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Government of Guam Retirement Fund – FY 2021 Financial Highlights

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The Office of Public Accountability (OPA) released the Government of Guam (GovGuam) Retirement Fund (Fund) financial statements, report on compliance and internal control, management letter, and the auditor's communication with those charged with governance for fiscal year (FY) 2021. The Fund closed FY 2021 with a combined increase of \$361.3 Million (M) in net position (net income). Net position stood at \$2.74 Billion (B) compared to its prior year net position of \$2.38B. The Defined Benefit (DB) Plan investment portfolio achieved a rate of return of 19.04% compared with 4.33% in the prior year, which highly exceeded the Board's long-term goal of a minimum of 7%.

Independent auditors Burger & Comer P.C. rendered an unmodified (clean) opinion on the Fund's financial statements. FY 2021 is the 16th consecutive year that the Fund's Report on Compliance and Internal Control has neither material weaknesses nor significant deficiencies. However, the Fund received two Management Letter comments relative to Define Contribution (DC) plan participant files and review of professional service provider relationships. The Fund remained as "low risk auditee" on its fourth consecutive year.

Defined Benefit Plan (DB)

As of FY 2021, the Plan's net position significantly increased by \$268.6M from the prior year's decrease of \$17.8M. Net Position stood at \$2.25B from \$1.98B as of FY 2021. The increase was greatly attributed to the \$296.8M increase in the net appreciation in fair value of investments, wherein the portfolio return for this FY was 19.04%. There were decreases in interests, dividends, and other investments income by \$5.4M and member contribution by \$1.2M.

Deductions from the Plan increased by \$7.7M, which was mainly due to the increase in benefit payments resulting from increases in age and service annuities (\$7.3M) and survivor annuities (\$792K), and a decrease in disability annuities (\$396K). Retired members has increased from 7,085 in 2009 to 7,440 in 2021. Benefit payments for DB retirees are expected to increase as active members continue to retire.

Supplemental/Cost of Living Allowance (COLA) benefits deferred receivables of \$1.7M represents the balance of the over \$130M advanced to GovGuam in the late 1990s. These receivables are being collected by GGRF over the twenty-year period without interest. Had these funds remained with GGRF's investment managers, these would have grown substantially.

Defined Contribution Plan (DC)

As of FY 2021, the Plan's net position increased by \$92.6M, representing an increase of 50.9M from the prior year's net income of 41.8M. Net Position stood at \$492.3M from \$399.6M in the prior year. The increase was greatly attributed to the \$60.6M increase in the net appreciation in fair value of investment. Investments increased by \$93M due largely to the market fluctuations. DC Plan investments includes core mutual funds and target date funds. The core mutual funds

allow the members to create their own portfolio based on the type of investment that best fit their investment goals.

Deductions from the Plan increased by \$7.7M due to refunds to separated employees and withdrawals amounting to \$7.3M. Active membership increased by 260 and will continue to increase as a result of 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 increased from \$1.15B (based on the 2019 actuarial valuation) to \$1.17B (based on the 2020 actuarial valuation). The actuarially determined contribution rate increased from 26.97% to 28.32%, due to the net recognition of investment gains and losses over the last three years.

The unfunded liability has grown from \$552M in September 1995 to \$1.17B as of September 30, 2020. The growth was due to the decrease in security ratio (from 66.5% in 1997 to 63.62% in 2020) and an increase in unfunded liability ratio (from 33.5% in 1995 to 36.38% in 2020). The security ratio is the ratio of assets to liabilities.

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. Public Law 33-186 extended this period by two years to 2033. Based on the 2020 valuation, there are 12.58 years remaining in the funding period. 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 September 30, 2021, the Fund recorded net pension liability of \$6.2M and OPEB Liability of \$10.9M. These liabilities decreased by \$124K and \$515K, respectively from the prior year.

Management Letter

Auditors commented that participant files do not contain an index; documents are not mounted and secured; lacked relevant documents; and unmanageable overtime. Auditors also commented that GGRF should periodically review relationships with service providers to ensure that proposed changes are made in accordance with applicable procurement rules and regulations.

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. GGRF continues to manage the Fund in the same disciplined manner as it has in the past.

Subsequent Events

For the quarter ended December 31, 2021, market value of funds invested assets in DB Plan increased by approximately \$70M at a positive return of 4.66%. The DC Plan assets increased by \$23M or about 4.7%.

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