The Trust Territory Social Security System

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THE TRUST TERRITORY of the Pacific Islands—often popularly referred to as Micronesia—consists of a large group of islands. Before World War II, they were held by Japan under a mandate from the League of Nations. Now they are administered by the United States as a United Nations trusteeship. This article describes the Trust Territory social security system enacted by the Congress of Micronesia and approved by the High Commissioner on October 13, 1967. The program went into effect on July 1, 1968. A supplementary plan was adopted at the same time to pay additional benefits to employees of the Trust Territory Government on the basis of their service before the general plan was enacted. Its provisions are also summarized here.

GEOGRAPHIC AND DEMOGRAPHIC DATA

The Trust Territory consists of three major archipelagoes—the Carolinas, the Marianas, and the Marshalls—located in the Western Pacific Ocean just north of the equator. Geographically speaking, Guam and the Trust Territory are a unit. In fact, Guam is the largest island in the Marianas, but politically it is not part of the Trust Territory since it has been an unincorporated territory of the United States since the beginning of this century.

In actual land size, the Trust Territory is relatively small, with the various islands consisting of only about 700 square miles. The total population is also relatively small—only about 93,000. An entirely different picture is presented, however, when the total land and intervening sea areas are considered since these represent an area larger than the continental United States.

The population of the Trust Territory is relatively young. About 45 percent are under age 15 (compared with a corresponding figure of 30 percent for the United States), and only 5 percent are aged 65 or over (the proportion in the United States is 10 percent). A rough mortality study[1] (subject to some question because of possible incompleteness of reporting of deaths) indicates that mortality in the Trust Territory is perhaps twice as high as that in the United States at the childhood ages but that thereafter the difference gradually decreases until at the middle and older ages, mortality is perhaps about the same as in the United States. The latter situation is probably the case for the wage-earning group that would be covered by the social security program.

ECONOMIC DATA

Although much of the economy of the Trust Territory is the type that one imagines from seeing *South Pacific*, there is nevertheless a significant amount of wage and salaried employment to which social insurance coverage can readily be applied. The major areas of economic activity are in the fields of wholesale and retail trade, transportation, agriculture, and fishing. The principal exports are copra, scrap metal, handicraft articles, fish, shells, and vegetables. There are, of course, the usual government activities involving employment in such areas as general administration, education, and health. Many of those working in the Trust Territory Government are United States citizens employed by the Department of Interior (and are thus covered by the Federal civil-service retirement system). Increasingly, citizens of the Trust Territory are moving into positions of responsibility with the Territorial Government. Micronesians also fill the posts in the relatively few municipal and local governments.

Currently, the average annual salary of Micronesian employees of the Trust Territory Govern-

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[1] Robert J. Myers, *Actuarial Report on Trust Territory Social Security System* (Social Security Administration), 1966.

ment is about $1,700. For female employees, who constitute only about 15 percent of the total, the average annual salary is only slightly lower. Employees in private industry and commerce have somewhat lower earnings, estimated at about $1,100 per year.

BACKGROUND OF THE SYSTEM

For a number of years before the legislation establishing the Trust Territory social security system, it had been recognized that this Territory was moving away from the traditional Micronesian society of subsistence farming and fishing to a commercial and industrial society dependent on wage income. A system of social security therefore appeared necessary. Workmen's compensation benefits were made available for government employees and for employees of certain large employers. Government employees also had a lump-sum death benefit plan that provided up to 1 year's salary.

In 1964, the United Nations sent a Visiting Mission to the Trust Territory, and the report of this mission was considered by the General Assembly and the Trusteeship Council. Such deliberations and discussion lent support to the development of a social security program for the Trust Territory.

COVERAGE PROVISIONS

The Trust Territory social security system applies to all citizens of the Trust Territory who are employed for wages or salary, except for (1) agricultural workers, (2) family employment, (3) temporary workers (as defined later), and (4) ordained, commissioned, or licensed ministers, priests, and members of religious orders. Self-employed persons are not covered. Employment by any Trust Territory employer is covered wherever it occurs. Temporary employees are defined as those not working for the employer at some time during at least three different months in the 12-month period preceding the reporting period.

The compulsory coverage provisions relate to all Trust Territory citizens who are employed by the Trust Territory Government, by a municipal government, by private employers, by cooperatives, by church missions (their lay workers only), and by householders (domestic servants). If an individual is working for two employers simultaneously, he is covered in both jobs.

Coverage (with respect to contributions and credit towards benefits) relates to all compensation as wages or salary received in cash or in kind, except that an upper creditable limit is provided for very high-paid individuals. Compensation above $750 paid in a quarterly reporting period by a single employer is disregarded. When a worker is employed by more than one employer in a reporting period and earns a covered total of more than $750 (but with no more than $750 from any employer), he is credited with only $750 and will receive a refund of his "excess" contributions. Because of the difficulties of equitable allocation and the need for confidentiality of earnings records, no refund will be paid to the employers in such cases.

It is estimated that about 8,500 individuals are covered in a typical month and that their average rate of pay is about $125 a month. Of course, during the course of the year more than 8,500 different persons will have some creditable earnings under the system. About half of the 8,500 covered individuals are employees of the Trust Territory Government, and the remainder are employees of (1) the district or municipal governments, (2) private commercial and industrial employers, (3) religious missions, and (4) private householders.

BENEFICIARY CATEGORIES

The basic purpose of the Trust Territory social security system is to provide pensions for individuals who have reached the minimum retirement age prescribed by the plan and for certain surviving dependents of both active workers and retirement pensioners. In addition, provision is made for lump-sum payments in those few cases where individuals have not had sufficient covered employment to qualify for a pension or where the pension payments made do not equal the employee contributions plus a certain allowance for interest.

Retirement pensions are first payable for July 1971. Survivor pensions for widows and widowers can be first payable for October 1970; child survivor pensions can be first payable for October 1969. Lump-sum death payments have been available since the system began operations in July 1968.

The minimum retirement age is 60. The retirement pensions are payable only after the individual has retired from all wage and salary employment. In other words, the pension is not payable for any month in which the insured person engages in wage or salary employment. The retirement test does not consider any subsistence farming or fishing that the pensioner might do. Similarly, any cash income that he obtains from such fishing or farming activities will not affect the payment of his pension.

Survivor pensions are paid to the surviving wife or husband (regardless of age and without need of proving dependency) and to the children under age 14 of either an insured worker who dies or a retirement pensioner who dies. These pensions are also subject to the retirement test mentioned previously, so that the benefits are not paid to persons who are in wage or salary employment. The widow's and widower's pensions terminate on death or remarriage. The child survivor pensions terminate on death, marriage, attainment of age 14, or adoption by any person other than a stepparent, grandparent, aunt, or uncle on whom the child is dependent.

ELIGIBILITY PROVISIONS

The requirement for retirement pensions is fully insured status. The contribution conditions are 1 quarter of coverage for each year in the period beginning with 1968 and ending with the year before the year in which the individual attains age 60. It should be noted that the required quarters of coverage can be earned after age 60. In addition, there is a minimum requirement that the individual must have at least 10 quarters of coverage. A "quarter of coverage" is defined as covered wages of $50 or more paid in a particular reporting period (and on which contributions were paid).

The qualifying requirement of fully insured status produces eligibility for all survivor pensions. Such status is present if the deceased was receiving a retirement pension (or could have been a retirement pensioner if he had applied for benefits and was not working in the month of his death) or if he had at least 1 quarter of coverage for each year in the period beginning with 1968 and ending with the year in which his death occurred, with a minimum of 10 quarters of coverage required. Alternatively, child survivor benefits (but not widow's or widower's benefits) are payable even if the deceased worker is not fully insured if he is currently insured, which means having 6 quarters of coverage in the 13-quarter period ending in the quarter of his death.

BENEFIT AMOUNTS

The amount of the basic retirement pension is determined from the individual's cumulative covered earnings under the system. In other words, a record is maintained of the compensation on which the worker has contributed in each 3-month reporting period, and the total of such compensation is to be used as a basis for computing the pension amount. The pension amount will thus not be based directly on the contributions paid, because the contribution rate (and the contribution amount per $1 of compensation) will vary in the future.

The pension amount is not directly proportional to the cumulative earnings credits, but instead there is a heavy weighting of the first covered earnings. Relatively high pensions will be payable in the early years of operation. Under this weighted formula, the annual pension amount is 6 percent of the first $5,000 of cumulative earnings, plus 1 percent of cumulative earnings above $5,000 but not above $20,000, plus ½ of 1 percent of covered earnings above $20,000. The formula produces a pension of $25 a month for cumulative earnings of $5,000, $37.50 a month for cumulative earnings of $20,000, and $50 a month for cumulative earnings of $50,000. A minimum pension of $10 a month is provided. Illustrative pensions are shown in table 1 for various earnings levels and periods of coverage. It may be noted that this benefit formula is similar to that contained in the original Social Security Act of 1935, which was 6 percent of the first $3,000 of cumulative wages, plus 1 percent of the next $42,000, plus ½ of 1 percent of the excess above $45,000.

TABLE 1.—Illustrative monthly basic retirement pensions [1] for various earnings levels and periods of coverage

Monthly earnings	Number of years of coverage						
	3	5	10	15	20	30	40
$30	$10.00	$10.00	$18.00	$25.33	$26.83	$29.83	$32.83
40	10.00	12.00	24.00	26.83	28.83	32.83	36.83
50	10.00	15.00	25.83	28.33	30.83	35.83	39.17
60	10.80	18.00	26.83	29.83	32.83	38.17	41.17
70	12.60	21.00	27.83	31.33	34.83	39.67	43.17
80	14.40	24.00	28.83	32.83	36.83	41.17	45.17
90	16.20	25.33	29.83	34.33	38.17	42.67	47.17
100	18.00	25.83	30.83	35.83	39.17	44.17	49.17
125	22.50	27.08	33.33	38.54	41.67	47.92	54.17
150	25.33	28.33	35.83	40.42	44.17	51.67	59.17
175	26.08	29.58	37.92	42.29	46.67	55.42	64.17
200	26.83	30.83	39.17	44.17	49.17	59.17	69.17
225	27.58	32.08	40.42	46.04	51.67	62.92	74.17
250	28.33	33.33	41.67	47.92	54.17	66.67	79.17

[1] Amount payable to retired worker.

The survivor pensions are related to the basic retirement pension—that is, they are specified fractions of the basic amount. The pension for the widow or widower is 50 percent of the basic pension, and an additional 10 percent of the basic pension is payable for each eligible child. If the widow (or widower) is eligible for a retirement pension based on her own employment record, the widow's pension is reduced by the amount of such retirement pension. In no case, however, will the total survivor pension payable to the family be allowed to exceed the basic pension or to be less than $10 a month. Table 2 gives illustrative survivor pensions for various types of family groups.

A lump-sum payment is payable with respect to workers who die before qualifying for a pension (either because they are too young or because they do not meet the eligibility conditions) and with respect to deceased pensioners when their pension payments had been made for only a short period. The amount of the lump sum, before reduction for pension payments made on his account (to the insured worker and/or to his eligible survivors), is computed as 4 percent of the cumulative earnings credits. This percentage equals the *ultimate* contribution rate payable by an employee, so that it generally produces a "guarantee" of the return of employee contributions plus some allowance for interest. For a deceased pensioner or a deceased worker leaving survivors eligible for a pension, the amount of the lump sum is reduced by the amount of any pensions paid to the insured worker and his eligible dependents. In the vast majority of these cases, no lump sum is payable, because the pension payments made would be larger than the lump-sum guarantee.

TABLE 2.—Illustrative monthly survivor pensions for various earnings levels and periods of coverage

Monthly earnings	Number of years of coverage						
	3	5	10	15	20	30	40
	Widow alone						
$30	$10.00	$10.00	$10.00	$12.67	$13.42	$14.92	$16.42
50	10.00	10.00	12.92	14.17	15.42	17.92	19.58
70	10.00	10.50	13.92	15.67	17.42	19.84	21.58
100	10.00	12.92	15.42	17.92	19.58	22.08	24.58
150	12.67	14.16	17.92	20.21	22.08	25.84	29.58
250	14.17	16.67	20.84	23.96	27.08	33.34	39.58
	Widow and 1 child						
$30	$10.00	$10.00	$10.80	$15.20	$16.10	$17.90	$19.70
50	10.00	10.00	15.50	17.00	18.50	21.50	23.50
70	10.00	12.60	16.70	18.80	20.90	23.80	25.90
100	10.80	15.50	18.50	21.50	23.50	26.50	29.50
150	15.20	17.00	21.50	24.25	26.50	31.00	35.50
250	17.00	20.00	25.00	28.75	32.50	40.00	47.50
	Widow and 3 children						
$30	$10.00	$10.00	$14.40	$20.26	$21.46	$23.86	$26.26
50	10.00	12.00	20.66	22.66	24.66	28.66	31.34
70	10.08	16.80	22.26	25.06	27.86	31.74	34.54
100	14.40	20.66	24.66	28.66	31.34	35.34	39.34
150	20.26	22.66	28.66	32.34	35.34	41.34	47.34
250	22.66	26.66	33.34	38.34	43.34	53.34	63.34
	Widow and 5 or more children						
$30	$10.00	$10.00	$18.00	$25.33	$26.83	$29.83	$32.83
50	10.00	15.00	25.83	28.33	30.83	35.83	39.17
70	12.60	21.00	27.83	31.33	34.83	39.67	43.17
100	18.00	25.83	30.83	35.83	39.17	44.17	49.17
150	25.33	28.33	35.83	40.42	44.17	51.67	59.17
250	28.33	33.33	41.67	47.92	54.17	66.67	79.17

Some illustrations of lump-sum death payments may be given. First, consider a worker who earns $50 a month for 10 years and then dies before retirement age, leaving no survivors eligible for a pension. His heirs (his parents, for example, or a brother) would receive a lump-sum payment of $240 (4 percent of $6,000). In this case, if the individual had, in fact, left eligible surviving dependents, it is likely that the pension payments made to them would exceed $240, and no lump-sum payment would be made.

Consider a second worker who has the same earnings record and who retires at age 60 with a pension of $25.83 a month. If this individual dies after receiving only six pension payments, leaving no survivors eligible for a pension, the lump-sum payment would be $85.02 ($240 minus 6 times $25.83). Of course, in the same example, if the individual had received 10 or more pension payments or he had left eligible survivors who would receive more than $85.02 in pension payments, no lump-sum payment would be payable.

FINANCING BASIS

The employer and the employee pay equal amounts of contributions, collected on a quarterly basis. The contribution rate begins at a relatively low level to "ease in" gradually the financial impact on employers and employees. The contribution rate gradually increases, until it reaches the ultimate level necessary to finance adequately the benefits of the program. The contribution schedule is as follows:

Period	Percent Employer rate	Percent Employer rate
July 1968–June 1973	1	1
July 1973–June 1979	2	2
July 1979–June 1984	3	3
July 1984 and after	4	4

INVESTMENT PROCEDURES

The Trust Territory Government had previously administered several trust funds. These were handled primarily by banks, and the investments were largely in time deposits or in United States Government securities. Under the Trust Territory social security system, substantial funds will be accumulated in the early years of operation, and these are to be accounted for separately and independently of all other government monies.

A Trust Territory social security retirement fund has been established. With respect to principal and interest, the fund is to be invested by the Trust Territory Government in obligations of the United States Government or of any of its State or local governments (or of institutions of the United States Government or State and local governments) and in common stocks (but not bonds of private companies or mortgages). Although at present there are no investments of the Trust Territory available, it is possible that there will be some in the future (perhaps through various types of economic development programs).

TABLE 3.—Illustrative monthly combined retirement pensions under Trust Territory social security system and prior service plan for various earnings levels and periods of service

Monthly earnings [1]	Number of years of coverage under Trust Territory social security system: None	3	5	10	20	30
	With 5 years' creditable prior service [2]					
$50	$3.75	$13.75	$18.75	$29.58	$34.58	$39.58
70	5.25	17.85	26.25	33.08	40.08	44.92
100	7.50	25.50	33.33	38.33	46.67	51.67
150	11.25	36.58	39.58	47.08	55.42	62.92
250	18.75	47.08	52.08	60.42	72.92	85.42
	With 10 years' creditable prior service [2]					
$50	$7.50	$17.50	$22.50	$33.33	$38.33	[3]
70	10.50	23.10	31.50	38.33	45.33	[3]
100	15.00	33.00	40.83	45.83	54.17	[3]
150	22.50	47.83	50.83	58.33	66.67	[3]
250	37.50	65.83	70.83	79.17	91.67	[3]
	With 15 years' creditable prior service [2]					
$50	$11.25	$21.25	$26.25	$37.08	$42.08	[3]
70	15.75	28.35	36.75	43.58	50.58	[3]
100	22.50	40.50	48.33	53.33	61.67	[3]
150	33.75	59.08	62.08	69.58	77.92	[3]
250	56.25	84.58	89.58	97.92	110.42	[3]

[1] Monthly earnings on July 1, 1968, assumed level thereafter.
[2] See text for definition of "creditable prior service."
[3] No figures given because this is an unlikely case.

A housing authority for example, might be established that would guarantee mortgage loans repayable on an amortization basis (and, of course, with careful selection and approval of such mortgage loans).

PROVISIONS OF PRIOR SERVICE PLAN

The general plan described previously, the Trust Territory social security system, provides reasonable benefit protection for employees (both government and nongovernment) who have significant amounts of service under the plan in the future. A supplementary plan for employees of the Trust Territory Government who have had significant amounts of government service before the establishment of the general plan was also enacted. Such a procedure would not have been possible for the relatively small number of employees of private employers and the municipal governments because adequate past-service records are not available and because there is no reasonable source of financing such benefits.

The specific provisions of the prior service plan are described below.

COVERAGE

The prior service plan applies only to individuals in service with the Trust Territory Government on July 1, 1968 who then had at least 5 years of service and who are citizens of the Trust Territory.

TYPES OF BENEFITS

The same types of benefits are provided under the prior service plan as under the Trust Territory social security system. An eligible individual who separates from service before reaching the minimum retirement age of 60 is nevertheless eligible for these prior-service pension benefits when he reaches age 60. Similarly, the survivors of such an eligible individual are eligible for survivor benefits, regardless of the date of death. The retirement pension available at age 60 and over is not payable for any month during which the individual beneficiary is employed for wages or salary for any employer. Since no contribution is paid by the individual, there are no lump-sum death payments.

BENEFIT AMOUNTS

The amount of the basic pension for the retired employee (and likewise the proportionate survivor pension) depends on two factors—the length of prior service and the salary on July 1, 1968. The creditable prior service would include only years of service before July 1, 1968, above 5 years, counting such service on a monthly basis (with any service in a month giving credit for a full month). If, for example, an individual entered Government service on November 15, 1957, and was employed continuously thereafter, then on July 1, 1968, he would have 10 years and 8 months of prior service, but for pension computation purposes he would have creditable service of 5 years and 8 months.

The rate of the basic pension is $1\frac{1}{2}$ percent of the salary on July 1, 1968 (with a maximum of $250 a month being considered) times the number of years of creditable service. No minimum-benefit provision is applicable. In the previous case, if the monthly salary on the effective date is $150, then the monthly pension amount (payable at age 60 or over) under the prior service plan would be $12.75 ($5\frac{8}{12}$ times $1\frac{1}{2}$ percent times $150). This amount would, of course, be in addition to any benefit under the Trust Territory social security system. Table 3 shows the combined amounts payable under the Trust Territory social security system and the prior service plan for various combinations of prior and future service.

FINANCING BASIS

The prior service plan benefits are financed entirely by the Trust Territory Government as they fall due.