

Government of Guam Retirement Fund FY 2004 Highlights

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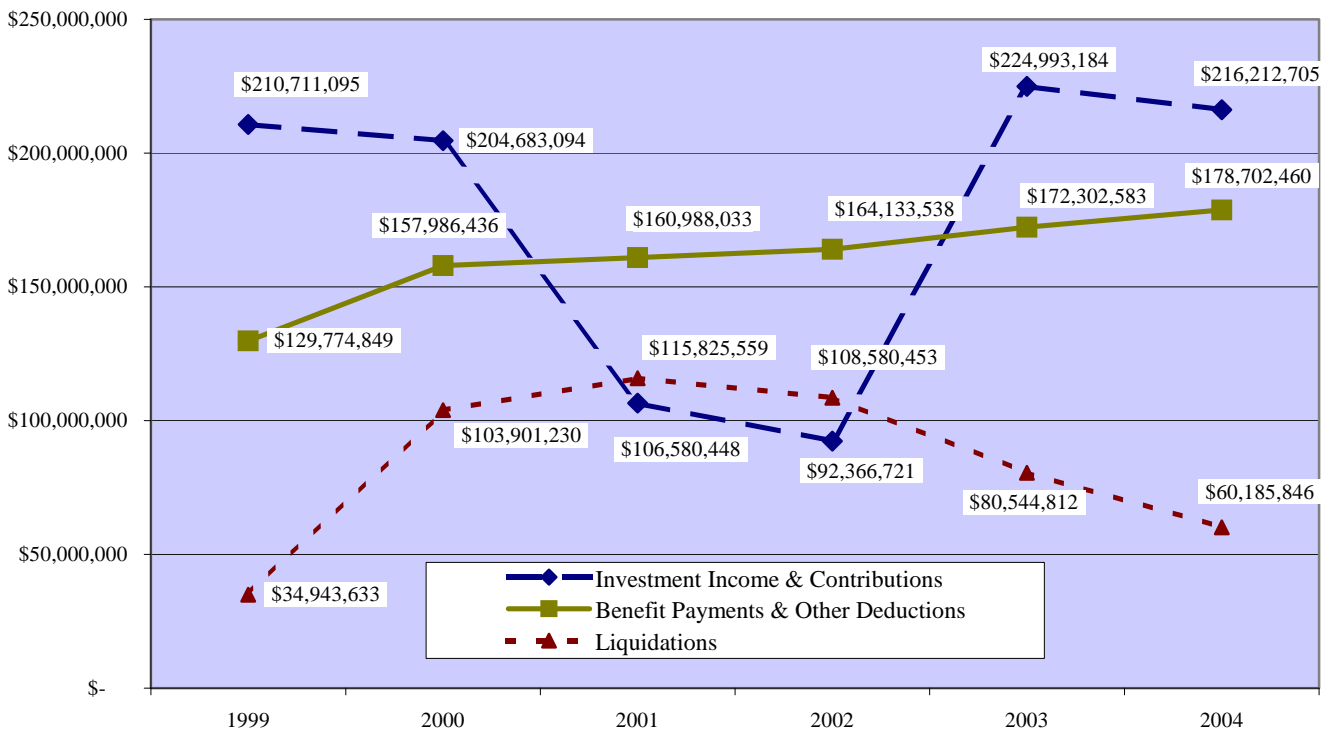
The FY 2004 financial audit of the Government of Guam Retirement Fund (Fund), conducted by independent auditors Burger and Comer, reported an increase in plan net assets of \$37.5 million to \$1.436 billion. Of this amount, \$1.329 billion are assets exclusively set aside for the defined benefit (DB) plan, while \$107 million are set aside for the defined contribution (DC) plan.

Additions to the retirement plan are represented by investment income and contributions from employers and employees. Total additions in 2004 was \$216 million, of which \$119.6 million came from investment income after investment expenses of \$3.4 million, while employer contributions were \$69 million and employee contributions were \$27.6 million.

Deductions totaling \$178.7 million are represented by benefits to retirees, withdrawals, transfers to the DC plan, and general and administrative expenses. For FY 2004, total benefits paid to retirees was \$156.7 million compared to \$151 million in FY 2003, withdrawals and transfers out of the DB and DC plan amounted to \$18.1 million, and general and administrative expenses were \$3.9 million. Of the \$3.9 million in general and administrative expenses, \$2.6 million was for the DB plan and \$1.3 million was for the DC plan.

The Fund shifted more of its investments to common stocks (accounting for \$590.5 million of its portfolio) as it continued with its focus in the equities market. The Fund realized an increase in the value of its investment portfolio of \$65 million to \$1.288 billion.

The Fund liquidated \$60.2 million in assets in FY 2004 in order to meet its obligations for benefit payments. Liquidations since FY 1999 have totaled over half a billion dollars (\$504 million) in corpus and interest. Although the Fund has increased its assets available for benefits in FY 2003 and FY 2004, the liquidations were necessary and diminished income-earning assets. The chart below shows the Fund's investment income, contributions and benefit payments, and other deductions since FY 1999.



The Fund continues to hold significant receivables for Supplemental/COLA benefits paid to retirees. The Fund has \$184.1 million in total receivables, including \$103.9 million for Supplemental/COLA and insurance benefits receivable, \$23.7 million from the Early Retirement Incentive Program, and \$26.3 million from employer/employee contributions. The \$99.3 million due from the government of Guam for retirees' Supplemental/COLA benefits paid by the Fund since FY 1999 is \$4.4 million less than last year due to an annual amortization of 1.2% of employer contributions. Similarly, 1.3% of employer contributions are allocated to the amortization of the government of Guam's share of its payable for the Early Retirement Incentive Program, which was \$12.6 million at the end of FY 2004.

In FY 2003, the Fund advanced \$9 million for supplemental benefits on behalf of government agencies pursuant to Public Law 26-152 until December 2002. A court order prohibited the Fund from advancing the additional supplemental payments. This receivable is now reduced to \$4.6 million after collections from various agencies.

There are still outstanding receivables for both employer and employee contributions of the Department of Education (DOE) and the Guam Memorial Hospital Authority (GMHA). DOE owes retirement contributions from FY 2003 (that now include penalties and interest) of approximately \$17.1 million and GMHA owes \$9.7 million. In addition, GMHA still owes \$5.8 million on a 1998 promissory note of which the Fund established a reserve in FY 2000 of \$8 million. In FY 2004, GMHA paid \$480,000 towards the repayment of this note, which was recognized as recoveries to the Fund's bad debt reserve.

The Fund's FY 2004 report on compliance and internal controls had 12 findings, four are current year findings and eight are repeat findings from FY 2001 through FY 2003. The Fund continues to disagree with Finding 2003-1, which cites the Fund for paying interest only on contributions actually received by the Fund instead of contributions that should have been received. The Fund has adopted a policy not to calculate this interest unless all contributions are received from the employing agency.

The Fund agreed with all four current year findings including disability annuitants not obtaining requisite medical exams; difficulties with staff with ability to query financial data and reports; no procedures to recover unpaid ERIP notes from retirees who passed away, which resulted in a \$319,000 write-off; and no periodic reconciliations of insurance provider rosters to DC member listings to ensure active members are covered by group disability/life insurance policy.

See Management's Discussion and Analysis for further details.