

# **GOVERNMENT OF GUAM RETIREMENT FUND**

**Governmental Accounting Standards Board (GASB) Statement No. 68 Schedules**

Fiscal Year Ended September 30, 2015 Implementation

**GOVERNMENT OF GUAM RETIREMENT FUND**

**GASB Statement No. 68 Schedules**

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## Independent Auditors' Report

To the Board of Trustees  
Government of Guam Retirement Fund  
Maite, Guam

### Report on Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

We have audited the accompanying schedule of employer allocations by component unit of the Government of Guam Retirement Fund (the Fund), a component unit of the Government of Guam, for the years ended September 30, 2014 and 2013, and the accompanying schedules of employer pension amounts by component unit as of and for the years ended September 30, 2014 and 2013, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred inflows of resources, and total employer pension expense (specified column totals) included in the accompanying schedule of pension amounts by component unit of the Fund as of and for the years ended September 30, 2014 and 2013, and the related notes to the Schedules.

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of the Schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these Schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the Schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Qualified Opinion**

The accompanying Schedule of Employer Allocations by Component Unit for the year ended September 30, 2012 was prepared using contribution figures and allocation ratios that were derived for the year ended September 30, 2013. In our opinion, the contribution figures and allocation ratios should be based on the expected contributions for the year ended September 30, 2012. Quantification of the effects on the Schedule of Employer Allocations by Component Unit for the year ended September 30, 2012 is not practicable.

### **Qualified Opinion**

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the Schedules referred to above present fairly, in all material respects, the employer allocations by component unit of net pension liability, deferred outflows of resources, deferred inflows of resources, and employer pension expense for all participating entities for the Fund as of and for the years ended September 30, 2014 and 2013, and the employer allocations by component unit of net pension liability as of and for the years ended September 30, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Fund as of and for the years ended September 30, 2014 and 2013, and our report thereon, dated February 20, 2015, expressed an unmodified opinion on those financial statements.

### **Restriction of Use**

Our report is intended solely for the information and use of Fund management, the Fund's Board of Trustees, the Fund component units and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



Tamuning, Guam  
January 22, 2016

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Employer Allocations by Component Unit

For the year ended September 30, 2014

<u>Component Unit (Employer)</u>	<u>Expected Defined Benefit Plan Contributions</u>	<u>Allocation Percentage</u>	<u>Net Pension Liability</u>
Government of Guam General Fund	\$ 42,037,027	31.1662%	\$ 388,427,011
Attorney General	2,373,875	1.7600%	21,934,881
Mayors' Council of Guam	1,497,781	1.1105%	13,839,670
Department of Chamorro Affairs	356,265	0.2641%	3,291,930
KGTF	90,585	0.0672%	837,016
Government of Guam Retirement Fund	405,741	0.3008%	3,749,094
Guam Community College	3,184,334	2.3609%	29,423,616
Guam Department of Education	39,208,696	29.0693%	362,292,904
Guam Economic Development Authority	459,838	0.3409%	4,248,957
Guam Housing and Urban Renewal Authority	1,059,037	0.7852%	9,785,625
Guam Housing Corporation	319,126	0.2366%	2,948,761
Guam International Airport Authority	3,308,452	2.4529%	30,570,481
Guam Legislature	515,396	0.3821%	4,762,319
Guam Memorial Hospital Authority	11,660,743	8.6453%	107,746,620
Guam Power Authority	7,253,802	5.3780%	67,025,973
Guam Visitors Bureau	414,109	0.3070%	3,826,415
Guam Waterworks Authority	3,684,774	2.7319%	34,047,740
Judiciary of Guam	5,431,957	4.0273%	50,191,914
Port Authority of Guam	4,071,265	3.0184%	37,618,961
Public Auditor	152,601	0.1131%	1,410,051
University of Guam	7,394,584	5.4823%	68,326,815
	<u>\$ 134,879,988</u>	100.00%	<u>\$ 1,246,306,754</u>

See notes to GASB 68 schedules.

**GOVERNMENT OF GUAM RETIREMENT FUND**  
(a Component Unit of the Government of Guam)

Schedule of Employer Pension Amounts by Component Unit  
As of and for the year ended September 30, 2014

Component Unit (Employer)	Deferred Outflows of Resources				Deferred Inflows of Resources				Pension Expense					
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Government of Guam General Fund	\$ 429,740,559	3,188,243	-	-	14,818,264	18,006,507	-	(32,708,128)	-	-	(32,708,128)	29,247,308	29,636,525	58,883,833
Government of Guam Retirement Fund	3,749,094	27,815	-	-	-	27,815	-	(285,349)	-	(132,341)	(417,690)	255,156	(264,681)	(9,525)
Guam Community College	29,423,616	218,294	-	-	-	218,294	-	(2,239,471)	-	(748,742)	(2,988,213)	2,002,514	(1,497,485)	505,029
Guam Department of Education	362,292,904	2,687,849	-	-	-	2,687,849	-	(27,574,595)	-	(7,164,722)	(34,739,317)	24,656,953	(14,329,445)	10,327,508
Guam Economic Development Authority	4,248,957	31,523	-	-	-	31,523	-	(323,394)	-	(29,857)	(353,251)	289,176	(59,715)	229,461
Guam Housing and Urban Renewal Authority	9,785,625	72,600	-	-	-	72,600	-	(744,797)	-	(573,238)	(1,318,035)	665,991	(1,146,477)	(480,486)
Guam Housing Corporation	2,948,761	21,877	-	-	-	21,877	-	(224,434)	-	(82,298)	(306,732)	200,687	(164,597)	36,090
Guam International Airport Authority	30,570,481	226,802	-	-	570,740	797,542	-	(2,326,760)	-	-	(2,326,760)	2,080,568	1,141,482	3,222,050
Guam Legislature	4,762,319	35,332	-	-	-	35,332	-	(362,466)	-	(216,692)	(579,158)	324,114	(433,383)	(109,269)
Guam Memorial Hospital Authority	107,746,620	799,372	-	-	-	799,372	-	(8,200,739)	-	(1,260,160)	(9,460,899)	7,333,026	(2,520,320)	4,812,706
Guam Power Authority	67,025,973	497,265	-	-	-	497,265	-	(5,101,436)	-	(2,593,002)	(7,694,438)	4,561,658	(5,186,004)	(624,346)
Guam Visitors Bureau	3,826,415	28,388	-	-	72,611	100,999	-	(291,234)	-	-	(291,234)	260,418	145,223	405,641
Guam Waterworks Authority	34,047,740	252,600	-	-	-	252,600	-	(2,591,419)	-	(977,171)	(3,568,590)	2,317,223	(1,954,340)	362,883
Judiciary of Guam	50,191,914	372,374	-	-	2,202,616	2,574,990	-	(3,820,173)	-	-	(3,820,173)	3,415,964	4,405,232	7,821,196
Port Authority of Guam	37,618,961	279,095	-	-	-	279,095	-	(2,863,229)	-	(1,701,854)	(4,565,083)	2,560,274	(3,403,709)	(843,435)
University of Guam	68,326,815	506,916	-	-	-	506,916	-	(5,200,445)	-	(2,184,154)	(7,384,599)	4,650,191	(4,368,306)	281,885
<b>Total for All Entities</b>	<b>\$ 1,246,306,754</b>	<b>9,246,345</b>	<b>-</b>	<b>-</b>	<b>17,664,231</b>	<b>26,910,576</b>	<b>-</b>	<b>(94,858,069)</b>	<b>-</b>	<b>(17,664,231)</b>	<b>(112,522,300)</b>	<b>84,821,221</b>	<b>-</b>	<b>84,821,221</b>

See notes to GASB 68 schedules.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Employer Allocations by Component Unit

For the year ended September 30, 2013

<u>Component Unit (Employer)</u>	Expected Defined Benefit Plan <u>Contributions</u>	<u>Allocation Percentage</u>	Net Pension <u>Liability</u>
Government of Guam General Fund	\$ 34,357,954	27.77%	\$ 361,947,456
Attorney General	2,077,585	1.68%	21,886,536
Mayors' Council of Guam	1,449,748	1.17%	15,272,522
Department of Chamorro Affairs	320,706	0.26%	3,378,511
KGTF	86,933	0.07%	915,805
Government of Guam Retirement Fund	409,847	0.33%	4,317,576
Guam Community College	3,134,005	2.53%	33,015,503
Guam Department of Education	38,003,918	30.72%	400,356,244
Guam Economic Development Authority	430,282	0.35%	4,532,851
Guam Housing and Urban Renewal Authority	1,134,630	0.92%	11,952,878
Guam Housing Corporation	316,150	0.26%	3,330,515
Guam International Airport Authority	2,872,090	2.32%	30,256,332
Guam Legislature	534,448	0.43%	5,630,198
Guam Memorial Hospital Authority	11,054,501	8.94%	116,454,796
Guam Power Authority	7,391,863	5.97%	77,870,353
Guam Visitors Bureau	359,157	0.29%	3,783,577
Guam Waterworks Authority	3,658,076	2.96%	38,536,384
Judiciary of Guam	4,355,121	3.52%	45,879,477
Port Authority of Guam	4,218,951	3.41%	44,444,980
Public Auditor	145,994	0.12%	1,537,989
University of Guam	7,404,564	5.99%	78,004,153
	<u>\$ 123,716,523</u>	100.00%	<u>\$ 1,303,304,636</u>

See notes to GASB 68 schedules.

**GOVERNMENT OF GUAM RETIREMENT FUND**  
(a Component Unit of the Government of Guam)

**Schedule of Employer Pension Amounts by Component Unit**  
As of and for the year ended September 30, 2013

Component Unit (Employer)	Deferred Outflows of Resources				Deferred Inflows of Resources				Pension Expense					
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Government of Guam General Fund	\$ 404,938,819	-	-	-	-	-	(24,203,495)	-	-	-	(24,203,495)	25,840,248	-	25,840,248
Government of Guam Retirement Fund	4,317,576	-	-	-	-	-	(258,065)	-	-	-	(258,065)	275,516	-	275,516
Guam Community College	33,015,503	-	-	-	-	-	(1,973,361)	-	-	-	(1,973,361)	2,106,809	-	2,106,809
Guam Department of Education	400,356,244	-	-	-	-	-	(23,929,592)	-	-	-	(23,929,592)	25,547,823	-	25,547,823
Guam Economic Development Authority	4,532,851	-	-	-	-	-	(270,932)	-	-	-	(270,932)	289,254	-	289,254
Guam Housing and Urban Renewal Authority	11,952,878	-	-	-	-	-	(714,432)	-	-	-	(714,432)	762,746	-	762,746
Guam Housing Corporation	3,330,515	-	-	-	-	-	(199,067)	-	-	-	(199,067)	212,529	-	212,529
Guam International Airport Authority	30,256,332	-	-	-	-	-	(1,808,443)	-	-	-	(1,808,443)	1,930,739	-	1,930,739
Guam Legislature	5,630,198	-	-	-	-	-	(336,521)	-	-	-	(336,521)	359,278	-	359,278
Guam Memorial Hospital Authority	116,454,796	-	-	-	-	-	(6,960,590)	-	-	-	(6,960,590)	7,431,297	-	7,431,297
Guam Power Authority	77,870,353	-	-	-	-	-	(4,654,369)	-	-	-	(4,654,369)	4,969,119	-	4,969,119
Guam Visitors Bureau	3,783,577	-	-	-	-	-	(226,147)	-	-	-	(226,147)	241,440	-	241,440
Guam Waterworks Authority	38,536,384	-	-	-	-	-	(2,303,348)	-	-	-	(2,303,348)	2,459,112	-	2,459,112
Judiciary of Guam	45,879,477	-	-	-	-	-	(2,742,250)	-	-	-	(2,742,250)	2,927,694	-	2,927,694
Port Authority of Guam	44,444,980	-	-	-	-	-	(2,656,510)	-	-	-	(2,656,510)	2,836,155	-	2,836,155
University of Guam	78,004,153	-	-	-	-	-	(4,662,366)	-	-	-	(4,662,366)	4,977,657	-	4,977,657
<b>Total for All Entities</b>	<b>\$ 1,303,304,636</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(77,899,488)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(77,899,488)</b>	<b>83,167,416</b>	<b>-</b>	<b>83,167,416</b>

See notes to GASB 68 schedules.



**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Employer Allocations by Component Unit

For the year ended September 30, 2012

<u>Component Unit (Employer)</u>	Expected Defined Benefit Plan <u>Contributions</u>	Allocation <u>Percentage</u>	Net Pension <u>Liability</u>
Government of Guam General Fund	\$ 34,357,954	27.77%	\$ 394,349,317
Attorney General	2,077,585	1.68%	23,845,839
Mayors' Council of Guam	1,449,748	1.17%	16,639,732
Department of Chamorro Affairs	320,706	0.26%	3,680,958
KGTF	86,933	0.07%	997,788
Government of Guam Retirement Fund	409,847	0.33%	4,704,089
Guam Community College	3,134,005	2.53%	35,971,081
Guam Department of Education	38,003,918	30.72%	436,196,494
Guam Economic Development Authority	430,282	0.35%	4,938,636
Guam Housing and Urban Renewal Authority	1,134,630	0.92%	13,022,911
Guam Housing Corporation	316,150	0.26%	3,628,666
Guam International Airport Authority	2,872,090	2.32%	32,964,906
Guam Legislature	534,448	0.43%	6,134,219
Guam Memorial Hospital Authority	11,054,501	8.94%	126,879,934
Guam Power Authority	7,391,863	5.97%	84,841,377
Guam Visitors Bureau	359,157	0.29%	4,122,286
Guam Waterworks Authority	3,658,076	2.96%	41,986,195
Judiciary of Guam	4,355,121	3.52%	49,986,649
Port Authority of Guam	4,218,951	3.41%	48,423,735
Public Auditor	145,994	0.12%	1,675,671
University of Guam	<u>7,404,564</u>	<u>5.99%</u>	<u>84,987,155</u>
	<u>\$ 123,716,523</u>	100.00%	<u>\$ 1,419,977,638</u>

See notes to GASB 68 schedules.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

## **(1) Description of the Fund**

The following brief description of the Government of Guam Retirement Fund (GGRF) is provided for general information purposes only. Members should refer to Title 4, Chapter 8, Articles 1 and 2 of the Guam Code Annotated (GCA) for more complete information.

### Purpose

The Government of Guam Retirement Fund was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. The 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 of Trustees comprises seven members, four of whom are elected and three of whom are appointed by the Governor with the advice and consent of the Legislature. Two of the elected members must be GGRF retirees domiciled in Guam. These two members are elected by GGRF retirees. The other two elected members must be GGRF members with at least five years of employment by the Government of Guam. These two members are elected by GGRF active members. The GGRF is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

### Membership

The Defined Benefit Plan (DB) is a single-employer defined benefit pension plan and membership is mandatory for all employees in the service of the Government of Guam on the operative date. 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 Plan.

### Contributions

Contributions are set by law. Member contributions are required at 9.5% of base pay.

Based on the actuarial valuation as of September 30, 2013, which was issued in 2014, the actuarially determined contribution rate for the fiscal year ended September 30, 2013 was 29.85% of covered payroll.

The established statutory rate at September 30, 2014 was 30.03% of covered payroll.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

## **(2) Basis of Presentation**

The Schedule of Employer Allocations by Component Unit and the Schedule of Employer Pension Amounts by Component Unit (the Schedules) are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

## **(3) Use of Estimates**

The preparation of the Schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

## **(4) Actuarial Valuation Date**

The Government of Guam Retirement Fund is implementing GASB 68 for the year ended September 30, 2015. The collective total pension liability being presented for this implementation is based upon the September 30, 2013 actuarial valuation, with a measurement date of September 30, 2014. An expected total pension liability is determined as of September 30, 2014 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (service cost), subtracts the actual benefit payments and refunds for the year, and then applies the expected single equivalent interest rate for the period.

In order to restate the prior year financial statements (i.e., for the year ended September 30, 2014) the relevant pension expense, net pension liability, and deferred inflows and outflows are based upon a September 30, 2012 actuarial valuation, with a measurement date of September 30, 2013.

## **(5) Components of Collective Net Pension Liability**

The components of the collective net pension liability of the participating component units at September 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Total pension liability	\$ 2,871,562,108	\$ 2,829,439,663
Plan fiduciary net position	<u>1,625,255,354</u>	<u>1,526,135,027</u>
Net pension liability	\$ <u>1,246,306,754</u>	\$ <u>1,303,304,636</u>
Plan fiduciary net position as a percentage of total pension liability	56.60%	53.94%

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

### **(6) Actuarial Assumptions**

The collective total pension liability (see note 4 above regarding valuation dates) was determined using the following actuarial assumptions:

- Inflation: 2.75% per year
- Interest rate: 7.0% per year
- Payroll growth: 3.0% per year
- Salary increases: 7.5% per year in the first 5 years, 6.0% for years 6-10, 5.0% for years 11 to 15, and 4.5% for service after 15 years.
- Retirement age: assume that 40% of employees will retire when first eligible for unreduced retirement, thereafter, 15% of employees will retire at each year until age 65, and 20% of employees will retire from age 65 until age 70, at which time all remaining employees are assumed to retire.
- Investment rate of return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate range of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Mortality rates for pre-retirement and post-retirement were based on the RP-2000 combined mortality table, set forward 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females.

### **(7) Discount Rate**

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

## GOVERNMENT OF GUAM RETIREMENT FUND

Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

### **(8) Allocation Methodology**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* requires participating employers to recognize their proportionate share of collective net pension liability and pension expense. These Schedules are provided to the Government of Guam component units with their calculated proportionate share.

### **(9) Components of Schedule of Employer Pension Amounts by Component Unit**

*Net pension liability:* The employer proportionate share of the collective net pension liability is equal to the collective net pension liability multiplied by the employer's proportionate share percentage for the fiscal years ended September 30, 2014 and 2013 as shown in the Schedule of Employer Allocations by Component Unit.

*Deferred Outflows of Resources – Difference Between Expected and Actual Experience:* The difference between expected economic and demographic experience and the actual experience are amortized over the estimate remaining service life for all active and inactive members, which is 1.5 years. The collective amount of the difference between projected and actual experience for the fiscal years ended September 30, 2014 and 2013 is \$27,739,034 and -0-, respectively. The first year amortization for the 2014 difference of \$18,492,689 is recognized as pension expense with the remaining \$9,246,345 shown as deferred outflows of resources. The component unit proportionate share of these collective amounts is equal to the collective amount multiplied by the component unit's proportionate share percentage for the fiscal year ended September 30, 2014 as shown in the Schedule of Employer Allocations by Component Unit.

*Deferred Inflows of Resources – Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments:* The difference between actual earnings on plan investments compared to the plan's expected rate of return of 7.0% is amortized over a period of five years. The collective amount of the difference between projected and actual earnings for the fiscal years ended September 30, 2014 and 2013 is \$45,541,816 and \$97,374,360. The 2013 difference is recognized as pension expense at \$19,474,872 per year, with a balance of \$58,424,616 shown as deferred inflows of resources. The 2014 difference is recognized as pensions expense at \$9,108,363 per year, with a balance of \$36,433,453 shown as deferred inflows of resources. The component unit proportionate share of these collective amounts is equal to the collective amount multiplied by the component unit's proportionate share percentage for the fiscal years ended September 30, 2014 and 2013 as shown in the Schedule of Employer Allocations by Component Unit.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

**(9) Components of Schedule of Pension Amounts by Employer, continued**

*Pension Expense:* The calculation of collective pension expense for the years ended September 30, 2014 and 2013 is shown in the following table:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 22,323,496	21,089,199
Interest on the total pension liability	191,594,023	190,558,974
Expected investment return, net of investment expenses	(105,058,139)	(95,401,701)
Member contributions	(16,626,009)	(16,290,014)
Administrative expenses	2,678,396	2,685,830
 Recognition of Deferred Inflows/Outflows of Resources		
Economic/demographic gains or losses	18,492,689	-
Investments gains or losses	<u>(28,583,235)</u>	<u>(19,474,872)</u>
Total recognition	<u>(10,090,546)</u>	<u>(19,474,872)</u>
 Collective pension expense	\$ <u>84,821,221</u>	<u>83,167,416</u>

The component unit proportionate share of collective pension expense is equal to the collective pension expense multiplied by the employer's proportionate share percentage for the fiscal years ending September 30, 2014 and 2013 as shown in the Schedule of Employer Allocations by Component Unit.

**(10) Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability as of September 30, 2014, calculated using the current discount rate of 7.0%, as well as the net pension liability calculated using a discount rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount</u>	<u>1% Increase</u>
	<u>6.0%</u>	<u>Rate</u>	<u>8.0%</u>
		<u>7.0%</u>	
Total Pension Liability	\$ 3,222,601,736	2,871,562,108	2,606,481,001
Plan Fiduciary Net Position	<u>1,625,255,354</u>	<u>1,625,255,354</u>	<u>1,625,255,354</u>
 Net Pension Liability	\$ <u>1,597,346,382</u>	<u>1,246,306,754</u>	<u>981,225,647</u>

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to GASB Statement No. 68 Schedules

September 30, 2014 and 2013

### **(10) Expected Remaining Service Lives**

Under GASB Statement No. 68, gains and losses that are deferred and amortized over future periods as presented as deferred inflows or gains, and deferred outflows or losses. Investment gains and losses are recognized over a closed five-year period. Economic and demographic gains and losses and changes in the total pension liability due to changes in assumptions are recognized over a closed period equal to the average expected remaining services lives of all covered active and inactive members, determined as of the beginning of the measurement period. The amortization period was calculated at 1.5 years. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

### **(11) Expected Rate of Return and Asset Allocation**

The Fund has a target asset allocation based on the investment policy adopted by the Board of Trustees. The target allocation and best estimates of the expected nominal return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	30%	8.12%	2.44%
U.S. Equities (small cap)	10%	9.32%	0.93%
Non-U.S. Equities	14.25%	8.76%	1.25%
Non-U.S. Equities (emerging markets)	5.75%	11.03%	0.64%
U.S. Fixed Income (aggregate)	30%	4.97%	1.49%
Real Estate (REITs)	10%	8.14%	<u>0.81%</u>
Expected average return for one year			7.56%
Expected geometric mean (40 years)			6.90%

The assumption used in the actuarial valuation (7.0%) is slightly higher than the expected geometric average return over the next 40 years. If the investments do not return the expected results, future pension expense will increase.