps another calculation of this percentage will be made so as to take into account earnings reports received for the period before October 1975 which came in after the tabulations were made for the semi-final figure.

In order to obtain the second item discussed in the previous paragraph, it is necessary for the administrators of the TT system to know exactly which individuals with earnings records are to be designated as NMI members. In order to accomplish this result, the TT system would furnish the responsible authorities with an alphabetical list of all persons with Social Security numbers (showing also certain identifying information such as date of birth and last employer) and a supplementary list of all survivor beneficiaries. The responsible authorities would then indicate completely all persons on these lists who are NMI members.

Then, the TT system can readily make the tabulation of total contributions paid for employment before October 1975 by NMI members, considering as an NMI member any deceased worker who has at least one survivor who is a NMI member. In the unusual circumstance that a particular family of survivor beneficiaries has some NMI members and some who are not NMI members, the contributions would be subdivided in proportion to the number of NMI members in the survivor family.

Now let me give an illustrative example of how the financial transactions would occur. If the determined final transfer amount of $791,000 as of September 30, 1975 is not actually transferred from the TT Fund to the U. S. Treasury until November 15, 1975, an additional amount of $5,933 would then be payable, representing 6% interest for 45 days.

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Let us suppose that the semi-final amount is determined in April 1976 and turns out to be $803,168 and that the adjustment payment is to be made on May 1, 1976. Such adjustment payment from the TT Fund to the U. S. Treasury would be $12,168, plus interest of $487 (at 6% for 8 months). Of course, if the semi-final determined amount were lower than the initial amount, then the transfer would be from the U. S. Treasury to the TT Fund and would be determined in the same manner as in the foregoing example.

After a considerable period of time, possibly several years, a final determination would be made (as of September 30,1975), using any additional data that became available after the semi-final determination, both as to tax receipts for employment before October 1975 and as to earnings records for total participants and NMI members for employment before October 1975 received after the semi-final computation.

Robert J. Myers

Robert J. Myers

TRUST TERRITORY OF THE PACIFIC ISLANDS *Social Security Office, Saipan*

MEMORANDUM No. 3a

TO : Social Security Administrator

DATE: 8/8/75

FROM : Robert J. Myers, Actuarial Consultant

SUBJECT: Specific Details as to Methodology for Transfer from TT Fund to NMI Fund (continued)

This memorandum supplements Memorandum No. 3 by considering the possibility that the date of approval of the Covenant might be in September before the end of the month. If this should occur, it may not be possible to construe the Covenant so that the division date is taken as of September 30, 1975.

Under such circumstances, the only feasible course of procedure would be to take the division date as June 30, 1975. If this were done, then I estimate that the determined initial transfer amount would be $746,000 as of June 30, 1975. Interest would, of course, have to be paid on this amount in the manner described in the previous memorandum. Other financial transactions occurring after that date -- such as contributions for employment after then and benefit payments for July 1975 and after -- would also require transfer adjustments with interest between the TT fund and the NMI fund.

Robert J. Myers

Robert J. Myers

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