



## OFFICE OF PUBLIC ACCOUNTABILITY

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### Government of Guam Retirement Fund – FY 2020 Financial Highlights

March 01, 2021

Hagåtña, Guam – The Office of Public Accountability (OPA) released the Government of Guam (GovGuam) Retirement Fund (Fund) financial statements, report on compliance and internal control, and the auditor’s communication with those charged with governance for fiscal year (FY) 2020. The Fund closed fiscal year (FY) 2020 with a \$17.8 million (M) decrease in net position for the Defined Benefit (DB) plan, and a \$41.8M significant 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 4.33% in FY 2020 compared to 3.17% in FY 2019, resulting in an average rate of 8.02% since 1995.

Independent auditors Burger & Comer P.C. rendered an unmodified or “clean” opinion on the Fund’s financial statements. FY 2020 is the 15<sup>th</sup> 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 2020, OPA deemed the Fund equivalent to a “low-risk auditee” for three consecutive years because of the Fund’s accomplishments and issuing their financial audits by March 31<sup>st</sup> (with FY 2019 being the exception<sup>1</sup>).

#### Coronavirus (COVID-19) Impact on the Fund

The COVID-19 pandemic caused unprecedented volatilities in the financial markets. While periods of extreme market volatility can be alarming, the Fund stayed focused on the long-term investment horizon and prudently managed investments in both the DB and DC Plans.

The Fund determined that the COVID-19 pandemic is expected to negatively impact the Fund’s investments and net position. However, the ultimate financial impact cannot be reasonably estimated at this time. Although the Fund’s offices were closed from March 2020 to January 2021, services were still provided to the Members and Retirees with social distancing measures.

#### DC Plan Market Fluctuations

The DC Plan net position increased by \$41.8M or 12% from \$357.9M in FY 2019 to \$399.6M in FY 2020. Due to market fluctuations, the net appreciation in fair value of investments increased by \$43M from \$(29.9M) in FY 2019 to \$13M in FY 2020. Interest dividends and other investment income decreased by \$18.4M from \$37.8M in FY 2019 to \$19.4M in FY 2020. This was due to the market fluctuations and changes in the participants’ investments choices. Refunds totaled \$21.7M in FY 2020, a 22.8% decrease from \$28.1M in FY 2019.

#### 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 \$1.18

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<sup>1</sup> The COVID-19 pandemic was beyond the control of the Fund.

billion (B) in 2018 to \$1.16B based on the 2019 actuarial valuation. The actuarially determined contribution rate increased from 26.28% to 26.97%, which was due to the net recognition of investment gains and losses over the last three years. The increase was partially offset by some actuarial gains due to demographic experience that differed from the actuarial assumptions and changes adopted from the 2011 to 2015 experience study.



The security ratio for the past 24 years ranged from 43.49% to 72.7%, representing an average of 52.31% per year. The security ratio decreased from 66.5% in 1997 to 64.13% in 2019, with a corresponding increase in the unfunded liability ratio from 33.5% in 1995 to 35.87%

in 2019. However, the security ratio has consistently risen in the last eight years, from 43.49% in 2011 to 64.13% in 2019. The Fund has a lower security ratio than most U.S. funds.

Pursuant to Title 4 of the Guam Code Annotated §8137, the unfunded liability is to be completely funded within 80 years, which is in 2031 from May 1, 1951. However, Public Law 33-186 extended this period by two years to 2033. Based on the 2019 valuation, there are 13.58 years remaining in the funding period.

**Post-Employment Benefits and Other Post-Employment Benefits (OPEB)**

GovGuam and all component units must present pension information related to supplemental benefits and cost of living allowances (COLA). As of September 30, 2020 and 2019, the Fund recorded net pension liability of \$6.3M and \$5.7M, respectively.

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 GovGuam 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. In FY 2020 and 2019, the Fund’s required contributions to this plan totaled approximately \$256K and \$223K for each year, respectively.

For a more detailed discussion, refer to the Fund’s Management Discussion and Analysis in their audit report at [www.opaguam.org](http://www.opaguam.org) and [www.ggrf.com](http://www.ggrf.com).