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The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2019 with a $36.9 million (M) decrease in net position for the Defined Benefit (DB) plan, and a $7.9M increase in net position (net income) for the Defined Contribution (DC) plan. The Fund's rate of return on its DB Plan investment portfolio was 3.17% in FY 2019 compared to 5.75% in FY 2018, resulting in an average rate of 8.16% from 1995 through 2019.

Independent auditors Burger & Comer P.C. rendered an unmodified or "clean" opinion on the Fund's financial statements. FY 2019 is the 14th consecutive year that the Fund's Report on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments. For FY 2019, OPA recognized the Fund for achieving a status similar to "low risk" for three consecutive years because of the Fund's accomplishments and issuing their financial audits by March 31st (with FY 2019 being the exception[1]).

Coronavirus (COVID-19) Impact on the Fund

The Fund determined that the COVID-19 may negatively affect its investments and the changes in net assets available for pension benefits. Due to the significant uncertainties caused by COVID-19, the Fund is unable to reasonably estimate the ultimate financial impact. In March 2020, the Governor of Guam issued Executive Order 2020-04 ordering the closure of all non-essential GovGuam offices, which included the Fund. However, the Fund is providing limited services to its Members and Retirees while implementing social distancing measures.

Guam Retirement Security Plan (GRSP) Repealed

In February 2020, Public Law (P.L.) 35-72 repealed Article 6 of Chapter 8, Title 4 of the Guam Code Annotated (GCA) relative to the GRSP. The six participants who elected to transfer to the GRSP were allowed to evaluate their options and change their elections as of November 2017.

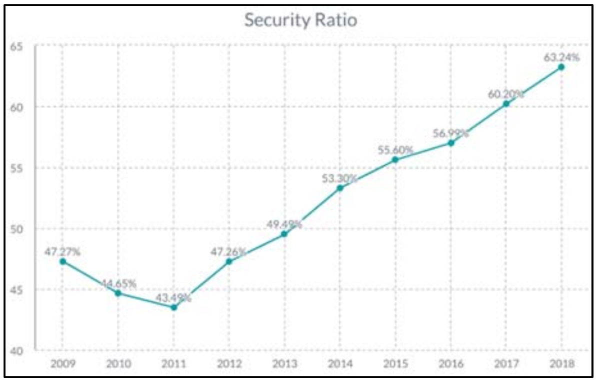
DC Plan Net Position Increased

The DC Plan net position increased by $7.9M or 2.2% from $349.9M in FY 2018 to $357.9M in FY 2019. The net appreciation in fair value of investments decreased by $48.8M to $(29.9)M in FY 2019 from $18.9M in the prior year. Interest dividends and other investment income increased by $12.6M from $25.3M in FY 2018 to $37.8M in FY 2019. Refunds totaled $28.1M in FY 2019, a 9.9% decrease from $31.2M in FY 2018.

DB Plan Unfunded Liability Grew to $1.8 Billion (B)

The underfunding of the DB Plan continues to be an ongoing concern and has grown from $552.0M in 1995 to $1.18B in 2018. This represented a decrease in the security ratio, from 66.5% in 1997 to 63.24% in 2018, and an increase in the unfunded liability ratio form 33.5% in 1995 to

[1] The Coronavirus pandemic was beyond the control of the Fund.



36.76% in 2018. However, the security ratio has consistently risen in the last seven years, from 43.49% in 2011 to 63.24% in 2018. The security ratio (fund assets as a percentage of accrued liability) for the past twenty-three years ranged from 43.49% to 72.7%, representing an average of 51.82% per year. The Fund has a lower security ratio than most U.S. funds.

The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability decreased from $1.3B based on the 2017 actuarial valuation to $1.2B based on the 2018 actuarial valuation. The actuarially determined contribution rate decreased from 26.56% to 26.28%. This was primarily due to the 1.0% reduction in total payroll versus the assumption of a 3.0% increase in total payroll.

Pursuant to Title 4 GCA §8137, the unfunded liability is to be completely funded within 80 years from May 1, 1951. Based on the 2018 valuation, there are 14.58 years remaining in the funding period.

Post-Employment Benefits
Due to implementation of Governmental Accounting Standards Board (GASB) No. 73 in 2017, a prior year adjustment was made to include cost of living allowances (COLA) and supplemental payments in net pension liability. As of September 30, 2019 and 2018, the Fund recorded net pension liability of $5.67M and $5.66M, respectively.

Other Post-Employment Benefits (OPEB)
GovGuam, through its substantive commitment to provide OPEB, maintains a cost-sharing multiple employer DB plan to provide certain post-retirement healthcare benefits to the Fund retirees. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. GovGuam's contribution amount is set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare.

Further, GovGuam provides retirees with $10 thousand (K) of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage as the plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

As of September 30, 2019 and 2018, the Fund recorded Net OPEB Liability of $8.47M and $11.24M, respectively.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis or review the reports in their entirety at www.opaguam.org and www.ggrf.com.