



# A Report to Our Members

For Fiscal Year 2010

Issued April 2011

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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 Contributions and earnings are **tax-deferred** until money is withdrawn.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.

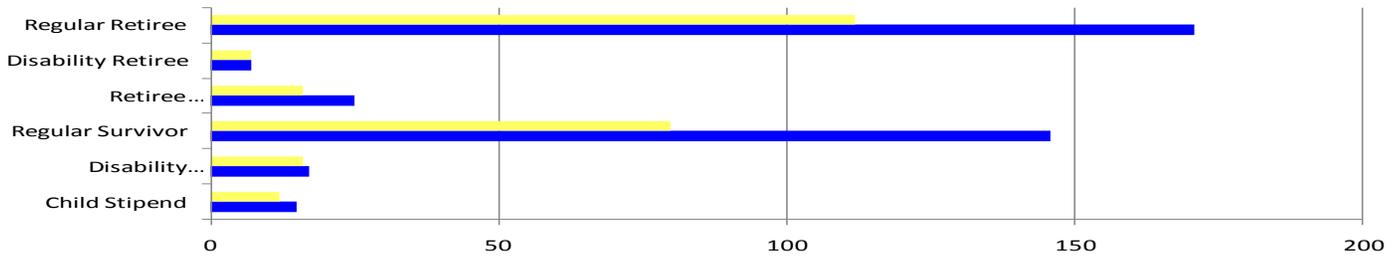
The Fund is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

	FY 2010	FY 2009
<b>Participant Counts - DB Plan</b>		
Active	3,594	3,732
Retired	7,082	7,112
Total Actives and Retirees	10,676	10,844
Inactive and Terminated Members with Accumulated Contributions		
	6,466	6,525
	17,142	17,369
<b>Participant Counts - DC Plan</b>		
Active	7,471	7,107
Retired	278	255
	7,749	7,362

# How We Have Progressed

## DEFINED BENEFIT PLAN

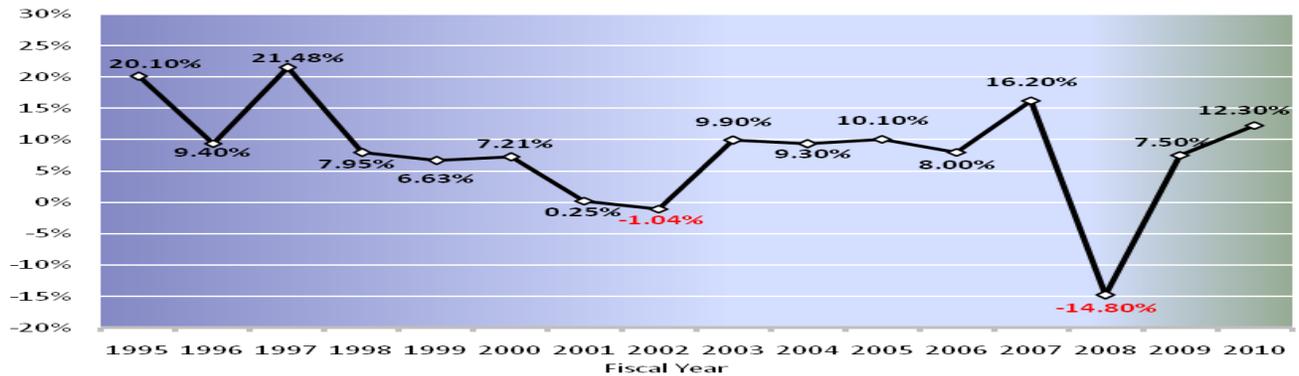
### New DB Retirees



	Child Stipend	Disability Survivor	Regular Survivor	Retiree without Survivor	Disability Retiree	Regular Retiree
2010	12	16	80	16	7	112
2009	15	17	146	25	7	171

Following the 2008 investment losses, the global markets showed signs of recovery over the last two years. For 2010, the DB Plan investment portfolio posted a positive return of 12.3%, compared to 2009's return of 7.5%, and 2008's negative return of 14.8%.

Annual Rate of Return

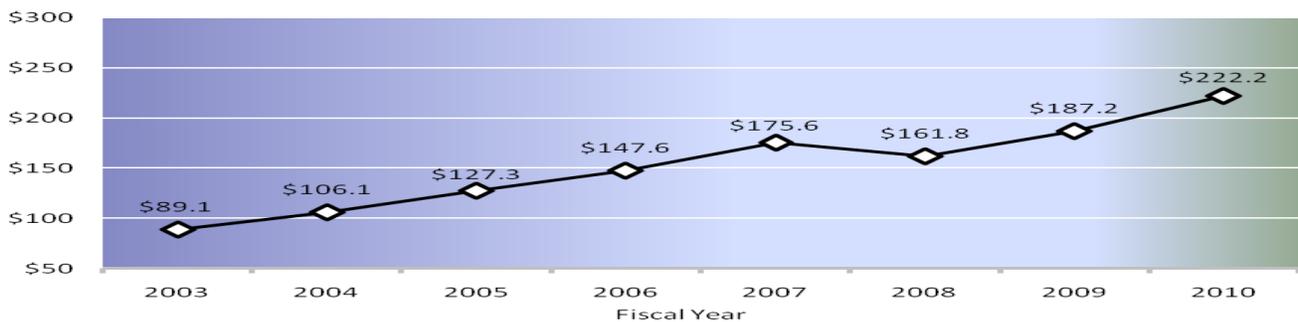


GGRF investment returns averaged 8.2% percent from 1995 through 2010. Over that period, there have only been two years with negative returns, both of which occurred in the last nine years.

## DEFINED CONTRIBUTION PLAN

The market value of the DC Plan investments grew from \$187.2 million in 2009 to \$222.2 million in 2010, due to the increased carrying value of investments resulting from the rebounding of the investment market environment.

Total DC Investments



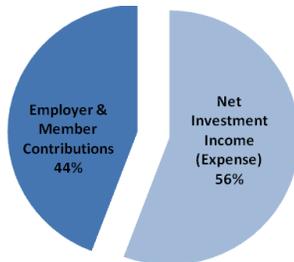
In addition, DC Plan employer and employee contributions increased by \$1.9 million or 7.9% over 2009. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2010.

# Income & Expense

## DEFINED BENEFIT PLAN

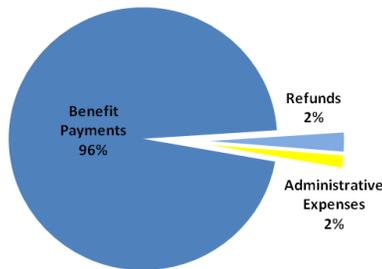
### DB Contributions and Net Investment Income

FY 2010



### DB Expense

FY 2010

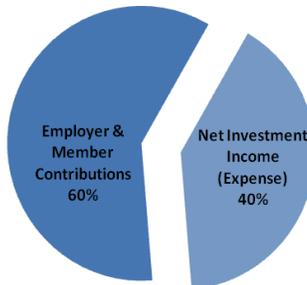


	FY 2010	FY 2009
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 108.8	\$ 31.7
Interest, Dividends & Other Investment Income	40.5	56.5
Less Investment Expenses	(3.6)	(2.9)
<b>Net Investment Income (Expense)</b>	<b>145.7</b>	<b>85.3</b>
<b>Employer &amp; Member Contributions</b>	<b>115.7</b>	<b>108.1</b>
<b>Total Additions</b>	<b>261.4</b>	<b>193.4</b>
Benefit Payments	173.8	171.5
Refunds	4.2	5.9
Administrative Expenses	2.7	2.9
<b>Total Deductions</b>	<b>180.7</b>	<b>180.3</b>
<b>Bad Debt Recovery</b>	<b>0.0</b>	<b>4.0</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ 80.7</b>	<b>\$ 17.1</b>

## DEFINED CONTRIBUTION PLAN

### DC Contributions and Net Investment Income

FY 2010



### DC Expense

FY 2010



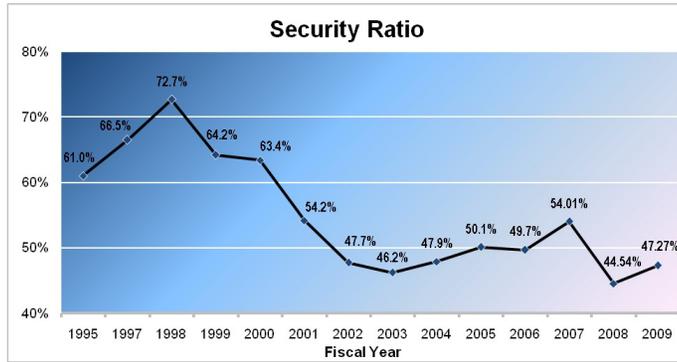
	FY 2010	FY 2009
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 15.0	\$ 8.9
Interest, Dividends & Other Investment Income	2.6	1.6
<b>Net Investment Income (Expense)</b>	<b>17.6</b>	<b>10.5</b>
<b>Employer &amp; Member Contributions</b>	<b>26.0</b>	<b>24.1</b>
<b>Total Additions</b>	<b>43.6</b>	<b>34.6</b>
Refunds	7.8	6.8
Administrative Expenses	1.6	1.6
<b>Total Deductions</b>	<b>9.4</b>	<b>8.4</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$ 34.2</b>	<b>\$ 26.2</b>

## Independent Audit

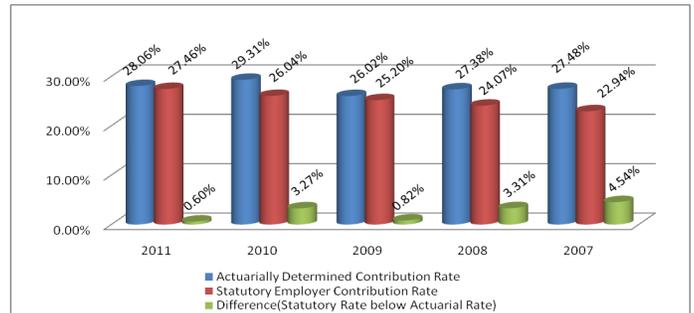
An independent audit was conducted, resulting in a clean audit opinion. Complete financial information can be found at our website: [www.ggrf.com](http://www.ggrf.com).

## DEFINED BENEFIT PLAN

**Underfunding of the DB Plan** continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.44 billion at September 30, 2009. This represents an increase in the unfunded liability ratio from 39% in 1995 to 52.7% in 2009, and a decrease in the security ratio, from 61.0% in 1995 to 47.3% in 2009.



A comparison of actuarial versus statutory rates follows:



While full funding has not occurred, 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.

**Impact of Late Contributions by GMHA**—As of September 30, 2010 GMHA was delinquent in the remittance of both member and employer contributions to GGRF for both the DB and DC Plans.

On November 12, 2010, GGRF filed a petition for Writ of Mandate with the Superior Court of Guam to order GMHA to remit delinquent member and employer contributions, plus interest and penalties to GGRF. *Although GMHA has made payments towards its delinquent contributions it continues to remain delinquent.*

Not only does GMHA's failure to make timely remittances have a negative effect on GGRF, but also on GMHA and its employees as noted below:

1. GMHA's delinquency has resulted in the liquidation of DB Plan investments in order to cover benefit payments. Continued non-remittance of contributions will undoubtedly result in continued

liquidation of assets that should remain in the investment portfolio to generate investment income.

2. The delinquency prevents eligible GMHA employees from retiring in accordance with Public Law 28-38, which requires the full remittance of contributions.
3. In addition to applicable interest, GGRF assess a 1% penalty for DB contributions not paid within 10 working days after the issuance of payroll checks.
4. DC contributions not deposited timely may result in harm to the member's account. In addition, GMHA exposes itself to both civil and criminal liability. GMHA employees can seek enforcement assistance through the Guam Department of Labor and through the U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division.

## DEFINED CONTRIBUTION PLAN

The GGRF Board is still considering **alternative plan designs**, to enhance the retirement benefits available to DC Plan participants. With participant balances averaging less than \$40,000 most will not have enough saved to generate a reliable stream of retirement income to: support their basic needs, allow them to maintain a comfortable standard of living, and last their lifetime.

If participants are left without adequate income when they retire, Gov 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 participants depends on the amount of money accumulated in their participant account at retirement.

The GGRF Board has made some changes to the investment options

available to DC participants, but in light of the average investment balances, the continued volatility of the investment environment, and the difference in benefits compared to the DB Plan, it appears that more drastic measures must be taken to improve the sustainability of the DC Plan.

Alternative plan designs may include amongst others one or more of the following: increasing employer and employee contribution rates to the DC Plan, supplementing the DC Plan with a New DB Plan, replacing the DC Plan with a New DB Plan, making the 457 Plan mandatory with an employer matching contribution, and adding a Social Security component.

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 brought to the attention of the Guam Legislature, for its consideration.

*We would like to hear from you...*

Do you like this report? Do you believe it should include different or additional information? Please contact the Fund through our website [www.ggrf.com](http://www.ggrf.com), by telephone at (671)475-8900, or by fax at (671) 475-8922. More information is available on our website.