



OFFICE OF PUBLIC ACCOUNTABILITY

Suite 401 DNA Building, 238 Archbishop Flores Street, Hagatna, Guam 96910
Tel (671) 475-0390 · Fax (671) 472-7951 · Hotline: 47AUDIT (472-8348)
www.opaguam.org

Government of Guam Retirement Fund – FY 2022 Financial Highlights

August 31, 2023

The Office of Public Accountability released the Government of Guam Retirement Fund's (the Fund) Financial Statements, Report on Compliance and Internal Control, and the Auditor's Communication with Those Charged with Governance for fiscal year (FY) 2022. The Fund closed FY 2022 with a combined decrease (net loss) of \$570 Million (M) in net position, from \$2.74 Billion (B) in FY 2021 to \$2.17B in FY 2022. The Defined Benefit (DB) Plan's net position decreased by \$485.9M, while the Defined Contribution (DC) Plan's net position decreased by \$84M. As of the end of FY 2022, the annual money-weighted rate of return on the DB Plan investments (net of expenses) is -17.69%.

Independent auditors, Burger & Comer P.C. (BC), rendered an unmodified (clean) opinion on the Fund's financial statements. FY 2022 is the 17th consecutive year that the Fund's Report on Compliance and Internal Control has neither material weaknesses nor significant deficiencies. There were no management letter comments for FY 2022.

At the request and approval of the Public Auditor, BC contracted the services of an independent Engagement Quality Control Reviewer to review the Fund's FY 2022 working papers and draft financial audit report.

DB Plan & DC Plan Investments

The DB Plan's investment balances have consistently decreased from \$2.26B as of the end of FY 2021 to \$1.76B as of the end of FY 2022. DB Plan investments are managed as a single portfolio because it is expected to exist in perpetuity. The rate of return on investments decreased to 4.66% in the quarter ending December 31, 2021, from 19.04% in the quarter ending September 30, 2021. The rate of return continued to decline at the beginning of the quarter ending March 31, 2022. FY 2022 ended with a negative annual rate of return of 18.04% compared to FY 2021's positive return of 19.04% resulting from an adverse market environment.

DC Plan investments increased for the quarter ending December 31, 2021, but continued to decline from \$483M as of March 31, 2022 to \$406M as of September 30, 2022. Unlike the DB Plan, the DC Plan is not managed as a single portfolio. Each participant seeks their own investment strategy, so it is not possible to state what the return is for the DC Plan over a particular time period. See Table 1 for details.

Table 1 – DB Plan & DC Plan Investments Comparative

DB Plan			DC Plan		
Period	Investment Balance (in billions)	Rate of Return	As of	Investment Balance (in millions)	Rate of Return
FY ended 9/30/2021	\$2.26	19.04%	9/30/2021	\$488	Not Applicable
Quarter ended 12/31/2021	\$2.33	4.66%	12/31/2021	\$511	
Quarter ended 3/31/2022	\$2.19	-5.13%	3/31/2022	\$483	
Quarter ended 6/30/2022	\$1.90	-12.11%	6/30/2022	\$427	
Quarter ended 9/30/2022	\$1.76	-6.10%	9/30/2022	\$406	
FY ended 9/30/2022		-18.04%			

DB Plan

The DB Plan’s FY 2022 net position significantly decreased (net loss) by \$485.9M, compared with FY 2021’s increase (net income) of \$268.6M. FY 2022’s net position stood at \$1.76B from FY 2021’s net position of \$2.25B. The decrease was primarily attributed to the decrease in investments by \$500.4M, due largely to market fluctuations. During FY 2022, the net depreciation (decrease) in the fair value of the investment was \$427.4M, compared to the \$340.5M appreciation (increase) in FY 2021’s net fair value. Overall, the net fair value of investments decreased by \$767.8M (or 226%) from FY 2021. This was also due largely to market fluctuations, which resulted in a negative investment portfolio return of 18.04%. There were, however, increases in dividends and other investment income by \$5M, employer contributions by \$14.8M, and member contributions by \$693 Thousand (K) in FY 2022.

Deductions from the DB Plan increased by \$6.8M, which was mainly due to the increase in benefit payments resulting from increases in age and service annuities of \$6.3M and survivor annuities of \$1.1M, with a decrease in disability annuities of \$218K. Total membership decreased by 381 and will continue to decrease as members retire.

DC Plan

As of FY 2022, the Plan’s net position decreased (net loss) by \$84M compared with FY 2021’s increase (net income) of \$92.6M. FY 2022’s net position stood at \$408.3M from FY 2021’s net position of \$492.3M. During FY 2022, the net depreciation (decrease) in the fair value of the investment was \$115.5M compared to the \$73.6M appreciation (increase) in FY 2021’s net fair value. Overall, the net fair value of investments decreased by \$189.1M (or 257%). Investments decreased by \$81.8M in FY 2022 due largely to market fluctuations.

Deductions from the DC Plan decreased by \$860K due largely to decreases in refunds to separated employees and withdrawals of \$767K. Total membership increased by 923 and will continue to increase as a result of the recruitment of new employees.

Impact of Market Volatility on the DB Plan Unfunded Liability

The unfunded liability is the present value of the future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability decreased from \$1.17B (based on the 2020 actuarial valuation) to \$1.14B (based on the 2021 actuarial valuation). The actuarially determined contribution rate increased from 28.32% to 28.43% due to the net recognition of investment gains and losses over the last three years.

The unfunded liability has grown from \$552M at September 30, 1995, to \$1.14B at September 30, 2021. This represents a decrease in the security ratio (from 66.5% in 1997 to 65.04% in 2021) and an increase in the unfunded liability ratio (from 33.5% in 1995 to 34.96% in 2021). The security ratio is the ratio of assets to liabilities.

According to Title 4 of the Guam Code Annotated §8137, the unfunded liability is to be completely funded within 80 years – or in 2031 – from May 1, 1951. Public Law 33-186 extended this period by two years, from 2031 to 2033. Based on the 2021 valuation, there are 11.58 years remaining in the funding period. The Fund’s management encourages the Guam Legislature to continue to set the statutory rate at the actuarially determined contribution rate until full funding is achieved.

Net Pension Liability and Other Post-Employment Benefits (OPEB) Liability

As of the end of FY 2022, the Fund recorded a net pension liability of \$4.6M and an OPEB liability of \$11.2M. These liabilities decreased by \$1.5M and increased by \$334K, respectively, from the prior year.

Future Outlook-DB Benefit Payments

The number of retired DB and DB 1.75 members increased from 7,117 in 2011 to an estimated 7,435 in 2022. Annual benefit payments likewise increased from \$177M to an estimated \$249M in 2022. The benefit payments for DB retirees are expected to increase as active members continue to retire.

Contingencies

Five Government of Guam (GovGuam) employees, who are members of the Fund, filed a complaint against GovGuam and the Fund through the United States of America (the “USA”). They alleged that the Fund failed to provide the members with service credits during the time they were on the GovGuam Leave Sharing Program (the “Program”). The USA filed the complaint on behalf of those five employees and all other employees who were denied service credits for their service time on the Program.

Fund’s position is that the Leave Sharing Statute does not allow for service credit while a member is on leave sharing and unless they are fully funded. GovGuam’s position is that employees are not entitled to retirement service credit under the law while USA’s position is that the Leave Sharing Statute violates the Unformed Services Employment and Reemployment Rights Act of 1994. The Fund may have to assess any potential exposure upon a final court decision.

Subsequent Events-Investments

For the quarter ended December 31, 2022, the market value of the DB Fund’s invested assets increased by approximately \$120M (or 6.8%) from September 30, 2022 at a positive return of 7.55%. It achieved a lower positive return of 4.43 % as of March 31, 2023. Although the return

for the quarter ended June 30, 2023 is not currently available, investments increased from \$1.93B as of March 31, 2023 to \$1.96B as of June 30, 2023.

Similarly, DC Plan assets increased by \$34M (or about 8.37%) to \$440M for the quarter ended December 31, 2022. It further increased to \$488M in June 2023.

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