

**BOARD OF TRUSTEES**  
**Reconvened Regular Meeting**  
Tuesday, May 8, 2007, 1:30 p.m.  
Retirement Fund Conference Room

**MINUTES**

<b>DEFINED BENEFITS</b>
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**I. ATTENDANCE, QUORUM, AND CALL TO ORDER**

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan reconvened at 1:40 p.m. Tuesday, May 8, 2007, in the Retirement Fund Conference Room. Chairman Joe T. San Agustin officiated.

**Board of Trustees Present:**

Joe T. San Agustin, Chairman  
Wilfred P. Leon Guerrero, Vice-Chairman  
Gerard A. Cruz, Treasurer  
James J. Taylor, Secretary  
George A. Santos, Trustee

**Board of Trustees Absent:**

Katherine T.E. Taitano, Trustee (*Off-Island*)

**Staff Present:**

Paula Blas, Director  
Diana Bernardo, Controller  
Rosalia Bordallo, General Accounting Supervisor  
Jackie Blas, Recording Secretary

**Public Present:**

Richard Wright, Milliman USA

Chairman San Agustin stated that the Board has reconvened for the purposes of having the actuarial report presented by Mr. Richard Wright, of Milliman USA.

## II. ACTUARIAL VALUATION AS OF SEPTEMBER 30, 2006

Mr. Richard Wright reported that there are several changes in the bound report which are on Page 1, Section I of the Valuation Summary under Highlights, and Pages 24 and 25, Section IV of the Valuation Exhibits under Exhibits 19 and 20.

Mr. Wright provided the following highlights:

- The required contribution under GCA 8137 for the 2007-2008 Fiscal Year is 27.38% of payroll. (The required contribution for the 2006-2007 Fiscal Year was 27.48%). Of this amount, 20.75% is the unfunded liability of the Defined Benefit (DB) Plan, 3.99% is for the normal cost of the DB Plan, and 2.63% is for contributions to the Defined Contribution (DC) Plan.
- Public Law 28-150 provides that the current employer contribution rate will increase over a five-year period until it reaches the actuarial contribution rate. The employer contribution rate for the 2006-2007 Fiscal Year is 22.94%. If the employer contribution rate is increased by 1.13% per year until the 2010-2011 Fiscal Year, the employer contribution rate is projected to be 27.55% for the 2011-2012 Fiscal Year. Without the five-year phase-in of the contribution rate, the employer contribution rate for 2011-2012 is projected to be 27.09% (Exhibit 19, Page 24). Mr. Wright stated that the effect of delaying the contribution increases is increasing future contribution rates.

Secretary James Taylor asked what was the cause of the change. Mr. Wright stated that there was some uncertainty as to whether that law would continue for the next five years. Chairman San Agustin stated that the public utility agencies were funding their agencies on an actual basis except that they were remitting only what they were invoiced. The difference they kept as a deferred contribution. Chairman San Agustin stated that the General Fund does not do that. Secretary Taylor asked which agencies are paying the charge. Chairman San Agustin replied, "Guam Power Authority and Guam Waterworks." Secretary Taylor stated that the University of Guam and the Guam Community College does not do it that way. Controller Diana Bernardo stated that the University of Guam transferred their unfunded liability to the General Fund. Director Paula Blas stated that if the autonomous agencies are doing that, does the Consolidated Annual Financial Report (CAFR) take the total unfunded liability that the Retirement Fund books as the number. Controller Bernardo stated that the Public Auditor, Doris Brooks, was asked that question and she said no.

Secretary Taylor mentioned that a similar situation exists in the state of Texas. Secretary Taylor stated that he had interviewed the Auditor General for the State of Texas and that person said that they record it as amount to be provided by the taxpayers. Mr. Wright stated that with the Government Accounting Standards (GAS), each year it has developed an Annual Report Contribution (ARC). Agencies only need to reflect liability if they don't make the ARC. They accumulate the differences each year which is called the Net Pension Obligation. Secretary Taylor asked whether there is a position the Board could take so that the General Fund could record the same thing. Mr. Wright mentioned that it is a GASB27 Statement.

Secretary Taylor stated that the Retirement Fund has the basis to take legal action to collect. Chairman San Agustin stated that the Board either agrees with the funding that the Legislature provides or shall we bill them the full actuarial rate of 27.48%. Treasurer Gerard Cruz recommended for Management to get a legal opinion from the Retirement Fund's Legal Counsel on whether the Retirement Fund has a basis to move forward with a lawsuit requiring Government of Guam to record the full liability. Vice-Chairman Wilfred Leon Guerrero asked whether the Retirement Fund should take a position to inform the Legislature. Secretary Taylor stated that the Legislature should be required to create a liability on the balance sheet of the General Fund. Chairman San Agustin stated that the agencies are not remitting the full amount invoiced. Controller Bernardo stated that most of the government agencies are booking the difference as a deferred liability. Director Blas stated that she will request for a legal opinion from the Retirement Fund's Legal Counsel.

- The Defined Benefit payroll for the 2005-2006 Fiscal Year was \$192.4 Million compared with \$196.2 Million for the 2004-2005 Fiscal Year. The total Defined Benefit and Defined Contribution payroll for the 2005-2006 Fiscal Year was \$376.6 Million compared with \$359.9 Million for the 2004-2005 Fiscal Year.
- The unfunded accrued liability increased from \$1.290 Billion as of September 30, 2005 to \$1.335 Billion as of September 30, 2006 due to employer contributions less than the calculated annual cost and a demographic experience that differed from our assumptions for the year. The payment required to amortize the unfunded accrued liability under GCA 8137 has increased from \$76.2 Million to \$80.9 Million. The payment as a percentage of payroll has increased slightly from 20.66% to 20.75%. Mr. Wright stated that this is due to higher salary increases or retirees living longer than expected.
- Based on the audited financial statements, the actuary estimated an investment return on the total market value of assets of 8.0% for the Fiscal Year ending September 30, 2006. The average annual return of the market value of assets for the last five Fiscal Years has been 7.2%.
- There have been no changes in plan provisions or actuarial assumptions since the prior actuarial valuation.

Vice-Chairman Leon Guerrero stated that the unfunded liability is growing. Mr. Wright stated that the Unfunded Accrued Liability (UAL) as of September 30, 2006 was \$1,289,802,590. The normal cost was \$14,237,093 and the interest to the end of the year was \$91,282,778 (7%). The total cost and interest was \$105,519,871.

Mr. Wright stated that the employer contributions for the year was \$85,771,426 and the interest on contributions was \$2,951,227. The total employer contributions and interest on contributions was \$88,722,653. Treasurer Cruz asked whether the expected UAL is at the actuarial rate. Treasurer Cruz asked whether the actuarial loss could be a factor of an under funded contribution. Mr. Wright replied, "No." Mr. Wright stated that the actuarial loss ignores the effect of the contribution. The expected UAL is higher because they under funded the contribution. Mr. Wright stated that under the components of actuarial gain/loss on other changes was \$55,827,974 as of September 30, 2005 and as of September 30, 2006 was (\$32,454,526).

Mr. Wright stated that the total payroll for the active members has increased. Vice-Chairman Leon Guerrero asked what the Retirement Fund could do to get rid off or reduce the \$15,551,621. Mr. Wright stated that this could be people with just a few years of service. Chairman San Agustin stated that the Retirement Fund should encourage the inactive members to refund.

Mr. Wright stated that there are 5,029 inactive members of which 4 are retirees. Vice-Chairman Leon Guerrero asked whether refunding inactive members would help or hurt the Retirement Fund. Chairman San Agustin stated that it could help the Retirement Fund but it could also affect the unfunded liability. Mr. Wright stated that refunds are better for the Retirement Fund. Vice-Chairman Leon Guerrero inquired about the zero earnings. Mr. Wright stated that the zero earnings count was 1,632 as of September 30, 2006 with an accumulated contribution of \$12,484,727. Mr. Wright stated that the people with zero earnings have either left an agency and the agency did not record a termination date for the employee.

Mr. Wright stated that on the five-year historical summary, the active participants count decreased to 4,298 in the DB Plan as of September 30, 2006. Chairman San Agustin recommended having Milliman incorporate, for future reports, the DC Plan participants. Mr. Wright stated that he could include the DC participants.

Mr. Wright stated that the current assumption of 7.0% is slightly less than the geometric average return over 30 years, and is within the 25th to 75th percentile of expected results. Mr. Wright noted that if investments fail to achieve the assumed interest rate, future pension costs will increase. Vice-Chairman Leon Guerrero stated that the current expected return is 8.04% and the proposed expected return is 8.49%. Mr. Wright stated that an experience study is due this year. The study is done every five years. Mr. Wright stated that Milliman will conduct an experience study.

Mr. Wright reported on the actuarial value of assets. Mr. Wright stated that the actuarial value of assets equals the market value of Retirement Fund assets, excluding certain receivables and liabilities whose payments are deducted from employer contributions to the Retirement Fund, and valuing fixed income investments at their amortized cost instead of market value. Mr. Wright stated that the valuation assets was \$1,320,721,075 as of September 30, 2006. The amortized cost of bonds was \$493,026,571. The market value of bonds was \$492,834,071. Mr. Wright stated that the rate increased from September 30, 2005. Chairman San Agustin stated that the Retirement Fund's statute provides that the 3% excess should go into a separate reserve account.

Mr. Wright reported on the historical returns on Retirement Fund assets over 6 years. The average on the return since 2001 on market value was 6.1%. Vice-Chairman Leon Guerrero asked Mr. Wright to explain the returns on market value vs. actuarial value. Mr. Wright stated that the actuarial value uses amortized cost of bonds rather than the market value of bonds.

Mr. Wright reported that the average age of active employees is increasing. The average earnings as of September 30, 2006 was \$42,979. The average earnings as of September 30, 2005 was \$38,559.

Mr. Wright reported on the active employees by agency. Mr. Wright stated that the Guam Telephone Authority has zero employees as of September 30, 2006. The Guam Public School System has 1/3 of all active participants.

Chairman San Agustin inquired about the contribution for the supplemental. Mr. Wright stated that the excluded assets are not counted as receivables because payments towards these receivables are deducted from employer contributions. Chairman San Agustin stated that the General Fund does not want to pick this up as a receivable. Chairman San Agustin stated that 1.20% for supplemental is a fixed rate for the next five years. Chairman San Agustin stated that it should be treated separately. Chairman San Agustin stated that Mr. Dan Fitzgerald from Deloitte & Touche is saying that this can not be considered as a receivable. Controller Bernardo stated that it is booked as a receivable. Controller Bernardo stated that although the General Fund has not booked the supplementals in prior years it should be booked as a liability by the General Fund. Mr. Wright stated that he excluded the supplemental receivables from the valuation assets. As such, the contribution rate is higher.

Mr. Wright thanked the Board for allowing him to present the actuarial report.

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to accept and adopt the Actuarial Valuation Report as September 30, 2006, subject to corrections. Without objection, the motion passed.**

### **III. ADJOURNMENT**

**There being no further business before the Board for the Defined Benefits Plan, on motion of Secretary James Taylor, seconded by Treasurer Gerard Cruz, and without objection, the meeting was adjourned at 3:15 p.m. Motion passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of May 8, 2007 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 13, 2007.**

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**James J. Taylor, Board Secretary**

### **RECORDING SECRETARY:**

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**Jackie Blas**