



A Report to Our Members

For Fiscal Year 2014 Issued May 2015

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MISSION

The purpose of the Fund is to provide retirement annuities and other benefits for the employees of the government of Guam enabling them to accumulate reserves for themselves and their survivors to meet the hazards of old age, disability, death & termination of employment.

About US

The Government of Guam Retirement Fund (the “Fund”) was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. Plans administered by the Fund are as follows:

The *Defined Benefit (DB) Plan* is a single-employer defined benefit pension plan. The DB plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Retirement System.

The *Defined Contribution Retirement System (the “DC Plan”)* was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam. The DC Plan is a single-employer pension plan and shall be the single retirement program for all new employees whose employment commences on or after October 1, 1995. The DC Plan, by its nature, is fully funded on a current basis from employer and member contributions.

The *Deferred Compensation Plan* (the “457 Plan”) is available to both DB and DC Plan members. It is a retirement savings plan that allows eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a **voluntary** salary contribution. Contributions and earnings are **tax-deferred** until money is withdrawn. Distributions are usually taken at retirement, but participants can also take distributions if they terminate employment.

Board of Trustees

The Retirement Fund Board of Trustees (the “Board”) is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board comprises seven members. Three are appointed by the Governor with the advice and consent of the Legislature. Four trustees - 2 retirees and 2 active members - are elected by the class of members they represent. The term of office for all Board Members is five years.

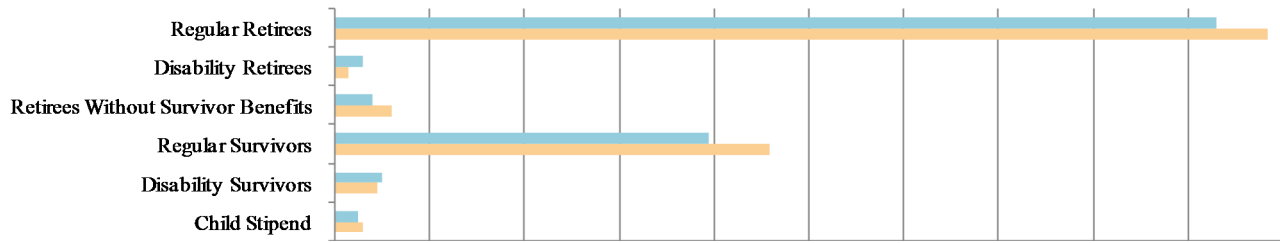
The Fund is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

	FY 2014	FY 2013
Participant Counts - DB Plan		
Active	2,704	2,872
Retired	7,218	7,195
Total Actives and Retirees	9,922	10,067
Inactive and Terminated Members with Accumulated Contributions		
	4,938	5,401
	14,860	15,468
Participant Counts - DC Plan		
Active	8,181	7,885
Retired	613	544
	8,794	8,429

How We Have Progressed

DEFINED BENEFIT PLAN

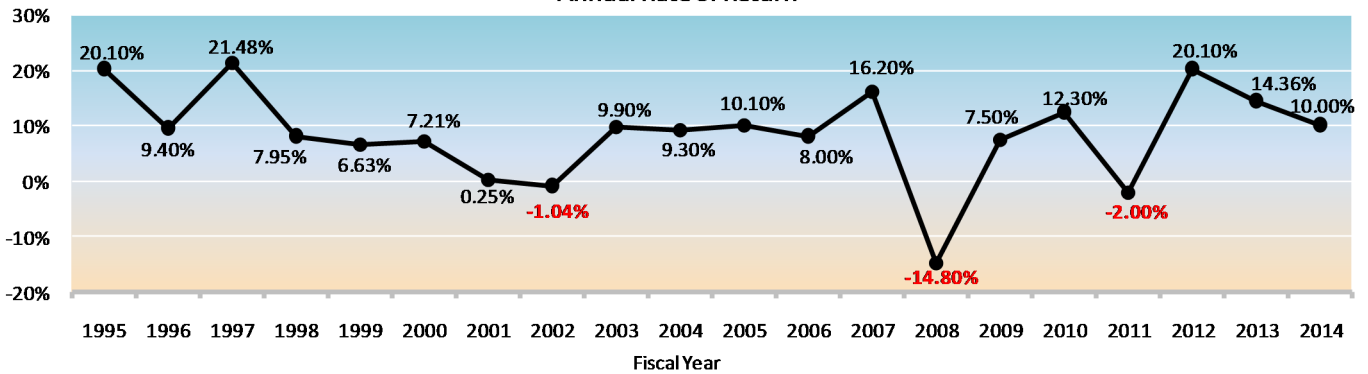
New DB Retirees



	Regular Retirees	Disability Retirees	Retirees Without Survivor Benefits	Regular Survivors	Disability Survivors	Child Stipend
2014	186	6	8	79	10	5
2013	197	3	12	92	9	6

For 2014, the **DB Plan** investment portfolio posted a positive return of 10%, compared to 2013's return of 14.36%, and 2012's return of 20.10%.

Annual Rate of Return

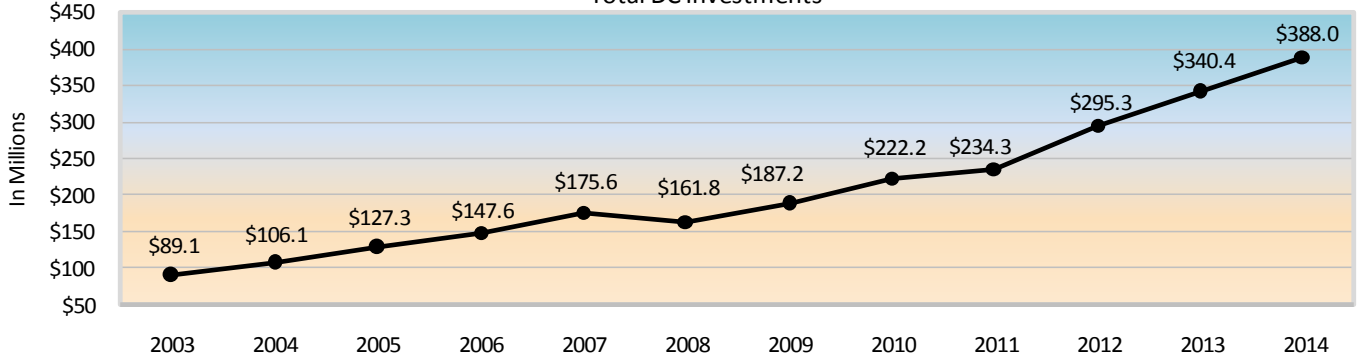


GGRF investment returns averaged 8.6% percent from 1995 through 2014. Over that period, there have been three years with negative returns, all of which occurred in the last twelve years.

DEFINED CONTRIBUTION PLAN

For 2014, DC Plan investments totaled \$388M compared to the \$340.4M and \$295.3M in 2013 and 2012, respectively.

Total DC Investments

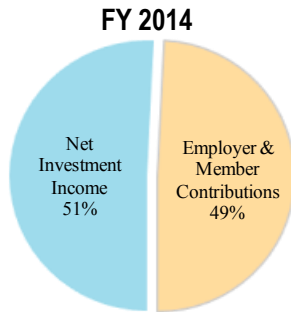


In addition, DC Plan employer and employee contributions increased by 3,940,360 or 13.2% over 2013. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2014.

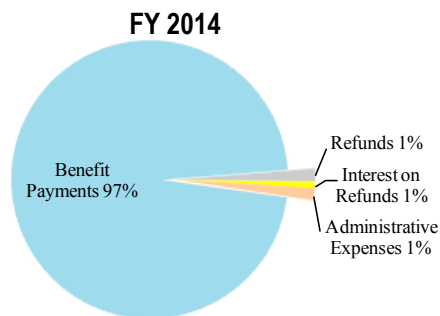
Income & Expense

DEFINED BENEFIT PLAN

DB Contributions and Net Investment Income



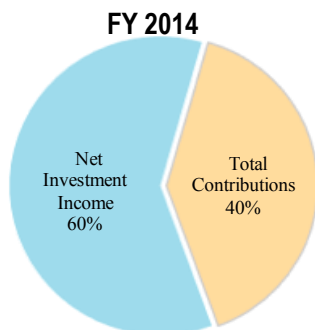
DB Expense



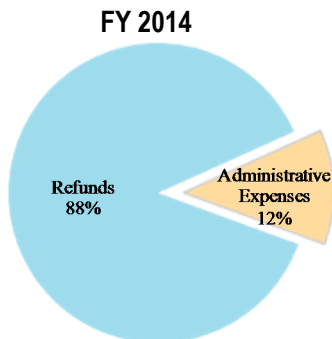
	2014	2013
Net Appreciation in Fair Value of Investments	\$121,293,316	\$162,486,174
Interest, Dividends & Other Investment Income	34,909,348	35,606,858
Less Investment Expenses	(5,647,797)	(5,316,971)
Net Investment Income	150,554,867	192,776,061
Employer & Member Contributions	145,897,573	134,199,523
Total Additions	296,452,440	326,975,584
Benefit Payments	195,128,969	190,280,431
Refunds	2,961,749	2,413,061
Interest on Refunds	1,442,661	914,543
Administrative Expenses	2,633,308	2,685,830
Transfers to DC Plan	729	.00
Total Deductions	202,167,416	196,293,865
Net Increase in Net Assets	94,285,024	130,681,719

DEFINED CONTRIBUTION PLAN

DC Contributions and Net Investment Income



DC Expense



	2014	2013
Net Appreciation in Fair Value of Investments	2,866,468	21,082,893
Interest, Dividends & Other Investment Income	27,940,934	12,758,557
Less Investment Expenses	(110,323)	(106,080)
Net Investment Income	30,697,079	33,735,370
Total Contributions	33,699,569	29,759,209
Total Additions	64,396,648	63,494,579
Refunds	15,078,560	14,871,667
Administrative Expenses	1,950,681	1,577,819
Transfer from DB Plan	(729)	.00
Total Deductions	17,028,512	16,449,486
Net Increase in Net Assets	\$47,368,136	\$47,045,093

Independent Audit

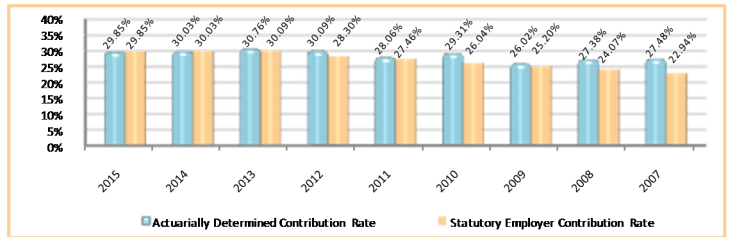
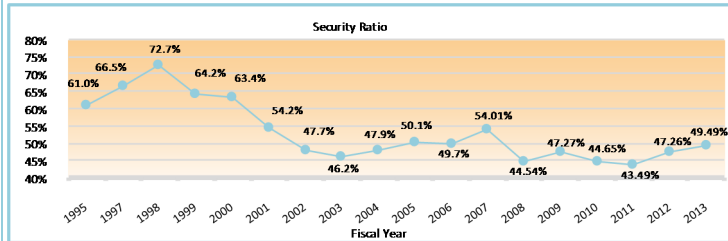
An independent audit was conducted, resulting in a clean audit opinion. Complete financial information can be found at our website: www.ggrf.com.

DEFINED BENEFIT PLAN

Unfunded Liability - Security Ratio

Underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.44 billion at September 30, 2013. This represents an increase in the unfunded liability ratio from 39% in 1995 to 50.5% in 2013, and a decrease in the security ratio, from 61.0% in 1995 to 49.5% in 2013. The decrease in the security ratio reflects a decline in GGRF's ability to meet future benefit obligations.

Management continues to recommend that the Guam Legislature fully fund the actuarially determined contribution rate each year. The uncertainties in the investment markets, and the years remaining in the funding period underscores the need for the Guam Legislature to fully recognize the magnitude of the problem and provide full funding each year. A comparison of the "actuarially determined" versus the "statutory" employer contribution rates for 2007 to 2015 are reflected below.



Implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 and 68

The 2014 financial statements, notes to the financial statements, and required supplementary information were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans*.

The implementation of this statement will require a restatement upon implementation. As of October 1, 2014, the net pension liability that GGRF will record upon implementation of this statement is about \$4.4 million.

As more fully discussed in the notes to the financial statements, GASB 68 will require employers to reflect the unfunded liability directly on their financial statements as a liability effective for fiscal year ending September 30, 2015. In the Government of Guam government-wide financial statements this means an additional net pension liability of approximately \$1.329 billion based on the 2013 actuarial valuation.

GASB 68 - Net Pension Liability By Agency

GGRF has included unaudited information regarding the GovGuam Agencies' proportionate share of the net pension liability. In the future, this information will be used for financial statement purposes.

DEFINED CONTRIBUTION PLAN

Enhancing the Retirement Benefits of DC Plan Members

DC Plan Alternatives

The GGRF Board established a working committee several years ago to assess benefit enhancement options that would provide DC Plan members a reasonable opportunity to build sufficient post-retirement benefit levels, while also balancing GovGuam's budgetary needs and obligations. The working committee's extensive analysis involved consideration of a comprehensive and detailed study of alternative retirement plans and arrangements. The alternatives included 1) a Hybrid Plan, 2) Transitioning to Social Security, and 3) Combining DC with Social Security.

With DC Plan members' balances averaging less than \$40,000, they may be left without adequate income when they retire, and GovGuam may find itself subsidizing their costs of living through public assistance programs.

The Committee considered different benefit options, the corresponding effect on the contribution rate, its' impact on the unfunded liability, and comparison of costs between the proposed DB Plan component and a Social Security component. Upon the passing of the Honorable Vicente 'Ben' C. Pangelinan in July 2014, Vice-Speaker Benjamin 'B.J.' Cruz was named Chairman of the Committee.

Hybrid Plan

Under the proposed plan: 1) All new employees and their employers will be required to contribute a certain percent of the employee's wages to GGRF (similar to current retirement contributions), 2) Mandatory participation will be required for all new employees, and 3) Voluntary participation in certain circumstances for current DC Plan participants.

On April 20, 2012, proposed legislation to establish a Hybrid Plan was submitted to the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement & Land (the "Committee"). A public hearing on the legislation, Bill No. 453-31, was held on August 14, 2012. *The Bill however, was not acted on by the 31st Guam Legislature.*

Public hearings on Bill No. 394-32 were held in September 2014. The Bill was reported out of Committee and discussed in a Legislative Special Session. GGRF was present during the Committee as a whole on October 17, 2014 to provide additional information and answer questions. On October 21, 2014, the Bill was referred back to Committee to give the public and the Legislature additional time to review supplemental reports provided by GGRF. On November 6, 2014, Vice Speaker Cruz held a round table discussion. *The Bill however, was not acted on by the 32nd Guam Legislature.*

During 2013, the Committee requested updated (based on the 2012 valuation) and additional information on the proposed Hybrid Plan. GGRF transmitted updated and additional information provided by our Actuary, to the Committee in 2014.

Update – 2014 Audit

On June 6, 2014 revised legislation, Bill No. 394-32, was transmitted to the Committee.

On January 20, 2015, Vice-Speaker Cruz held a round table discussion to discuss the Hybrid Bill - reintroduced as Bill No. 002-33.

We would like to hear from you ...

Do you like this report or believe it should include different / additional information? Please contact GGRF through our website www.ggrf.com, by telephone at (671) 475-8900, or by fax at (671) 475-8922. More information is available on our website.