Government of Guam Retirement Fund
FY 2011 Financial Highlights

March 1, 2012

The Government of Guam Retirement Fund (Fund) closed fiscal year (FY) 2011 with a $80.6 million (M) decrease in net assets for the Defined Benefit (DB) plan and a $13.3M increase in net assets for the Defined Contribution (DC) plan. Due to poor performance in the financial markets, the DB Plan had a negative 2% return in FY 2011 compared to the 12.3% return in FY 2010. The unfunded liability, which reached $1.54 billion (B) in FY 2011, is an ongoing problem for the Fund. The poor performance of the DB plan and the increase in survivor annuities will result in increased contribution rates which are expected to reach 31.44% when the 2011 actuarial valuation is finalized. Such contribution rates are among the highest in the country and future increases are unsustainable at the General Fund level. The increase in survivor annuities from 50% to 60% became effective October 2011 through Public Law (P.L.) 31-77.

Independent auditors Burger & Comer rendered an unqualified or “clean” opinion on the Fund’s financial statements and reports on compliance and internal control. For the sixth consecutive year, the accompanying report on compliance and internal control did not identify any current year findings. The Fund is to be congratulated for this six-year accomplishment.

Market Volatility negatively affects Defined Benefits

The DB plan investments totaled $1.2B, an increase of $24M compared to the $1.18B reported in FY 2010. Likewise, the DC plan investments increased by $12.1M from $222.2M to $234.3M. For the DB plan, total additions were $104.8M; the additions are comprised of $20.5M in Interest, $16.8M in Dividends, and $916 thousand (K) in Other investment income. The remaining $118.4M or 44% comes from employer and employee contributions of $100.3M and $18.1M, respectively.

The Fund had to liquidate DB plan investments in order to cover benefit payments. During the year, the DB plan paid out a total of $176.7M in retiree’s benefits payments, compared to the $104.8M in total additions net of investment income, as such $62.2M in investments were liquidated in order to meet benefit payment obligations. Of the $176.7M, $149M or 84.4% went to Age and Service annuities, $20.1M or 11.4%, was paid to Survivors, and $7.5M or 4.3% was paid to Disabilities annuities. Members who separated from the Government of Guam or had received refunds withdrew $3.6M from the Fund. Administrative expenses were $3M, interest on refunded contributions totaled $2M and total deductions were $185.5M, resulting in a net decrease of ($80.6M) in plan net assets.

Outlook for Defined Contribution Plan Miniscule

Although the DC plan investments increased by $12.1M, or 5.4%, going from $222.2M to $234.3M in FY 2011, members of the plan have an average balance of $40K. With the low average balance, DC members will not have enough saved to generate a reliable stream of retirement income to (1) support their basic needs; (2) allow them to maintain a comfortable standard of living; and (3) last their lifetime.

The Board is considering alternative plan designs, which may include DB plan features to enhance the retirement benefits available to DC plan members. Upon completion of its assessment, legislative action will be needed to move forward. It is imperative for DC members to have other savings and investments for retirement as they are not eligible for social security, unlike employees in the private sector. If members are left without adequate income when they retire, the Government of 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 and now 60% for the surviving spouse, the DC plan provides no guaranteed benefits and annuity payments for its 7,690 active members. Further, contributions of the DC plan members continue to subsidize the cost of DB members. The DC member's statutory contributions are determined using the same rates as the DB plan; however, of the 28.3% of the current contribution rate, only 5% of the member's regular base pay is deposited into the members individual retirement account. The remaining percentage, approximately 23.3% goes toward the unfunded liability of the DB plan members. The unfunded liability, which reached $1.54 billion in FY 2011, continues to be an ongoing problem for the Fund resulting in a security ratio less than 50%, or 44.65% at year end. According to Actuary Milliman Inc., many security ratios for public pension plans in the United States range between 60% to 90%, with many concentrated around 70%.

Repayment of Outstanding Obligations

In FY 2011 and in years past, Guam Memorial Hospital Authority (GMHA) has been delinquent in its obligations failing to remit not only the employer contributions but also the employee contributions. With this, GMHA exposes itself to both civil and criminal liability. As of September 30, 2011, GMHA owes the Fund $15M for past due remittances. GMHA's failure to make timely remittances negatively affects the Fund, as well as the GMHA employees. In addition, GMHA employees eligible to retire are unable to do so because P.L. 28-38 requires that GMHA's employer and employee contributions, including interest and penalties, be paid in full to the Fund.

Public Law 31-74 established the Bailout Bond

In June 2011, P.L. 31-74 was passed mandating a temporary reduction in the statutory contribution rate from 27.46% to 21.44% for agencies receiving appropriations from the Guam Legislature and for Federally-funded programs between June 4, 2011 and September 30, 2011. The Retirement Fund Board and the Governor of Guam entered into the "Health Insurance Bailout Agreement of FY 2011" on June 15, 2011. Savings arising from the temporary reduction in the statutory employer contribution rate is required by law to be paid back from the General Fund.

In November 2011, a bond was issued by the Government of Guam; however, it did not include repayment of amounts owed to the Fund in accordance with P.L. 31-74. At year end, amounts identified total $6.9M. P.L. 31-74 mandates that the Governor include refinancing of the outstanding principal and interest owed to the Fund in the next General Obligation Bond. The Governors Office has indicated that repayments to the Fund will be included in the next bond issue.

Management Letter

A separate management letter was issued in which the auditor discussed three prior year comments as follows: (1) the auditors support the Fund's position as a single-employer plan; (2)The Fund's staff have once again prepared the MD&A, financial statements, footnotes to the financial statements, and all supporting schedules; and (3) the DB's funded status and unfunded liability concern the auditors, in that the annuity payments exceed contributions, resulting in the liquidation of plan net assets.

See Management's Discussion and Analysis for further details. You may view the reports in their entirety at the Office of Public Accountability's website, www.guamopa.org and the Fund's website at www.ggrf.com.