



# A Report to Our Members

For Fiscal Year 2013 Issued May 2014

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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 Contributions and earnings are **tax-deferred** until money is withdrawn.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

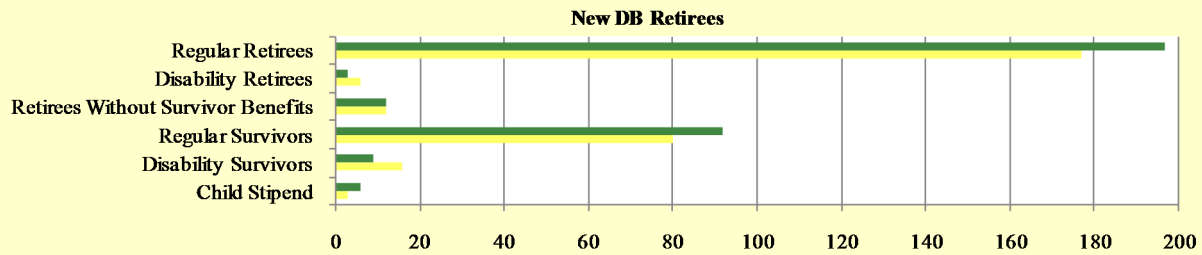
The Retirement Fund Board of Trustees (the “Board”) is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board comprises seven members. Three are appointed by the Governor with the advice and consent of the 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 2013	FY 2012
<b>Participant Counts - DB Plan</b>		
Active	2,872	3,090
Retired	7,195	7,155
Total Actives and Retirees	10,067	10,245
Inactive and Terminated Members with Accumulated Contributions	5,401	5,507
	15,468	15,752
<b>Participant Counts - DC Plan</b>		
Active	7,885	7,766
Retired	544	453
	8,429	8,219

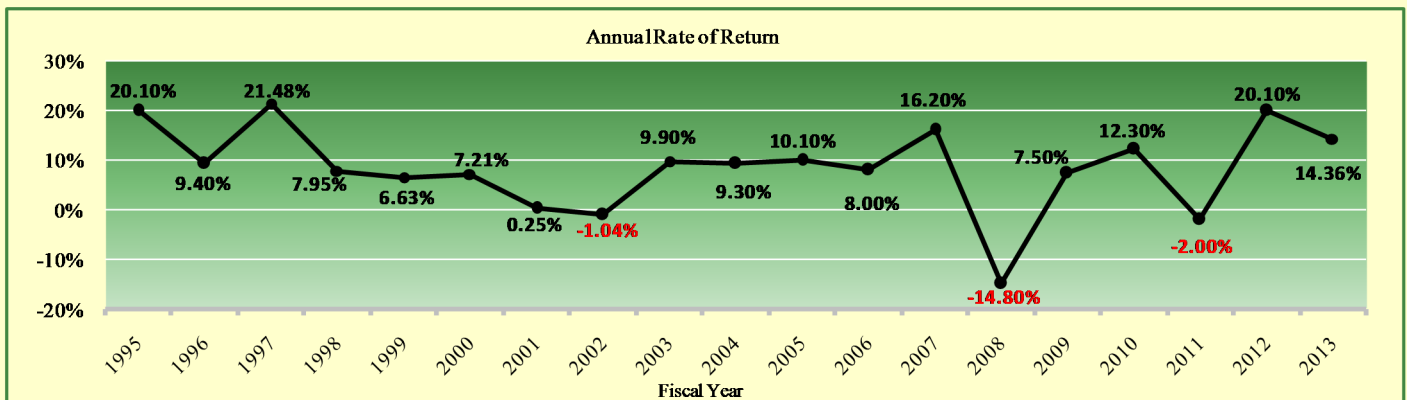
# How We Have Progressed

## DEFINED BENEFIT PLAN



	Regular Retirees	Disability Retirees	Retirees Without Survivor Benefits	Regular Survivors	Disability Survivors	Child Stipend
2013	197	3	12	92	9	6
2012	177	6	12	80	16	3

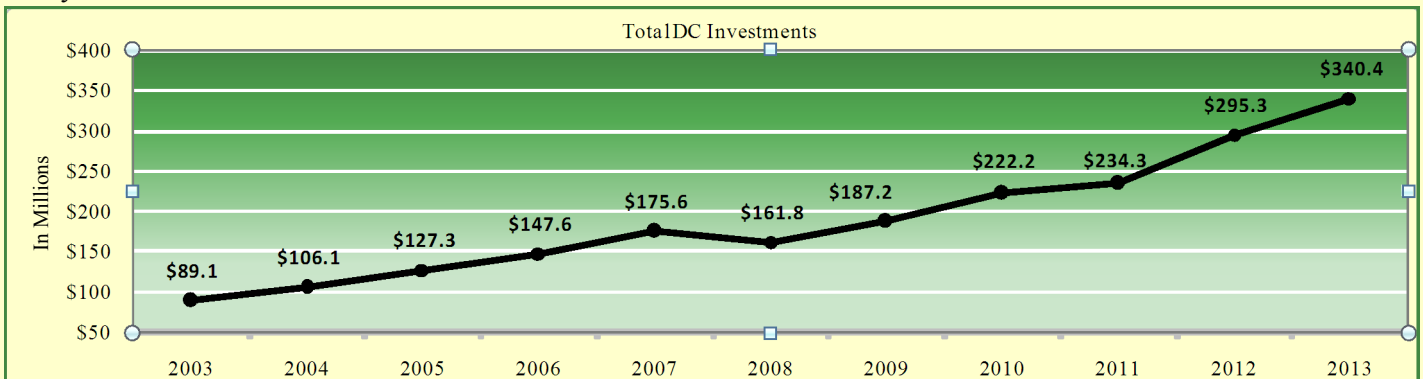
For 2013, the **DB Plan** investment portfolio posted a positive return of 14.36%, compared to 2012's return of 20.1%, and 2011's return of negative 2%.



GGRF investment returns averaged 9% percent from 1995 through 2013. Over that period, there have been three years with negative returns, all of which occurred in the last eleven years.

## DEFINED CONTRIBUTION PLAN

For 2013, DC Plan investments totaled \$340.4M compared to the \$295.3M and \$234.3M in 2012 and 2011, respectively.



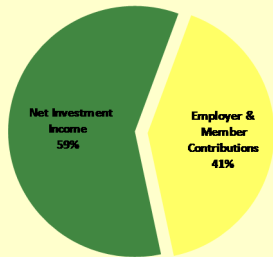
In addition, DC Plan employer and employee contributions increased by 825,627 or 2.9% over 2012. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2013.

# Income & Expense

## DEFINED BENEFIT PLAN

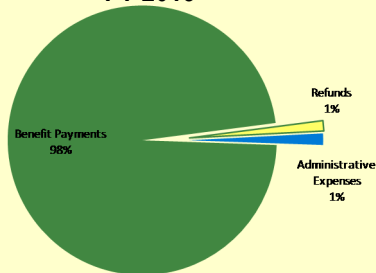
### DB Contributions and Net Investment Income

FY 2013



### DB Expense

FY 2013

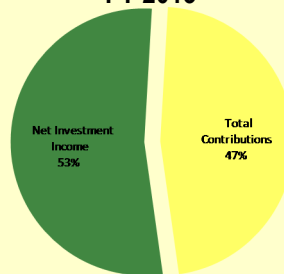


	2013	2012
Net Appreciation in Fair Value of Investments	\$162,486,174	\$207,622,587
Interest, Dividends & Other Investment Income	35,606,858	33,093,456
Less Investment Expenses	(5,316,971)	(4,867,456)
<b>Net Investment Income</b>	<b>192,776,061</b>	<b>235,848,587</b>
<b>Employer &amp; Member Contributions</b>	<b>134,199,523</b>	<b>133,225,443</b>
<b>Total Additions</b>	<b>326,975,584</b>	<b>369,074,030</b>
Benefit Payments	190,280,431	184,380,351
Refunds	2,413,061	2,709,194
Interest on Refunds	914,543	1,294,416
Administrative Expenses	2,685,830	2,807,624
Transfers to DC Plan	.00	33,891
<b>Total Deductions</b>	<b>196,293,865</b>	<b>191,225,476</b>
<b>Net Increase in Net Assets</b>	<b>130,681,719</b>	<b>177,848,554</b>

## DEFINED CONTRIBUTION PLAN

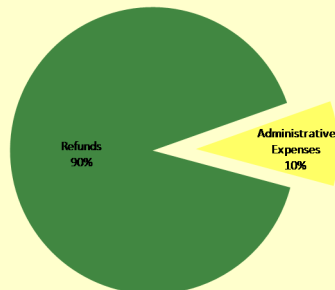
### DC Contributions and Net Investment Income

FY 2013



### DC Expense

FY 2012



	2013	2012
Net Appreciation in Fair Value of Investments	21,082,893	33,922,594
Interest, Dividends & Other Investment Income	12,758,557	9,576,083
Less Investment Expenses	(106,080)	(102,000)
<b>Net Investment Income</b>	<b>33,735,370</b>	<b>43,396,677</b>
<b>Total Contributions</b>	<b>29,759,209</b>	<b>28,933,582</b>
<b>Total Additions</b>	<b>63,494,579</b>	<b>72,330,259</b>
Refunds	14,871,667	12,203,108
Administrative Expenses	1,577,819	1,707,794
Transfer from DB Plan	.00	(33,891)
<b>Total Deductions</b>	<b>16,449,486</b>	<b>13,877,011</b>
<b>Net Increase in Net Assets</b>	<b>\$47,045,093</b>	<b>\$58,453,248</b>

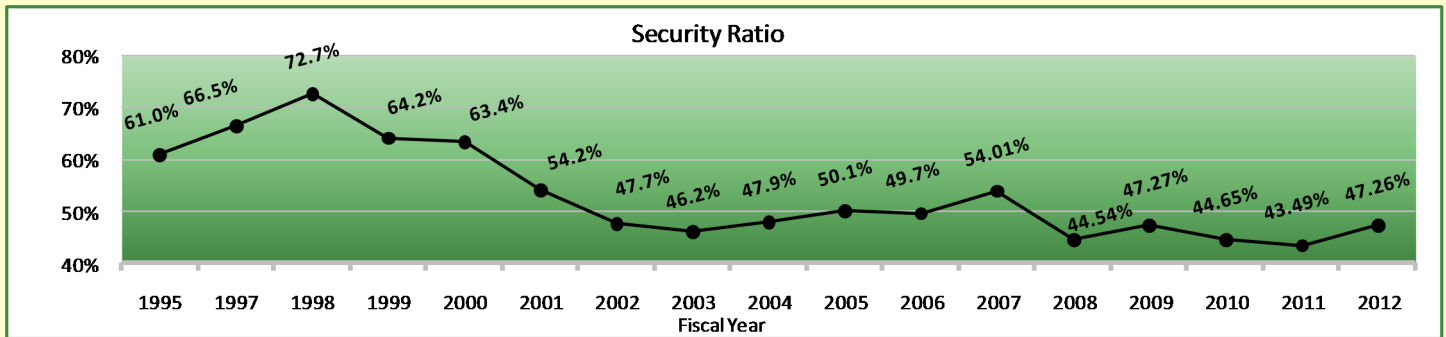
## Independent Audit

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

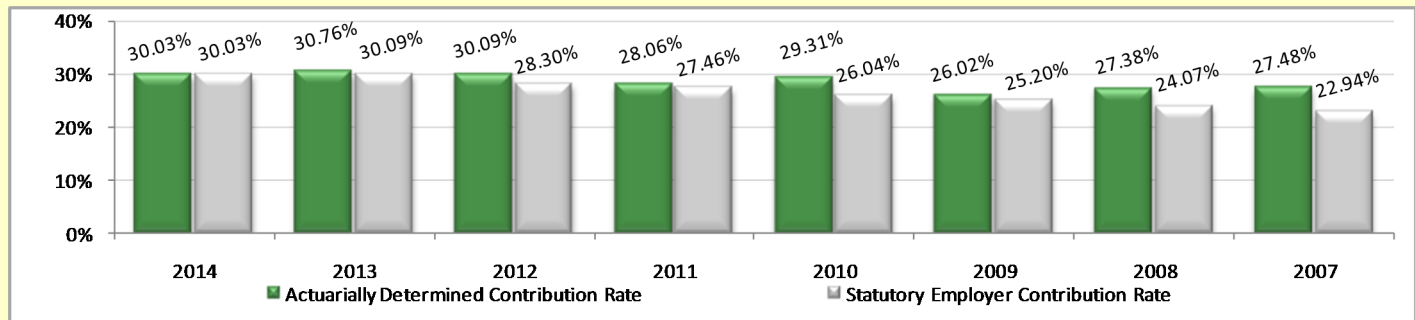
## DEFINED BENEFIT PLAN

### 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 \$1.48 billion at September 30, 2012. This represents an increase in the unfunded liability ratio from 39% in 1995 to 52.7% in 2012, and a decrease in the security ratio, from 61.0% in 1995 to 47.3% in 2012. 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 2014 are reflected below.



## 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 committee's extensive analysis involved consideration of a comprehensive and detailed study of alternative retirement plans and arrangements. The alternatives included the following:

#### 1. Transitioning to Social Security

Considering the low-level of pre-retirement income replacement that Social Security provides on average (only 40%), the uncertainty surrounding the future of the program, and the potentially adverse effect on members who will not receive service credit for GovGuam service already rendered, transitioning to Social Security is not a favorable option.

#### 2. Combining DC with Social Security vs. Hybrid Plan

The costs of combining the existing DC Plan with a Social Security component was compared to the costs for a Hybrid Plan, and the Hybrid Plan was projected to be cheaper by 7.1% of compensation. As such, the Hybrid Plan was deemed to be the most viable option as it combines a defined benefit “floor” of benefits determined by a formula based on years of service (including service already rendered by DC Plan members” and salary, along with a salary reduction deferred compensation account program).

#### 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.

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

The Committee has requested updated (based on the 2012 valuation) and additional information, prior to reintroducing the Hybrid Plan Bill. GGRF is currently reviewing updated and additional information provided by our Actuary. Upon completion of the review, the information requested will be transmitted to the Committee. In light of the concerns relative to the sustainability of the DC Plan, **GGRF encourages members of the 32<sup>nd</sup> Guam Legislature to reintroduce the Hybrid Plan Bill.**

*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](http://www.ggrf.com), by telephone at (671)475-8900, or by fax at (671) 475-8922. More information is available on our website.