



OFFICE OF THE PUBLIC AUDITOR

**Government of Guam Retirement Fund  
FY 2007 Financial Highlights**

March 12, 2008

During the year, Government of Guam Retirement Fund (GGRF or the “Fund”) received a 16.2% return on investment, the highest in ten years; and realized a \$154.1 million (M) increase in plan net assets. Despite these increases, the Fund liquidated \$64.3M in investments because for every dollar of future Defined Benefit (DB) retiree annuities, GGRF has accumulated less than 50 cents to meet that obligation. In addition, significant receivables are adding to the Fund’s inability to address the unfunded liability.

**Highest Increase in Investment Portfolio in Several Years**

For FY 2007, the DB investments produced a significant rate of return of 16.2% compared to 8.0% last year. Prior year returns were 10.1% in 2005, 9.3% in 2004, and 9.9% in 2003. The Fund reported \$1.7 billion (B) in plan net assets, an increase of \$154.1M. Of the \$1.7B, \$1.5B are assets exclusively set aside for the DB plan, while \$178.3M are set aside for the Defined Contribution (DC) plan. The \$154.1M increase is from the increases in DB and DC investments of \$125.2M and \$28.9M, respectively.

**GGRF Continues to Liquidate Assets to Meet DB Benefit Obligations**

In order to meet the obligations to the 6,831 retirees, the Fund liquidated \$64.3M in investments, compared to \$59.1M in 2006. Liquidations since FY 1999 totaled \$672.1M in principal and interest, diminishing the Fund’s income-earning potential. Benefit payments will continue to rise as the 4,121 active members approach retirement.

**Unfunded Liability Exposure**

Based on the 2006 independent actuarial valuation, GGRF’s funded ratio was 49.7%, which is a slight decrease from 50.1%. This means that for every dollar of future DB Plan liability, GGRF has accumulated less than 50 cents to meet that obligation. Management is concerned that the unfunded liability has grown from \$552M in 1995 to \$1.33B in 2006. To reduce the unfunded liability, a combination of increased employer contributions and increased rates of return are required.

**Significant Receivables**

The Fund continues to hold significant receivables of \$148.9M, primarily for Supplemental/COLA benefits receivables, Early Retirement Incentive Program, and employer/employee contributions.

In addition, Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) owe past retirement contributions of \$12.1M and \$10.4M, respectively. Pursuant to P.L. 28-38, as amended by P.L. 29-19, the General Fund remitted interest only payments of \$ 2.31M and \$2.30M for GPSS and GMHA, respectively. Over the last three years the General Fund paid \$10.4M on behalf of GPSS and GMHA. The Fund also reserved \$4.2M of GMHA’s outstanding receivable, of which \$633,000 was paid in FY 2007.

**Report on Compliance and Management Letter**

The accompanying report on compliance and internal control did not identify any current year findings, the second time in a row.

The management letter discussed the possibility that the DC plan may be entitled to credits from the third party administrator. The auditor recommended GGRF to investigate the matter further.

The FY 2007 financial audit, conducted by independent auditors Burger and Comer, received an unqualified or “clean” opinion. See Management’s Discussion and Analysis for further details.