

REPUBLIC OF PALAU SOCIAL SECURITY
RETIREMENT FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Republic of Palau Social Security Retirement Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, which comprise the statements of fiduciary net position as of September 30, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Republic of Palau Social Security Retirement Fund as of September 30, 2020 and 2019, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact the Fund's unfunded liability of \$600 million as described in note 9 to the financial statements and the Fund's future financial results as described in note 11 to the financial statements.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

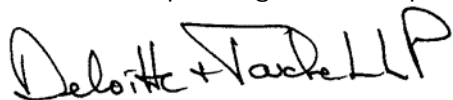
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 18 as well as the Schedule of Proportional Share of the Net Pension Liability on page 42 and the Schedule of Pension Contributions on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position as of and for the year ended September 30, 2020 (pages 44 and 45, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2020 and 2019 (page 46) and the Schedule of Investments as of September 30, 2020 (pages 47 through 49) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Fiduciary Net Position, the Combining Statement of Changes in Fiduciary Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Fiduciary Net Position, the Combining Statement of Changes in Fiduciary Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2022 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Stach LLP". The signature is written in a cursive, flowing style.

June 27, 2022



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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**Management's Discussion and Analysis
Years Ended September 30, 2020**

This Management's Discussion and Analysis (MD&A) of the Republic of Palau Social Security Administration's (the Fund) financial performance and condition for the fiscal year ended September 30, 2020 is to provide the readers with management's view as to what is critical to an understanding of the Fund's historical performance and its future prospects. It is intended to be read in conjunction with the independent auditors' report as provided herein.

Organization:

The Fund is descended from the Trust Territory Social Security System (TTSSS), which was established on July 1, 1968. The TTSSS ended when the Trust Territory of the Pacific Islands Government devolved into four separate entities. The Fund was created on May 28, 1987 by Republic of Palau Public Law (RPPL) 2-29 as codified in Title 41 of the Palau National Code Annotated (PNCA), as amended by 3-64, 4-49,5-34,6-13,7-32,8-5,8-14,9-11,9-12,9-35,9-46,9-55,9-57,9-62,10-1,10-3,10-7,10-8,10-12,10-21,10-22,10-29,10-42,10-44, 10-53, and 10-56. The Fund's Board of Trustees is incorporated under the *Social Security Act of 1987* (the Act) to administer the Fund as an agency of the Republic of Palau (ROP). The main role of the Board of Trustees is to provide for a Social Security Fund in ROP in which persons covered may be ensured security without hardship and complete loss of income at an old age or during disability and further, to provide survivor's insurance for their spouse and children. The Fund is compulsory, self-supporting and self-financing. It is not to be financed from public funds (except to the extent that the government, in its capacity as an employer, makes contributions to the system as required under the Act).

The Board of Trustees:

The President of ROP appoints five board members to serve as the Board of Trustees for four-year terms subject to Senate confirmation. The Board of Trustees appoints the Administrator who manages and operates the Fund under guidance of the Board. The Administrator serves as an ex-officio member of the Board. The Board of Trustees elects its own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer to serve for the duration of their term. The term of Secretary/Treasurer Mrs. Evalista N. Kyota expired in May 2020 and remains vacant. The Board held an election of new officers several times during the year and at the end of fiscal year 2020, the Trustees of the Fund are:

Board Member	Officers/Title	Appointed	Expiration
Ms. Johana Ngiruchelbad	Chairperson	11/19/19	11/19/23
Mr. Francis E. Meyar	Vice Chairman	11/19/19	11/19/23
Mr. Hefflin Bai	Secretary/Treasurer	08/01/19	08/01/23
Ms. Umerang A. Imetengel	Member	08/01/19	08/01/23

Human Resources:

The Fund's policies and strategies are implemented through the Administrator and a management team. The Fund is organized in five functional areas: Information Systems, Finance and Accounting, Employer Service, Member Service and Healthcare Fund Services. The total workforce of the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) is thirty-five including the Administrator. Employee turnover was 8% and 9% in fiscal years 2020 and 2019, respectively, and there was one vacancy remaining at the end of fiscal year 2020.

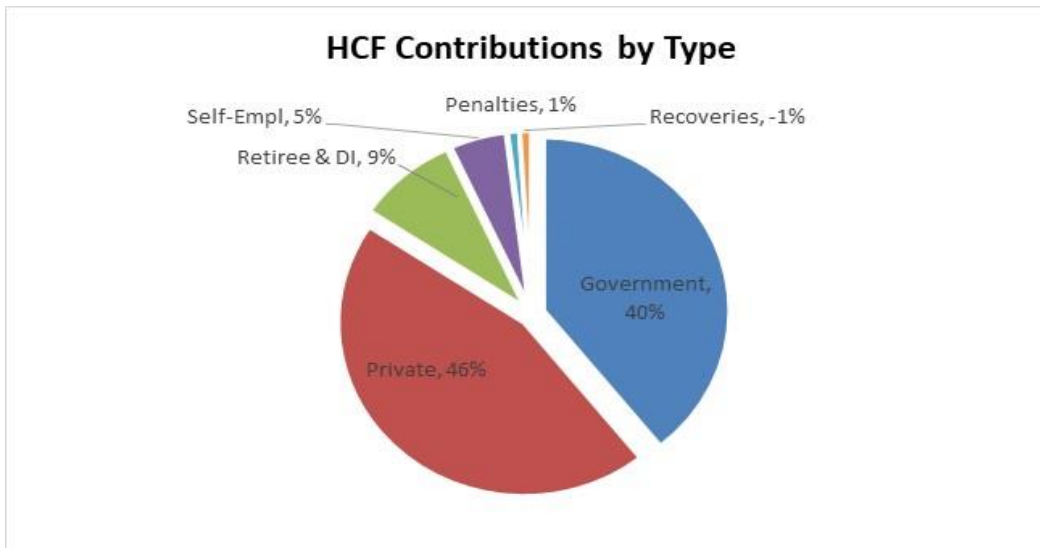
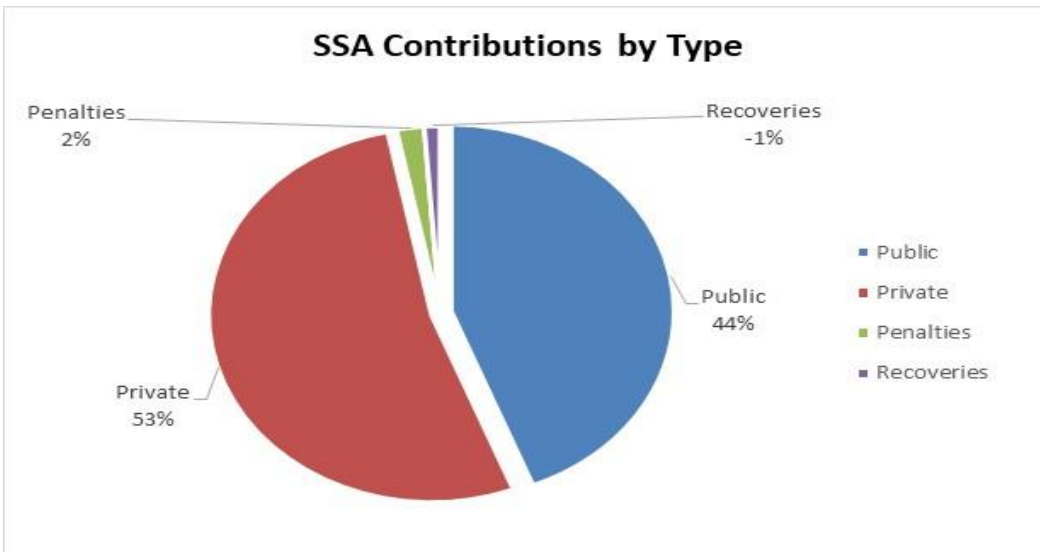
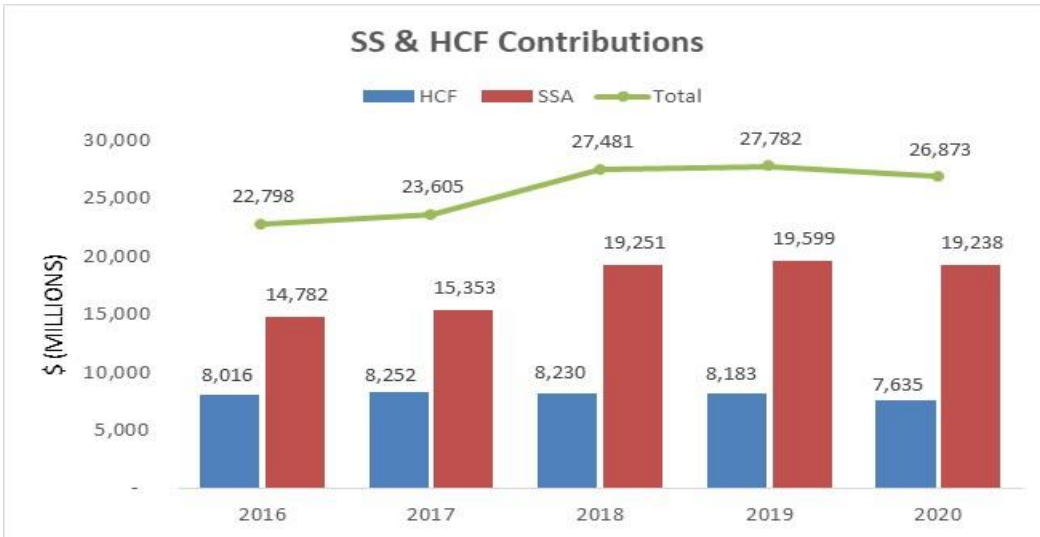
Contributions:

All employees' and employers working and domiciled in ROP contribute 7% of remuneration to the Fund. The contribution rate of 7% took effect on October 1, 2017 from 6% since October 1, 2001, which is a total of 16 years without a rate increase. Prior to 2001, the rate of contribution increased consistently by 1% every 5 years. The rate increase was prompted by an increase of monthly \$50 supplemental benefits to all SSRF beneficiaries by legislation. The self-employed rate also increased from 12% to 14%. The minimum remuneration has not changed and remains at \$300 per quarter. There is no maximum remuneration since October 1, 2017. A self-employed individual with an employee shall receive as remuneration in any quarter, twice the amount paid to the highest paid employee in that quarter. A self-employed individual without an employee shall receive in any quarter as remuneration, 10% of his gross revenue in the current calendar year. RPPL 9-35, enacted in Aug 2014, amended the law to require the self-employed to declare actual salary for filing remuneration on a quarterly basis instead of annually. A self-employed individual without an employee is further exempt from contributions if he or she has reached a retirement age of 60.

The contributions are remitted to the Fund on a quarterly basis. Special consideration is for the National Government to remit contributions on a bi-weekly basis while some large businesses with fifteen or more employees were encouraged to file and pay contributions on a monthly basis.

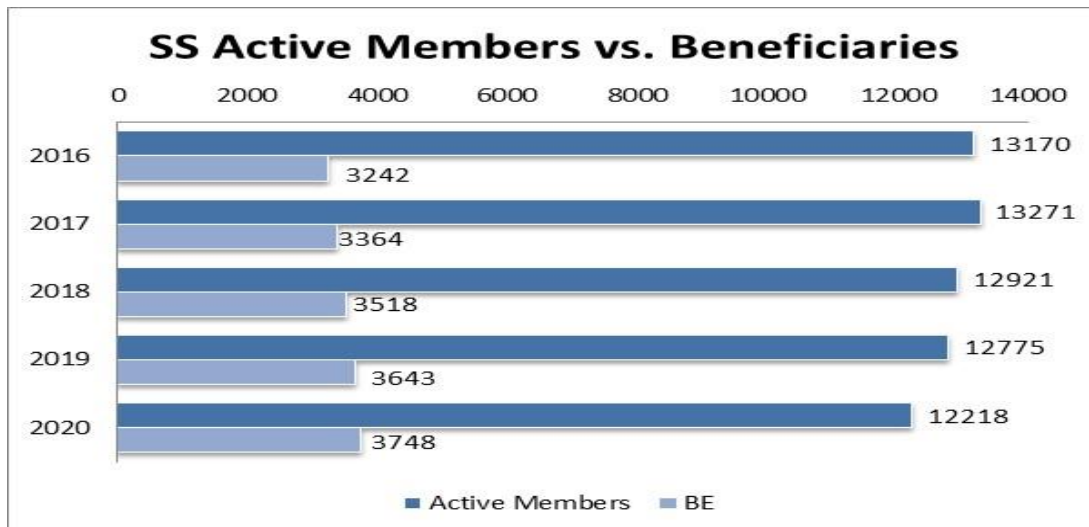
Funding is mainly derived from contributions, enabling the Fund to meet monthly benefit payments and operation costs. Any excess funds available are invested in the Fund's asset portfolio. There were no excess funds available to invest in 2020 as benefit payouts exceeded contributions.

Contributions to SSRF and HCF in fiscal years 2020 and 2019 were \$26,872,728 and \$27,782,148, respectively. Contributions dropped by -3.3% from the prior year due to the negative impact of Covid-19 on the economy. Of total contributions, 72% represents contributions to SSRF and 28% represents contributions to HCF. Contributions to HCF were further reduced by -1% as a result of an amendment to NHI government subsidy of 10% of alcohol and tobacco tax having put a threshold limit of \$650,000 starting fiscal year 2020, RPPL 10-42.



Member Services:

Total active Fund members as of fiscal year 2020 were 12,218 versus 12,775 in 2019, a decrease of 4% or 557 from last year, which is due to a business shut down and foreign workers leaving because of coronavirus. In hindsight, the growth of SSRF beneficiaries has been averaging 4% a year since 2013 of 2,748 mainly due to dual benefits and baby boomers retiring. Total SSRF beneficiaries at fiscal year 2020 were 3,748 versus 3,643 in 2019.



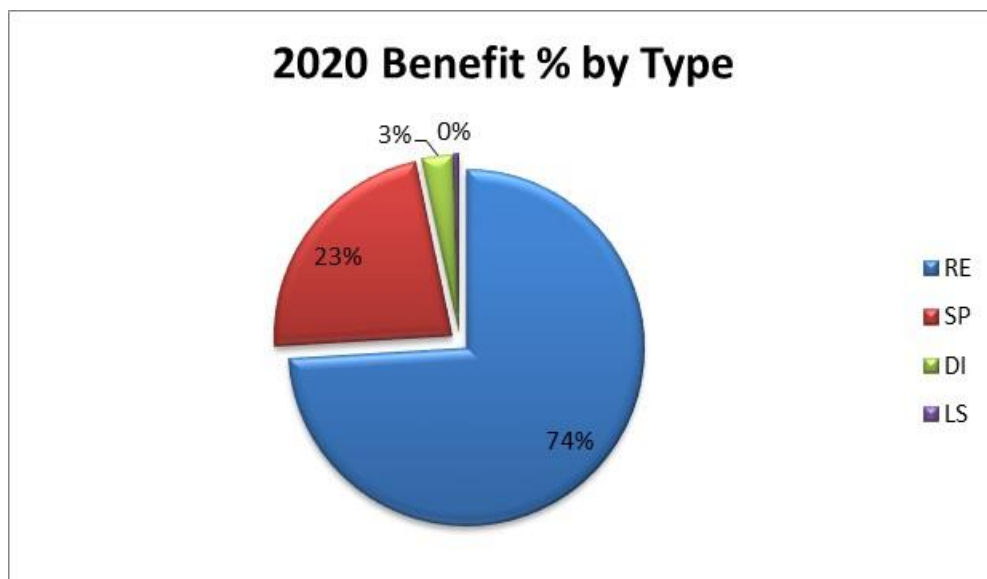
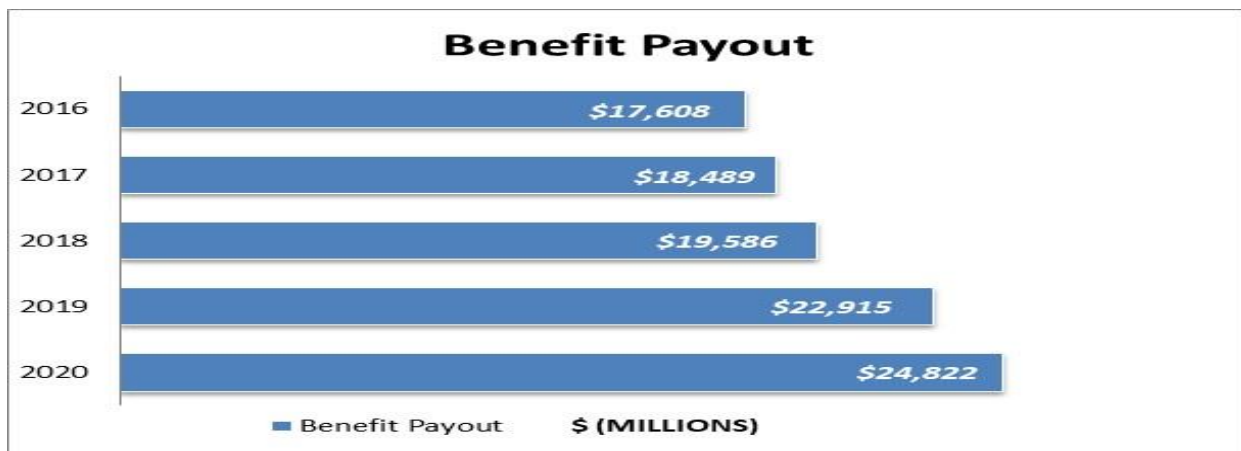
Total active employers as of calendar year 2020 were 2,062 versus 2,563 in 2019. SSRF experienced challenges in tracking licensed businesses in 2018 to 2019 during which Bureau of Revenue & Taxation (BRT) issued licenses without consistent clearance of SSRF EINs. Prior to 2018, renewal of SSRF EINs expired on January 31 of each year. The closure of business EINs outside of the renewal period allows the SSRF and BRT to reconcile the number of active businesses and to ensure that all employers file with SSRF. Beginning November 2020, SSRF resumed the issue of EINs before BRT's licensing which allows the agencies to match the number of active businesses and to strengthen monitoring and collection of unpaid taxes.

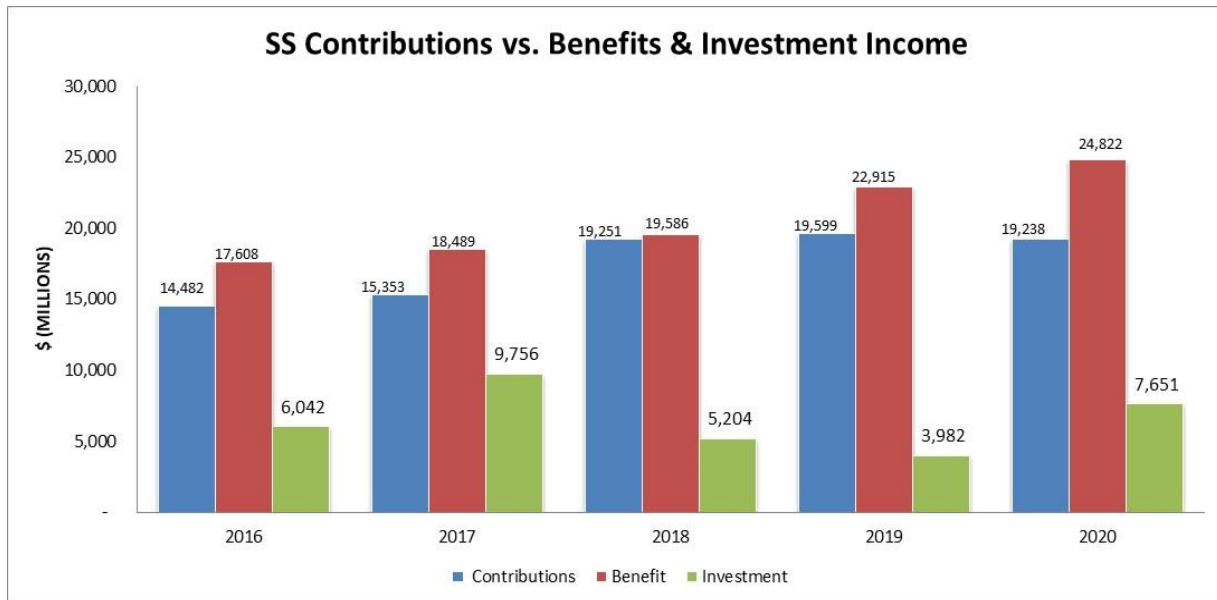
Benefit Payments:

The types of benefits provided under the Fund are: 1) old-age insurance benefits, also known as retirement benefits; 2) surviving insurance benefits for spouse and dependents; 3) disability insurance benefits; and 4) lump sum benefits. The minimum basic monthly benefit is \$148 with the maximum limit of the basic monthly benefit being equivalent to the highest monthly average wage over twelve of forty quarters preceding retirement. Surviving spouse insurance benefits are for unemployed surviving spouses at 60% of basic benefits of the deceased's insurance benefits subject to an earnings test if employed and at 100% if at retirement age and unmarried. Surviving spouse insurance benefits will cease if a surviving spouse remarries before retirement age and will be at 60% if remarried at retirement age. The surviving child insurance benefits are for surviving children 18 years or younger and surviving children over 18 years and up to 22 years if a full-time student, subject to 15% of the deceased's basic benefit insurance. Disability insurance benefits are for persons who are disabled and are fully or permanently insured. The basic benefit exceeds 80% of 1/12 of the highest annual

remuneration up to a limit of \$6,000 per annum preceding the disability with certain criteria established under guidelines. Lump sum benefits are paid after the death of a member at 6% of cumulative earnings less any amount of benefits received to date of the deceased to a legally appointed representative if there are no surviving beneficiaries.

The supplemental benefit is an additional benefit outside of the SSRF retirement formula that was created and funded by ROP under RPPL 9-46 beginning in fiscal year 2016 to present. The benefit is \$50 a month to each SSRF beneficiary. Funding of supplemental benefits from ROP National Treasury in 2019 was \$2,100,000 versus \$0 in 2018. In fiscal year 2018, the funding of \$50 supplemental benefits was turned-over to SSRF with an increase in the contribution rate from 6% to 7%. In fiscal year 2020, the supplemental benefit funded from ROP National Treasury increased to \$2,760,000; additional \$50 monthly supplemental benefit to all SSRF beneficiaries effective October 1, 2019 and \$50 monthly supplemental benefit to old age insurance and disability SSRF beneficiaries effective April 1, 2020 who are citizens of Republic of Palau, Federated States of Micronesia and United States. The total supplemental benefit to all SSRF beneficiaries is \$100 and up to \$150 for special group of old age insurance and disability beneficiaries. The Fund continues to be challenged in disbursing benefits due to the current level of contributions. Performance of benefits is illustrated in the graph below.





Healthcare Fund:

The National Healthcare Financing Act (the NHFA) was created on May 7, 2010 under RPPL 8-14 as codified in Title 41 Chapter 9 of the PNCA. The NHFA was created to meet ROP’s constitutional responsibility under Article VI of the Constitution to provide health care for all residents of Palau in a duly governed and managed system that will ensure that no person is denied access to the healthcare system or turned away for lack of money. The Fund’s Board of Trustees appoints the Administrator to serve as the HCF Administrator responsible for administration of the Medical Savings Account (MSA) and the National Health Insurance (NHI) subject to the supervision and oversight of the HCF Governing Committee (the HCF GC). The powers and duties of the HCF GC under the NHFA are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The governing committee also has the authority to promulgate laws, procedures, policies, rules and regulations necessary to carry out the functions of the NHFA. There was no change to HCF GC appointment and leadership in 2020.

As of September 30, 2020, members of the HCF GC by virtue of their position and title in the respective ROP agencies were as follows:

Member	Representative
Dr. Victor Yano, Chairman	Chamber of Commerce
Minister Elbuchel Sadang, Vice Chairman	Ministry of Finance
Governor Mary F. Remengesau, Secretary/Treasurer	Governors Association
Minister Emais Roberts, Member	Ministry of Health
Ms. Ulai Teltull, Member	Social Security Administration

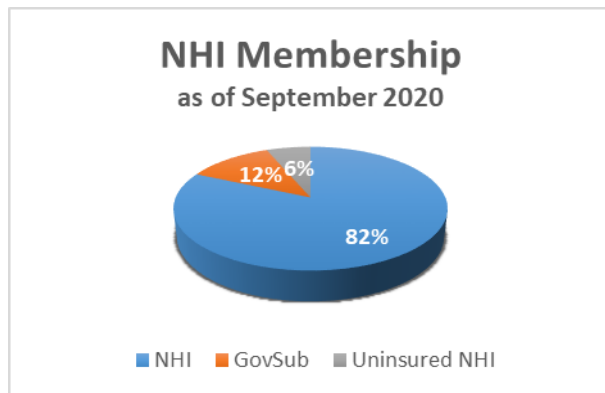
HCF Contributions & Membership

All employees and employers working and domiciled in ROP contribute a total of 5% of remuneration to the HCF. The employees’ share of 2.5% goes directly to each individual MSA while the employers’ share of 2.5% goes into the NHI fund. An initial capital of \$50,000 was advanced by the Fund in May 2010 and contributions began on October 1,

2010. On April 1, 2011, after two quarters of contributions, benefits under the NHI commenced. There has been no change of HCF contribution rate since inception. There has been gradual growth of membership due to an active public awareness program, growth of employment and the private sector.

The initial HCF Regulations went through a first-time revision in 2018 as part of the efforts to gradually reform and improve the services of the healthcare fund. There were new MOU's established between Palau Health Insurance (PHI) and providers in Manila and Taiwan for better medical care options. In 2019, HCF hired its' own utilization reviewer in Taiwan to effectively negotiate ease of access to each provider, review scope of treatment and validate claims submitted for payment. The plan to hire owned HCF utilization reviewer in Manila has been set aside due to interruption of medical care to Manila because of the coronavirus. The HCF office moved in February 2020 to Ngarachamayong Cultural Center while HCF building continues under construction and is expected to be completed by November 2020. The new office building will be in the center of Koror State accessible to members and will be the main SSRF office.

As of September 30, 2020, total members under the NHI were 16,567 versus 16,641 in 2019. NHI members were 94% of a total population of 17,661 based on a census in 2015 while MSA members were 18,309 or 100% versus 17,583 or 100% last year. The remaining 6% uninsured under the NHI are mainly persons below the age of 59 and unemployed, persons who are no longer a dependent child and who are not enrolled under the voluntary program. Voluntary participation carries a quarterly premium of \$41.



HCF reimbursed insurance benefits under two programs: 1) the NHI and 2) the MSA. HCF reimbursed the Belau National Hospital (BNH) for inpatient claims while HCF handle the payment for the medical referral claims to each provider under the MOU. HCF also reimbursed outpatient billings for on-island treatment at various medical clinics and BNH outpatient services under the MSA.

Providers of NHI outside of Palau with signed MOU were as follows:

Description	Medical Centers	MOU signed
In patients	Belau National Hospital, Palau	
Medical Referral (MR)	St Lukes Medical Center, Philippines	1/29/18 PHI
MR	St Lukes Medical Center (Global City), Philippines	1/29/18 PHI
MR	Adventist Medical Center, Philippines	3/12/18 PHI
MR	The Medical City (TMC), Philippines	2/1/20 PHI
MR	Taipei Medical University-WangFang, Taiwan	5/1/18 PHI
MR	E-DA Hospital, E-DA Cancer & E-DA Dachang	5/10/18 PHI
MR	Shin Kong Wu Ho-Su Memorial Hospital, Taiwan	6/5/18 PHI
MR	Taiwan Adventist Hospital	7/24/18 PHI

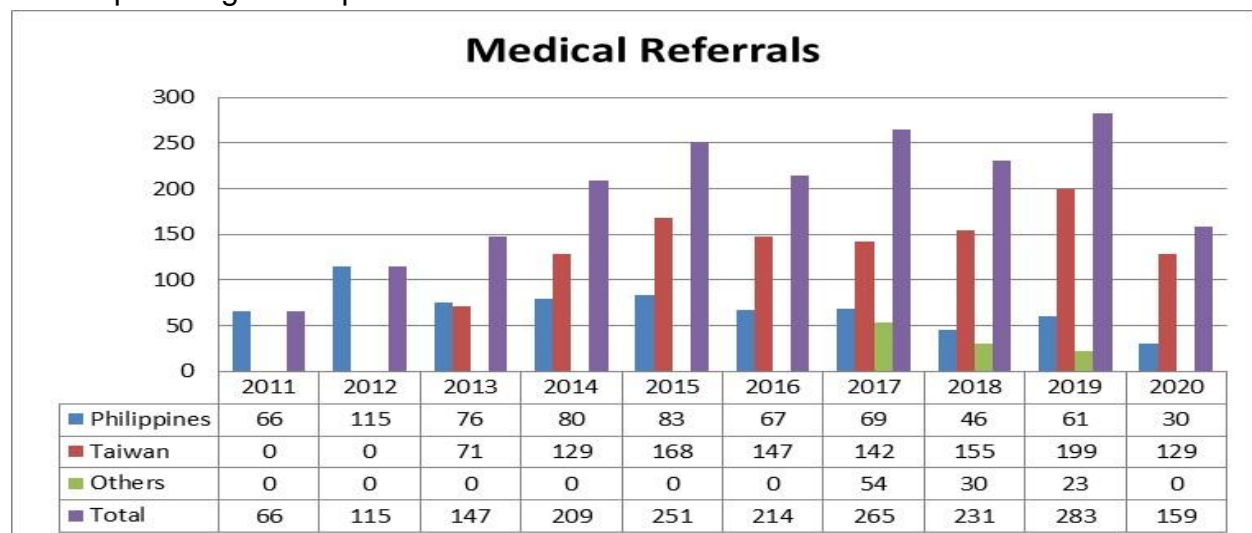
All providers in Palau with agreement to participate with MSA coverage were as follows:

Description	Local Clinic	Agreement
MSA coverage	Belau Medical Clinic	Yes
MSA coverage	Family Surgical Clinic (FSC)	Yes
MSA coverage	Pacific Family Medical Clinic (PMC)	Yes
MSA coverage	Pacific Family Eye Clinic (PEC)	Yes
MSA coverage	Torsten Schaudt Physiotherapy	Yes
MSA coverage	Optic Vision Optical Clinic (OVC)	Yes
MSA coverage	Maria Hindenburg Dental Clinic (MHD)	Yes
MSA coverage	Pacfika Med Pharmacy (PMP)	Yes
MSA coverage	Palau Adventist Wellness Center	Yes
MSA coverage	Belau National Hospital "Outpatient Clinics"	OPD, ER, Dental and dispensaries

Members who are referred for off-island medical treatment must first be approved by the Medical Referral Committee (MRC) prior to certification of coverage by HCF Administrator, RPPL 10-7. The Minister of Health established the MRC comprised of five physicians who practice in Palau, the Minister of Health, himself or his designee, Minister of Finance and or his/her designee and representatives of HCF GC. The five physicians on the MRC are the only voting members. MRC's analysis and decision for referral shall be bases on the following and by secret vote.

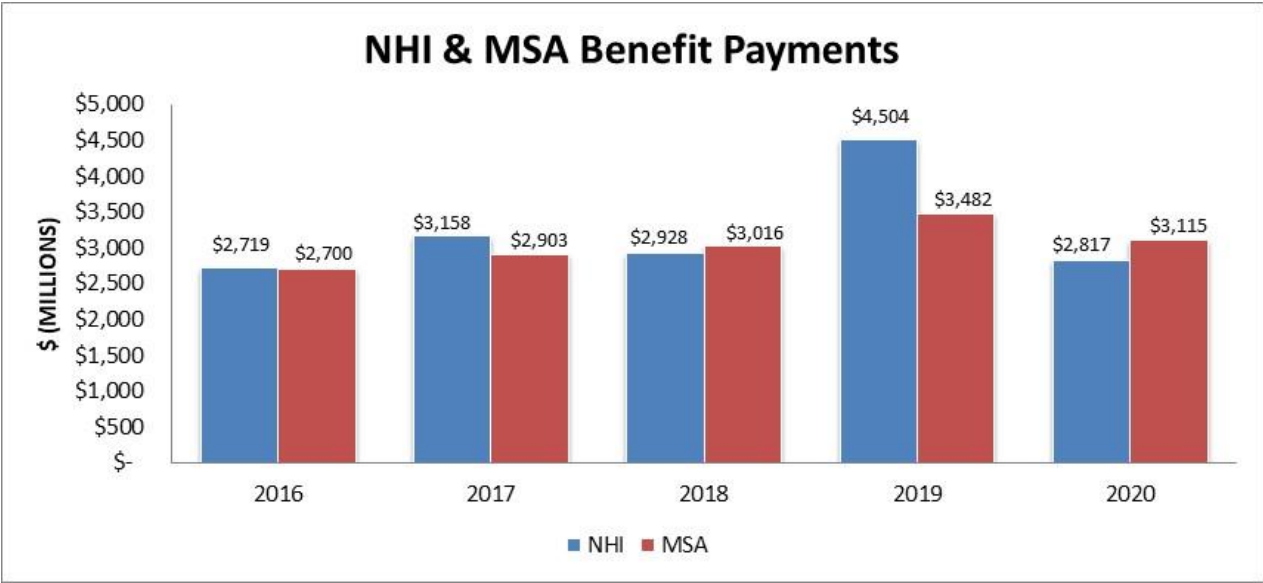
1. The patient's ability to pay for the costs of a medical referral;
2. The patient's life expectancy;
3. The patient's condition that can't be treated adequately in Palau;
4. The likelihood that patient's condition will be substantially improved;
5. A patient's condition that MRC determined is not terminally; and
6. Others deemed appropriate by MRC

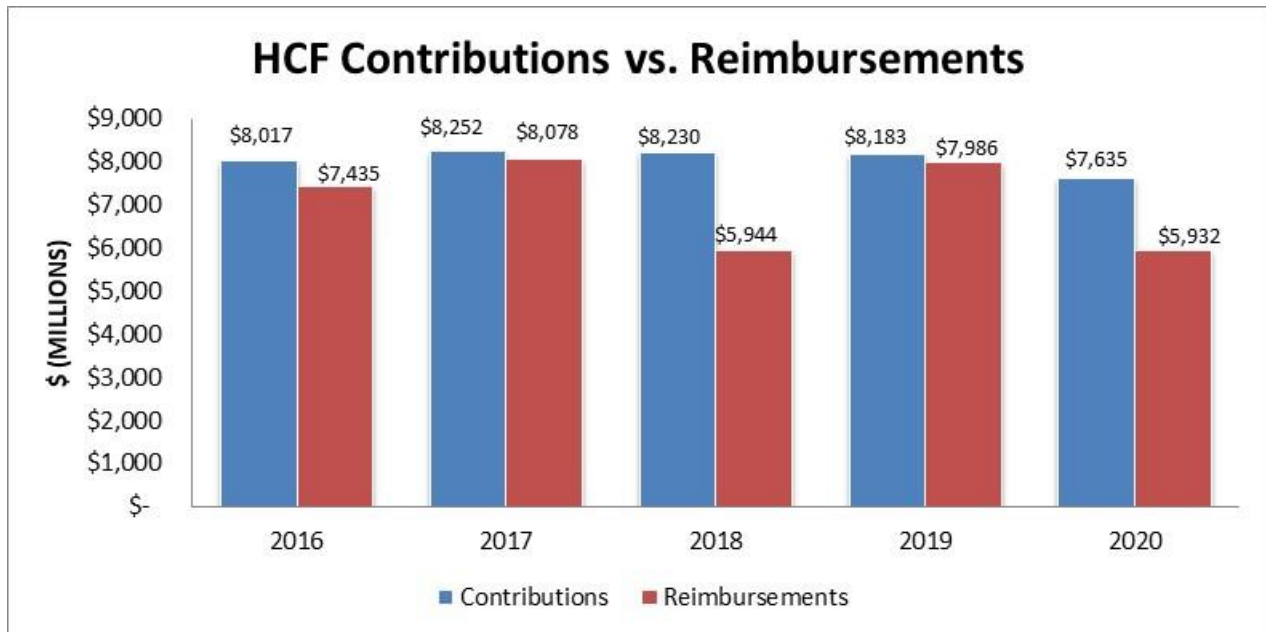
NHI annual coverage for off island treatment per member is \$35,000 and the quarterly threshold of the NHI reimbursement is \$300,000. The efforts to streamline the medical referral processes in 2020 because of the coronavirus pandemic that had significant impact of flights availability between Palau and Taiwan and Palau and Philippines. In addition, there were constant changes to Taiwan surveillance control for traveling to Taiwan and finally, the fixed limit of cases that certain providers in Taiwan were willing to accept during this unprecedented time.





Insurance benefit reimbursements decreased by \$2,054,518 from \$7,986,392 in fiscal year 2019 to \$5,931,874 in fiscal year 2020 due to the impact of coronavirus pandemic on medical referral cases and challenges in accessing medical care locally due to fear of COVID-19 including the concentration on public health services rather than routine medical services.





The administration of the HCF remains vested with the Social Security Administrator. Management of funds is maintained at a local bank for at least six (6) months operational costs. All excess funds are duly invested and managed by the Board of Trustees. There were no transfers of any excess funds to the HCF Investment Fund in 2020.

Cash	\$ 2,495,637
Invested funds	<u>15,930,906</u>
Total Cash & Reserve Funds	\$ <u>18,426,543</u>

Prior Service Retirement:

Funding for the PSTF relies on U.S. government appropriations from the U.S. Department of the Interior (USDOI). In 2016, USDOI approved additional funding for the Cost of Living Adjustments (COLA) for all benefit payees. The minimum basic benefit was increased to \$50 from \$27 along with a 20% increase for those earning more than \$50 retroactive to October 1, 2015. An additional increase of 3% also took effect on October 1, 2016. The Fund’s lobbyist and consultant for PSTF was successful in securing the funding as needed for COLA in 2016. At September 30, 2020 and 2019, the amount available for future benefit payments under the PSTF amounted to \$8,731 and \$(3,557), respectively. The agreement between the PSTF Board and USDOI allows the Fund to accept the liability based on the amount of funding received and does not accept any future obligations to pay future benefits unless funding continues from U.S. government appropriations. As of September 30, 2020, total members receiving benefits under the PSTF were 146, a decrease from the 159 in fiscal year 2019 resulting in 13 decreased members during the year.

Investments:

The Board of Trustees complies with investment policies that provide the framework to guide investment managers towards the performance desired, which is to ensure that sufficient assets are accumulated to pay statutory benefits of current and future retirees. The SSRF Investment Fund remains diversified to ensure that growth and risks are well balanced over the long-term. The Fund realized a portfolio growth of 4.24% and positive rate of investment (ROI) of 7.05% for fiscal year 2020. The HCF performed strongly with growth of 7.89% and ROI of 7.48%. The investment growth of HCF will provide opportunities to expand benefits as and other opportunities as determined by the HCF GC.

The SSRF/HCF Investment portfolio for the last 5 years is shown below.

Year	SS Portfolio	HCF Portfolio	SS Outflow	SS Gain (Loss)	HCF Gain (Loss)	SS Growth	HCF Growth	SS ROI (%)	HCF ROI (%)
2015	84,859,393	5,924,545		(1,312,600)	(72,450)	3.76%	123.69%	(1.55%)	(1.22%)
2016	90,541,549	8,497,785		6,042,073	576,610	6.70%	43.43%	6.67%	6.79%
2017	98,955,777	11,455,698	(1,000,000)	9,756,434	973,461	9.29%	34.81%	9.86%	8.50%
2018	103,835,188	14,083,084		5,204,371	647,678	4.93%	22.94%	5.01%	4.60%
2019	104,069,164	14,766,457	(5,000,000)	3,981,698	706,876	0.23%	4.85%	3.83%	4.79%
2020	108,485,278	15,930,906		3,981,698	706,876	4.24%	7.89%	3.67%	4.44%

Information Technology (IT):

The Fund database system was created in visual FoxPro by a consultant based in the Commonwealth of the Northern Mariana Islands. The software in support of this database has reached its life cycle. Microsoft, who initially supported the FoxPro software, no longer supports the software as it has been out of the market and is obsolete. A study of the Fund's IT system was done in June 2012 and by 2014 a request for proposal was issued and awarded to a tender to migrate the Fund's IT system to Microsoft SQL. The Fund's investment in the IT system is about \$626,000. Migration started in May 2014 and went through several challenges until it was finally completed in September 2019. The leading programmer that was able to deliver the final database in September 2019 was retained to support the new system on an annual contract to ensure that it continues without any problems.

The Fund's database is well secured in-house and is only shared with the Bureau of Planning and Statistics for economic reports, the Civil Service Pension Fund for validating members and the Bureau of National Treasury for audit and collection purposes of business and individual employers.

Public Relations:

The Fund provides and maintains public relations through communications at the Board level and with His Excellency, respective leaders in the Senate and the House of Delegates. Public information about the Fund are reported and announced through local radio stations, newspapers, social media and any public related events including SS outreach to various states within Palau. The SSRF website is www.ropssa.pw and the HCF website is www.ropchcf.pw. The website is available for beneficiaries who have relocated outside of Palau to stay informed of new changes of the SSRF and HCF and for easy access of forms and other information for each beneficiary continued eligibility.

Significant Events:

The coronavirus pandemic was declared in March 2020, which led to reduced flights to Palau except for weekly mail delivery and charter flights between Taiwan and Palau. The HCF office that was located within the Ministry of Health facility had to relocate to Ngarachemayong Cultural Center to allow needed space for a COVID-19 isolation site. In addition, the HCF Building under construction experienced delay of materials from vendors outside of Palau with nearly all countries and businesses affected by the pandemic.

The HCF had the opportunity to complete the Online Clinic Interface "OCI" and had it successfully implemented on July 1, 2020. The OCI allows MSA providers to deduct MSA from members at point of sale, which is effective and efficient with real time balances available 24 hours every day.

The Coronavirus Relief One Stop Shop Act "CROSS Act" was enacted on April 2020. The Social Security Administration had a representative on the committee to implement the Pandemic Re-Employment Relieve Program "PREP" and assist those who need temporary employment mainly due to closure of businesses impacted by the lack of a tourism market. The Social Security Administration assistance under the PREP includes setting up the PREP office, placing employees and ensuring that SS and HCF contributions is applied and collected to maintain employees' benefits under the Social Security Administration.

The Social Security Administration was able to hire a total of four (4) temporary staff at the main office to assist with filing and administrative tasks and the outcome is well organized and filed records of the five management functions of the Fund.

The coronavirus pandemic continues throughout fiscal year 2020 and this poses challenges for doing business when partners are domiciled outside of Palau.

Subsequent Events:

The 2018 SS Valuation Report was approved in October 2020. The transition to the new administration of President Surangel Whipps Jr. immediately commenced in November 2020. The supplemental benefit for FY2021 appropriated by the Republic of Palau was set to terminate by February 2021 but the new ROP Budget approved in April 2021 provides the funding to continue the supplemental benefits of \$50 monthly to all SS beneficiaries and \$50 monthly to Retiree and Disability beneficiary who are citizens of Palau, FSM and United States.

Financial Performance (Overview):

The Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement Nos. 68 and 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (Plan), a defined benefit, cost sharing multi-employer plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting

of deferred outflows and inflows of resources and a net pension liability based on the Fund's proportionate share of those of the overall Plan. Refer to note 6 for details of GASB Statement No. 68.

The Fund's fiduciary net position as of September 30, 2020 was \$130,187,944 as compared to \$124,232,334 for fiscal year 2019 and \$121,897,875 for fiscal year 2018, which was due to the positive earnings and growth of investment assets for SS and HCF.

Statements of Fiduciary Net Position:	2020	2019	2018
Assets and deferred outflow of resources:			
Cash	\$3,592,030	\$2,240,131	\$161,125
Investment	124,416,184	118,835,621	117,918,272
Receivables, net	5,516,896	7,325,636	7,455,900
Prepaid expense	11,474	68,818	17,830
Capital assets, net	565,337	29,928	86,943
Deferred outflows of resources from pension	934,297	527,852	698,490
Total assets and deferred outflows of resources	<u>135,036,218</u>	<u>129,027,986</u>	<u>126,338,560</u>
Liabilities, deferred outflows of resources and fiduciary net position:			
Benefits payable	820,831	1,391,267	945,605
Accrued liabilities and accounts payable	64,415	28,298	29,773
Net pension liability	3,331,449	2,696,839	2,903,556
Deferred inflows of resources from pension	631,579	679,248	561,751
Total liabilities and deferred inflows of resources	<u>4,848,274</u>	<u>4,795,652</u>	<u>4,440,685</u>
Fiduciary net position held in trust for benefits and other purposes	<u>\$130,187,944</u>	<u>\$124,232,334</u>	<u>\$121,897,875</u>
Statements of Changes in Fiduciary Net Position			
Additions			
Contributions, net	\$ 26,872,728	\$ 27,782,148	\$ 27,480,852
Investment income (loss), net	8,843,948	4,688,574	5,852,049
Other income	337,790	606,269	245,687
Total additions	<u>\$36,054,466</u>	<u>\$33,076,991</u>	<u>\$33,578,588</u>
Deductions			
Benefit payments	30,859,278	31,014,670	25,650,097
Other	1,999,578	1,827,862	1,718,184
Total deductions	<u>32,858,856</u>	<u>32,842,532</u>	<u>27,368,281</u>
Transfer from Republic of Palau	2,760,000	2,100,000	-
Change in fiduciary net position	5,955,610	2,334,459	6,210,307
Fiduciary net position at beginning of year	<u>124,232,334</u>	<u>121,897,875</u>	<u>115,687,568</u>
Fiduciary net position at end of year	<u>\$130,187,944</u>	<u>\$124,232,334</u>	<u>\$121,897,875</u>

Contributions Receivable

The Fund's contribution receivable for the year ended September 30, 2020 was \$5,244,439 as compared to \$6,578,518 for fiscal year 2019. Of total contributions receivable, \$4,224,479 or 81% represents the SSRF and \$1,019,960 or 19% represents HCF. Contributions receivable for the SSRF includes \$2,549,653 of delinquent employers and \$1,674,826 of accrued taxes receivable due a month after the quarter end. The SSRF allowance for doubtful accounts of \$2,085,949 represents 82% of delinquent accounts fully provided for as they exceed more than one year in arrears. The total percentage of contributions receivable to total contributions was 20% in fiscal year 2020, a decrease of 4% from 24% in fiscal year 2019. The collection of past due accounts continues to improve due to persistent collection, established payment agreements and write-off of accounts that exceed the statute of limitation.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
2016	22,499,018	7,231,724	32%	3,051,815	42%
2017	23,595,867	6,857,593	29%	2,827,404	41%
2018	27,522,345	6,406,407	23%	2,266,837	35%
2019	27,804,637	6,578,518	24%	2,326,240	35%
2020	26,872,728	5,244,439	20%	2,373,570	45%

Capital Assets:

At September 30 2020, 2019 and 2018, the Fund had \$565,337, \$29,928 and \$86,943, respectively, in capital assets, net of accumulated depreciation where applicable and the bulk of capital investment in 2020 was a new HCF Building near completion. See note 8 to the financial statements for more information on the Fund's capital assets.

Actuarial Valuation:

An actuarial valuation issued in October 1, 2018 provides an assessment of the system's accrued liabilities and determination of the Fund's funded ratio. The unfunded liability increased by \$19,223,000 with a funding ratio at 35% compared to 2017, as a result of the increase in the SSRF benefits of \$600 annually to each beneficiary, removal of a wage cap inclusive of contribution rate increase to 7% for both employees and employers.

Year	Net Assets Available for Benefits	Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
9/30/2018	\$ 106,583,000	\$ 301,040,000	35%	\$ 194,457,000
9/30/2017	\$ 102,483,000	\$ 277,717,000	37%	\$ 175,234,000
9/30/2015	\$ 90,777,000	\$ 267,772,000	34%	\$ 176,995,000
9/30/2014	\$ 98,040,000	\$ 240,492,000	41%	\$ 142,452,000
9/30/2013	\$ 93,182,000	\$ 201,486,000	46%	\$ 108,304,000
9/30/2011	\$ 77,367,000	\$ 168,614,000	46%	\$ 91,247,000

The Board of Trustees has taken the initiative to reach out to ADB for technical assistance to assist with long-term sustainability of the Fund given the funding ratio being below 50% for the past 10 years or more.

Economic Outlook:

The economic outlook for Palau is in dire situation due to the prolonged COVID-19 pandemic. The Asian Development Bank projected a deflated Gross Domestic Product growth of -9.5% in 2021 and an inflation rate of -0.3%. The Palau near term outlook is currently exposed to the pandemic, financial market volatility, climate change with a narrow economic base, remote location, small population, insufficient infrastructure including a restrictive investment regime.

The Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in the Fund's report on the audit of financial statements, which is dated June 22, 2020. The Discussion and Analysis explains the major factors affecting change of the 2020 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Fund's Financial Management:

The financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. The MD&A is based on past performance and current situations that anticipate future outlook subject to risk and uncertainties. The actual results in the future may differ from these expectations. If you have questions about this report, or need additional information, please contact the Fund's Administrator at the Republic of Palau Social Security Retirement Fund, P.O. Box 679, Koror, Republic of Palau 96940, or e-mail administration@ropssa.pw or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Fiduciary Net Position
September 30, 2020 and 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2020</u>	<u>2019</u>
Cash	\$ 3,592,030	\$ 2,240,131
Investments:		
Mutual funds	90,325,977	84,540,251
U.S. Government obligations	16,180,324	17,926,985
Corporate bonds	17,078,066	16,144,983
Money market funds	831,817	223,402
Total investments	<u>124,416,184</u>	<u>118,835,621</u>
Receivables:		
Contributions	5,244,439	6,578,518
Loan	2,075,322	2,402,787
Accrued interest and dividends	231,528	270,277
Advances and other	339,177	400,294
	<u>7,890,466</u>	<u>9,651,876</u>
Less allowance for doubtful accounts	<u>(2,373,570)</u>	<u>(2,326,240)</u>
Total receivables, net	<u>5,516,896</u>	<u>7,325,636</u>
Prepaid expense	<u>11,474</u>	<u>68,818</u>
Capital assets, net	<u>565,337</u>	<u>29,928</u>
Total assets	<u>134,101,921</u>	<u>128,500,134</u>
Deferred outflows of resources from pension	<u>934,297</u>	<u>527,852</u>
Total assets and deferred outflows of resources	<u>135,036,218</u>	<u>129,027,986</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	820,831	1,391,267
Accrued liabilities and accounts payable	64,415	28,298
Net pension liability	3,331,449	2,696,839
Total liabilities	<u>4,216,695</u>	<u>4,116,404</u>
Deferred inflows of resources from pension	<u>631,579</u>	<u>679,248</u>
Total liabilities and deferred inflows of resources	<u>4,848,274</u>	<u>4,795,652</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 130,187,944</u>	<u>\$ 124,232,334</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Fiduciary Net Position
 Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Additions:		
Contributions:		
Private employees	\$ 13,942,674	\$ 13,310,782
Government employees	11,731,111	12,812,695
Retirees and disabled individuals	707,703	985,661
Self-employed individuals	345,245	381,524
Penalties and interest	431,471	313,975
	<u>27,158,204</u>	<u>27,804,637</u>
Bad debts	(285,476)	(22,489)
Total contributions, net	<u>26,872,728</u>	<u>27,782,148</u>
Investment income:		
Net increase in the fair value of investments	6,195,095	2,518,026
Dividends	1,568,671	1,153,386
Interest	1,080,182	1,017,162
Total investment income, net	<u>8,843,948</u>	<u>4,688,574</u>
Other income	<u>337,790</u>	<u>606,269</u>
Total additions	<u>36,054,466</u>	<u>33,076,991</u>
Deductions:		
Benefit payments:		
Retirement	18,431,098	16,679,666
Survivor's	5,674,206	5,669,653
Medical savings account	3,114,804	3,482,205
National health insurance	2,817,070	4,504,187
Disability	702,035	583,719
Lump sum	120,065	95,240
Total benefit payments	<u>30,859,278</u>	<u>31,014,670</u>
Administrative	1,651,514	1,641,505
Fund custodian fee	132,097	105,967
Investment management fee	66,523	63,368
Depreciation	149,444	17,022
Total deductions	<u>32,858,856</u>	<u>32,842,532</u>
Excess of additions over deductions	3,195,610	234,459
Transfer from Republic of Palau	<u>2,760,000</u>	<u>2,100,000</u>
Change in fiduciary net position	5,955,610	2,334,459
Fiduciary net position at beginning of year	<u>124,232,334</u>	<u>121,897,875</u>
Fiduciary net position at end of year	<u>\$ 130,187,944</u>	<u>\$ 124,232,334</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization and Purpose

The Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations in a transition phase on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic of Palau. The Fund provides retirement, disability and death benefits to qualified individuals and their survivors. Additionally, the Fund is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, the Fund established the Prior Service Trust Fund to account for activities under this program. Further, the Fund was appointed responsibility under 41 PNC, Section 723 for the administration and operation of the Medical Savings Fund and the Palau Health Insurance (see note 4). Accordingly, the Fund established the Healthcare Fund to account for activities under the health care program.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Fund prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as additions to net position in the quarter employee earnings are paid. Benefits are recognized as deductions from net position when the corresponding liabilities are incurred regardless of when payment is made.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net position and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2020 and 2019, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses in such accounts.

Cash

Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Fund does not have a deposit policy for custodial credit risk.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

For the purposes of the statements of fiduciary net position, cash is defined as cash on hand and cash held in demand accounts. Money market funds held by the Fund's investment agent are considered investments.

As of September 30, 2020 and 2019, cash was \$3,592,030 and \$2,240,131, respectively, and the corresponding bank balance was \$3,956,713 and \$2,336,798, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020 and 2019, bank deposits in the amount of \$250,000, were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Investments

The Fund's investment policy governs the investment of assets of the Fund as follows:

- (1) Cash
 - (A) Investments in this category must adhere to the guidelines in Rule 2a-7 under the U.S. Securities and Exchange Commission (SEC) Investment Company Act of 1940.
- (2) Fixed Income
 - (A) Bonds, notes, and pass-through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
 - (B) U.S. corporate bonds and nonconvertible preferred stocks;
 - (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
 - (D) Debt issued by foreign entities; and
 - (E) The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager.
- (3) U.S. Equities
 - (A) Common stock and convertible securities of U.S. listed Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ);

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

- (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index;
- (B) ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and
- (C) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Fund's name by the Fund's custodial financial institutions at September 30, 2020 and 2019.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Fund's fixed income securities at September 30, 2020 and 2019:

Investment Type	Fair Value	2020 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
		U.S. Treasury notes	2,925,207	-	-	-	2,925,207
U.S. Treasury bonds	3,291,533	-	2,766,533	525,000	-	Aaa	AAA
U.S. Municipal obligations	274,998	-	-	-	274,998	A2	A+
U.S. Municipal obligations	99,526	-	-	-	99,526	Aa1	AA+
U.S. Municipal obligations	202,508	-	-	-	202,508	Aa1	Unrated

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

	2020					Moody's	S&P
	Investment Maturities (In Years)						
U.S. Municipal obligations	729,641	352,121	-	-	377,520	Aa2	AA+
U.S. Municipal obligations	108,375	-	108,375	-	-	Aa2	Unrated
U.S. Municipal obligations	315,792	-	-	315,792	-	Aa3	Unrated
U.S. Municipal obligations	73,504	-	-	-	73,504	Aaa	AA+
U.S. Municipal obligations	163,883	-	163,883	-	-	Aaa	Unrated
U.S. Municipal obligations	107,819	-	107,819	-	-	Unrated	AA+
U.S. Municipal obligations	103,798	-	-	-	103,798	Unrated	AAA
Corporate bonds	950,034	100,158	232,681	617,195	-	A1	A
Corporate bonds	183,310	-	-	183,310	-	A1	A-
Corporate bonds	762,149	55,064	136,296	391,043	179,746	A1	A+
Corporate bonds	520,727	-	143,403	118,051	259,273	A1	AA-
Corporate bonds	1,065,492	175,179	411,476	341,274	137,563	A2	A
Corporate bonds	319,712	-	-	212,304	107,408	A2	A-
Corporate bonds	228,086	-	-	228,086	-	A2	A+
Corporate bonds	310,109	-	310,109	-	-	A2	BBB+
Corporate bonds	546,122	-	363,066	183,056	-	A3	A-
Corporate bonds	341,681	-	-	-	341,681	A3	A+
Corporate bonds	627,174	310,069	-	-	317,105	A3	A+
Corporate bonds	651,604	-	289,275	111,639	250,690	A3	AA
Corporate bonds	204,009	100,216	103,793	-	-	A3	AA-
Corporate bonds	603,840	-	433,450	170,390	-	A3	BBB+
Corporate bonds	300,690	-	157,932	-	142,758	Aa1	AA+
Corporate bonds	180,506	-	-	180,506	-	Aa2	A
Corporate bonds	163,341	-	-	-	163,341	Aa3	A
Corporate bonds	439,653	-	265,135	174,518	-	Aa3	A+
Corporate bonds	202,903	-	-	81,437	121,466	Aa3	AA-
Corporate bonds	375,342	-	-	-	375,342	Aa3	BBB+
Corporate bonds	2,059,170	600,120	590,231	510,060	358,759	Aaa	AAA
Corporate bonds	433,266	-	433,266	-	-	Aaa	Unrated
Corporate bonds	1,852,375	-	1,665,700	-	186,675	AAA	AAA
Corporate bonds	269,008	-	-	-	269,008	Baa1	A
Corporate bonds	1,412,511	-	232,680	101,465	1,078,366	Baa1	A-
Corporate bonds	418,958	-	66,082	352,876	-	Baa1	BBB
Corporate bonds	601,661	-	427,706	173,955	-	Baa1	BBB+
Corporate bonds	555,613	-	273,561	282,052	-	Baa2	BBB
Corporate bonds	224,022	-	-	224,022	-	Unrated	AA-
Corporate bonds	275,000	-	-	275,000	-	Aaa	AAA
Government agencies	625,481	-	625,481	-	-	Aaa	Unrated
Government agencies	5,555,895	-	827,544	3,764,796	963,555	Aaa	AA+
Government agencies	1,602,362	140	538,518	-	1,063,704	Unrated	AAA
	<u>\$ 33,258,390</u>	<u>\$ 1,693,067</u>	<u>\$ 11,673,995</u>	<u>\$ 9,517,827</u>	<u>\$ 10,373,501</u>		

Investment Type	Fair Value	2019				Ratings	
		Investment Maturities (In Years)				Moody's	S&P
		Less Than 1	1 - 5	6 - 10	More Than 10		
U.S. Treasury notes	3,828,763	1,144,067	2,364,035	320,661	-	Aaa	AAA
U.S. Treasury bonds	4,141,246	-	-	-	4,141,246	Aaa	AAA
U.S. Municipal obligations	516,756	230,393	-	-	286,363	A2	A+
U.S. Municipal obligations	105,653	-	105,653	-	-	Aa1	AA
U.S. Municipal obligations	354,196	-	354,196	-	-	Aa1	AA+
U.S. Municipal obligations	86,680	-	-	-	86,680	Aaa	AA+
U.S. Municipal obligations	57,364	-	57,364	-	-	Aaa	AAA
U.S. Municipal obligations	473,746	-	-	473,746	-	Aa1	Unrated
U.S. Municipal obligations	129,675	25,517	-	104,158	-	Aa2	Unrated
U.S. Municipal obligations	158,713	-	-	158,713	-	Aaa	Unrated
Corporate bonds	574,810	-	-	574,810	-	A1	A
Corporate bonds	1,322,217	350,948	447,396	388,697	135,176	A2	A
Corporate bonds	209,164	-	209,164	-	-	Aa3	A
Corporate bonds	266,982	-	-	-	266,982	Baa1	A
Corporate bonds	171,390	-	-	171,390	-	A1	A-
Corporate bonds	909,325	-	683,241	226,084	-	A2	A-
Corporate bonds	364,656	-	-	-	364,656	Aa3	A-
Corporate bonds	845,001	-	-	-	845,001	Baa1	A-
Corporate bonds	236,200	-	-	236,200	-	Baa2	A-
Corporate bonds	130,238	-	-	130,238	-	A1	A+
Corporate bonds	211,632	-	-	211,632	-	A2	A+
Corporate bonds	167,215	-	-	-	167,215	A3	A+
Corporate bonds	860,492	250,185	310,494	-	299,813	Aa2	A+
Corporate bonds	390,981	-	390,981	-	-	Aa3	A+
Corporate bonds	282,667	-	282,667	-	-	Aa2	AA
Corporate bonds	543,800	-	239,134	162,856	141,810	A1	AA-
Corporate bonds	160,094	160,094	-	-	-	Aa1	AA-
Corporate bonds	101,565	-	101,565	-	-	Aa2	AA-
Corporate bonds	432,715	325,074	107,641	-	-	Aa3	AA-
Corporate bonds	210,668	-	-	210,668	-	Unrated	AA-
Corporate bonds	277,023	-	152,471	-	124,552	Aa1	AA+
Corporate bonds	361,075	-	-	361,075	-	Aa3	AA+
Corporate bonds	201,562	-	-	201,562	-	Aaa	AA+

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	Fair Value	2019 Investment Maturities (In Years)				Moody's	S&P
		Less Than 1	1 - 5	6 - 10	More Than 10		
Corporate bonds	350,980	-	-	350,980	-	AAA	AA+
Corporate bonds	2,465,883	614,690	1,092,644	132,485	626,064	Aaa	AAA
Corporate bonds	250,000	-	-	250,000	-	Aaa	AAA
Corporate bonds	1,341,187	300,144	436,552	398,289	206,202	AGY	AAA
Corporate bonds	361,735	-	-	161,314	200,421	Baa1	BBB
Corporate bonds	185,784	-	-	-	185,784	Baa2	BBB
Corporate bonds	63,149	-	-	-	63,149	Baa3	BBB
Corporate bonds	159,347	-	159,347	-	-	A2	BBB+
Corporate bonds	364,423	105,071	259,352	-	-	A3	BBB+
Corporate bonds	934,689	-	466,576	468,113	-	Baa1	BBB+
Corporate bonds	436,335	-	436,335	-	-	Aaa	Unrated
Government agencies	5,831,120	324,990	2,246,326	2,534,298	725,506	Aaa	Unrated
Government agencies	1,619,635	-	322,047	-	1,297,588	AAA	AAA
Government agencies	623,437	-	623,437	-	-	Aaa	Unrated
	<u>\$ 34,071,968</u>	<u>\$ 3,831,173</u>	<u>\$ 11,848,618</u>	<u>\$ 8,227,969</u>	<u>\$ 10,164,208</u>		

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Fund has the following fair value measurements:

Investments by fair value level	09/30/20	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 6,216,740	\$ 6,216,740	\$ -	\$ -
U.S. Municipal obligations	7,783,738	-	7,783,738	-
Other U.S. Government obligations	2,179,844	-	2,179,844	-
Corporate bonds	17,078,068	-	17,078,068	-
Total investments by fair value level	<u>\$ 33,258,390</u>	<u>\$ 6,216,740</u>	<u>\$ 27,041,650</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>\$ 90,325,977</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 831,817</u>			
Investments by fair value level	09/30/19	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 7,970,009	\$ 7,970,009	\$ -	\$ -
U.S. Municipal obligations	8,074,193	-	8,074,193	-
Other U.S. Government obligations	1,882,783	-	1,882,783	-
Corporate bonds	16,144,984	-	16,144,984	-
Total investments by fair value level	<u>\$ 34,071,969</u>	<u>\$ 7,970,009</u>	<u>\$ 26,101,960</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>\$ 84,540,251</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 223,402</u>			

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Receivables and Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of Palau. These receivables are not collateralized and are non-interest bearing. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts. The allowance is established through a provision for bad debts for contributions receivable that have been outstanding in excess of one year. Bad debts are written-off against the allowance by the specific identification method.

Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Fund has determined the changes in assumption, changes in proportion and difference between the Fund's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Capital Assets

The Fund's capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$1,000.

Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

Accrued Annual Leave

The Fund recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave is included in administrative deductions and accrued liabilities in the accompanying financial statements.

It is the policy of the Fund to record sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. Management has determined that the estimated amount of unused sick leave at September 30, 2020 and 2019 is not material to the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Fund has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Fund's contributions and proportionate share of contributions qualify for reporting in this category.

Contributions

Contributions to the Fund are governed by RPPL No. 2-29 as revised by RPPL No. 3-64 and amended by RPPL No. 5-34, RPPL No. 6-13, RPPL No. 7-32, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12, RPPL No. 9-35 and RPPL No. 10-12, which imposes a tax on the quarterly income of every employee within the Republic. There is imposed on the income of every employee a tax equal to a percentage of wages received. The maximum amount of wages received increased from \$4,000 per quarter to \$5,000 per quarter effective October 2, 2008 and increased to \$6,000 per quarter effective October 1, 2015. Effective October 1, 2017, there is no maximum amount of remuneration. Every employer is required to contribute an amount equal to that contributed by the employee. With respect to wages paid from October 1, 2001 through September 30, 2017, the rate is six percent. Effective October 1, 2017 and thereafter, the rate is seven percent. During the years ended September 30, 2020 and 2019, the Fund recorded total employer contributions of \$19,046,070, and \$19,285,192, respectively.

Benefit Payments

Retirement benefits are paid to qualified workers who are fully insured individuals who, as defined by RPPL No. 2-29 and as revised by RPPL No. 3-64, RPPL No. 5-34, RPPL No. 7-32, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12, RPPL No. 9-35 and RPPL 10-12, have attained the age of sixty years on or before September 30, 2015, sixty-two years as of October 1, 2015, or sixty-three years as of October 1, 2020, and have filed an application for old age insurance benefits. 60% of basic benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements. Effective October 1, 2013, eligible individuals born before January 4, 1954 are receiving full amount of the surviving spouse's benefits along with other benefits. Eligible children who are not married and not working may also receive benefits until age eighteen (18) or up until age twenty-two (22) if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Benefit Payments, Continued

Effective October 1, 2013, the benefit payments paid monthly are computed upon an annual basis of 27% of the first \$11,000 of the cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of the next \$44,000, plus 0.75% of the cumulative covered earnings in excess of \$500,000. The minimum benefit is \$148 per month. Effective September 27, 2017, the minimum benefit increased to \$198. During the years ended September 30, 2020 and 2019, the Fund paid benefits of \$24,821,754 and \$22,914,522, respectively. Included within fiscal years 2020 and 2019 benefit payments is \$2,760,000 and \$2,100,000 respectively, of supplemental benefit payments funded by the Republic of Palau through appropriation (see note 5).

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Fund recognizes a net pension liability for the defined benefit pension plan, which represents the Fund's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, Leases, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal year ending September 30, 2022. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal year ending September 30, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2018, GASB issued Statement No. 90, Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal ending September 30, 2023. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2020, GASB issued statement No. 92, Omnibus 2020, which enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The provisions in Statement No. 91 are effective for fiscal ending September 30, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2020, GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending (September 30, 2022 or December 31, 2022).

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The provisions in Statement No. 91 are effective for fiscal ending September 30, 2023. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The objective of this statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The provisions in Statement No. 91 are effective for fiscal ending September 30, 2022. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Trust Territory Prior Service Trust Fund Administration (PSTFA) and the Social Security Administration of the Republic of Palau (ROP), the ROP Social Security Administration is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Benefits Program.

On September 15, 2005, an agreement was entered between the PSTFA Board and the U.S. Department of the Interior to delegate the PSTFA Board's obligations to and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the ROP, the Republic of the Marshall Islands, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

The Fund paid benefits of \$105,650 and \$113,756 for the years ended September 30, 2020 and 2019, respectively. However, while the Fund accepts the liability for any amounts received, the Fund does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2020 and 2019, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$8,731 and \$(3,557), respectively.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(4) Healthcare Fund

Pursuant to RPPL No. 8-14, each resident in the Republic of Palau is required to have coverage for healthcare costs. Accordingly, the Medical Savings Fund and the Palau Health Insurance System (or collectively known as the Healthcare Fund) were established to promote health and social welfare to the citizens of the Republic of Palau. Under 41 PNC, Section 723, the Fund shall be responsible for the general day-to-day administration and operation of the Healthcare Fund. The Fund shall maintain records of all employees and of all contributors, including self-employed persons, in a manner deemed reasonable to the administration and operation of the two systems.

Contributions to the Healthcare Fund are governed by RPPL No. 8-14, which requires each participating employee to pay the minimum contribution of 2.5% of the employees' quarterly pre-tax income. Every participating employer is required to contribute an amount equal to that contributed by the employee. The employees' contribution goes to the employees' Medical Savings Account, while the employers' contribution goes to a pooled account that funds the National Health Insurance. Every participating self-employed individual are presumed to receive in any quarter, as remuneration, 10% of the self-employed individual's gross revenue and is required to pay 5% based on that amount on a quarterly basis. There is no maximum limit in contributions to the Healthcare Fund and contributions from self-employed individuals are \$345,245 and \$381,524 during the years ended September 30, 2020 and 2019, respectively. Beginning October 1, 2010, employers began to withhold 2.5% of employee earnings.

The Fund started accepting contributions for the Healthcare Fund on January 1, 2011. The Republic of Palau pays subscription costs for coverage under the Healthcare program for unemployed Palauan citizens who are age 60 and above or disabled. On February 17, 2016, RPPL No. 9-57, which amended Chapters 13 and 26 of Title 40 of the Palau National Code, allocated ten percent (10%) of annual revenues from import tax on alcoholic beverages and excise tax on tobacco to fund healthcare benefits subscription costs for unemployed Palauan citizens who are age 60 and above or disabled. During the years ended September 30, 2020 and 2019, the Fund recorded healthcare contributions for retirees and disabled individuals of \$707,703 and \$985,661, respectively. Total healthcare contributions recorded during the years ended September 30, 2020 and 2019 are \$7,692,642 and \$8,236,083, respectively.

Health care benefits are paid only to participating individuals and to unemployed Palauan citizens who are age 60 and above or disabled. Benefit payments for participating individuals started on April 1, 2011. At September 30, 2020 and 2019, total benefit expense amounted to \$5,931,874 and \$7,986,392 of which \$1,439,922 and \$2,356,558, respectively, was paid to the Belau National Hospital, a related party.

A detailed financial policy assessment of the healthcare costs was undertaken by the Asian Development Bank in 2008. Health economists and actuarial experts provided technical assistance in drafting RPPL No. 8-14 and follow-up technical assistance was provided to support the program's implementation.

In September 2010, actuarial projections based on a cost study of medical care incurred at the Belau National Hospital (BNH) were provided and input was given regarding reimbursement rates and payment provisions between the Healthcare Fund and medical service providers such as BNH. The Healthcare Fund is required to have ongoing studies providing options for improving the scope and sustainability of the program. Proposed changes in benefit provisions require actuarial analysis.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(5) Transfer from Republic of Palau

RPPL No. 10-44 Section 20, appropriated \$2,100,000 to provide an additional fifty dollars (\$50) in Social Security benefit payments to individuals receiving Social Security benefits pursuant to Title 41, subchapter VI of the Palau National Code. During the years ended September 30, 2020 and 2019, the Fund received and paid additional Social Security benefits of \$2,760,000 and \$2,100,000 respectively, which are recorded as transfer from Republic of Palau and benefit payments in the accompanying financial statements.

(6) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multiple employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to RPPL No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership. As of September 30, 2019, the valuation date, plan membership consisted of the following:

Inactive members currently receiving benefits	1,629
Inactive members entitled to but not yet receiving benefits	1,252
Active members	<u>3,480</u>
Total members	<u>6,361</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Plan receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions.

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years' total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the next 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit.

Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years' membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

The Fund's contribution to the Plan for the years ended September 30, 2020 and 2019 were \$38,836 and \$43,285, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2019, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method	
Amortization Method:	Level dollar, open with remaining amortization period of 30 years	
Asset Valuation Method:	Market Value of Assets	
Investment Income:	6.74% per year, net of investment expenses, including price inflation	
Inflation:	2.5%	
Interest on Member Contributions:	5.0% per year	
Salary Increase:	3.0% per year	
Expenses:	\$300,000 each year	
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% for ages 20 to 39; none for all other ages	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.
Duty vs Non-duty related disability:	100% Duty related
Refund of Contributions:	80% of terminated vested members elect a refund of contributions
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Long-Term Expected Rate of Return

The long-term expected rate of return on the Fund's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of September 30, 2019, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	<u>10%</u>	8.33%
	<u>100%</u>	

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate

The discount rate used to measure the total pension liability was 2.85% at the current measurement date from 4.16% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2024 for the 2019 measurement date. For years on or after 2024, a discount rate of 2.81% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Fund, calculated using the discount rate of 2.85%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.85%) or 1.00% higher (3.85%) from the current rate.

<u>1% Decrease 1.85%</u>	<u>Current Single Discount Rate Assumption 2.85%</u>	<u>1% Increase 3.85%</u>
\$ 358,879,277	\$ 308,480,463	\$ 266,790,752

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability. At September 30, 2020 and 2019, the Fund reported a liability of \$3,331,449 and \$2,696,839, respectively, for its proportionate share of the net pension liability. The Fund's proportion of the net pension liability was based on the projection of the Fund's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2020 and 2019, the Fund's proportion was 1.0790% and 1.0750%, respectively.

Pension Expense. For the years ended September 30, 2020 and 2019, the Fund recognized pension expense of \$219,332 and \$151,724, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2020 and 2019, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 169,416	\$ 129,878	\$ 212,671	\$ 40,270
Change of assumptions	691,382	303,711	241,127	372,235
Net difference between projected and actual earnings on pension plan investments	9,265	7,908	7,676	11,752
Contribution subsequent to measurement date	38,836	-	43,285	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>25,398</u>	<u>190,082</u>	<u>23,093</u>	<u>254,991</u>
	\$ <u>934,297</u>	\$ <u>631,579</u>	\$ <u>527,852</u>	\$ <u>679,248</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020 will be recognized in pension expense as follows:

Year ending September 30,

2020	\$ 53,266
2021	\$ 50,911
2022	\$ 41,594
2023	\$ 15,664
2024	\$ 28,488
Thereafter	\$ 74,044

(7) Loan Receivable

On August 28, 2003, the Fund entered into a loan agreement with the National Development Bank of Palau (NDBP), an affiliated entity and a component unit of the Republic of Palau. The loan was for \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into an agreement to restructure the loan. The loan ceiling increased to \$6,000,000, which is disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, however the interest rate to be charged and paid by NDBP shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025.

The loan receivable from NDBP was \$2,075,322 and \$2,402,787 with interest at 4.5% at September 30, 2020 and 2019, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

Principal receipts for subsequent years ending September 30 and applicable interest, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 343,411	\$ 89,984	\$ 433,395
2022	359,038	74,357	433,395
2023	375,378	58,017	433,395
2024	392,361	41,034	433,395
2025	410,315	23,080	433,395
2026	<u>194,819</u>	<u>13,558</u>	<u>208,377</u>
	\$ <u>2,075,322</u>	\$ <u>300,030</u>	\$ <u>2,375,352</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(8) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2020 and 2019, is as follows:

	Estimated Useful Lives	Balance October 1, 2020	Additions	Deletions	Balance September 30, 2020
Office furniture and equipment	4 - 13 years	\$ 426,477	\$ 686,156	\$ -	\$ 1,112,633
Building and improvements	30 years	14,806	-	(1,306)	13,500
Vehicles	5 years	<u>66,564</u>	<u>-</u>	<u>-</u>	<u>66,564</u>
		507,847	686,156	(1,306)	1,192,697
Less accumulated depreciation		<u>(477,919)</u>	<u>(149,443)</u>	<u>-</u>	<u>(627,360)</u>
Total capital assets, net		\$ <u>29,928</u>	\$ <u>536,713</u>	\$ <u>(1,306)</u>	\$ <u>565,337</u>
		Balance October 1, 2019	Additions	Deletions	Balance September 30, 2019
Office furniture and equipment	4 - 13 years	\$ 427,175	\$ 1,362	\$ (2,060)	\$ 426,477
Building and improvements	30 years	201,448	7,939	(194,581)	14,806
Vehicles	5 years	<u>94,378</u>	<u>-</u>	<u>(27,814)</u>	<u>66,564</u>
		723,001	9,301	(224,455)	507,847
Less accumulated depreciation		<u>(636,058)</u>	<u>(17,022)</u>	<u>175,161</u>	<u>(477,919)</u>
Total capital assets, net		\$ <u>86,943</u>	\$ <u>(7,721)</u>	\$ <u>(49,294)</u>	\$ <u>29,928</u>

(9) Contingencies

The Fund conducts its operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between ROP, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that ROP will retain the use of the land for a term of twenty-five years. The Fund does not have title or a lease agreement for the use of the land.

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of approximately \$438,102,000 as of October 1, 2020. An actuarial valuation of the Healthcare Fund has determined that the Healthcare Fund had an actuarial deficiency of approximately \$161,947,603 as of October 1, 2017. Unless the existing deficiency is corrected, the Fund's cash flow may eventually become negative, which will cause the Fund to become depleted to the point that the Fund will not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2020, to correct this potential funding deficiency.

(10) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2020 and 2019

(11) Subsequent Event

Economic uncertainties have arisen as a result of the COVID-19 corona virus pandemic. The Fund expects this matter to negatively impact its future financial results particularly, equity market investments and the unfunded liability; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Required Supplemental Information (Unaudited)
 Schedule of Proportional Share of the Net Pension Liability
 Last 10 Fiscal Years*

	2019 <u>Valuation</u>	2018 <u>Valuation</u>	2017 <u>Valuation</u>	2016 <u>Valuation</u>	2015 <u>Valuation</u>	2014 <u>Valuation</u>	2013 <u>Valuation</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 308,480,463	\$ 250,868,784	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
The Fund's proportionate share of the net pension liability	\$ 3,331,441	\$ 2,696,839	\$ 2,903,556	\$ 2,964,466	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.08%	1.07%	1.12%	1.19%	1.22%	1.19%	1.25%
The Fund's covered employee payroll**	\$ 645,383	\$ 630,667	\$ 648,483	\$ 629,414	\$ 590,683	\$ 559,742	\$ 521,749
The Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	516.20%	427.62%	447.75%	470.99%	444.45%	434.55%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	15.84%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Required Supplemental Information (Unaudited)
 Schedule of Pension Contributions
 Last 10 Fiscal Years*

	2019 Valuation	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	\$ 152,174	\$ 186,109	\$ 192,301	\$ 171,337	\$ 132,758	\$ 126,488	\$ 78,562
Contribution in relation to the actuarially determined contribution	<u>38,723</u>	<u>37,840</u>	<u>38,909</u>	<u>37,247</u>	<u>35,205</u>	<u>32,961</u>	<u>31,386</u>
Contribution deficiency	<u>\$ 113,451</u>	<u>\$ 148,269</u>	<u>\$ 153,392</u>	<u>\$ 134,090</u>	<u>\$ 97,553</u>	<u>\$ 93,527</u>	<u>\$ 47,176</u>
The Fund's covered-employee payroll**	<u>\$ 645,383</u>	<u>\$ 630,667</u>	<u>\$ 648,483</u>	<u>\$ 629,414</u>	<u>\$ 590,683</u>	<u>\$ 559,742</u>	<u>\$ 521,749</u>
Contribution as a percentage of covered-employee payroll	6.00%	6.00%	6.17%	5.74%	5.59%	5.58%	5.61%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Fiduciary Net Position
September 30, 2020

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 1,085,960	\$ 10,433	\$ 2,495,637	\$ -	\$ 3,592,030
Investments:					
Mutual funds	74,395,071	-	15,930,906	-	90,325,977
U.S. Government obligations	16,180,324	-	-	-	16,180,324
Corporate bonds	17,078,066	-	-	-	17,078,066
Money market funds	831,817	-	-	-	831,817
Total investments	<u>108,485,278</u>	<u>-</u>	<u>15,930,906</u>	<u>-</u>	<u>124,416,184</u>
Receivables:					
Contributions	4,224,479	-	1,019,960	-	5,244,439
Loan	2,075,322	-	-	-	2,075,322
Accrued interest and dividends	231,361	-	167	-	231,528
Due from other funds	-	-	(32,688)	32,688	-
Advances and other	44	-	339,133	-	339,177
	<u>6,531,206</u>	<u>-</u>	<u>1,326,572</u>	<u>32,688</u>	<u>7,890,466</u>
Less allowance for doubtful accounts	<u>(2,085,949)</u>	<u>-</u>	<u>(287,621)</u>	<u>-</u>	<u>(2,373,570)</u>
Total receivables, net	<u>4,445,257</u>	<u>-</u>	<u>1,038,951</u>	<u>32,688</u>	<u>5,516,896</u>
Prepaid expense	<u>10,520</u>	<u>-</u>	<u>954</u>	<u>-</u>	<u>11,474</u>
Capital assets, net	<u>292,976</u>	<u>-</u>	<u>272,361</u>	<u>-</u>	<u>565,337</u>
Total assets	<u>114,319,991</u>	<u>10,433</u>	<u>19,738,809</u>	<u>32,688</u>	<u>134,101,921</u>
Deferred outflows of resources from pension	<u>625,979</u>	<u>-</u>	<u>308,318</u>	<u>-</u>	<u>934,297</u>
Total assets and deferred outflows of resources	<u>114,945,970</u>	<u>10,433</u>	<u>20,047,127</u>	<u>32,688</u>	<u>135,036,218</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	554,995	-	265,836	-	820,831
Accrued liabilities and accounts payable	35,738	-	28,677	-	64,415
Due to other funds	(34,390)	1,702	-	32,688	-
Net pension liability	<u>2,232,073</u>	<u>-</u>	<u>1,099,376</u>	<u>-</u>	<u>3,331,449</u>
Total liabilities	<u>2,788,416</u>	<u>1,702</u>	<u>1,393,889</u>	<u>32,688</u>	<u>4,216,695</u>
Deferred inflows of resources from pension	<u>423,158</u>	<u>-</u>	<u>208,421</u>	<u>-</u>	<u>631,579</u>
Total liabilities and deferred inflows of resources	<u>3,211,574</u>	<u>1,702</u>	<u>1,602,310</u>	<u>32,688</u>	<u>4,848,274</u>
Contingencies					
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 111,734,396</u>	<u>\$ 8,731</u>	<u>\$ 18,444,817</u>	<u>\$ -</u>	<u>\$ 130,187,944</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2020

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 10,399,300	\$ -	\$ 3,543,374	\$ 13,942,674
Government employees	8,671,160	-	3,059,951	11,731,111
Retirees and disabled individuals	-	-	707,703	707,703
Self-employed individuals	-	-	345,245	345,245
Penalties and interest	395,102	-	36,369	431,471
	19,465,562	-	7,692,642	27,158,204
Bad debts	(227,766)	-	(57,710)	(285,476)
Total contributions, net	19,237,796	-	7,634,932	26,872,728
Investment income:				
Net increase in the fair value of investments	5,231,984	-	963,111	6,195,095
Dividends	1,395,367	-	173,304	1,568,671
Interest	1,024,284	-	55,898	1,080,182
Total investment income, net	7,651,635	-	1,192,313	8,843,948
Other income	37,565	140,300	159,925	337,790
Total additions	26,926,996	140,300	8,987,170	36,054,466
Deductions:				
Benefit payments:				
Retirement	18,385,141	45,957	-	18,431,098
Survivors	5,614,513	59,693	-	5,674,206
Medical savings account	-	-	3,114,804	3,114,804
National health insurance	-	-	2,817,070	2,817,070
Disability	702,035	-	-	702,035
Lump sum	120,065	-	-	120,065
Total benefit payments	24,821,754	105,650	5,931,874	30,859,278
Administrative	1,043,175	22,362	585,977	1,651,514
Fund custodian fee	104,357	-	27,740	132,097
Investment management fee	66,523	-	-	66,523
Depreciation	77,188	-	72,256	149,444
Total deductions	26,112,997	128,012	6,617,847	32,858,856
Transfer from Republic of Palau	2,760,000	-	-	2,760,000
Change in fiduciary net position	3,573,999	12,288	2,369,323	5,955,610
Fiduciary net position at beginning of year	108,160,397	(3,557)	16,075,494	124,232,334
Fiduciary net position at end of year	\$ 111,734,396	\$ 8,731	\$ 18,444,817	\$ 130,187,944

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
 Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Salaries, wages and benefits	\$ 788,535	\$ 754,722
Professional services	316,927	340,088
Board members other expenses	34,361	59,617
Credit card processing fees	113,777	111,136
Supplies, printing and reproduction	52,076	41,893
Staff development and training	7,924	40,978
Utilities	9,520	21,501
Communications	17,439	21,408
Bank service charge	13,633	14,565
Special functions	10,406	8,451
Repairs and maintenance	8,499	9,869
Travel and transportation	5,068	22,111
Insurance	4,777	4,642
Fuel and oil	3,154	3,505
Postage stamps	3,217	3,086
Board compensation	2,850	2,000
Furniture and fixtures	-	1,390
Dues, subscriptions and registrations	1,341	2,063
Donations	500	1,180
Office equipment	10,300	1,590
Miscellaneous	<u>27,878</u>	<u>23,986</u>
Total administrative deductions before pension contribution and adjustment	1,432,182	1,489,781
Pension contribution	38,836	43,285
GASB 68 pension adjustment	<u>180,496</u>	<u>108,439</u>
Total administrative deductions	<u>\$ 1,651,514</u>	<u>\$ 1,641,505</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2020

	Cost	Fair Value
Money Market Funds		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 831,817	\$ 831,817
Total Money Market Funds	<u>\$ 831,817</u>	<u>\$ 831,817</u>
U.S. Government Obligations		
US Treasury Notes 2% 10/31/2021	\$ 676,092	\$ 688,554
US Treasury Notes 1.75% 5/15/2023	631,511	651,244
US Treasury Notes 2.5% 8/15/2023	929,319	981,888
US Treasury Notes 2.375% 8/15/2024	101,118	108,379
US Treasury Notes 2.875% 5/31/2025	299,596	336,468
Int Development Fin Corp Sr Unsecured Float .18% 08/13/2027	300,000	300,000
Int Development Fin Corp Sr Unsecured Float .27% 06/20/2028	225,000	225,000
US Treasury Bonds 3.5% 2/15/2039	1,085,238	1,405,590
US Treasury Bonds 3% 11/15/2044	1,126,630	1,519,617
Total U.S. Treasury - Account # 135074870	<u>5,374,504</u>	<u>6,216,740</u>
Federal Home Loan Mortgage Corp Gold Pool #g12121 5.5% 4/1/2021	138	141
Federal Farm Credit Bank Float Rate .24503% 11/08/2021	624,685	625,481
Federal Home Loan Bank Unsecured 2.625% 12/10/2021	10,104	10,295
Federal Home Loan Bank Unsecured 3.125% 09/09/2022	300,879	317,004
Federal Home Loan Mortgage Corp Unsecured .32% 10/20/2022-2021	524,974	525,299
Federal National Mtge Assoc Pool # 935636 4% 09/01/2024	12,862	13,219
Federal Farm Credit Bank Unsecured .7% 06/30/2025-2021	499,625	500,245
Federal Home Loan Bank Unsecured 2.5% 06/12/2026	356,503	389,484
Federal Farm Credit Bank Unsecured 2.04% 02/03/2027-2021	718,541	719,118
Federal Home Loan Bank Unsecured 3.125% 06/11/2027	404,798	471,724
Federal Farm Credit Bank Unsecured 3.43% 12/06/2028	318,987	375,295
Federal Farm Credit Bank Unsecured 3.27% 03/22/2029-2022	325,142	339,684
Federal Farm Credit Bank Unsecured 1.37% 06/01/2029-2020	338,980	340,683
Federal Home Loan Bank Unsecured 2.125% 09/14/2029	487,022	525,578
Federal Farm Credit Bank Unsecured 2% 04/08/2030-2021	499,250	502,535
Federal Farm Credit Bank Unsecured 1.68% 04/29/2030-2021	99,800	100,695
Federal National Mortgage Assoc Pool # Ma3124 2.5% 09/01/2032	281,376	292,522
Federal Home Loan Mortgage Corp Pool # C76358 5% 02/01/2033	7,082	7,628
Federal Home Loan Mortgage Corp Pool # C01567 5% 05/01/2033	31,483	35,233
Federal National Mortgage Assn Pool #739821 5% 09/01/2033	9,424	10,458
Federal National Mortgage Assn Pool #725205 5% 03/01/2034	1,815	2,237
Federal Home Loan Mortgage Corp Pool #781958 4.129% 09/01/2034	2,733	2,931
Federal National Mortgage Assn Pool #794474 6% 10/01/2034	30,681	36,001
Federal National Mortgage Assn Pool #796274 5.5% 12/01/2034	41,178	48,866
Federal National Mortgage Assn Pool # 810225 6% 01/01/2035	30,187	35,421
Federal National Mortgage Assn Pool #735227 5.5% 02/01/2035	6,457	7,821
Federal National Mortgage Assn Pool #735228 5.5% 02/01/2035	14,777	17,991
Federal Home Loan Mortgage Corp Gold Pool #g08046 5.5% 3/1/2035	11,154	13,656
Federal National Mortgage Assn Pool # 814915 5.5% 03/01/2035	19,507	21,566
Federal National Mortgage Assn Pool #255670 5% 04/01/2035	4,966	6,015
Federal National Mortgage Assn Pool #735502 6% 04/01/2035	6,092	7,255
Federal National Mortgage Assn Pool # 826966 5.5% 06/01/2035	2,625	2,953
Federal Home Loan Mortgage Corp Gold Pool #a36664 5% 08/01/2035	4,397	5,389
Federal Home Loan Mortgage Corp Gold Pool #a36685 5% 08/01/2035	489	572
Federal Home Loan Mortgage Corp Pool # G01938 5.5% 09/01/2035	8,848	9,735
Federal Home Loan Mtge Corp Pool # A37876 5% 09/01/2035	25,273	27,845
Federal National Mortgage Assn Pool #735897 5.5% 10/01/2035	11,428	13,587
Federal National Mortgage Assn Pool #828856 5.5% 10/01/2035	13,853	16,929
Government National Mtg Corp Pool #648503 5.5% 11/15/2035	7,564	9,137
Federal Home Loan Mortgage Corp Pool # G01960 5% 12/01/2035	10,945	12,040
Federal National Mortgage Assn Pool #745089 6% 12/01/2035	5,704	6,876
Federal National Mtge Assoc Pool # 868936 6% 05/01/2036	40,242	43,272
Federal Home Loan Mortgage Corp Pool # A49906 5% 06/01/2036	9,341	10,836
Federal Home Loan Mtge Corp Pool # A61533 5% 06/01/2036	5,095	5,424
Federal National Mortgage Assn Pool # 867452 6.5% 06/01/2036	6,245	7,334
Federal National Mortgage Assoc Pool #882694 6.5% 06/01/2036	4,146	4,816
Federal National Mortgage Assn Pool #903749 6% 10/01/2036	2,858	3,163
Federal Home Loan Mortgage Corp Gold Pool #a55326 6% 12/01/2036	4,245	4,682
Federal Home Loan Mortgage Corp Pool # 1g1406 Arm 3.912% 12/1/2036	3,181	3,168
Federal National Mortgage Assn Pool #904915 5.5% 12/01/2036	1,378	1,502
Federal National Mortgage Assn Pool # 905678 5.5% 12/01/2036	9,246	9,928
Federal Home Loan Mortgage Corp Gold Pool # H00452 5.5% 1/1/2037	4,096	4,485
Federal National Mortgage Assn Pool #910473 3.78% 01/01/2037	3,478	3,495
Federal National Mtge Assoc Pool # Aa3553 5% 02/01/2039	2,782	2,952
Gnma Mortgage Pool Ctfs Pool #701940 4.5% 06/15/2039	144,085	157,255
Federal Home Loan Mtge Corp Pool # A88454 4.5% 09/01/2039	36,519	39,298
Govt National Mtge Assoc Pool # 737442 4% 09/15/2040	106,458	111,431
Tennessee Valley Auth Sr Unsecured 3.5% 12/15/2042	804,942	963,555
Total U.S. Government Agencies - Account # 135074870	<u>7,300,665</u>	<u>7,783,740</u>
Hawaii St Txbl-ser Fu 2.75% 1/1/2021	350,429	352,121
California St Dept Of Wtr Resources Pwr Sply Revenue Resources Pwr Sply Revenue Txbl-ref-ser P 2% 05/01/2022	105,000	107,819
Univ Of Hawaii Revenue Txbl-ref-ser G 2.95% 10/01/2024	100,000	108,375
Pennsylvania St Turnpike Commission Spl Oblig Txbl-ref Commission Spl Oblig Txbl-ref (escrowed To Maturity) 3.029% 12/1/2024	155,427	163,883
Honolulu City & Cnty Hi Wstwr Sys Revenue Txbl Ref Second Bond Sys Revenue Txbl Ref Second Bond Resolution-jr 2.495% Resolution-jr 2.495% 07/01/2027-2019	295,000	315,792
Honolulu Hawaii City & Cnty Brd Of Wtr Sply Wtr Sys Revenue Of Wtr Sply Wtr Sys Revenue Txbl-ref-ser B 2.377% Txbl-ref-ser B 2.377% 07/01/2033-2030	100,000	103,798
Honolulu City & Cnty Hi Txbl-ser E 2.17% 07/01/2035-2030	100,000	101,014
Hawaii St Txbl-ser Fz 2.065% 08/01/2035-2030	375,000	377,520
Hawaii St Hsg Fin & Dev Corp Sf Mtge Purchase Revenue Txbl-fnma Mtge Purchase Revenue Txbl-fnma Mbs Pass-thru Program-ser A 2.6% 7/1/2037	70,676	73,504
Hawaii St Arpts Txbl-ref-ser-a 2.97% 07/01/2039-2029	290,000	274,998
Honolulu City & Cnty Hi Txbl-ser E 2.67% 07/01/2043-2030	102,406	101,494

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2020

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Curators Of The Univ Of Missouri Mo Sys Facs Revenue Txbi-ref Mo Sys Facs Revenue Txbi-ref System Facs Rev Bonds-ser A System Facs Rev Bonds-ser A 2.748% 11/01/2050-2050	93,670	99,526
Total U.S. Municipal Obligations - Account # 135074870	<u>2,137,608</u>	<u>2,179,844</u>
Total U.S. Government Obligations	<u>\$ 14,812,777</u>	<u>\$ 16,180,324</u>
<u>Corporate Bonds</u>		
Canadian Imperial Bank Sr Unsecured Flt Rt .61375% 10/5/2020	\$ 210,026	\$ 210,008
Inter-american Devel Bk Sr Unsecured .15563% 10/09/2020	500,000	500,115
Coca Cola Co Sr Unsecured 1.875% 10/27/2020	55,000	55,064
Microsoft Corp Sr Unsecured 2% 11/03/2020-2020	99,992	100,005
Shell International Sr Unsecured 2.25% 11/10/2020	99,582	100,216
Bank Of New York Mellon Sr Unsecured 2.45% 11/27/2020-2020	100,266	100,158
Bank Of Nova Scotia Sr Unsecured Fltg Rt .51975% 01/08/2021	100,000	100,061
John Deere Capital Corp Sr Unsecured Flt Rt .48913% 3/12/2021	175,000	175,179
Private Export Funding Secured 2.8% 05/15/2022	426,367	441,796
Barclays Bank Plc Sr Unsecured 1.5% 06/08/2022-2020	99,700	98,729
European Invnt Bk Sr Unsecured 2.375% 06/15/2022	252,006	259,123
Shell International Sr Unsecured 2.375% 08/21/2022	99,908	103,793
Ryder System Inc Sr Unsecured 2.5% 09/01/2022-2022	176,590	180,656
Private Export Funding Secured Ser Ii 2.05% 11/15/2022	830,704	830,280
Chevron Corp Sr Unsecured 2.355% 12/05/2022-2022	100,000	103,813
Charles Schwab Corp Sr Unsecured Note 2.65% 01/25/2023-2022	109,911	115,334
Landesbank Baden-wuerttemberg Subordinated 7.625% 02/01/2023	416,472	433,266
Berkshire Hathaway Inc Sr Unsecured 3% 02/11/2023	174,580	185,462
Starbucks Corp Sr Unsecured 3.1% 03/01/2023-2023	99,983	105,923
Apple Inc Sr Unsecured 2.4% 5/3/2023	150,191	157,932
Nutrien Ltd Sr Unsecured 1.9% 5/13/2023	89,919	92,905
African Development Bank Sr Unsecured 3% 09/20/2023	199,767	216,030
Royal Bank Of Canada Sr Unsecured Fltg Rt .894% 10/5/2023	159,499	161,010
Wells Fargo Company Sr Unsecured Flt Rt Floating Rate 1.49063%	200,239	202,492
Microsoft Corp Sr Unsecured 3.625% 12/15/2023	104,798	115,079
Invesco Finance Plc Sr Unsecured 4% 01/30/2024	149,576	164,009
Total Capital Intl Sa Sr Unsecured 3.75% 04/10/2024	242,442	265,135
Novartis Capital Corp Sr Unsecured 3.4% 05/06/2024	130,377	143,403
Barclays Bank Plc Sr Unsecured 2% 05/29/2024-2021	134,595	133,952
Goldman Sachs Group Inc Sr Unsecured 3.85% 07/08/2024-2024	247,257	269,441
American Honda Finance Sr Unsecured 2.15% 09/10/2024	252,732	263,073
Ross Stores Inc Sr Unsecured 3.375% 09/15/2024-2024	99,969	107,617
Northeast Utilities Sr Unsecured 3.15% 01/15/2025-2024	292,012	321,783
Kimberly Clark Corp Sr Unsecured 2.65% 03/01/2025	124,826	135,133
Pepsico Inc Sr Unsecured 2.75% 04/30/2025-2025	124,722	136,296
Golondrina Leasing Llc Sink Fd Gtd Export Import Bank Of USA 1.822% 05/03/2025	93,902	97,436
Southwest Airlines Sr Unsecured 5.25% 05/04/2025-2025	59,870	66,082
Principal Financial Group Sr Unsecured 3.4% 05/15/2025-2025	132,224	138,741
Nucor Corp Sr Unsecured 2% 06/01/2025-2025	89,863	93,938
Private Export Funding Secured 3.25% 06/15/2025	278,488	296,188
American Honda Finance Sr Unsecured 1% 09/10/2025	99,995	99,993
Intercontinental Exchange, Inc. Sr Unsecured 3.75% 12/01/2025-2025	157,539	170,390
Analog Devices Sr Unsecured 3.9% 12/15/2025-2025	153,005	171,503
Berkshire Hathaway Inc Sr Unsecured 3.125% 03/15/2026-2025	105,679	111,639
Hewlett Packard Enterprise Co. Sr Unsecured 1.75% 04/01/2026	175,105	176,288
US Bancorp Subordinated 3.1% 04/27/2026-2026	165,426	183,310
Overseas Private Inv Corp Sr Unsecured Flt Rt .14% 09/15/2026-2018	275,000	275,000
Emerson Electric Co Sr Unsecured .875% 10/15/2026-2026	89,741	89,394
Duke Energy Florida Llc Secured 3.2% 01/15/2027-2026	214,912	242,262
Kaiser Foundation Hospital Sr Unsecured 3.15% 05/01/2027-2027	199,465	224,022
Borgwarner Inc Sr Unsecured 2.65% 07/01/2027-2027	89,747	94,979
Inter-american Devel Bank Notes 6.75% 07/15/2027	121,978	135,825
World Bank (ibrd) Unsecured Float 0% 08/19/2027	375,000	374,235
Kimberly Clark Corp Sr Unsecured 1.05% 09/15/2027-2027	250,000	251,880
Toronto-dominion Bank Sr Unsecured 2.375% 11/08/2027-2023	179,797	180,506
National Rural Utilities Secured 3.4% 02/07/2028-2027	334,221	374,933
American Intl Group Sr Unsecured 4.2% 04/01/2028-2028	149,808	173,955
Southwest Gas Corp Sr Unsecured 3.7% 04/01/2028-2028	171,019	183,056
Pfizer Inc Sr Unsecured 3.6% 09/15/2028-2028	111,865	118,051
Northern Trust Corp Sr Unsecured 3.15% 05/03/2029-2029	199,998	228,086
Unilever Capital Corp Sr Unsecured 2.125% 09/06/2029-2029	236,216	238,534
Intel Corp Sr Unsecured 2.45% 11/15/2029-2029	199,044	212,304
Costco Wholesale Corp Sr Unsecured 1.6% 04/20/2030-2030	149,738	152,510
Blackrock Inc Sr Unsecured 2.4% 04/30/2030-2030	160,403	174,518
Ingredion Inc Sr Unsecured 2.9% 06/01/2030-2030	74,856	81,437
Gatx Corp Sr Unsecured 4% 06/30/2030-2030	74,840	86,395
Raytheon Technologies Corp Sr Unsecured 2.25% 07/01/2030-2030	99,872	105,764
Fedex 2020-1 Class Aa 1.875% 2/20/2034	100,000	101,465
State Street Corp Subordinated 3.031% 11/01/2034-2029	278,881	294,308
Union Pacific Corp Sr Unsecured 3.375% 02/01/2035-2034	104,747	121,466
Small Bus Admin Ser 2016-20i CI I 2.03% 09/01/2036	181,535	186,675
Wells Fargo Bank Na Subordinated 5.85% 02/01/2037	323,822	375,342
Swedish Export Credit Sr Unsecured 05/11/2037	103,848	142,758
Walmart Inc Sr Unsecured 3.95% 06/28/2038-2037	233,513	250,690
Pacificorp Secured 6% 01/15/2039	184,285	179,746
Disney Walt Co Sr Unsecured 3.5% 05/13/2040-2039	94,905	107,408
Unitedhealth Group Inc Sr Unsecured 2.75% 05/15/2040-2039	161,730	158,496
Lincoln Natl Corp Sr Unsecured 7% 06/15/2040	326,684	359,114
Merck & Co Inc Sr Unsecured 2.35% 06/24/2040-2039	89,105	91,323

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2020

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Johnson & Johnson Sr Unsecured 2.1% 09/01/2040-2040	183,770	184,704
Midamerican Energy Co Secured 4.4% 10/15/2044-2044	285,651	317,105
Entergy Louisiana Llc Secured 4.95% 01/15/2045-2025	127,455	137,563
Axis Specialty Finan Plc Sr Unsecured 5.15% 04/01/2045	187,079	211,332
Entergy Texas Inc Secured 5.15% 06/01/2045-2025	248,850	269,008
Queens Health Systems Secured 4.464% 07/01/2045	125,000	167,944
Grainger W W Inc Sr Unsecured 4.2% 05/15/2047-2046	155,042	183,185
Pub Svc Elec & Gas Secured 3.85% 05/01/2049-2048	148,975	163,341
Interstate Power & Light Sr Unsecured 3.5% 09/30/2049-2049	194,363	213,613
Microsoft Corp Sr Unsecured 2.675% 06/01/2060-2059	166,779	174,055
Total Corporate Bonds	<u>\$ 16,103,643</u>	<u>\$ 17,078,066</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 2,049,935	\$ 2,364,386
Wilshire Solutions Fixed Income Master Trust Fund	4,453,057	5,154,710
Wilshire Solutions Trust Credit Opportunities Fund	2,139,571	2,390,702
Wilshire Solutions Real Assets Master Trust Fund	793,711	796,516
Wilshire Solutions Trust US Equity Fund	4,820,807	5,210,690
Wilshire Solutions Trust Cash (Stif Vehicle)	13,902	13,902
Subtotal - Account # WTHF 9004-002	<u>14,270,983</u>	<u>15,930,906</u>
Wilshire Solutions Real Assets Master Trust Fund	30,795,379	33,374,841
Wilshire Solutions Trust Credit Opportunities Fund	14,561,830	16,297,542
Wilshire Solutions Trust Non US Equity Fund	14,736,513	16,095,630
Wilshire Solutions Trust US Equity Fund	5,373,814	5,425,817
Wilshire Solutions Trust Cash (Stif Vehicle)	3,201,241	3,201,241
Subtotal - Account # WTHF 9003-002	<u>68,668,777</u>	<u>74,395,071</u>
Total Mutual Funds	<u>\$ 82,939,760</u>	<u>\$ 90,325,977</u>

See accompanying Independent Auditors' Report.