



EXECUTIVE SUMMARY
Special Lifetime Annuities
Report No. 15-03, May 2015

Legislation has provided special lifetime annuities for Governors, Lieutenant (Lt.) Governors, Judges/Justices, and Senators. These lifetime annuities have cost the Government of Guam (GovGuam) an estimated \$24.1 million (M) as of the end of calendar year (CY) 2014 and are projected to reach \$42.9M at the end of the next 20 years.

Two of the special annuity categories have already been discontinued going forward, but the third is still in force for future office holders, leading to significant costs. Without any effort to discontinue the special lifetime annuities afforded to *Governors and Lt. Governors* at the completion of their terms, annuities are projected to increase \$6.5M in the next 20 years. After 1995, the special annuity provision for *Judges/Justices* was eliminated, but the government will continue to pay \$6.2M in the next 20 years for Judges/Justices who were eligible to receive the special annuity prior to the law change. Similarly, in 1995, the law was amended to no longer allow the option for *Senators* to accrue retirement credit based on the salary of the DOA Director. However, an estimated \$6.2M will continue to be paid to those Senators who were eligible under the special provision prior to the law change. Refer to the summary below.

Paid and Projected Annuities CY 1975 through CY 2034

Eligible Recipients	Annuities Paid (CY 1975 to CY 2014)	Annuities Projected (CY 2015 to CY 2034)	Totals
Governors, Lt. Governors, & Widows	\$3,792,500	\$6,454,350	\$10,246,850
Judges/Justices	\$6,854,400	\$6,194,465	\$13,048,865
Senators	\$13,410,822	\$6,168,645	\$19,579,467
Totals	\$24,057,722	\$18,817,460	\$42,875,182

Special Law Provisions Have Costs GovGuam an Estimated \$24.1M in Lifetime Annuities

These special lifetime annuities are far superior in comparison to GovGuam employees who receive annuities under the Defined Benefit (DB) retirement plan. For example, in order to receive full retirement benefits, a DB Plan member would be eligible after providing 30 years of service, or reaching age 65, to receive annuity payments that are calculated at no more than 85% of the member's three highest annual salaries. However, Governors and Lt. Governors require fewer years of service to receive an annuity, Judges/Justices were eligible to receive a higher percentage of annuity, and Senators were able to factor in pay received by another position, the Department of Administration (DOA) Director, when calculating their annuities.

Governors, Lt. Governors, and Surviving Spouse (Widow) Received an Estimated \$3.8M

Title 4 of the Guam Code Annotated (GCA) § 8172(a), provides that any person who is elected Governor or Lt. Governor may retire following the completion of his term of office and shall be compensated an annual pension during the remainder of his life in an amount equal to and not to exceed 50% of the annual salary at the time he/she retires. There were nine retired Governors, Lt. Governors, and a surviving spouse who received an estimated \$3.8M in gubernatorial annuities. Based on a legal opinion, we found that a gubernatorial surviving spouse cumulatively received \$62,500 more than what

the gubernatorial provision of the law required. Instead of receiving 20% of the annual salary received by the deceased spouse (or \$10,000), an amount equal to 50% of the Governor's annual pension (\$12,500) was received.

Retired Judges/Justices Received an Estimated \$6.9M

Lifetime annuities for Justices/Judges are governed by a different section of the law from that which governs other GovGuam DB members. Instead of a maximum annuity rate of 85%, 7 GCA Chapter 6 § 6112, allows Judges/Justices to receive 90% of their annual salary. In addition, compared to other GovGuam DB members, Judges/Justices would have to serve 20 years instead of 30 years to receive full retirement annuities. Our analysis on retired Judges/Justices show that five retirees had received retirement payments from CY 1994 through CY 2014 totaling \$6.9M.

Members of the Legislature (Senators) Received an Estimated \$13.4M

Through Public Law (P.L.) 12-196, established in January 1975, members of the Legislature, specifically Senators, were able to qualify to receive an annuity based on the average of their three highest annual salaries, or an amount equivalent to the annual compensation paid the Director of Administration at the time the Legislator applies for benefits, whichever is greater. There are currently 20 recipients (15 Senators and 5 survivors) who are receiving pensions totaling \$13.4M based on the salary of the DOA Director rather than factoring only their salaries like other GovGuam DB members. These senators served terms during the period from CY 1975 through CY 1995.

Special Annuity Benefits are Conservatively Projected at \$18.8M for the Next 20 Years

Over the years, legislation has been passed that eliminated special lifetime annuities for Judges and Justices, and Senators. Therefore, annuity payments to Judges/Justices and to Senators based on special provisions will eventually cease, but not in the near future. No legislation has been introduced to eliminate the lifetime annuities for the Governor and Lt. Governor. Therefore, in the next 20 years, it is projected that GovGuam will pay \$18.8M in special lifetime annuities as follows:

- **Governors, Lt. Governors and Widows** - We estimate \$6.5M to be paid out in the next 20 years assuming future Governors and Lt. Governors serve two terms each. However, if future Governors and Lt. Governors of Guam serve only a single term, annuities for the next 20 years will increase nearly \$2M to \$8.4M. These calculations assume that Governor/ Lt. Governor's salaries do not increase within the next 20 years.
- **Judges/Justices** – Prior to the law change, there is one Judge who may be eligible to receive the special lifetime annuities of 90% of their annual salary. As such, six Judges/Justices are projected to receive \$6.2M within the next 20 years.
- **Senators** - For legislators who availed themselves of annuities based on the salary of the DOA Director, it is projected that they will continue to receive \$6.2M in the next 20 years.

Conclusion and Recommendation

Inclusive of future elected Governors, Lt. Governors, their surviving spouses, and one additional eligible Judge projected to retire after 2014, special lifetime annuity payments will progressively increase from \$24.1M as of CY 2014 to \$42.9M by CY 2034. We recommend that legislation be introduced to eliminate the lifetime annuity for the Governor and Lt. Governor, similar to the limitations set forth for the Judges/Justices and Senators, effective the next gubernatorial election. This can save GovGuam between nearly \$1M and \$2.9M over the next 20 years.

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