7/20/12

The Senate's Committee on Fiscal Affairs, headed by Senator Jovita M. Taimano, held a very enlightening public hearing this past week on House Bill 17-312 - already passed by the House - that would clear the way for U.S. Social Security to apply to all elected officials and employees of the CNMI. Literally, it only expresses the desire of the CNMI to have Social Security apply; if it became law it would then be transmitted, for some strange reason, to the U.S. Secretary of the Treasury, rather than the head of the Social Security Administration, which, according to *Wikipedia*, is an independent body within the U.S. government.

On its face, the bill would not affect retirees - except to the extent that there would be no further contributions to the Fund from either government employees or the administration. The Fund's major source of revenue (outside of interest from its investments) would disappear, in other words.

Though H.B 17-312 says it would take effect upon its approval by both houses and the Governor, or its becoming law without such approval, that doesn't mean that's when U.S. Social Security would go into effect in the CNMI. It is not clear from the bill what else has to take place in order to actually make that occur, though the governor has said it is his intent that it happen as of October 1, 2012.

Some attendees at the hearing said the bill was premature - that too little had been defined as to how Social Security would affect current employees; others said it was a necessary first step towards implementing Social Security.

It should be noted that the House did not hold a public hearing on the bill - though it originated in the House. In contrast, attendees gratefully applauded the Senate committee for doing so.

In the meantime, the House had drafted a bill that would define how H.B. 17-312 would affect current government employees. Again, it was the Senate committee that made copies of the yet-unnumbered bill available to hearing attendees. As written - and all pointed out that this could change - Social Security would be mandatory for all new government employees. Defined Benefit members with less than twenty years of service could withdraw from the Retirement Fund and join Social Security; their contributions to the Fund would be returned to them without penalty and without their having to quit their jobs.

According to the current draft, Defined Benefit members with more than 15 years of service could elect to retire. They would receive a pro-rated retirement annuity, but would also be subject to the "anti 'double-dipping' provisions of the [CNMI] Constitution."

Government employees who were members of the Defined Contribution plan would become members of the U.S. Social Security system. Continued membership in the Defined Contribution Plan would become voluntary.

The government would no longer be obligated to contribute its share of either Defined Benefit members' or Defined Contribution members' salaries to the members' accounts.

Another section states that within 30 days of the transition to Social Security, the Retirement Fund "shall disburse" 25% of total Defined Benefit employees' contribution to the employee, with the balance disbursed within 90 days thereafter. This would appear to erase the qualification that only those with less than 20 years of service could withdraw their funds - and may have been a late amendment to the bill, which had been discussed earlier in the day by House and Senate members.

Though the bill also mentions "contingent/derivative beneficiaries," among other things, it makes no mention of the health and life insurance premiums that employees are currently paying into the Retirement Fund, and what will happen to those.

Resembling, to some extent, the old "which came first - the chicken or the egg" question, several attendees thought the unnumbered bill should be passed before H. B. 17-312 was passed. In the end, there seemed to be agreement the two should be passed simultaneously - that without the unnumbered bill, passing H.B. 17-312 presented a risk.

Kudos go to Senator Jovita M. Taimano, Chair of the Senate Fiscal Affairs Committee, and Senators Jude Hofschneider and Ralph Dlg.Torres, members of the committee, with special kudos to Senate President Paul A. Manglona, who also attended the hearing, for reaching out to the public on such a critical issue.

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How will Social Security work? Once Social Security goes into effect, the rules that apply on the mainland will also apply here - there will be no special rules for the CNMI. Every government employee would contribute 6.2% of his/her pay to Social Security, and the CNMI government would also contribute 6.2%. Another 1.45% would be deducted for Medicare. That's below the 11% and 10.5% now being paid into the CNMI Retirement Fund by Class 2 and Class 1 members respectively, and way below the 60+% due, 37+% actually being paid, by government to the Fund.

As a result, pensions will be far smaller than under the CNMI Retirement Fund. With less put in, obviously, there's less that gets paid out in return.

According to < http://money.howstuffworks.com/personal-finance/financial-planning/social-security.htm > government employees would be able to retire after having earned their 40 quarters, or ten years of employment, and paying into Social Security. However, they would not be able to receive a pension until they reached at least age 62 - which would entitle them to a reduced "early" retirement. Those born before 1937 would be entitled to full retirement at age 65. People born between 1943 and 1954 would have to wait until they are 66 to begin collecting full retirement; those born after 1960 until they are 67. The longer one delayed applying for the pension, the larger the pension.

The Social Security system, unlike the CNMI Retirement program, was not intended to be employees' sole source of income. Rather, it was based on the expectation that workers would have savings of their own, or other annuity sources as well. Yet nearly 50% of older Americans depend on Social Security for nearly all their income. In the CNMI, it is probably fair to say that a much larger percent of most retirees' only source of income is their pensions.

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Re-reading yet again the very confusing Executive Order that placed the Retirement Fund under the office of the governor < http://kixproductions.com/cnmiretiree/2012/06/07/governor-declares-state-of-emergency/ >, it would appear that the order will not go into effect until 60 days after Judge Robert Faris has issued his final order of dismissal in the bankruptcy case - and that will not happen until all the expenditures that have been submitted to the court have been adjudicated and paid.

But then, in short order, what with the governor's Executive Order going into effect, as well as House Bill 17-312 - invoking Social Security for CNMI government employees - and a companion bill defining procedures for Defined Benefit and Defined Contribution members, the administration will suddenly find itself millions of dollars richer, since it will no longer be required to contribute its share of employee salaries to the Retirement Fund. That "surplus" could then be used to restore the 80-hour work week. It would seem no coincidence that the governor wants Social Security to begin by October 1, 2012 - the start of the new fiscal year. It appears it's in the budget.

The problem is that no one has looked at the long term implications of this grand scheme. What, for example, happens to members' health insurance, and life insurance policies? What happens to the Retirement Fund? its staff? its assets? its investments? Is it a good idea to force people to wait until they are 65 or older to retire - and to receive smaller pensions when they do? What percentage of the local population reaches that age? Might it not be better to restructure the CNMI Retirement Fund - perhaps under a receivership - to suit local demographics? Have employees been asked which they'd prefer?

In another ten years, will government employees face the same dilemma, as the U.S. Social Security falls apart?

In the vein of "better safe than sorry" it would appear prudent to slow down - if not temporarily halt - the administration's frantic attempt to impose U.S. Social Security upon all government workers by the beginning of the new fiscal year. The Executive Order should, at the very least, be amended in accordance with the Senate suggestions, if not halted entirely through a temporary restraining order. Letting the feds take over yet another aspect of life in the CNMI is no small step. It should not be taken in haste.

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Short takes:

- By what sleight of hand is it possible to furnish and staff - complete with licensed physicians, apparently - the Kagman Health Clinic, when the Commonwealth Health Center is losing its doctors, and running out of supplies? Where is the money coming from? If there are funds, why aren't they being used for the main clinic in Garapan? If there aren't enough resources to fund one clinic, what makes anyone think there will be enough to fund a second one for any length of time? The whole scenario makes no sense whatsoever.