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Government of Guam 457 Deferred Compensation Plan-Calendar Year 2021 Financial Highlights

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The Office of Public Accountability has released the Government of Guam (GovGuam) 457 Deferred Compensation Plan (457 Plan) financial statements and report on internal control and compliance for calendar year (CY) 2021. The 457 Plan ended CY 2021 with a fiduciary net position of \$140.2 million (M), an increase of \$22.7M from the prior year's \$117.5M. This was attributed to the \$16.9M in net investment income (due to strong financial market returns) and the \$12.7M in member contributions. Investment rose to \$135.8M from \$114M in CY 2020 or an increase of \$21.8M.

Independent auditors Burger & Comer, P.C. rendered an unmodified (clean) opinion on the 457 Plan financial statements. The 457 Plan's Report on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The 457 Plan received one Management Letter comment relative to Plan participant files.

The Government of Guam Retirement Fund (GGRF) Board of Trustees is responsible for the administration of the 457 Plan. Empower Retirement (Empower) is the trustee and record keeper of the 457 Plan. Empower invests funds received from contributions in accordance with participants' elections, records investment sales and interest income, and makes distribution payments to participants. During CY 2021, the Fund paid \$213 thousand (K) in administrative fees to Empower.

GovGuam 457 Plan Participation and Contributions

The 457 Plan was established in May 1999. In January 2018, it was amended to comply with the requirements of Public Law No. 33-186, which established the "Government of Guam Defined Benefit 1.75 Retirement System (DB 1.75 Plan)."

Participation in the 457 Plan is voluntary for all employees who are members of the GovGuam Defined Benefit Plan and GovGuam Defined Contribution Retirement System; however, participation is mandatory for all employees who are members of the DB 1.75 Plan. These employees are required to contribute a minimum of 1% of their base salary to the 457 Plan.

Plan participants, including DB 1.75 participants, may contribute up to 100% of their annual compensation not to exceed Internal Revenue Service limits. Participants may direct the investment of their accounts in various investment options offered by the 457 Plan. As of December 31, 2021, there were 23 mutual fund options with an overall value of \$135.9M. Participants who do not choose an investment option for all or part of their account will be deemed to have elected the default investment alternative under the 457 Plan for that portion of their account balance. Each participant's account is credited with the participant's contributions and allocations of 457 plan earnings, including interest, dividends, and gains/losses from investments.

Increase in Additions to 457 Plan

In CY 2021, total additions to the 457 Plan of \$29.7M increased by \$3.1M (or 12%) from \$26.6M in CY 2020. This was due to increases in investment income by \$2.5M (or 18%) and member contributions by \$559K (or 5%). During the year, the 457 Plan generated a net investment income of \$16.9M. This was net of investment expenses of \$508K, which significantly increased by \$284K (127%) resulting from the implementation of the Managed Account Program in FY 2020.

The increase of \$559K in member contributions was primarily due to fluctuations in the average contributions per participant and the number of active plan participants. There were 7,040 active participants with account balances as of December 31, 2021.

Increase in Deductions from 457 Plan

The money used to pay benefits is accumulated from contributions made by each participant and income generated from the participant's investments, including investment appreciation and interest. In CY 2021, benefits paid to participants increased by \$1.8M (or 36%) from \$5.1M in CY 2020 to \$6.9M. This was attributed to: 1) the number of participants choosing to take lump sum distributions at retirement in any one year; 2) changes in the number of participants receiving benefits in the 457 Plan; and 3) the size of participant's account balance. Distributions are largely due to retirements and severance of employment.

Management Letter

The auditors rendered one comment relative to the Plan participant files: files were not consistent as to form and content, were not properly mounted and secured, lacked relevant documents, and become bulky and unmanageable over time. The Auditors recommended that the 457 Plan and third-party administrator create an index, which establishes the minimum requirements for form and content of the participant files.

Coronavirus (COVID-19) Impact on the 457 Plan

The COVID-19 global pandemic caused unprecedented volatilities in the financial markets. While periods of extreme volatility can be alarming, the GGRF Board of Trustees stayed focused on the long-term investment horizon and prudently managed the investments in the Plan.

Since the portfolio's inception, the 457 Plan endured and survived extreme market events stemming from terrorist attacks and global financial crises. The Fund continues to manage the 457 Plan in the same disciplined manner as it had in the past.

Outlook and Subsequent Events

For CY 2022, the GGRF Board of Trustees will continue to navigate the rapidly changing economy by working with its Investment Consultant to continue to strengthen the Plan.

The market value of the 457 Plan's investments decreased from \$135.9M as of December 31, 2021 to \$128.8M as of March 31, 2022.

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