OFFICE OF THE PUBLIC AUDITOR

Government of Guam Retirement Fund
FY 2008 Financial Highlights

March 2, 2009

The global economic crisis has unfavorably affected the Government of Guam Retirement Fund (Fund), similar to other retirement plans. The Fund ended FY 2008 with a negative 14.8% return on its Defined Benefit (DB) plan investments and a $273.4 million (M) decrease in its investment portfolio overall. In addition, the Fund liquidated $60.7M in investments because monthly payments to DB retirees is more than the monthly contributions received from active members.

Volatile Markets Result in Highest Decrease in Investment Portfolio in 14 Years
In FY 2008, DB investments had a negative rate of return of 14.8% compared to a positive rate of return of 16.2% last year. For the period of 1995 through 2007, except for 2002, the DB investments enjoyed positive rates of return averaging 9.7%.

The Fund's $273.4M decrease in its investment portfolio is comprised of a $259.6M decrease in the DB plan investments and a $13.8M decrease in Defined Contribution (DC) plan investments. The DB plan investments went from $1.4 billion (B) to $1.1B, while the DC plan investments went from $175.6M to $161.8M.

The Fund reported $1.4B in plan net assets, a decrease of $280.9M from $1.7B in 2007. Of the $1.4B, $1.2B are assets exclusively set aside for the DB plan, while $164.9M are set aside for the DC plan. The $280.9M decrease is primarily the result of unstable stock markets worldwide.

Fund Continues to Liquidate Assets to Meet DB Benefit Obligations
In order to meet the obligations to over 7,000 retirees, the Fund liquidated $60.7M in investments, compared to $64.3M in 2007. Liquidations since FY 1999 totaled $732.8M in principal and interest, diminishing the Fund's income-earning potential. Benefit payments to retirees continue to increase as over 4,000 active members approach retirement. Retiree annuities were $168.7M, a $3.5M increase from $165.2M in 2007.

Unfunded Liability Exposure
Based on the 2007 independent actuarial valuation, the Fund's unfunded liability was $1.2B, which resulted in a coverage ratio of 54.0% compared to 49.7% in the prior year. This means that for every dollar of future DB Plan liability, the Fund has accumulated 54 cents to meet that obligation. To reduce the unfunded liability, a combination of increased employer contributions and increased rates of return are required. In its Management Discussion & Analysis, the Fund commended the Guam Legislature for its efforts towards attaining full funding of the DB plan through the passage of several public laws that increased the employer contribution rate from 22.94% in 2007 to 24.07% in 2008, and then to 25.20% in 2009. The employer contribution rate of 25.20% in 2009 is only 0.82% below the actuarially determined rate of 26.02%. The Fund

recommends that the Guam Legislature continue to increase the employer contribution rate until the actuarially determined contribution rate is reached.

$342,000 Increase in General and Administrative Expenses
General and administrative expenses increased $342,000 from $4.5M in 2007 to $4.8M in 2008. The increase was primarily due to legal fees, bad debts, and retiree supplemental/cost of living allowance (COLA)/medical benefits.

Legal fees increased 51.8%, from $224,806 to $341,361, due to cost incurred relative to the procurement of a global custodian and seven new investment managers for the DB Plan, and a new third-party administrator for the DC Plan. Bad debts increased by $150,280 from $139,200 to $289,480, due largely to the write-off of overpayments to deceased retirees. These receivables were recorded prior to 1999 and are no longer collectible. Retiree supplemental/COLA/medical benefits increased by 82.3% from $73,755 to $134,487, due to the increase in the Fund's share of medical insurance premiums for its 21 retirees.

Report on Compliance and Management Letter
For the third time in a row, the accompanying report on compliance and internal control did not identify any current year findings.

A separate management letter was issued in which the auditor discussed the possibility that the DC plan may be entitled to credits from the third party administrator and recommended the Fund to investigate the matter further. In addition, the auditor commended the Fund's management and staff for the preparation of the financial statements, accompanying footnotes, Management Discussion & Analysis, and supplemental schedules, in their entirety. Independent auditors Burger and Comer indicated that their experience as auditors over the past 25 years has been that the auditee generally relies on its auditors to draft the financial statements, footnotes, and supporting schedules.

The FY 2008 financial audit received an unqualified or "clean" opinion. See Management's Discussion and Analysis for further details.