



## **Government of Guam Retirement Fund FY 2010 Financial Highlights**

February 28, 2011

The Government of Guam Retirement Fund (Fund) closed fiscal year (FY) 2010 with a \$80.7 million (M) increase in net assets for the Defined Benefit (DB) plan and a \$34.2M increase in net assets for the Defined Contribution (DC) plan. Due to the rebounding of the financial markets in FY 2010, the Fund had a positive return of 12.3% on its DB plan investments compared to the negative 14.8% return in FY 2008. Independent auditors Burger and Comer rendered an unqualified or “clean” opinion on the Fund’s financial statements and reports on compliance and internal control. For the fifth consecutive year, the accompanying report on compliance and internal control did not identify any current year findings. The Fund is to be congratulated for this five-year accomplishment. The management letter had three comments, one of which reaffirmed the auditors’ support of the Fund’s position as a single employer retirement plan, which was contrary to the December 2009 memorandum issued by the Department of Administration Director stating that the Fund is a cost-sharing multiple-employer plan.

### **Financial Markets on the Rebound**

The DB plan investments earned a positive return of 12.3%, compared to 7.5% in prior year, with a corresponding increase in investments of \$16.3M from \$1.164 billion (B) to \$1.181B. Likewise, DC plan investments increased by \$35.0M from \$187.2M in prior year to \$222.2M. For the DB plan, total additions (revenues) were \$145.7M stemming from investment income, interest and dividends, which makes up 56% of the \$261.5M total revenues. The remaining \$115.8M or 44% comes from employer and employee contributions of \$97.7M and \$18.0M, respectively.

The DB plan paid out \$173.8M in benefit payments, which represents 66.5% of total revenues. Periodically, members who separate from the government of Guam receive refunds or withdraw from the Fund and these totaled \$4.2M in FY 2010. Administrative expenses were \$2.8M and total deductions were \$180.8M, resulting in a net increase of \$80.7M in plan net assets.

### **Benefit Payments and Retirees**

The net increase in the number of retirees was 27 from 7,085 to 7,112, resulting in an increase in benefit payments of \$2.3M from \$171.5M in prior year to \$173.8M. The pool of potential retirees will continue to grow as 3,732 are active plan members. An additional 6,525 terminated government employees are entitled, but have yet to receive benefits. The Fund received \$115.8M in employer and employee contributions. To cover the shortfall, the Fund liquidated \$54.3M in investments, compared to \$47M in prior year.

### **Delinquent Remittances by GMHA**

In November 2010, the Fund petitioned for Writ of Mandate with the Superior Court of Guam to order the Guam Memorial Hospital Authority (GMHA) to remit delinquent member and employer contributions, plus interest and penalties. As of February 4, 2011, GMHA owes the Fund a total of \$5.6M of which \$4.6M is for the DB plan and \$1.0M is for the DC Plan. GMHA has not even paid employee contributions, much less the employer share. With this, GMHA exposes itself to both civil and criminal liability. Not only does

this have a negative impact on the Fund, but also on GMHA and its employees. The Fund had to liquidate DB plan investments in order to cover benefit payments. In addition, GMHA employees eligible to retire are unable to do so because Public Law 28-38 required that GMHA's employer and employee contributions, including interest and penalties be paid in full to the Fund. If eligible GMHA employees are able to retire, the hospital's personnel cost will decrease.

### **Security Ratio Increased**

For FY 2010, the Fund' security ratio (fund assets as a percentage of the unfunded liability) increased from 44.5% in prior year to 47.3%. The increase represents a slight improvement in the Fund's ability to meet future benefit obligations. Conversely the unfunded liability decreased from 55.5% to 52.7%. This means that for every dollar of Fund assets, there is only 47.3 cents available to pay future annuities.

The unfunded liability has grown from \$552M in FY 1995 to \$1.44B in FY 2009. To reduce the unfunded liability, a combination of increased employer contributions and increased rates of return are required. Over the years, the statutory employer contributions for DB plan have increased from 22.94% in 2007 to 26.04% in 2010, while employee contributions remain at 9.5% of base pay.

### **Outlook on Defined Contribution Plan**

With DC member balances averaging \$40,000, most participants will not have enough saved to generate a reliable stream of retirement income to: (1) support their basic needs; (2) allow them to maintain a comfortable standard of living; and (3) last their lifetime. If members are left without adequate income when they retire, the government of Guam may find itself subsidizing their costs of living through public assistance programs. Unlike the DB plan which provides a guaranteed retirement benefit for the life of the member, the DC plan provides no guaranteed benefit. The retirement benefit of DC plan members depend on the amount of money accumulated in their participant account at retirement. It is incumbent upon DC members to have other savings and investments for retirement as they are not eligible for social security.

The Board is still considering alternative plan designs, which may include DB plan features to enhance the retirement available to DC plan members. Upon completion of its assessment, the Board expects to make changes, within its purview, to the DC plan. However, changes requiring legislative action will be presented to the Legislature for its consideration.

### **Increase in General and Administrative Expenses**

General and administrative expenses decreased by \$215,000 (K) from \$4.58M in FY 2009 to \$4.36M in FY 2010. While there were increases in some expense categories, these increases were offset by decreases in other categories. Specifically, the decreases were primarily due to actuary fees from \$212K to \$74K and salaries and wages from \$1.65M to \$1.57M. Increases were found in: office supplies from \$9K to \$29K, travel and transportation from \$46K to \$63K, and insurance from \$224K to \$239K.

### **Management Letter**

A separate management letter was issued in which the auditor discussed three prior year comments as follows: (1) the auditors support GGRF's position as a single-employer plan; (2) GGRF staff have once again prepared the MD&A, financial statements, footnotes to the financial statements, and all supporting schedules; and (3) the DB's funded status and unfunded liability concern the auditors, in that the annuity payments exceed contributions, resulting in the liquidation of plan net assets.

See Management's Discussion and Analysis for further details. You may view the reports in their entirety at the Office of Public Accountability's website, [www.guamopa.org](http://www.guamopa.org) and the Fund's website at [www.ggrf.com](http://www.ggrf.com).