NORTHERN MARIANA ISLANDS RETIREMENT FUND
WORKERS' COMPENSATION COMMISSION
GROUP HEALTH AND LIFE INSURANCE TRUST FUND

(component units of the CNMI Government)

REPORTS ON THE AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Years Ended September 30, 2004 and 2003

NORTHERN MARIANA ISLANDS
RETIREMENT FUND
(a component unit of the CNMI Government)

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NORTHERN MARIANA ISLANDS
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(a component unit of the CNMI Government)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Year Ended September 30, 2004

NORTHERN MARIANA ISLANDS
RETIREMENT FUND
(a component unit of the CNMI Government)

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

Years Ended September 30, 2004 and 2003

Northern Mariana Islands

RETIREMENT FUND
WORKER'S COMPENSATION COMMISSION
GROUP HEALTH & LIFE INSURANCE TRUST FUND

Annual Report
Fiscal Year 2004

Message from the Administrator
Fiscal Year Ending September 30, 2004

Honorable Juan N. Babauta
Governor
Commonwealth of the Northern Mariana Islands
Capitol Hill, Saipan

Honorable Joaquin G. Adriano
President of the Senate
14th Commonwealth Legislature-Senate
Capitol Hill, Saipan

Honorable Benigno R. Fitial
Speaker, House of Representative
Capitol Hill, Saipan

Gentlemen:

On behalf of the NMI Retirement Fund (Fund) Board of Trustees that also oversees the operation of the CNMI Group Health and Life Insurance Trust Fund (GHLI) and the CNMI Workers' Compensation Commission (WCC) hereby report the fiscal year 2003 operation in compliance with 1 CMC 8316(b), 4 CMC 9355.

NMI Retirement Fund

The NMI Retirement Fund investment in the stock market gained $40.05 million, before fees, in combined realized and unrealized appreciation. The Fund Board of Trustees rebalanced the asset mix and maintained the investment strategy unchanged at 76% equities and 24% fixed income. The Fund continues to feel the pressure of tight cash flow because the CNMI Government is not remitting the employer contribution to the Fund. However, the increased of $8.12 million ($6.24 employer contribution plus $1.88 million of allotment not remitted) of CNMI Obligations to the Fund reduces "cash flow". To-date the Fund had drawn $3.02 million from the principal investments to supplement payment of pension cost.

Our local investments for the Member Home Loan Program, Judicial Building Loan and the CNMI Employee' Credit Union pump-in additional cash flow of over $4.42 million representing interest on loans. Member Home Loan reinvested $915,000 into new loans.

The significant receivable from the CNMI Government of $110.30 million represents 91.0% of the Fund total receivable. The allowance provision for uncollectible was increased by over $48.71 million due to highly likelihood of not collecting the CNMI receivable. Because of non-payment of the mounting CNMI government debt to the Fund, negative fiscal management is affecting the Fund operation.

Because of two main factors: 1) CNMI Government Obligations due to the Fund that could not be invested by the Board of Trustees and 2) Increased CNMI government debts by $26.86 million decreases "cash flow" available to finance the Fund current operation.

The Unfunded Liability decreased by $57.53 million to $516.97 million based on favorable stock market returns for the two consecutive years of over $93.52 million (FY2003 of $53.47 million plus $40.05 million in FY2004). The Actuarial Valuation data covers as of October 1, 2003.

The actuary is recommending the government contribution rate of 36.77% of payroll to liquidate the Unfunded Liability in the year 2020. The Board of Trustees voted to adopt such recommendation.

CNMI Group Health & Life Insurance Trust Fund

The Fund Board of Trustees continues to face the challenges by GHLI mainly due to insufficient funding from its levied premiums. This is the third year anniversary of the Third Party Administrator (TPA) Hawaii Pacific Medical Referrals, Inc. (HPMR) hired by the Fund Board of Trustees to process, adjudicate and pay medical claims.

The costs of health care continue to increase and unpaid medical providers' bills are mounting. In spite of the 15% increase in medical premiums levied to members, the program could not cope up to expensive medical care costs. The Board of Trustees also "revised" the plan formulary to reduce pharmaceutical expenditures. Still the effect of the premiums increase and formulary revision could not absorb the "high cost" of medical care. Retirees that are members of the plan constitute 48% of the subscribers or 1,480 while 1,646 active members represent 52%.

The medical premiums revenue was up $393,835 to $6,995,577 or 6.0% higher compared from last year.

The medical claims cost was up $3.6 million to $9.41 million of total medical claims incurred. The combined rising cost of medications and some major medical procedures is the cause.

Medical claims payable to providers' was up by $3.54 million or $7.81 million compared to the last fiscal year of $4.27 million. The CNMI Government is self-insured for sponsoring the Group Health and Life Insurance Program and any "short-fall" or excess of medical cost against the revenue generated are accounted for as CNMI Government obligations.

Pursuant to Public Law 10-19, it is clear that liabilities of GHLI will be liabilities of the CNMI Government and NOT liabilities of the NMIRF. GHLI also owed the NMIRF of $600,000 from advances in November 2002.

CNMI Workers' Compensation Commission
This year WCC is faced with one serious work-related injury that continues to drain cash in terms of medical cost. Medical claims paid and disability cost was increased by $61,762 or $240,310 from the last fiscal year. The patient is still undergoing surgeries and medications at Queens Hospital in Hawaii as of the close of the fiscal year. WCC is poised with higher-risk due to under funding of its operation "due to the absence of revenue generating mechanism" to provide coverage to over 5,300 government employees.

Currently, WCC appropriation funds only for office operation and does not address premium revenue to provide sufficient loss reserve for paying workers' compensation and disability claims. The CNMI Government is self-insured in terms of WCC coverage for claims and losses and NOT the NMIRF. At present, there is neither re-insurance for WCC coverage nor reserve for workers' compensation claims established due to insufficient funding.

The total revenue was reduced by $13,436 or $430,515 compared to last year. The Special Disability Fund has an aggregate balance of $863,392 down by $76,950 from last year mainly due to fixed income investment loss. The total Administrative cost was increased by $73,534 or $547,082 compared from last year. The net assets available for benefits are now $826,816 down by $116,567 compared from last year that covers the entire workforce of the CNMI Government of over 5,300.

We have only seen two major individual casualties since WCC was enacted under Public Law 6-33 in 1989. During the current fiscal year continuation of medical cost mounts for one serious injury occurred from last year. Net assets of $826,816 are insignificant amount compared to the high risk of WCC coverage for the entire CNMI Government workforce.

The Board of Trustees presented to the Legislature, on its annual report, to address the funding requirements to raise sufficient reserve for its operation.

Sincerely,

Karl T. Reyes
Administrator

April 4, 2005

/nms

Northern Mariana Islands
RETIREMENT FUND

Annual Report

Fiscal Year 2004

"Investing For The Future Financial Security Of Our Members"

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Part I. NMI Retirement Fund

Organization

The NMI Retirement Fund was established to provide retirement, disability, survivor, life insurance and other benefits for CNMI government employees, their spouses and dependents. Autonomous agencies, instrumentalities and public corporations are also included. The Fund was established on October 01, 1980 with the enactment of Public Law 1-43. The law was repealed and amended as The Northern Mariana Islands Retirement Fund Act of 1988 which took effect on May 7, 1989 as PL 6-17 codified as 1 CMC Div. 8 §8311.

Overview of Financial Statements

The NMI Retirement Fund stock market investments gained 10.8% or $40.05 million, before fees. Net investment earnings were $38.57 million after fees of $1.48 million. The Fund Board of Trustees rebalanced the allocation of investment assets during the year and maintained its strategy unchanged at 76% equities and 24% fixed income.

NMI Retirement Fund is faced with the challenge to raise sufficient cash to continually fund the pension obligation every 15th and last day of each month. Difficulty of collecting the CNMI Government employer contribution will pose threat of liquidation of the Funds investments. The Fund had drawn $3.02 million, to supplement pension obligation, from the principal investments as of 9/30/2004 ($2.0 million in 12/2002 and $1.02 million in 10/2003). The Fund staff and management work closely with the Administration to collect the agreed biweekly employer contribution that averaged $856,000.

The Unfunded Pension Liability decreased 10% or $57.53 million to $516.97 million from $574.50 million last year. Seventy percent of the said decrease was a result of favorable net investment appreciation during the two consecutive fiscal years.

The CNMI Government employer contribution due to the Fund continues to climb every year at an averaged pace above 10.0%. The uncollected employer contributions from the CNMI Government employer contribution continue to mount at $76.12 million. This represents an increase of $6.24 million or 8.90% compared from last year. The affect of this increased is a “reduction of cash flow” relating to operating activities. The CNMI Government continues to fail in remitting allotments from appropriations to the Fund now at its high of $11.77 million or $1.88 million increased from last year. Early retirement 30% Bonus paid by the Fund not yet replenish by the government was $3.38 million.

The Fund assessed $19.03 million to the CNMI Government as penalty pursuant to 1-CMC Section 8362 for not remitting the employer's contribution on-time, i.e. 5-days after each payday.

The Member Home Loan Program, Judicial Building Loan, the CNMI Employee' Credit Union and Rentals pump in additional cash flow of over $1.42 million in terms of interest income. Member Home Loan Program reinvested $915,000 into new loans of the stated cash flow.

Our Defensive Strategy

The Retirement Fund is poise to the near-term serious cash flow problem due to the effect of CNMI Government's failure to pay. To balance the effect of this risk, the Fund should take this position: "reduced payout of annuity to those retiring/retired employees from CNMI Government, not those retiring/retired from the Agencies". Only portion of the calculated benefit should be disbursed every pension payday that is not 100% funded. However, this move could be prevented if overdue debts by the CNMI Government are paid to the Fund.

Benefits

Pension benefits payments were posted to its high of $45.37 million or 7.5% increased from last year. The ratios of benefits payment are: 89% for retirees, 8.6% for survivors and 2.4% for disability and death lump sum.

Historical Expenses By Type

Fiscal Year	Pension Benefits	Percent Increase	Administrative Expenses	Refunds	Total
1998	$ 26,506,259	Base	$ 1,692,359	$ 5,128,862	$ 33,327,480
1999	30,730,598	15.90%	1,789,188	5,416,554	37,936,340
2000	34,739,713	13.00%	2,248,215	3,981,558	40,969,486
2001	36,510,606	5.10%	1,757,662	3,203,283	41,471,551
2002	38,850,979	6.40%	1,734,819	4,173,961	44,759,759
2003	42,225,750	8.70%	1,686,707	3,595,133	47,507,590
2004	45,374,873	7.46%	1,646,748	3,039,142	50,060,763
Averaged	42,150,534		1,689,425	3,602,745	

There were 669 Class II and 5,084 Class I members in FY 2004 as shown in the table below:

Comparative Analysis by Membership Class
FY 1997 to FY 2004

Fiscal Year	Class I	% Change	Class II	% Change	Total	% Change
1997	4,213	Base	1,208	Base	5,421	Base
1998	4,148	-1.50%	1,056	-12.60%	5,204	-4.00%
1999	4,064	-2.00%	979	-7.30%	5,043	-3.10%
2000	4,268	5.00%	913	-6.70%	5,181	2.70%
2001	4,461	4.50%	849	-7.00%	5,310	2.50%
2002	4,420	-0.90%	766	-9.80%	5,186	-2.30%
2003	4,393	-0.60%	748	-2.30%	5,141	-0.90%
2004	5,084	15.73%	669	-10.56%	5,753	11.90%

Investments and Loan Services

Broad stock market investment returned $40.05 million for FY 2004 and paid $1.48 million in investment management fees & expenses. The net investment earnings were $38.57 million or over 10.6% return for the year. Total stock market assets are now valued at $373.77 million.

U.S. and International Investments

(stated in $1,000,000's)

Investment Asset	FY 2004	Asset Allocation	FY 2003	% Change
Equity Securities	$258.41	64.83%	$267.24	-3.30%
U.S. Government Securities	55.96	14.04%	38.78	44.30%
Corporate Debt Instruments	27.90	7.00%	26.16	6.65%
Cash and Equivalents	31.50	7.82%	5.75	447.83%
Sub – total	$373.77	93.68%	$337.93	10.61%

Cash and Equivalents increased dramatically due to rebalancing of assets as a result of the Board of Trustees implementation of the strategic asset allocation.

Economically Targeted Investments

Investment Asset	FY 2004	Asset Allocation	FY 2003	% Change
Member Home Loan Program	$ 8.61	2.16%	$ 7.70	11.82%
Judicial Building Loan	11.28	2.83%	11.38	-0.88%
NMI Retirement Fund Building	3.45	0.87%	3.63	-4.96%
CNMI Employees' Credit Union	1.84	0.46%	1.88	-2.13%
Sub - total	$25.18	6.80%	$ 24.59	2.40%
Total	$398.95	100.00%	$362.52	10.05%

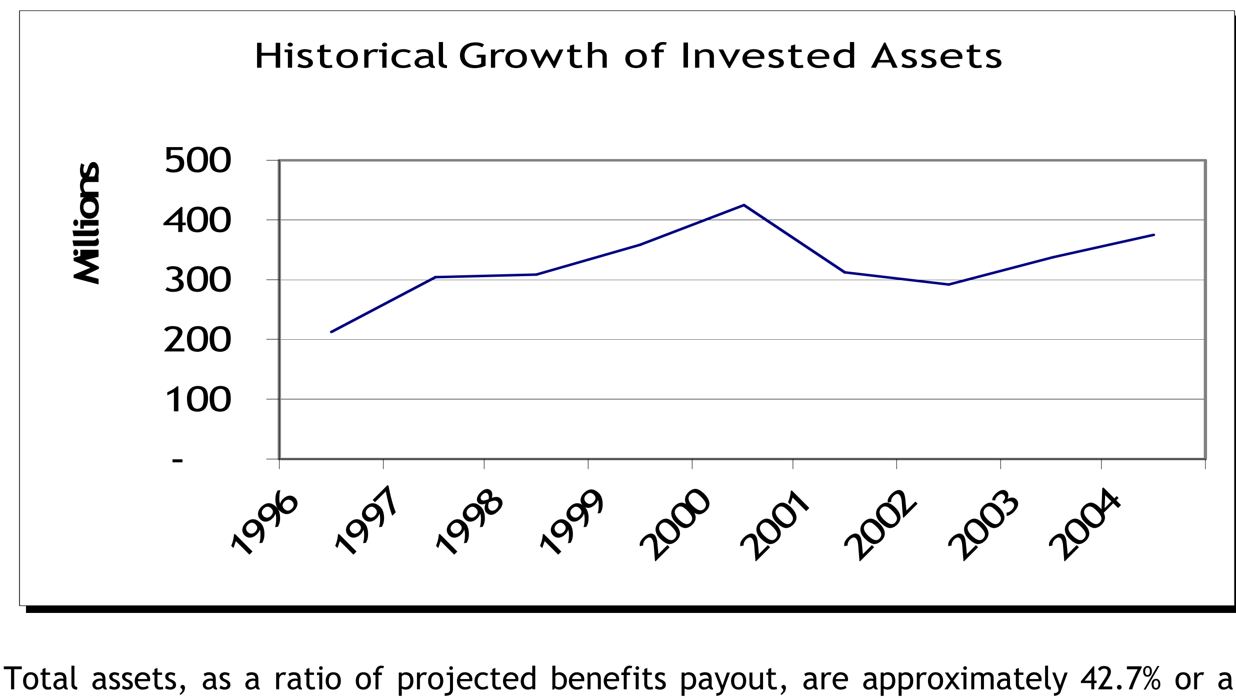
Fund Status

The Historical Growth of the Fund stock market investments.

Historical Growth of Invested Assets

Base Year: 1996

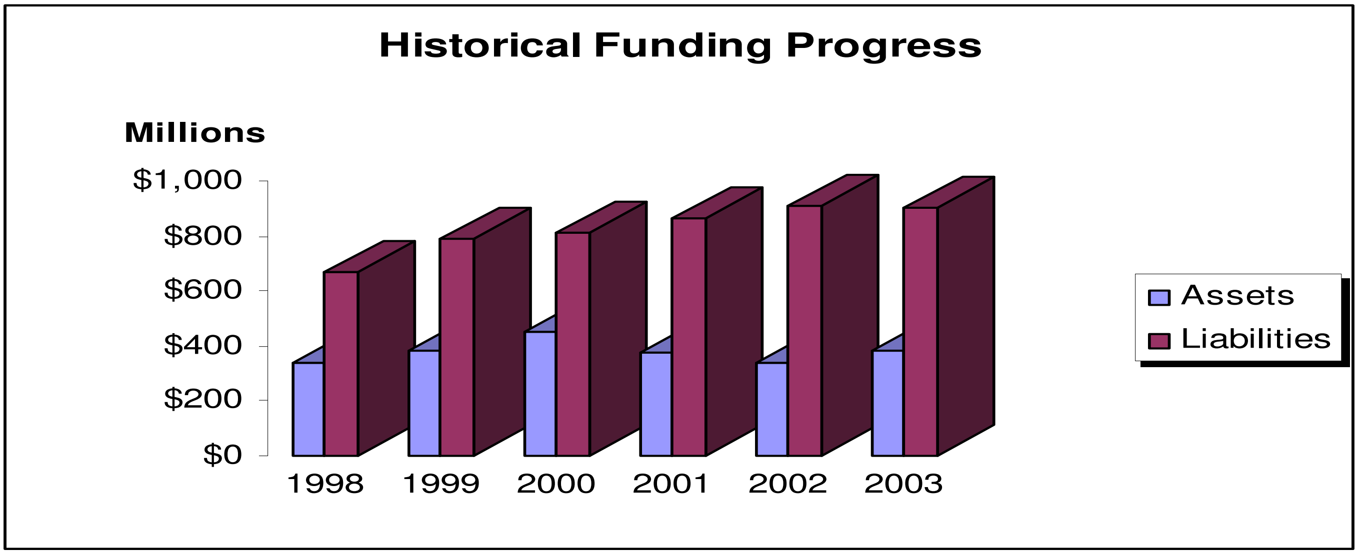
Fiscal Year	Total Assets	% Change Prior Year	% Change Base Year
1996	$211,700,173	Base	Base
1997	304,095,918	43.6%	43.6%
1998	307,663,403	1.2%	1.7%
1999	358,547,986	16.5%	24.0%
2000	424,212,945	18.3%	31.0%
2001	314,012,242	-26.0%	-52.1%
2002	289,875,210	-7.7%	-11.4%
2003	337,926,051	16.6%	22.7%
2004	373,677,721	10.6%	76.5%



Total assets, as a ratio of projected benefits payout, are approximately 42.7% or an increased funding of 5.8% compared from last fiscal year. The data illustrated below was extracted from the Actuarial Valuation report prepared by Mellon Human Resources & Investor Solutions for the period ending October 1, 2003.

Historical Trend Information
Schedule of Funding Progress

Fiscal Year	Net Fund Assets	Actuarial Accrued Liability	Percent Funded
1998	$336,295,338	$668,922,933	50.30%
1999	$385,376,003	$790,469,942	48.80%
2000	$453,519,324	$809,397,124	56.00%
2001	$375,089,058	$863,782,365	43.40%
2002	$335,285,391	$909,788,908	36.90%
2003	$385,672,027	$902,640,147	42.73%



Stock Market Portfolio

There were ten investment consultants actively managing the Fund assets within the U.S. and international stock markets with an aggregate portfolio of over $317.34 million plus Exchange Traded Funds of $56.33 million for a total of $373.67 million as of the end of fiscal year 2004.

Managed Assets

Investment Managers	Marker Value	Percent Managed
Atalanta Sosnoff Capital Corporation	$ 54.46	14.6%
Atalanta Sosnoff Capital Sabre Partners	17.39	4.7%
Renaissance Investment Management	44.13	11.8%
Provident Investment Counsel	54.58	14.6%
Gabelli Asset Management Company	23.24	6.2%
Franklin Templeton	28.89	7.7%
Income Research Management	20.31	5.4%
Stralem and Company	40.29	10.8%
Nicholas Applegate	22.05	5.9%
S&P 500-Exchange Traded Funds*	25.87	6.9%
MSCI EAFE-Exchange Traded Funds*	14.29	3.8%
Treasury Inflation Protection Index (TIPS)*	16.17	4.3%
Bank of Hawaii-Ultra Short Govt. Fund	12.00	3.2%
Total	$ 373.67	100.0%

*Exchange Traded Funds (ETF)

Part II. Workers' Compensation Commission

Program Overview

The CNMI Workers' Compensation Commission was created pursuant to Public Law 6-33, and codified as 4 CMC §9301. PL 6-33 provides protection for every employee in the Commonwealth due to a work-related injury or illness pursuant to Section 9304. Employers are required to purchase insurance coverage for work-related injuries, disabilities, or death of its employees. The statute also protects employers from lawsuits that potentially may occur from work related injuries. The total disability benefits for either injury or death payable under §9323 to one employee for one occurrence of injury shall in no event exceed the sum of $40,000 plus unlimited medical expense coverage for every work-related disability claim. The statute further requires that issuance of workers' compensation insurance coverage is restricted to carriers who are authorized and are in possession of a valid CNMI business license.

Overview of the Financial Statements

During this fiscal year, one serious work-related injury occurred bringing up to three of serious work related injuries since inception. WCC is poised with higher risk due to under funding of its operations due to the absence of premiums revenue that provide coverage to over 5,300 government employees.

Revenues
The decrease of $25,174 in "other revenues" represents the negative effects of fixed income investments managed by Metropolitan West. During the year the US Federal Reserve raised the interest rates in June, August and September 2004 and every time such increase happen fixed income portfolio decreased in value. The increase of $12,712 in "premiums from insurers" is the result of WCC tariffs increase back in October 2003. The minimal decrease in "penalties & fines" of $974 represents compliance! Every time employers' comply with WCC law, penalties and fines will be zero.

Expenditures
Disability claims increased of $61,782 or 35.0% from last year was a result of continuing medical expenses for one serious injury. It is the management primary concern of containing cost as much as possible during this time of cash crunching environment. The increase of over $55,000 in "employee benefits" was the result of five FTEs combined annual leave accruals.

Net Decrease in net assets
For the year, the total expenditures of over $547,082 exceed the total revenue sources of $430,515 or $116,567 decrease in net assets.

Continuing Risk Exposure

It is important to look at how much the CNMI Government is exposed to risk under WCC as a self-insured entity. Two major risks are deaths and extensive medical cost. Over 5,300 government employees are covered under WCC, multiply by $40,000 for death claims is equal to $212.0 million. Using private insurance death loss ratio of over 10.0%, WCC's exposure is $21.2 million ($212.0 million x 10.0%) in needed reserve.

The potential liability exposure of WCC as a self-insured government entity is enormous. The program is insolvent for not having adequate funds to compensate potential claims for over 5,300 government employees.

Over the last 15-years (1989 to 2004) the WCC medical cost loss ratio (2-major injuries "only" of over $380,000 each in medical cost) is over 50.0% based on combined 2% premiums from carriers and penalties and fines collected. Example, ten (10) major injuries will cost the government $3.8 million ($380,000 x 10) in medical cost. Therefore, WCC risk exposure could not be ignored and action is needed to prevent the government for incurring expenses without sufficient funding.

Rehabilitation cost for the injured employee return to pre-injury job is not included in this projection. How many months of rehabilitation period is needed could not be predicted at this time.

High-risk exposures are with the Police, Fire, CHC, CUC, CPA, DPW, Mayor's Office, EMO and Labor & Immigration. Example, an airplane crash landing situation. CPA Crash & Fire Unit personnel will get involve with the assistance of the DPS Fire personnel.

Currently, WCC appropriation funds only for office operation and does not address premium revenue to provide sufficient loss reserve for paying workers' compensation and disability claims. The CNMI Government is self-insured in terms of WCC coverage for claims and losses and not the NMIRF. At present, there is neither re-insurance for WCC coverage nor reserve for workers' compensation claims established due to insufficient funding.

The total appropriation was up by $7,237 or $355,300 compared to last year. The Special Disability Fund has an aggregate balance of $940,342 up by $78,580 from last year as a result of the 2% premiums from insurers, fines and penalties and earnings from investments. The total Administrative cost was also up by $161,814 or $473,548 compared from last year as a result of a work related serious injury. The net assets available for benefits are now $943,383 that covers the entire workforce of the CNMI Government of over 5,200. We have only seen three major individual casualties since WCC was enacted under Public Law 6-33 in 1989.

Mostly are minor work-related injuries and loss wages. Net assets of less than $1.0 million are insignificant amount compared to the high risk of WCC coverage for the entire CNMI Government workforce.

In the last two (2002 and 2003) consecutive fiscal years, WCC presented to the CNMI Legislature, in its annual report, addresses the funding requirements to raise sufficient reserve for its operation.

Claims Adjudication and Compensation

658 injuries were reported during the fiscal year, 592 were reported from the private sector, and 66 from government. For the fifth year in a row, garment factories had the largest number of reported injuries at 37% of the total reported injuries.

Workers' Compensation Commission

Supplemental Data

Injuries by Industry

Sector	1998	1999	2000	2001	2002	2003	2004
Construction	138	119	99	123	105	88	85
Garment	104	129	141	179	195	282	241
CNMI Government	43	60	57	56	49	30	66
Hotels/Resorts	46	67	99	89	61	120	110
Marine/Aviation	2	19	15	21	18	17	30
Security Services	3	1	3	3	2	3	0
*Others (non-gov't)	168	115	162	147	129	189	126
Total	504	510	576	618	559	729	658

Part III. Group Health and Life Insurance

Program Overview

All CNMI government retirees, active employees and their dependents are eligible to become members of the GHL program. Part-time employees who work at least 20 hours per week are also eligible to enroll in the program. Because enrollment in the program is optional, employees are required to complete enrollment application forms that must be approved by the Administrator.

Despite the CNMI government's financial condition, cost of the health and life insurance for active employees are partially subsidized by the government. The NMI Retirement Fund also subsidizes a portion of the cost of both health and life insurance for all retired government employees who have elected upon retirement to remain members of the program, as provided by statute.

In August 2001, the program has contracted Hawaii Pacific Medical Referral (HPMR) as its Third Party Administrator for both On-Island and Off-Island health care to better serves the Plan members by providing discounted medical services through HPMR'S medical provider network, case management, utilization review and claims processing services. The off-island services are implemented in September 2001 while the on-island services in January 2002. The intention of the parties is that such discounted services shall result in significant savings to GHLITF. Through Hawaii Pacific Medical Referral (HPMR) provider network, members can access to over thousands of participating providers in the United States Mainland, Hawaii, Philippines, Guam and the CNMI.

Overview of the Financial Statement

The Fund Board of Trustees continues to face the challenges by GHLI mainly due to insufficient funding from its levied premiums to finance the spiraling cost of health care. This is the third year anniversary of the Third Party Administrator (TPA) Hawaii Pacific Medical Referrals, Inc. (HPMR) hired by the Fund Board of Trustees to process, adjudicate and pay medical claims.

Due to mainly high cost of health care and nearly 50% of members are retirees the Board of Trustees allowed the 15% increase in medical insurance premium. The health insurance premium is up by $393,835 or 6.0% higher compared to last year. The total operating revenue was up by $434,104 to $7.04 million.

Medical claims cost was increased by $3.6 million to $9.41 million compared from last year. Rising cost of medications is mainly the result of this increase and some major medical procedures. The direct effect of medical cost on revenues was a deficit of over $2.37 million.

Professional fee was decreased by $1.22 million compared from last year. Other employee benefit was up by $37,236 as a result of five FTEs annual leave accruals. Administrative cost was also down by $1.17 million to $1.41 million compared from last year. GHLI management addressed curtailment of operating cost during the current fiscal year. The deficit was increased by $3.78 million during the year resulting in accumulated “deficit” of over $7.98 million.

GHLI also owes the NMI Retirement Fund $600,000 as of the close of the fiscal year that represents advances from P.L. 8-31 appropriation for the NMI Retirement Fund.

GHLI is also paying PHI Pharmacy and Marianas Eye Institute of $5,000.00 and $6,000.00 per month respectively to address medical obligations incurred prior to HPMR. The balance of the outstanding debts for these two local providers is $617,666.72 for PHI Pharmacy and $16,136.61 for Marianas Eye Institute.

Please note that unprocessed claims mostly due to the Commonwealth Health Center are approximately $28.751 million.

GHLI adopted additional four options for a total of eight plan options to partly address improvements of revenue without increasing the premium rates effective June 1, 2002. This action of the Board would defray the continuing high cost of medical care and medicines. The CNMI Government is self insured for the payment of medical claims in excess of the Trust Fund’s available fund balance. Therefore, pursuant to Public Law 10-19, liabilities of GHLI will be liabilities of the CNMI Government and not liabilities of the NMIRF.

Premiums

During the reporting period for fiscal year 2004, the amount of $6,995,577 was collected from premiums received from all government agencies and from the NMI Retirement Fund.

Forward looking statement, GHLI generates its revenue from contributions received from employees and employers of the CNMI government. Based on membership enrollment data as of January 16, 2004, as a forward looking tool, are as follows:

Plan Type	Plan Description	Subscribers Active	Subscribers Retirees	Premium Rate Active	Premium Rate Retirees	Annual Revenue
201	Self Only - High Option	360	429	$50.00	$ 54.15	$1,025,528.40
202	Self Plus One - High Option	248	383	90.46	98.00	1,484,102.08
203	Self Plus Four - High Option	523	499	130.95	141.87	3,479,693.22
204	Self Plus Five - High Option	84	65	171.55	185.86	664,606.80
205	Self Only - Low Option	160	36	31.43	34.05	160,168.00
206	Self Plus One - Low Option	50	23	53.53	57.99	101,599.48
207	Self Plus Four - Low Option	163	29	75.62	81.92	377,493.88
208	Self Plus Five - Low Option	58	16	97.70	105.86	187,981.84
	Total	1,646	1,480			$7,481,173.70

Life Insurance

The CNMI Government pays 50 percent of the premium for your term life insurance benefits as part of your employee benefit package.

Like the group health insurance, the government, or the employing authority in the case of autonomous agencies pays part of the premium. Individual Assurance Company (IAC) out of Kansas City underwrites the program. Coverage and corresponding rates are as follows:

Basic Coverage: The basic plan provides life insurance benefits of *two times* the employee's annual salary rounded up to the next higher $1,000 of coverage. In accordance with Public Law 8-31, the plan provides Basic Group Term Life Insurance for Retirees equal to *two times* the annual salary in effect on the day prior to retirement.

Accidental Death and Dismemberment: Benefits of an amount equal to the Basic Life Insurance are included for active and retired employees below the age of 70 years.

Living Benefit Rider: The employee receives up to seventy-five percent of the basic life insurance up to a maximum of $250,000, after the insurer receives proper medical documentation diagnosing the employee with a terminal illness that with reasonable medical certainty will result in death of the insured in less than 12 months from the date of such diagnosis. Any Living Benefit will be reduced by any amount paid under this benefit.

Cost for Basic Coverage and Accidental Death and Dismemberment and Living Benefit Rider: Active members and retirees pay .17 cents per $1,000 of Basic Life, Accidental Death & Dismemberment and Living Benefit Rider Included.

Optional Benefits: For an additional nominal premium, there are also optional benefits, which include dependent coverage and accelerated death (specified critical illness) death.

1. Dependent Coverage - For active employees only. There are two options: **Option #1** Employee pays the full premium of $3.70 bi-weekly for spouse coverage of $10,000. Children ages (14 days to 1 year) are covered for $6,000, and (1 year and 19 years of age*) covered for $10,000. **Option #2.** Employee pays the full premium of $5.40 bi-weekly for spouse coverage of $25,000.00. Children ages (14 days to 1 year) are covered for $6,000.00 and Children (over 1 year to 19 years of age*) is $15,000.00. **Option #3.** Employee pays the full amount of $7.80 bi-weekly for spouse coverage of $40,000. Children ages (14 days to 1-year) are covered for $6,000 and Children (over 1-year to 19-years pf age*) is $15,000.

   *Single and dependent on parent for support. Coverage is available for children up to age 24 if full-time students.

2. Accelerated Death Benefit Coverage – All subscribers are eligible to receive this coverage up to age 65. In accordance with the Policy, 50% of the amount of Basic Life Insurance benefit the Insurance Company will advance the employee or retiree if they become disabled from a *stroke, heart attack, life threatening cancer, or renal failure*.

   There are qualifying conditions to be satisfied before benefits are paid. Your Basic Life Benefit will be reduced by any amount paid under this benefit. Employees and retirees pay the bi-weekly premium of six cents (.06) per $1,000.

Suggested Beneficiary Designations

The employee has the right to name or change a beneficiary. Minors require an appointed guardian. If there is no appointed guardian, payment may be made to an individual that the insurer assumed has the custody and is the principle supporter of the minor. In the absence of beneficiary designation, the following rules will apply: (a) two or more named beneficiaries will share equally in the proceeds. If one of them dies before the employee, the share he or she would receive will be paid equally to the remaining beneficiaries, (b) if there is no surviving beneficiary, the proceeds will be paid to the employee's surviving spouse. If there is no spouse, the employees' surviving children, in equal shares. If there is no spouse, child or parents, to the employees' surviving brothers and sisters, in equal shares. If none of the listed beneficiaries survives, to the employee's estate.

Goals and Objectives

1. To maintain the cost of Health & Life insurance premium at a lower rate.
2. Enhance processing and payment of claims.
3. To keep implementing the cost control measures by formulary through Pharmacy Benefit Manager in negotiating prescription drugs.
4. Require health care providers to submit billings to facilitate electronic processing of claims.
5. Assess the plan benefit and initiate revisions to improve services, coverage as well as implement reasonable but effective procedures to control costs.

Current Development

The Government Group Health Insurance had solicited health insurance actuarial consultant to develop a Request for Proposals to implement a "cafeteria-style" program. This is still under-process and no firm date yet for its implementation. Should the privatization do not materialize then a contingency plan of running the program back without HPMR is imminent. Claims processing will be outsource and Pharmaceutical Benefits Manager will be contracted out.

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Northern Mariana Islands Retirement Fund

I have audited the accompanying statements of plan net assets of the Northern Mariana Islands Retirement Fund (NMIRF or the Fund), a component unit of the Commonwealth of Northern Mariana Islands, as of September 30, 2004 and 2003 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the statements of plan net assets, as of September 30, 2004 and 2003, the related statements of changes in plan net assets, and the related schedules of funding progress and employer contributions for the years ended September 30, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Employer Contributions, and the Notes to Required Supplemental Schedules are not a required part of the comprehensive annual financial statements and schedules but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 31, 2005 on my consideration of the Northern Mariana Islands Retirement Fund's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Saipan, Commonwealth of the Northern Mariana Islands
January 31, 2005

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Plan Net Assets Available for Benefits
September 30, 2004 and 2003

Assets	2004	2003
Cash, including time deposits, net of provision for uncollectible deposit (Notes 2, 5, and 23)	$ 909,440	$ 3,275,962
Receivables:		
Employer Contribution (Note 17)	76,172,485	69,877,111
Judicial building loan receivable (Notes 2, 9 and 23)	11,279,322	11,377,578
Member Home Loan program notes receivable (Notes 11, 20 and 24)	8,611,598	7,696,852
Note receivable from CGECU (Notes 2 and 13)	1,838,932	1,876,632
CNMI appropriation (Notes 10 and 17)	11,774,020	9,894,019
Early Retirement Bonus Program (Notes 12 and 17)	3,656,899	3,672,351
Accrued investment income	794,819	739,617
Benefits receivable (Notes 2, 14, 15 and 17)	1,765,629	1,552,399
Other receivables (Notes 3, 16, 20 and 23)	6,538,074	955,360
Total receivables	122,431,778	107,641,919
Less allowance for uncollectible receivables (Notes 12 and 17)	92,955,208	62,944,864
Receivables, net of allowances	29,476,570	44,697,055
Investments, at fair market value: (Notes 2 and 5)		
Equity securities	258,641,474	267,237,816
United States Government securities	55,957,758	38,778,000
Corporate debt instruments	27,899,739	26,162,949
Cash equivalents	30,383,931	5,007,669
Real property	546,650	546,650
Total investments	373,429,552	337,733,084
Property and equipment, at cost, net of accumulated depreciation (Notes 2 and 6)	3,449,177	3,628,196
Other assets (Note 7)	275,513	275,513
Prepaid expenses	$ -	$ 21,463

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Plan Net Assets Available for Benefits
September 30, 2004 and 2003

	2004	2003
Penalty on the unpaid contribution of the CNMI Government (Note 18)	$ 19,030,187	$ -
Less: provision for uncollectible amount due from CNMI Government (Note 18)	(19,030,187)	-
	-	-
Unfunded pension liability due from CNMI Government (Note 19)	516,968,120	574,503,317
Less: provision for uncollectible amount due from CNMI Government (Note 19)	(516,968,120)	(574,503,317)
	-	-
Total assets	$ 407,540,252	$ 389,631,273

Liabilities and Net Assets Held in-Trust for Pension Benefits

	2004	2003
Accounts payable	$ 424,195	$ -
Accrued annual leave (Note 2)	71,934	118,943
Judicial Building Trust Fund (Note 23)	2,717,161	2,739,522
Deferred income (Notes 2 and 20)	3,901,637	929,427
Other payable	618,369	171,354
Total liabilities	7,733,296	3,959,246
Net assets held in trust for pension benefits	$ 399,806,956	$ 385,672,027

(See Schedule of Funding Progress on page 32)

Contingencies (Note 24)

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Changes in Plan Net Assets Available for Benefits
Years Ended September 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Employer	$ 40,640,497	$ 39,323,544
Employee	12,156,404	12,171,783
Total contributions	52,796,901	51,495,327
Investment income:		
Interest	5,317,749	5,087,218
Dividends	2,228,274	2,128,653
Net realized and unrealized gains (losses) on investments (Note 5)	32,505,039	46,258,178
	40,051,062	53,474,049
Less Management and custodial fees	1,478,454	1,466,960
Net investments	38,572,608	52,007,089
Other additions:		
Employer Contribution - Unfunded pension	-	85,810,010
Penalty on unpaid contributions (Note 18)	19,030,187	-
CNMI Appropriations (Note 10)	1,880,000	2,000,000
Rent income and other income	605,684	645,402
Total other additions	21,515,871	88,455,412
Total Additions	$ 112,885,380	$ 191,957,828

See accompanying notes to financial statements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND

Statements of Changes in Plan Net Assets Available for Benefits
Years Ended September 30, 2004 and 2003

	2004	2003
Deductions:		
Benefit and refund payments:		
Retirement benefits	$ 40,174,378	$ 37,563,646
Refunds	3,039,142	3,595,133
Survivor benefits	3,885,727	3,540,771
Disability benefits	1,268,301	1,073,750
Death lump-sum distributions	46,467	47,583
Total benefit and refund payments	48,414,015	45,820,883
Provision for uncollectible deposit (Note 23)	-	53,420
Provision for uncollectible receivable, penalty on the unpaid contribution and unfunded pension liability due from CNMI Government (Notes 17, 18 and 19)	48,665,524	94,010,182
Provision for probable loss	24,164	-
Administrative expenses	1,646,748	1,686,707
Total Deductions	98,750,451	141,571,192
Net increase	14,134,929	50,386,636
Net assets held in trust for pension benefits:		
Beginning of year	385,672,027	335,285,391
End of year	$ 399,806,956	$ 385,672,027

See accompanying notes to financial statements.