



Government of Guam Retirement Fund FY 2015 Financial Highlights

March 3, 2016

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2015 with a \$54.2 million (M) decrease in net position (loss) for the Defined Benefit (DB) plan, and a \$10.8M increase in net position (income) for the Defined Contribution (DC) plan. The Fund's rate of return on its DB Plan investment portfolio was 0.83% compared to 10% in FY 2014. While 2015's portfolio return was less than 1%, the fund has averaged a return rate of over 8% from 1995 through 2015.

Independent auditors Burger • Comer • Magliari rendered an unmodified or "clean" opinion on the Fund's financial statements. As of October 1, 2014 the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68 for the accounting and financial reporting for pensions. The Fund presented single-year financial statements due to the lack of pertinent retirement data, while some other GovGuam entities were able to present comparative financial statements.

FY 2015 is the tenth consecutive year that the Fund's Reports on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments. We applaud the Fund's management and staff for this continued achievement.

Elimination of Unfunded Liability

Due to the generous benefits of the DB plan, which were underfunded over a number of years, the Fund's unfunded liability totaled \$1.37 billion (B) as of the latest actuarial report of FY 2014. In the last three years, the statutory contribution rates were equal to the actuarially determined rates of 30.03% for FY 2014, 29.85% for FY 2015, and 28.16% for FY 2016. If future contributions continue to equal the actuarially determined rate, and investments earn 7% each year, the DB Plan is expected to become fully funded by 2031 in accordance with Title 4 of the Guam Code Annotated §8137.

DB Plan Annuity Payments and Liquidations Increased

The DB plan net position decreased by \$54.2M or 3.3% from \$1.66B in FY 2014 to \$1.61B in FY 2015 due to the volatile market. DB Plan investments amounted to \$1.55B, a decrease of \$56.1M or 3.5% from the prior year. A positive rate of return of 0.83% was posted compared to a return of 10% in FY 2014. The Fund's investment returns averaged 8.3% from 1995 to 2015.

During FY 2015, benefit payments increased by \$6.1M, from \$195.1M to \$201.2M. The increase is comprised of a \$5.6M increase in age and service annuities, an \$800K increase in survivor annuities, and a \$300K decrease in disability annuities. The DB plan's benefit payments were paid to 7,202 retirees and beneficiaries.

Employer contributions for FY 2014 of \$145.9M were slightly higher than FY 2015's contributions of \$144.2M resulting from the implementation of the Competitive Wage Plan, payment of prior year

merit bonuses, and partial payment of retroactive law enforcement salary increases. However, the \$144.2M in contributions was not enough to cover the benefit payments of \$201.2M, which resulted in the liquidation of investments in order to meet benefit payment obligations.

Proposed Hybrid Plan for DC Members

The DC plan net position increased by \$10.8M from \$391.6M in FY 2014 to \$402.4M, primarily due to the increased carrying value of investments. However, the average retirement account balance of less than \$40K for DC plan members is not enough to: (1) support their basic needs, (2) allow them to maintain a comfortable standard of living, and (3) last their lifetime. Under the current DC plan, the employee contributes 5% of their base salary and the government matches 5%. When DC plan members retire, their benefits will be based on their retirement account balances.

To provide a reliable stream of retirement income, the Fund has been working with the Legislature on a proposed Hybrid Plan. The proposed Hybrid Plan combines a defined benefit “floor” of benefits determined by a formula based on years of service and salary, along with a salary reduction deferred compensation account program. Several bills have been introduced since 2012 including Bill Nos. 453-31, 394-32, and 002-33. Currently, a public hearing was scheduled on a new bill, Bill No. 266-33 (LS), in February 2016.

Government Accounting Statements- Pension Liability

With the implementation of GASB 68 related to Accounting and Financial Reporting for Pensions in FY 2015, the Fund’s pro rata share of GovGuam’s net pension liability was recognized. In FY 2015, GovGuam’s pension liability was at \$1.25B, which decreased from \$1.30B in FY 2014. The Fund’s pro rata share decreased by \$568K, going from \$4.3M in FY 2014 to \$3.7M in FY 2015.

Subsequent Late Contributions by Guam Memorial Hospital Authority (GMHA)

Since October 2015, GMHA was delinquent in the remittance of both member and employer contributions to the Fund for both the DB and DC Plans. As of February 19, 2016, GMHA owes the Fund \$4.5M consisting of approximately \$3.3M for the DB Plan, \$1M for the DC Plan, and \$200K to the 457 Deferred Compensation Plan. These delinquencies negatively impact the Fund, as well as GMHA and its employees as follows:

- Liquidation of DB Plan investments by the Fund in order to cover benefit payments.
- Prevention of eligible GMHA employees from retiring until full remittance of contributions.
- Penalties and interest assessed for contributions not paid within 10 working days of the issuance of payroll checks.
- The exposure to both civil and criminal liability.

No Management Letter Comments

The Fund is to be commended for its tenth consecutive year of no compliance and internal control findings, and not receiving management letter comments for this year. The Fund’s Management Letter, instead, discussed a prior year comment update on the DB plan’s funding status. The independent auditors continue to be concerned that annuity payments continue to exceed contributions.

For a more detailed discussion, refer to the Fund’s Management’s Discussion and Analysis in the audit report at www.opaguam.org and www.ggrf.com.