



## **Government of Guam Retirement Fund FY 2009 Financial Highlights**

March 1, 2010

The Government of Guam Retirement Fund (Fund) closed fiscal year (FY) 2009 with a \$17.1 million (M) increase in net assets for the Defined Benefit (DB) plan and a \$26.2M increase in net assets for the Defined Contribution (DC) plan. Due to the rebounding of the financial markets in FY 2009, the Fund had a positive return of 7.5% on its DB plan investments compared to the negative 14.8% return in FY 2008. In addition, the Fund received \$21M from the proceeds of the \$271M general obligation deficit bonds in partial payment of Guam Department of Education (GDOE) and Guam Memorial Hospital Authority (GMHA) past due retirement contributions.

Independent auditors Burger and Comer rendered an unqualified or “clean” opinion on the Fund’s financial statements and reports on compliance and internal control. For the fourth 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 four-year accomplishment. The management letter had four comments, one of which pertained to the support of the Fund’s position on the unfunded liability.

### **Financial Markets on the Rebound**

Due to the turnaround in the financial markets in FY 2009, the fair value of the Fund investments increased. As a result, DB investments had a positive return of 7.5% compared to a negative rate of return of 14.8% last year. The Fund’s \$63.5M increase in its investment portfolio is comprised of a \$38.1M increase in the DB plan investments and a \$25.4M increase in DC plan investments. The DB plan investments went from \$1.126 billion (B) to \$1.164B, while the DC plan investments went from \$161.8M to \$187.2M.

The Fund holds steady at \$1.4B in plan net assets for the second year. Of the \$1.4B, \$1.3B are assets exclusively set aside for the DB plan, while \$191.2M are set aside for the DC plan. Due to its diversified asset allocation strategy, the Fund was not drastically affected by the global economic crisis in 2009, in comparison to pension funds of similar asset size.

### **Impact of Prior Year’s Negative Return on Unfunded Liability**

In FY 2008, the Fund experienced its highest decrease in its investment portfolio in 14 years. The investment losses resulted in an increase in the unfunded liability of the DB plan from \$1.2B to \$1.5B and an increase in the actuarially determined contribution rate from 26.02% to 29.31%. As such, the security ratio (fund assets as a percentage of the unfunded liability) decreased from 54% to 44.5%, and conversely the unfunded liability increased from 46% to 55.5%. This means that for every dollar of Fund assets, there is only 44.5 cents available to pay future annuities.

Since 2007, the Guam Legislature has shown efforts to narrow the gap between the statutorily and actuarially determined employer contribution rates. In 2010, the statutorily established contribution rate is 26.04%, or 3.27% below the actuarially determined 29.31% rate.

### **Benefit Payments and Liquidation of Assets**

The number of retirees increased from 7,037 to 7,085, resulting in an increase in benefit payments of \$2.8M from \$168.7M in 2008 to \$171.5M in 2009. However, the Fund only received \$108.1M in employee and employer contributions. In order to cover the shortfall, the Fund liquidated \$47M in investments, which comprised of \$18M in principal and \$29M in interest and dividend income.

In 2008, the Fund liquidated \$60.7M to meet benefit payment obligations. The \$13.7M decrease in 2009 is primarily due to the increase in employer contributions and the utilization of \$8M of the \$21M bond proceeds to meet benefit payment obligations. The Fund will continue to liquidate as contributions are not sufficient to cover monthly benefit payments.

### **Elimination of Unfunded Liability**

In December 2009, the Department of Administration (DOA) Director issued a memorandum stating that the DB plan is a “cost-sharing multiple-employer” plan and as such, will reflect the unfunded pension liability as a footnote in the financial statements in accordance with Government Accounting Standards Board (GASB) Statement No. 27.

As a result, the FY 2009 government of Guam financial statements, as well as those of the component units of the government of Guam, will no longer report their respective unfunded liabilities in the statement of net assets, but instead report such information as a footnote disclosure.

However, the Retirement Fund Board of Trustees maintains that the DB plan has operated as a “single-employer plan” since its inception and will be treated as such until the Board finds it necessary to change the DB plan’s status. The Board asserted that since the general administration and operation of the Fund lies with the Board pursuant to 4 G.C.A. § 8138(a), so does the authority to determine the status of the DB plan. It should be noted that the Fund does not report its share of the unfunded liability in the statement of net assets, as stated in its Management Discussion and Analysis (MD&A). The Fund has requested and is awaiting its Actuary’s determination of the Fund’s share of the unfunded liability.

### **\$21 Million Partial Payment for GMHA and GDOE Receivables**

In July 2009, the Fund received \$21M from general obligation deficit bond proceeds for the partial payment of GMHA and GDOE past due retirement contributions, including interests and penalties. Of this amount, \$10,541,146 was allocated to GMHA and \$10,458,854 was allocated to GDOE. GMHA’s FY 2009 MD&A and footnotes expressed concerns regarding the Fund’s application of the bond proceeds. However, the Fund clarified in their MD&A that the bond proceeds were first applied to outstanding interest and penalties, then to outstanding principal balances. After the application of the bond proceeds, outstanding principal balances of \$5.4M and \$7.3M remain for GMHA and GDOE, respectively.

The Fund will continue to accrue interest and penalties on the outstanding principal balances until such balances are paid in full. As a result, the DOA continues to make monthly interest-only payments of \$190K and \$193K to the Fund on behalf of GMHA and GDOE as required by Public Law (P.L.) 28-38, and as amended by P.L. 29-19. The Fund received approximately \$2.3M each for GMHA and GDOE interest-only payments in FY 2009.

### **Decrease in General and Administrative Expenses**

General and administrative expenses decreased \$259,000 (K) from \$4.84M in 2008 to \$4.58M in 2009. While there were increases in some expense categories, these increases were offset by decreases in other categories. Specifically, the decreases were primarily due to third-party administrative fees from \$910K to \$617K, bad debts from \$289K to \$169K, medical exams from \$34K to \$9K, and legal fees from \$341K to \$282K. Increases were found in: salaries and wages expenses from \$1.5M to \$1.6M, actuary fees from \$80K to \$212K, Board of Trustees expenses from \$10K to \$28K, and Miscellaneous expenses from \$17K to \$42K.

### **Management Letter**

A separate management letter was issued in which the auditor discussed two current year comments and two updates on prior year's comments, as follows:

- The auditors support GGRF's position as a single-employer plan, unless adequate support is found to change this determination;
- GGRF staff have once again prepared the MD&A, financial statements, footnotes to the financial statements, and all supporting schedules;
- Upon the auditor's recommendation in FY 2008 that GGRF look into potential credits from the DC plan Third-Party Administrator (TPA), GGRF received substantial additional credits for its share of "12b-1" fees in FY 2009. GGRF now has a reasonable method to determine the fee sharing arrangement and to calculate its share of the relevant fees with its TPA; and
- The DB's funded status and unfunded liability concern the auditors, in that the annuity payments exceed contributions, resulting in liquidations of plan net assets.

In addition, a separate document to the Board was issued outlining audit strategies, emphasis, required communications, audit differences, and adjustments.

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](http://www.guamopa.org) and the Fund's website at [www.ggrf.com](http://www.ggrf.com).