



OFFICE OF THE PUBLIC AUDITOR

**Government of Guam Retirement Fund  
FY 2006 Highlights**

March 22, 2007

The FY 2006 financial audit of the Government of Guam Retirement Fund (the “Fund” or “GGRF”) was issued six months after the fiscal year. This is the earliest issuance in nearly a decade. The audit was conducted by independent auditors Burger and Comer, reported \$1.5 billion in plan net assets, an increase of \$54.9 million from FY 2005. Of this amount, \$1.4 billion are assets exclusively set aside for the defined benefit (DB) plan, while \$149.4 million are set aside for the defined contribution (DC) plan. For FY 2006, the investments produced a rate of return of 8.0% compared to last fiscal year’s 10.1%.

**Additions:** Additions to the plans are represented by investment income and contributions from employers and employees. Total additions in 2006 were \$236.2 million, of which \$208.1 million and \$28.1 million came from DB and DC plans, respectively.

- **DB:** Of the \$208.1 million DB additions, \$104.5 million came from employer and member contributions, an increase in DB contribution of \$21.9 million or 26.5% from FY 2005, which included the receipt of \$11.9 million from the GTA Privatization Fund. The DB earned \$103.6 million in investment income, after \$3.2 million in investment expenses, down by 15.8% or \$19.4 million from FY 2005.
- **DC:** Of the \$28.1 million DC additions, \$18.7 million came from employer and employee contributions, a contribution increase of \$3.3 million or 21.7% from FY 2005. The DC earned \$9.4 million in investment income, a decrease of \$3.9 million or 29.6% from FY 2005.

**Deductions:** Deductions totaling \$181.4 million are represented by benefits to retirees, withdrawals, transfers to the DC plan, and general and administrative expenses. Of this amount, \$164.3 million represented the total benefit payments during FY 2006.

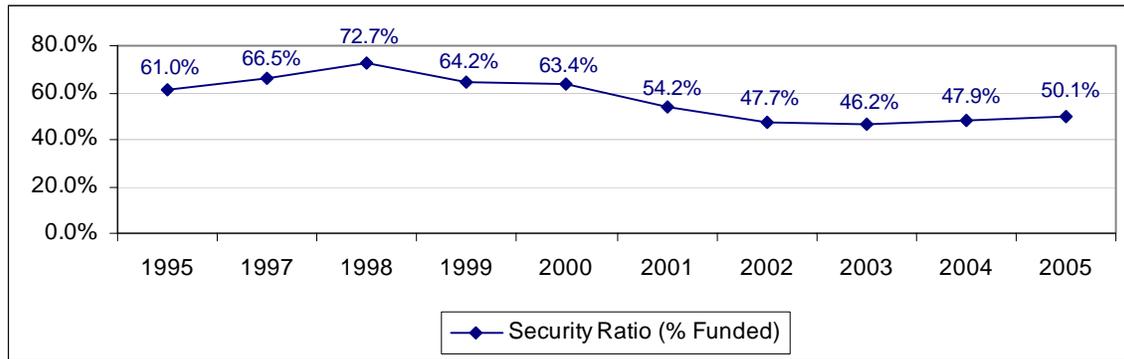
**DB:** Of the total benefit payments of \$164.3 million, Age and Service Annuities amounted to \$140 million, while the Survivor and Disability Annuities were \$24.3 million. Withdrawals and transfers from DB to DC plan amounted to \$6.5 million. Administrative and general expenses to run the DB plan were \$3.7 million, up by \$494 thousand or an increase of 15.6%, mostly due to legal fees paid.

**DC:** Withdrawals from the DC plan were \$6.7 million, up by 10% from FY 2005, while its administrative and general expenses were \$1.1 million, an increase of .11% from FY 2005.

**Unfunded Liability:**

Based on the 2005 independent actuarial valuation, GGRF’s funded ratio was 50.1%. This means that for every dollar of future DB Plan liability, GGRF has accumulated only fifty

cents to meet that obligation. This is a slight improvement from FY 2004 of 47.9%. Below is a graph that shows a 10-year comparative data for the funded portion.



In its Management, Discussion & Analysis (MD&A), management stated that it is concerned because payment by Gov Guam of the \$123.6 million COLA will further reduce Gov Guam’s ability to fund at the actuarially determined contribution rate.

“How policymakers deal with the unfunded liability going forward is everyone’s concern because the ultimate resolution will directly impact Gov Guam’s solvency and the ability to continue to provide essential services. The unfunded liability is now so large that it simply cannot be ignored or put off for future generations to contend with. The longer Gov Guam defers its obligation to provide full funding, the worse the problem becomes.”

**Investments:** The Fund realized an increase in the fair value of its investment portfolio of \$54 million to \$1.4 billion, of which \$33.9 million represented increase in DB investments. The DB Plan continues its shift to investments in common stocks, accounting for \$610 million of its total portfolio, or 48.4%.

**Liquidations:** The Fund liquidated \$59.1 million in assets in FY 2006 in order to meet its obligations for DB benefit payments. Liquidations since FY 1999 have totaled \$643 million in corpus and interest. Although the Fund has increased its assets available for benefits in FY 2005 and FY 2006, the liquidations were necessary to meet DB benefit payments, thus diminishing the Fund’s income-earning assets. Benefit payments will continue to rise as active members approach retirement.

**Receivables:** The Fund continues to hold significant receivables for Supplemental/COLA benefits paid to retirees on behalf of the General Fund. The Fund has \$159.3 million in total receivables, including \$87.6 million for Supplemental/COLA benefits receivable, \$15.8 million from the Early Retirement Incentive Program (ERIP), and \$24.4 million from employer/employee contributions. Based on current rate of amortization, the receivables from Supplemental/COLA will be paid off in approximately 19 years.

GPSS owes retirement contributions from FY 2003 of about \$14.1 million and GMH owes \$7 million, excluding penalties and interests. In addition, GMH still owes \$4.8 million on a 1998 promissory note of which the Fund established a reserve equal to the balance of the receivable. In FY 2006, GMH paid about \$665,000 towards this note.

As a result of the passage of Public Law 28-38 in June 2005, the Treasurer of Guam remits interest-only monthly payments of \$193 thousand and \$190 thousand for GPSS and GMH, respectively, until the outstanding balances for these agencies are fully paid. This legislation is for five years. For FY 2006, interest only payments remitted from the General Fund were \$ 2.31 million and \$2.30 million for GPSS and GMH, respectively, which were recorded as interest income.

**Findings:** The Fund's FY 2006 report on compliance and internal control did not identify any current findings on compliance and internal controls. However, the report repeated Finding 2002-9 from the prior report. Finding 2002-9 pertains to the establishment of a mechanism to facilitate allocation of forfeitures, which have not been allocated to start-up costs and administrative expenses, to employer's future contributions in accordance with Title 4, Chapter 8, Article 2, Section 8210.

**Management Audit:** During FY 2006, a consultant was hired to perform a management audit for GGRF. The audit identified three major recommendations, namely: 1) separate the Investment Division and the creation of Chief Investment Officer position; 2) consider autonomy for full procurement authority and for recruitment of personnel to address inadequate procurement procedures; and, 3) consider procuring a document imaging program or, alternatively, recruit personnel to organize, maintain, and improve the Fund's member filing system. OPA has expressed its objection to the recommendation No. 2 due to major procurement concerns and issues largely stemming from the component units of the government of Guam.

See Management's Discussion and Analysis for further details.