



# A Report to Our Members

For Fiscal Year 2012

Issued May 2013

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## MISSION

*The purpose of the Fund is to provide retirement annuities and other benefits for the employees of the government of Guam enabling them to accumulate reserves for themselves and their survivors to meet the hazards of old age, disability, death & termination of employment.*

## About US

The Government of Guam Retirement Fund (the “Fund”) was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. Plans administered by the Fund are as follows:

The *Defined Benefit (DB) Plan* is a single-employer defined benefit pension plan. The DB plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Retirement System.

The *Defined Contribution Retirement System (the “DC Plan”)* was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam. The DC Plan is a single-employer pension plan and shall be the single retirement program for all new employees whose employment commences on or after October 1, 1995. The DC Plan, by its nature, is fully funded on a current basis from employer and member contributions.

The *Deferred Compensation Plan* (the “457 Plan”) is available to both DB and DC Plan members. It is a retirement savings plan that allows eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a **voluntary** salary contribution. Contributions and earnings are **tax-deferred** until money is withdrawn. Distributions are usually taken at retirement, but participants can also take distributions if they terminate employment.

### Board of Trustees

The Retirement Fund Board of Trustees (the “Board”) is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board comprises seven members. Three are appointed by the Governor with the advice and consent of the Legislature. Four trustees - 2 retirees and 2 active members - are elected by the class of members they represent. The term of office for all Board Members is five years.

The Fund is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

	FY 2012	FY 2011
<b>Participant Counts - DB Plan</b>		
Active	3,090	3,361
Retired	7,155	7,117
Total Actives and Retirees	10,245	10,478
Inactive and Terminated Members with Accumulated Contributions		
	5,507	5,833
	15,752	16,311
<b>Participant Counts - DC Plan</b>		
Active	7,766	7,690
Retired	453	380
	8,219	8,070

# How We Have Progressed

## DEFINED BENEFIT PLAN

### Issuance of General Obligation Bond for Repayment of Outstanding Contributions

In accordance with P.L. 31-74, *I Maga'låhen Guåhan* included the re-financing of the outstanding receivables (including interest and penalties) owed to GGRF in a 2012 General Obligation Bond issue. As such, on June 7, 2012, GGRF received \$24.8M from the General Fund representing full payment of prior years' receivables from DOE and GMHA, and for receivables arising from the passage of Public Law 31-74.

During Fiscal Year 2011, the Guam Memorial Hospital Authority (GMHA) was delinquent in the remittance of both employer and member contributions to GGRF.

#### Impact of Late Contributions

GMHA's failure to make timely remittances has a negative effect on GGRF, and GMHA and its employees as noted below:

- GGRF has liquidated DB Plan investments in order to cover benefit payments. Continued non-remittance of contributions will undoubtedly result in continued liquidations of GGRF assets that should remain in the investment portfolio to generate investment income.

- In addition to applicable interest, a 1% penalty is assessed for late DB contributions.
- GMHA exposes itself to both civil and criminal liability. Its employees can seek enforcement assistance through the Guam Department of Labor and the U.S. Department of Labor.
- GMHA's delinquency prevents its eligible employees from retiring. In addition, DC contributions not deposited timely may result in harm to the member's account.

As a result of GMHA's FY2011 delinquencies, and General Fund budget shortfalls, **Public Law 31-74** was passed in June 2011, mandating the following:

- A reduction in the statutory employer contribution rate from 27.46% to 21.44% for agencies receiving appropriations from the Guam Legislature and for Federally-funded programs, between June 4, 2011 and September 30, 2011.
- That the GGRF Board and the Governor of Guam enter into the "Health Insurance Bailout Agreement of FY2011" reducing the contribution rate accordingly (entered into on June 15, 2011).

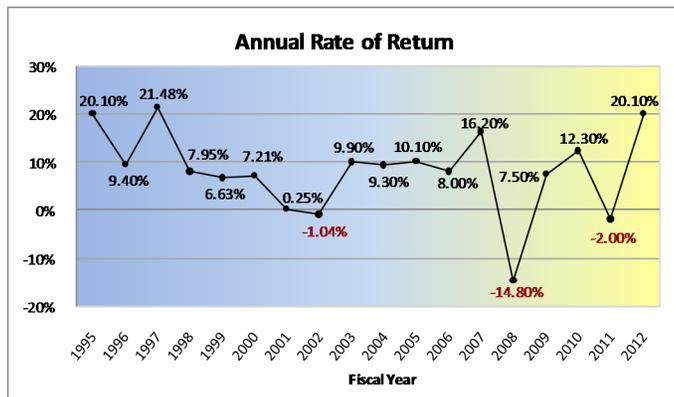
- An amendment to *P.L. 28-38* to include "interest-only" payments on 1) GMHA's FY2011 delinquent DB Plan contributions, and 2) the savings from the reduction of the government contribution rate.

**Public Law 28-38** (June 2005; amended by *P.L. 29-19* Sept. 2007; and *P.L. 30-196* Sept. 2010), required the General Fund to remit monthly "interest-only" payments to GGRF for DOE and GMHA receivables for various pay periods in fiscal years ended September 30, 1988 through 2004.

- That GMHA remit to GGRF, all of the savings arising from the reduced statutory employer contribution rate, and additional GMHA funds as needed, to ensure remittance of all FY2011 GMHA DC Plan delinquent contributions, by September 30, 2011.
- That the Governor of Guam shall include the re-financing of the outstanding principal and interest owed to the GGRF in the next General Obligation Bond "Bond" issue of the government of Guam."

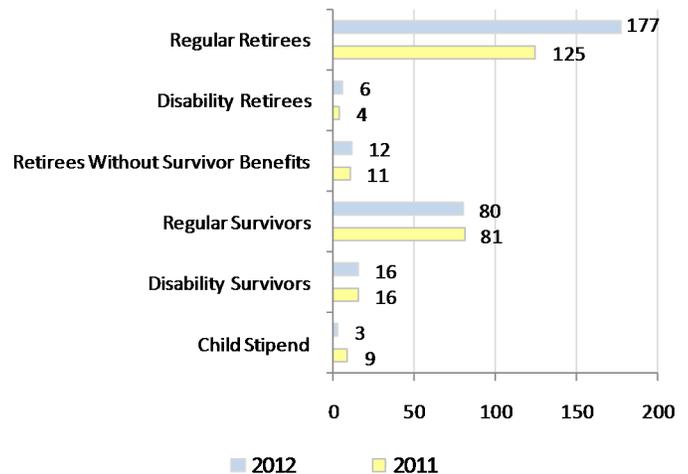
### Annual Rate of Return

For 2012, the DB Plan investment portfolio posted a positive return of 20.1%, compared to 2011's negative return of 2.0%.



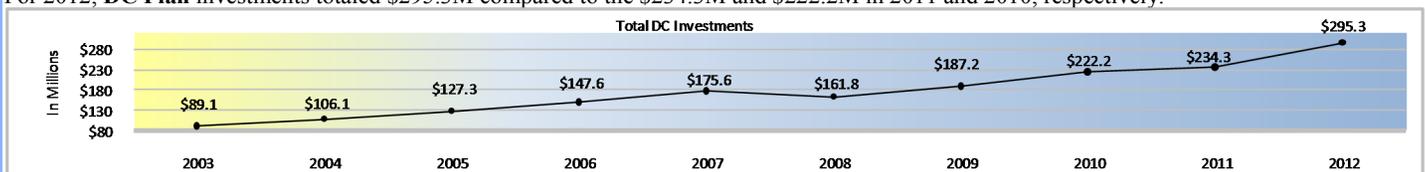
GGRF investment returns averaged 8.3% percent from 1995 through 2012. Over that period, there have been three years with negative returns, all of which occurred in the last ten years.

### New DB Retirees



## DEFINED CONTRIBUTION PLAN

For 2012, **DC Plan** investments totaled \$295.3M compared to the \$234.3M and \$222.2M in 2011 and 2010, respectively.

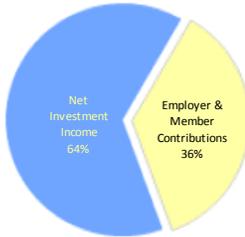


In addition, DC Plan employer and employee contributions increased by \$314,310 or 1.1% over 2011. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2012.

# Income & Expense

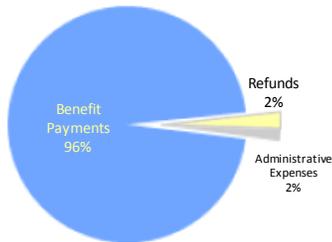
## DEFINED BENEFIT PLAN

### DB Contributions and Net Investment Income FY 2012



### DB

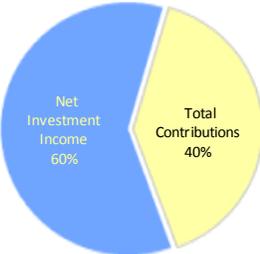
### FY 2012



	2012	2011
Net Appreciation in Fair Value of Investments	\$207,622,587	-\$46,794,683
Interest, Dividends & Other Investment Income	33,093,456	38,161,152
Less Investment Expenses	(4,867,456)	(4,958,871)
<b>Net Investment Income</b>	<b>235,848,587</b>	<b>(13,592,402)</b>
<b>Employer &amp; Member Contributions</b>	<b>133,225,443</b>	<b>118,424,693</b>
<b>Total Additions</b>	<b>369,074,030</b>	<b>104,832,291</b>
Benefit Payments	184,380,351	176,716,825
Refunds	2,709,194	3,615,187
Interest on Refunds	1,294,416	1,968,048
Administrative Expenses	2,807,624	3,047,424
Transfers to DC Plan	33,891	111,474
<b>Total Deductions</b>	<b>191,225,476</b>	<b>185,458,958</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>177,848,554</b>	<b>(\$80,626,667)</b>

## DEFINED CONTRIBUTION PLAN

### DC Contributions and Net Investment Income FY 2012



### DC Expense

### FY 2012



	2012	2011
Net Appreciation in Fair Value of Investments	33,922,594	-\$5,970,107
Interest, Dividends & Other Investment Income	9,576,083	4,911,745
Less Investment Expenses	(102,000)	(74,000)
<b>Net Investment Income</b>	<b>43,396,677</b>	<b>(1,132,362)</b>
<b>Total Contributions</b>	<b>28,933,582</b>	<b>28,619,272</b>
<b>Total Additions</b>	<b>72,330,259</b>	<b>27,486,910</b>
Refunds	12,203,108	12,716,717
Administrative Expenses	1,707,794	1,596,283
Transfer from DB Plan	(33,891)	(111,474)
<b>Total Deductions</b>	<b>13,877,011</b>	<b>14,201,526</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$58,453,248</b>	<b>\$13,285,384</b>

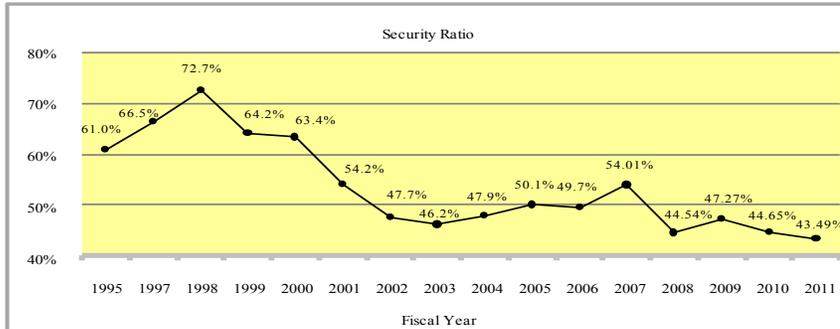
## Independent Audit

An independent audit was conducted, resulting in a clean audit opinion. Complete financial information can be found at our website: [www.ggrf.com](http://www.ggrf.com).

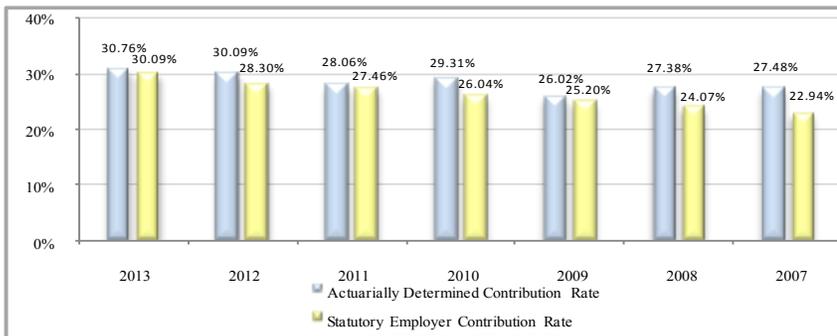
## DEFINED BENEFIT PLAN

### Unfunded Liability - Security Ratio

Underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.64 billion at September 30, 2011. This represents an increase in the unfunded liability ratio from 39% in 1995 to 56.5% in 2011, and a decrease in the security ratio, from 61.0% in 1995 to 43.5% in 2011. The decrease in the security ratio reflects a decline in GGRF's ability to meet future benefit obligations.



Management continues to recommend that the Guam Legislature fully fund the actuarially determined contribution rate each year. The uncertainties in the investment markets, and the years remaining in the funding period underscores the need for the Guam Legislature to fully recognize the magnitude of the problem and provide full funding each year. A comparison of the "actuarially determined" versus the "statutory" employer contribution rates for 2007 to 2012 are reflected below.



### Omnibus Fiscal Reform Act of 2012

The Honorable Governor Eddie Calvo's proposed Omnibus Fiscal Reform Act of 2012 (Bill 507), sought to reduce GovGuam's yearly expenditures through a reduction of its workforce and a ten year extension of the amortization period for the unfunded liability. The Bill also provided for an Early Retirement Incentive Plan (ERIP) for eligible DB Plan members.

### GGRF's Position

The GGRF Board opposed Bill 507 as introduced as it entailed a significant and immediate reduction in the government's contribution to GGRF without any demonstrated long-term overall cost savings to GovGuam. The Bill essentially sought to increase benefit levels without adequate funding and delay full funding of the DB Plan; and failed to demonstrate any sustainable benefits to the long-term financial health of GovGuam.

### Legislative Action / Retirement Fund Reforms

In accordance with Public Law 31-279, within 60 days GGRF shall transmit to the Governor and the Speaker, a report analyzing the feasibility of **Retirement Fund reforms** which must include, but is not limited to the following:

1. Actuarial analysis of a limited ERIP, admitting no more than 600 employees within 3 years of retirement, and excluding those employees that the Governor determines to be essential to the health and safety of the people of Guam;
2. The issuance of a pension Bond to decrease the unfunded liability of the Retirement Fund; and
3. Any other retirement fund reform which the Fund reasonably believes will decrease the cost of the Retirement Fund to the taxpayer and is in the best interest of its members.

## DEFINED CONTRIBUTION PLAN

### Enhancing the Retirement Benefits of DC Plan Members

The proposed legislation to establish a **Hybrid Plan** was finalized and submitted to the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement & Land on April 20, 2012. A public hearing on the legislation, introduced as Bill No. 453-31, was held on August 14, 2012. The Bill however, was not acted on by the 31<sup>st</sup> Guam Legislature; and as such, must be reintroduced by the 32<sup>nd</sup> Guam Legislature.

#### DC Plan Alternatives

The GGRF Board established a working committee several years ago to assess benefit enhancement options that would provide DC Plan members a reasonable opportunity to build sufficient post-retirement benefit levels, while also balancing GovGuam's budgetary needs and obligations. The committee's extensive analysis involved consideration of a comprehensive and detailed study of alternative retirement plans and arrangements. The alternatives included the following:

#### 1. Transitioning to Social Security

Considering the low-level of pre-retirement income replacement that Social Security provides on average (only 40%), the uncertainty surrounding the future of the program, and the potentially adverse effect on members who will not receive service credit for GovGuam service already rendered, transitioning to Social Security is not a favorable option.

#### 2. Combining DC with Social Security vs. Hybrid Plan

The costs of combining the existing DC Plan with a Social Security component was compared to the costs for a Hybrid Plan, and the Hybrid Plan was projected to be cheaper by 7.1% of compensation. As such, the Hybrid Plan was deemed to be the most viable option as it combines a defined benefit "floor" of benefits determined by a formula based on years of service (including service already rendered by DC Plan members" and salary, along with a salary reduction deferred compensation account program).

#### Hybrid Plan

Under the proposed plan: 1) All new employees and their employers will be required to contribute a certain percent of the employee's wages to GGRF (similar to current retirement contributions), 2) Mandatory participation will be required for all new employees, and 3) Voluntary participation in certain circumstances for current DC Plan participants.

With DC Plan members balances averaging less than \$40,000, they may be left without adequate income when they retire, and GovGuam may find itself subsidizing their costs of living through public assistance programs. **As such, GGRF encourages members of the 32<sup>nd</sup> Guam Legislature to reintroduce Bill No. 453-31.**