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Government of Guam 457 Deferred Compensation Plan - Calendar Year 2022 Financial Highlights

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Hagåtña, Guam - The Office of Public Accountability has released the Government of Guam (GovGuam) 457 Deferred Compensation Plan’s (457 Plan) Financial Statements and Report on Internal Control and Compliance, Auditor’s Communication with Those Charge with Governance, and Management Letter for calendar year (CY) 2022. Independent auditors, Burger & Comer, P.C. (BC), rendered an unmodified (clean) opinion on the 457 Plan’s financial statements. The 457 Plan received one Management Letter comment relative to the plan participant files, which was a repeat finding from the prior year.

The 457 Plan ended CY 2022 with a fiduciary net position of \$125.5 million (M), a decrease of \$14.7M (or 11%) from the prior year’s \$140.2M. This was greatly attributed to the decrease in net investment income by \$40.4M (or 238%) resulting from the net depreciation in fair value of investment by \$38.6M (or 364%). Due to market fluctuations, the fair value of investments decreased by \$38.6M from \$10.6M as of December 31, 2021, to a negative \$28M as of December 31, 2022. The 457 Plan’s investment balances increased consistently from December 31, 2022, to the quarters ending March 31, 2023 (by \$8.4M), June 30, 2023 (by \$16M), and August 31, 2023, collectively by \$18M (or 15%).

The 457 Plan is not managed by a single portfolio, making it not possible to identify a specific rate of return over a particular period of time because each participant chooses their own investment strategy. A change in an investment balance is an alternative to a “return” over various investment periods. See Table 1 below.

Table 1: 457 Plan Investment Balances

As of	Investment	Rate of Return
	Balance (in millions)	
December 31, 2021	\$135.9	Not Applicable
December 31, 2022	\$119.9	
March 31, 2023	\$128.3	
June 30, 2023	\$135.9	
August 31, 2023	\$137.9	

The Government of Guam Retirement Fund (GGRF) Board of Trustees is responsible for the administration of the 457 Plan, while Empower Retirement (Empower) is the trustee and record keeper. The GGRF Board of Trustees continues to manage the 457 Plan in the same disciplined manner as it has in the past. Empower invests funds received from contributions in accordance with participants’ elections, records investment sales and interest income, and makes distribution payments to participants. During CY 2022, GGRF paid Empower \$231 thousand (K) in administrative fees.

GovGuam 457 Plan Participation and Contributions

The 457 Plan was established in May 1999. In January 2018, it was amended to comply with the Public Law No. 33-186 requirements, which established the “Government of Guam Defined Benefit 1.75 Retirement System (DB 1.75 Plan)”. Participation in the 457 Plan is voluntary for all employees who are members of the GovGuam Defined Benefit Plan, and GovGuam Defined Contribution Retirement System; however, participation is

mandatory for all employees who are members of the DB 1.75 Plan. These employees are required to contribute a minimum of 1% of their base salary to the 457 Plan.

Plan participants, including DB 1.75 participants, may contribute up to 100% of their annual compensation, not to exceed Internal Revenue Service limits. Participants may direct the investment of their accounts in various investment options offered by the 457 Plan. As of December 31, 2022, there were 24 mutual fund investment options with an overall value of \$119.9M, of which two mutual funds valued at \$ 25.6M have exposure to credit risk.

Participants who do not choose an investment option for all or part of their account will be deemed to have elected the default investment alternative under the 457 Plan for that portion of their account balance. Each participant's account is credited with the participant's contributions and allocations of 457 plan earnings, including interest, dividends, and gains/losses from investments.

Decrease in Additions to 457 Plan

In CY 2022, total additions to the 457 Plan amounted to a negative \$8.7M, which decreased by \$38.4M (or 130%) from \$29.7M in CY 2021. This was due to depreciation in the fair value of investments by \$38.6M (or 364%) and decreases in interest and dividend income by \$1.7M (or 26%). During the CY 2022, the 457 Plan generated a net investment income of negative \$23.4M, a decrease of \$40.4M (or 238%) from prior year's net investment income of \$16.9M. The \$38.6M decrease in fair value of investments and the \$1.7M decrease in interest/dividends were partially offset by the \$1.9M increase in contributions, resulting in a total decrease of \$38.4M in additions. The decrease in interest and dividends was attributed to the challenging market environment.

The increase of \$2M (or 16%) in member contributions was primarily due to fluctuations in the average contributions per participant and the number of active plan participants. There were 7,158 active participants with account balances as of December 31, 2022, an increase of 118 from CY 2021.

Decrease in Deductions from 457 Plan

The money used to pay benefits is accumulated from contributions made by each participant and income generated from the participant's investments, including investment appreciation and interest/dividends. In CY 2022, benefits paid to participants decreased by \$950K (or 14%) from \$6.9M in CY 2021 to \$6M. This was attributed to: 1) the number of participants choosing to take lump sum distributions at retirement in any one year; 2) changes in the number of participants receiving benefits in the 457 Plan; and 3) the size of the participant's account balance. Distributions are largely due to retirements and severance of employment.

Plan Termination

Although it has not expressed an intent to do so, the GovGuam Legislature may, in its sole discretion, completely discontinue contributions or terminate the 457 Plan by action of the GGRF Board of Trustees and direct the GGRF Board of Trustees with respect to the disposition of the Trust. GovGuam established the 457 Plan with the bonafide intention and expectation that the 457 Plan shall continue indefinitely.

Subsequent Events

The market value of the 457 Plan's investments increased from \$119.9M as of December 31, 2022, to \$137.9M as of August 31, 2023. The \$18M increase was due largely to market fluctuations.

Management Letter

BC rendered one comment, a prior year repeat finding, that maintenance of participant files is not consistent with respect to form and content, not all documents are mounted and secured, files lack relevant documents and become bulky and unmanageable over time. BC recommended that the 457 Plan and the third-party administrator create an index which establishes the minimum requirements for form and content of the participant files.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis or review the reports in their entirety at www.opaguam.org and www.ggrf.com.