

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Felix P. Camacho
 Governor

Michael W. Cruz, M.D.
 Lieutenant Governor

Paula M. Blas
 Director

BOARD OF TRUSTEES
Regular Meeting
 Friday, April 24, 2009, 12:00 p.m.
 Retirement Fund Conference Room

Trustees:

Joe T. San Agustin
 Chairman

Wilfred P. Leon Guerrero, Ed.D.
 Vice-Chairman
Investment Committee, Chairman

Antolina S. Leon Guerrero
 Secretary

Gerard A. Cruz
 Treasurer
*Audit & Operations Committee,
 Chairman*

George A. Santos
*Members' & Benefits Committee,
 Chairman*

Katherine T.E. Taitano
 Trustee

Wilfred G. Aflague
 Trustee

MINUTES

DEFINED BENEFITS

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 was called to order at 12:24 p.m. Friday, April 24, 2009, 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
 Katherine T.E. Taitano, Trustee
 Antolina S. Leon Guerrero, Trustee

Board of Trustees Absent:

George A. Santos, Trustee

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Rose Cruz, Recording Secretary
 Dr. John C. Steele, Retirement Fund Medical Consultant
 Kenneth Dunstan, Benefit Program Administrator
 Jackie Sablan, Benefit Specialist II

Public Present:

Richard Wright, Milliman Consulting, Inc.
 Mark Heath, Metropolitan West Capital Management
 Alfred F. Duenas, Senator Ben Pangelinan's Office
 Christina D.R. Pestanas

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 27, 2009 and March 6, 2009 Reconvened Meetings and March 27, 2009 Regular Meeting

Secretary James Taylor stated that he has reviewed the minutes of February 27, 2009. Secretary Taylor stated that there were minor changes which have already been corrected by the recording secretary.

On motion of Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, and without objection, the Minutes of February 27, 2009 Reconvened Meeting were approved, subject to corrections. Motion passed.

Secretary Taylor stated that he has not had a chance to review the minutes of March 6, 2009 Reconvened Meeting and March 27, 2009 Regular Meeting.

Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, moved to table the Minutes of March 6, 2009 Reconvened Meeting and March 27, 2009 Regular Meeting. Without objection, the motion passed.

III. CORRESPONDENCE

None

IV. INFORMATIONAL ITEMS

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93) -*

Director Paula Blas stated that the Guam Economic Development and Commerce Authority (GEDCA) is soliciting for bonds. There are no new updates with regards to issuance. Director Blas stated that the priority on the bond is the Closure of the Ordot Dump. Treasurer Gerard Cruz asked what the total amount is for the COLA and the tax refunds. Director Blas stated that the total for the COLA and tax refunds is \$140 Million with a 10% interest rate. Vice-Chairman Wilfred Leon Guerrero inquired about the COLA Certificates. Director Blas stated that the certificates are with the Department of Administration (DOA). Vice-Chairman Leon Guerrero stated that Attorney Michael Phillips is threatening to take this back to court if nothing happens on the COLA payments. Director Blas stated that the communication at this time is between DOA and Attorney Phillips.

2. *Global Custody Services* – Director Blas stated that at the March 6, 2009 Board meeting, the Board continued to suspend participation in Securities Lending. Director Blas stated that the Retirement Fund will revisit Securities Lending during the May 2009 quarterly performance with Mercer Investment Consulting, Inc. (Mercer).

3. *Real Estate Investment Trusts (REITS)* – Director Blas stated that an asset allocation of 10% of the Fund's total asset allocation was approved for REITS. Director Blas stated that due to the market volatility, at the December 5, 2008 Board meeting, the Board approved an asset allocation of 2.5% in REITS. Director Blas stated that an asset listing of REITS securities for each investment manager is provided in the Investment Committee Report.

4. ***U.S. Domestic Small Capitalization Core Equity*** – Director Blas stated that a total asset allocation of 10% of the total portfolio was approved for a Small Cap allocation. Director Blas stated that given the current market environment, Mercer recommended to fund Small Cap anywhere between 10%-25% of the Small Cap total asset allocation. Director Blas stated that this will be placed in an Exchange Traded Fund (ETF). Director Blas stated that at the March 6, 2009 Board meeting, the Board suspended funding of Thomson Horstmann & Bryant (THB) and authorized funding of 10% of the Small Cap asset allocation to be placed in an ETF. Director Blas stated that based on current market values at the time of funding, this equated to approximately \$8 Million. Director Blas stated that full funding of the Small Cap asset allocation will be revised at the May 2009 quarterly performance meeting with Mercer.

5. ***Request for Proposal (RFP): Banking Services*** - Director Blas stated that RFP is still with the Selection Panel. Vice-Chairman Leon Guerrero stated that the Selection Panel was concerned that not all the fees were going to be waived. Vice-Chairman Leon Guerrero asked Director Blas whether she is concerned of the procurement process. Director Blas replied, “Yes.”

6. ***Public Law 28-38*** – Director Blas stated that the monthly interest payments for the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) due on April 10, 2009 were paid. Vice-Chairman Leon Guerrero inquired about the outstanding balance. Director Blas stated that the principal for GMHA is approximately \$11 Million. Director Blas stated that the interest rate is based on the prior year’s rate of return. Vice-Chairman Leon Guerrero asked whether the principal is being paid. Director Blas stated that principal is being paid when GMHA is paying for an individual. Vice-Chairman Leon Guerrero asked what the interest rate is. Director Blas stated that the interest rate is 13%.

7. ***Bernstein Litowitz Berger & Grossmann (BLBG)*** - Director Blas stated that she has communicated with Nicholas Blair regarding Aberdeen’s portfolio and he is actually looking at the actual trades and purchases themselves as opposed to the fund manager’s actions. Director Blas stated that the actual securities held in that portfolio that stood out were Wells Fargo. Director Blas stated that she is now asking BLBG to look at the time of when Aberdeen was holding the portfolio on whether the purchases made were compliant.

8. ***Health Plan Study*** - Director Blas stated that Richard Wright from Milliman Consulting, Inc. (Milliman) will cover this item in his report.

Financial Report

1. ***Contributions*** – Director Blas stated that all agencies are current with their Fiscal Year 2009 employee and employer contributions.

2. ***Financial Statement*** – Director Blas stated that the books for the month ending March 2009 were closed on April 13, 2009.

3. ***Fiscal Year 2009 Retirees’ Supplemental Benefits*** – Director Blas stated that the supplemental benefits for retirees and survivors for the month of April 2009 will be paid next week.

4. **Medicare Reimbursements** – Director Blas stated that the Retirement Fund continues to receive the Fiscal Year 2009 monthly allotments and payments are processed accordingly.

VI. LEGAL COUNSEL’S REPORT

No report was made at this time.

VII. TREASURER’S REPORT OF FINANCIAL STATUS

Treasurer Cruz stated that the Treasurer’s Report is provided, at this meeting. It covers the Retirement Fund’s Statement of Plan Assets (unaudited) for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended March 31, 2009.

Treasurer Cruz stated that Director Blas reported earlier on the closing of the financials in her report. Treasurer Cruz stated that the principal drawdown for the month of April is estimated at \$2.5 Million. The projected drawdown for the next two months is \$2.75 Million. Treasurer Cruz stated that the Retirement Fund is operating within its authorized cash drawdown through June 2009.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Katherine Taitano presented the M&B Committee’s April 2009 report to the Board of Trustees.

Item V: Jocelyn T. Nededog – Disabled Adult Survivor

Trustee Taitano stated that Ms. Nededog is applying for Disabled Adult Survivor benefits on behalf of herself. Ms. Nededog is the natural child of Josefina T. Nededog, deceased retiree who passed away on January 8, 2009. Trustee Taitano stated that the M&B Committee is recommending disapproval of the Disabled Adult Survivor benefit application of Ms. Nededog. Trustee Taitano stated that Section 8134(4)(c) 4GCA, Chapter 8, reads: *“(c) Payment to Children Disabled Before Eighteen (18) Years. Upon death of an annuitant, or a member while in service having completed at least three (3) years of total service, if a surviving child or children is disabled, annuities shall be payable to them after age eighteen (18) at the same annual rate as if they were minor children under the age of eighteen (18); provided however, that such annuity shall be conditional upon the child being disabled prior to the child’s eighteenth (18th) birthday and having been examined by two (2) licensed physicians before attaining the age of eighteen (18), or within one (1) year of the death of the annuitant or member, and found to be permanently physically or mentally disabled and incapable of self-support. The results of such examination may be submitted to the Board at any time prior to the child’s eighteenth (18th) birthday, or within one (1) year of the death of the annuitant or member.”*

Chairman San Agustin stated that all disability cases goes before the Board. Director Blas stated that this is treated like a regular minor child benefit. Chairman San Agustin stated that he is concerned of the word “Disabled” being used. Trustee Antolina Leon Guerrero stated that this is an application for survivor benefits. Director Blas stated that, in this particular case, the Board does not refer the applicant to the two physicians. The disabled adult survivor is eligible to receive stipend if there is a certification from the two physicians deeming the applicant disabled. Trustee Taitano stated that this case is not eligible since one of the two physicians did not agree that the applicant is disabled.

Chairman San Agustin asked what happens now that the two physicians do not agree that the applicant is disabled. Director Blas stated that according to the statute, the applicant needs to be examined by two licensed physicians and deemed to be disabled and incapable of self-support.

Chairman San Agustin recommended that this matter be referred back to the M&B Committee for review whether this would need to go through the same process as the disability cases. Vice-Chairman Leon Guerrero asked what the process is for disabled adult/minor child survivor benefit applicants. Director Blas stated that the minor child could receive benefits up to eighteen years old or up to twenty-four years old if they are full-time students. Director Blas stated that the disabled adult survivor must be deemed incapable of self-support by two licensed physicians within one year of the death of the annuitant.

Item VI: Case No. 09-5449

Trustee Taitano stated that this case will be reviewed separately.

Item VII: Jesus G. Duenas – Request for Redeposit of Service Credit

Trustee Taitano reported that Mr. Duenas has submitted a request to be granted the opportunity to apply for redeposit of service credit for prior year employment with the Government of Guam. Trustee Taitano stated that Mr. Duenas did not meet the time limitation of 180 days pursuant to the statutory requirements for a redeposit of service credit. Trustee Taitano stated that the M&B Committee is recommending disapproval of this request.

Item VIII: Alan F. Haeuser – Redeposit of Service Credit

Trustee Taitano reported that Mr. Haeuser is requesting reconsideration of his application to claim redeposit of service credit previously denied by the Board at their March 14, 2008 Board meeting. Trustee Taitano stated that Mr. Haeuser also did not meet the 180 days statutory requirements. Trustee Taitano stated that there is no new information provided. Treasurer Cruz asked whether there is basis for reconsideration. Is there new information to be presented? Trustee Taitano replied, “No, there is no new information or additional findings to merit such reconsideration.” Trustee Leon Guerrero stated that the M&B Committee would like to reaffirm the previous decision to deny service claims on the basis that no new information or additional findings were discovered to merit such reconsideration. Trustee Taitano stated that the M&B Committee is recommending disapproval of this request. Vice-Chairman Leon Guerrero stated that Mr. Haeuser’s attorney is requesting to allow his client the opportunity to address the Board. Trustee Leon Guerrero reiterated that there is no new information, so why does this have to go before the Board again. Secretary Taylor stated that he remembers Legal Counsel telling the Board that the applicant should not go back to the Board once the case is heard, the applicant should take his case to court. Treasurer Cruz asked what are the grounds for reconsideration? Trustee Leon Guerrero stated that grounds for reconsideration would be if the applicant presents new information. Chairman San Agustin stated that the M&B Committee should make sure that they do not overlook any new facts or information that might have been presented.

Item IX: Paul M.A. Guerrero – Request for Reconsideration by the Board of Trustees

Trustee Taitano reported that Attorney John Unpingco, counsel for Mr. Guerrero, has submitted a letter to the Retirement Fund requesting that the disability case of Mr. Guerrero be reconsidered by the Board. Trustee Taitano stated that Mr. Guerrero’s first application for disability retirement was disapproved at the September 8, 2006 regular Board meeting. Trustee Taitano stated that Mr. Guerrero filed an appeal and the Board again disapproved Mr. Guerrero’s application for disability retirement at

the October 3, 2008 reconvened Board meeting. Trustee Taitano stated that there is no new information presented. Trustee Taitano stated that the M&B Committee voted to uphold and affirm the decision of the Board and therefore recommends disapproval of this request.

Trustee Katherine Taitano, seconded by Trustee Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 16, with the exception of Item V on Page 11, (which will be revisited by the Members and Benefits Committee) including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of March 11, 2009 and subsequent meetings thereafter. Without objection, the motion passed.

CASE NO. 09-5449

Trustee Leon Guerrero stated that Case No. 09-5449 is being presented to the Board for their review, discussion and disposition. Trustee Leon Guerrero stated that the application for Disability Retirement was submitted on December 22, 2008 for conditions resulting from a stroke the applicant suffered in July 2003. The stroke caused prolonged seizure activity, dizziness, lightheadedness, blurred vision and work related technological stress. Trustee Leon Guerrero stated that Dr. John Steele, the Retirement Fund's Medical Consultant, has reviewed the physician's report and has summarized it for the Board. Trustee Leon Guerrero stated that the applicant has been examined by two physicians for the Retirement Fund. Both physicians found that the applicant suffered from cerebral hemorrhage, unsteady gait, frequent seizures, which recently caused hospitalization, impaired vision, vertigo and obstructive sleep apnea. Trustee Leon Guerrero stated that the two physicians had a disagreement on the severity of the impairment. Trustee Leon Guerrero stated that, because of the disparity, Dr. Steele was not able to make a recommendation to the Board, but suggested that an interview be conducted with the applicant. Chairman San Agustin asked what was Dr. Fred Schroeder and Dr. Doris Lim's rating of the applicant. Trustee Leon Guerrero stated that both physicians found the applicant disabled. Dr. Steele added that the applicant was also examined by Dr. Vincent Duenas. Dr. Steele stated that Dr. Duenas assessed the applicant's disability to be 54%. Dr. Steele stated that Dr. Lim also rated the applicant to be 54% disabled and Dr. Schroeder gave the applicant a higher rating of 78% disability. Dr. Steele stated that there was a discrepancy between the disabilities assigned by AMA guidelines for the applicant's symptoms between the applicant's physician and the two physicians for the Retirement Fund.

Dr. Steele stated that when he looked at all the reports from all three physicians in light of the applicant's symptoms, Dr. Steele felt that his evaluation of the applicant was between 50% and 79%. Dr. Steele stated that his reason that he recommended that the Board conduct an interview with the applicant was the discrepancy between the disability by AMA guidelines by the applicant's physicians. Dr. Steele stated that he felt it was advantageous for the Board to interview the applicant directly. Chairman San Agustin asked for the legal wording of what constitutes disability. Director Blas stated that the legal wording is "total and permanent disability." Chairman San Agustin read out loud the definition of disability – "A total and permanent disability is one which results from some impairment of body or mind which can be expected to result in death, or can be expected to last for a continuous period of not less than 12 months. The impairment shall be one that substantially precludes a person from performing with reasonable regularity the substantial and material parts of any gainful work or occupation that he/she would be competent to perform were it not for that impairment, and if founded upon condition which renders it reasonably certain that it will continue indefinitely." Dr. Steele stated that the applicant suffers a permanent disability because of the stroke and the applicant's symptoms are

liable to persist. Dr. Steele stated that the question is whether the applicant has a total disability. Secretary Taylor asked whether Dr. Steele has physically seen this applicant. Dr. Steele replied, "No, his evaluation is just based on the reports." Dr. Steele stated that the applicant continues to be employed, but has an amounting absence from work. Treasurer Cruz stated that the applicant has been diagnosed with cerebral hemorrhage, seizures, hypertension, vertigo and impaired balance. Treasurer Cruz stated that this precludes the applicant from holding even a light desk job. Secretary Taylor asked what is Dr. Schroeder's specialty. Dr. Steele stated that he is a family practitioner. Dr. Steele stated that Dr. Schroeder is very familiar with the disability process.

At this time Chairman San Agustin recognized the applicant's daughter and asked her whether she would like to address the Board of Trustees and if so, the applicant's daughter was advised that she would then waive the applicant's rights to privacy of the applicant's medical records. Christina Pestanas stated that she understands. Vice-Chairman Leon Guerrero stated that he is concerned with having a family member waive the applicant's rights to privacy. Mrs. Pestanas stated that she has a Power of Attorney from her father. Dr. Steele stated that this case is not on appeal. Dr. Steele stated that he had recommended that the applicant be assessed by the Board and that he had hoped that the applicant would appear before the Board at this meeting. Dr. Steele stated that we can not order the applicant to appear before the Board. Trustee Leon Guerrero suggested that the Board entertain the applicant's daughter since she is present at this meeting. Trustee Leon Guerrero stated that the Board could hold off on making a decision until the applicant is interviewed.

Mrs. Pastanes thanked the Board for allowing her the opportunity to speak at today's meeting. Mrs. Pastanes stated that she would like to speak on Dr. Lim's findings only because she escorted her father to Dr. Lim's office. Mrs. Pastanes stated that this is her father's second application for disability as the first applicant was denied by the Board. Trustee Leon Guerrero stated that the first disability application was denied in June 2006. Mrs. Pastanes stated that because of his recurring symptoms and inability to stay at work, her father again applied for disability. Mrs. Pastanes stated that her father was examined by Dr. Lim on January 12, 2009 for about 12.5 minutes. Mrs. Pastanes stated that she felt that was not enough time for Dr. Lim to thoroughly examine her father to make a sound judgment or recommendation based on her father's application. Mrs. Pastanes stated that she called Lina Sanchez at the Retirement Fund to find out if her father could be referred to another physician. Mrs. Pastanes stated that Ms. Sanchez had to speak to her supervisor regarding this. Mrs. Pastanes stated that Ms. Sanchez called her back right away and told her that it was too late to refer her father to another physician since her father was already seen by two physicians and that because there was not a great amount of physicians that would see Retirement Fund disability applicants. Mrs. Pastanes stated that Dr. Schroeder's examination was about 2.5 hours. Mrs. Pastanes stated that Dr. Schroeder requested for more medical records. Mrs. Pastanes stated that her father used to be seen by his neurologist once every three months. Now her father sees his neurologist once every two weeks. Mrs. Pastanes stated that there are sporadic changes in her father's medications. Mrs. Pastanes stated that her father is on light duty but is unable to continue working. Mrs. Pastanes stated that her father's exposure to heat eventually leads to an episode. Mrs. Pastanes stated that her father takes 13 pills in the morning and 13 pills at night. Mrs. Pastanes stated that she is requesting that the Board allow her father to be examined by another physician. Trustee Leon Guerrero asked why is her father seeing the neurologist once every two weeks. Mrs. Pastanes stated that it is because of the changes in his medication and that her father lost a lot of weight. Mrs. Pastanes stated that her father is being tested for thyroids because of his rapid weight loss. Mrs. Pastanes stated that her father has had 8 episodes at work since 2006. Mrs. Pastanes stated that the applicant does not drive and does not go out for lunch.

Mrs. Pastanes stated that there was an incident in 2007, while at work, when her father had a seizure for nearly 20 minutes before her father was found. Secretary Taylor asked whether the applicant still goes to work. Mrs. Pastanes stated that her father has not been to work since January 2009. Mrs. Pastanes stated that her father has been unable to perform his duties at work because he gets too dizzy and nauseated. Chairman San Agustin asked Dr. Steele whether the applicant's symptoms would preclude him from performing his duties as a Revenue Officer. Dr. Steele stated that from everything everyone has heard today it clarifies that the applicant is totally disabled. Dr. Steele stated that his evaluation of the applicant is 50%-79% disabled. Dr. Steele stated that Dr. Schroeder's evaluation was 78%. Dr. Steele stated that he felt that the applicant is not only permanently disabled, but also totally disabled. The applicant is unable to work.

Secretary Taylor stated that he is concerned of the Board setting precedence in getting testimony from family members as opposed to the applicants themselves. The Board would need to require his presence. Treasurer Cruz stated that the applicant's presence is voluntary. Treasurer Cruz stated that 90% of the time, the Board's decision is based on what is seen from documents and in corroboration with the Retirement Fund's Medical Consultant. Trustee Leon Guerrero stated that the Board just needs to make sure that they have enough information before making a decision. Chairman San Agustin asked whether the applicant's physical appearance would make any difference. Secretary Taylor stated that based on Dr. Schroeder's report and the Retirement Fund's Medical Consultant's interpretation of it, the Board could entertain a motion at this time. Chairman San Agustin stated that the Board could entertain a motion to approve disability and if that motion fails, then the applicant would be asked to appear before the Board.

Trustee Antolina Leon Guerrero, seconded by Trustee Katherine Taitano, moved to approve a full medical disability retirement for Case No. 09-5449. With a unanimous vote of yes, the motion passed. Trustee George Santos was absent.

Trustee Antolina Leon Guerrero was excused from the meeting at this time (1:29 p.m.).

B. Investment Committee

Vice-Chairman Leon Guerrero stated that the Investment Committee meeting was held on April 17, 2009. Vice-Chairman Leon Guerrero reported on the following informational items:

1. Funding of Managers – Vice-Chairman Leon Guerrero stated that the funding of the following managers was deferred for discussion during the quarterly performance meetings with Mercer on May 28, and 29, 2009:

- a) Cornerstone (REITS) – Partially funded on December 2008
- b) Security Capital (REITS) – Partially funded on December 2008
- c) Thomson Horstmann & Bryant (U.S. Domestic Small Cap) – Not yet funded

Vice-Chairman Leon Guerrero stated that the U.S. Domestic Small Cap Mandate was partially funded via \$8 Million in ETF.

2. Aberdeen – Bernstein Litowitz Berger & Grossmann (BLBG) Review of Asset Listing – Vice-Chairman Leon Guerrero stated that the Investment Committee had previously requested that

BLBG review the list of Aberdeen's assets, which were transferred to Davis Hamilton and Income Research Management. Vice-Chairman Leon Guerrero stated that the Investment Committee is requesting that BLBG also verify whether any of the assets purchased by Aberdeen were not in compliance with the statutes and the Investment Policy Statement. Vice-Chairman Leon Guerrero stated that upon review of BLBG's findings, the Investment Committee will make its recommendation to the Board.

3. **Asset Allocation** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed the latest asset allocation as of April 13, 2009, noting that the total market value of the portfolio dropped from approximately \$1.129 Billion at September 30, 2008 to approximately \$962.3 Million as of April 13, 2009.

C. Audit Committee

Treasurer Cruz stated that the Public Auditor made a comment about the Retirement Fund at a Rotary Club Meeting. Treasurer Cruz stated that the Auditor commented that the Retirement Fund is doing a really good job. Treasurer Cruz stated that the Auditor had said some really good things about the collective management of the Retirement Fund's assets. Treasurer Cruz stated that the Auditor noted that the Retirement Fund outperformed its peers during the last fiscal year. Treasurer Cruz stated that the Auditor also mentioned that the Retirement Fund is one of a few departments that turned in their audit early.

D. Governmental Liaison

No report was made at this time.

IX. TRAVEL REPORT

A. James J. Taylor: International Conference and Study Tour on Business, Economics, and Information Technology – March 9-10, 2009, Nagoya, Japan

Chairman San Agustin stated that Secretary Taylor's travel report on the International Conference and Study Tour he attended on March 9-10, 2009 in Nagoya, Japan, is submitted for the Board's information.

X. OLD BUSINESS

A. Milliman Consulting, Inc.: Health Study Report

Director Blas stated that Mr. Richard Wright of Milliman Consulting, Inc. (Milliman) submitted, at this meeting, a draft copy of the their report on a study they conducted of the health insurance currently provided to Government of Guam employees, retirees, and their dependents. Treasurer Cruz asked whether the government subsidizes retirees' contributions in terms of health care. Mr. Wright replied, "Yes." Director Blas stated that the government does subsidize a big portion of it. Treasurer Cruz stated that Frank Campillo from Calvo's SelectCare seems to think they don't.

Mr. Wright stated that this health study was prepared by Jay Ripps of Milliman who is unable to be at today's meeting. Mr. Wright stated that he did not get the claims data, therefore they can not cost out any of their recommendations.

Mr. Wright stated that members currently have a choice of three medical plans:

1. Calvo's SelectCare HSA 2000
2. Calvo's SelectCare HSA 1500
3. Calvo's SelectCare PHIL 1000

Mr. Wright stated that all three plans are comprehensive preferred provider plans. Mr. Wright stated that the comprehensive preferred provider plans cover a broad range of medical expenses. The plans pay a greater share of the expenses if services are obtained from a healthcare provider in the plans' defined networks. Mr. Wright stated that with respect to the off-island care, the PHIL 1000 plan has participating providers only in the Philippines. Mr. Wright stated that other plans also have participating providers in Hawaii, the U.S. Mainland and Taiwan.

Mr. Wright stated that each of the plans pays for a portion of medical expenses above a specified threshold, called a "deductible." Mr. Wright stated that below the threshold, members pay the entire cost of medical services. The threshold must be exceeded in a given calendar year before the plan pays. Mr. Wright stated that the deductibles for each of the plans with respect to services obtained from participating providers are as follows:

Annual Deductibles

<i>Plan</i>	<i>Single Coverage</i>	<i>Family Coverage</i>
HSA 2000	\$2,000	\$6,000
HSA 1500	\$1,500	\$3,000
PHIL 1000	\$1,000	\$3,000

Mr. Wright stated that each of the plans pays for 100% of the cost of covered medical services obtained from participating providers, after a member has paid for a maximum amount for covered medical expenses in a policy year. Mr. Wright stated that the maximum amounts called "out-of-pocket maximums" for each of the plans are as follows:

Annual Out-of-Pocket Maximums

<i>Plan</i>	<i>Single Coverage</i>	<i>Family Coverage</i>
HSA 2000	\$4,000	\$12,000
HSA 1500	\$2,500	\$7,500
PHIL 1000	\$2,500	\$7,500

Mr. Wright stated that in addition to paying for a portion of the cost of medical services, members pay a portion of the health insurance premiums charged to GovGuam by the health insurance company. Mr. Wright stated that active employees and retirees pay the same amounts of member premiums. The range of member premiums for Fiscal Year 2009 is shown in the following table:

Annual Member Medical Premiums

<i>Plan</i>	<i>Single Coverage</i>	<i>Family Coverage</i>
HSA 2000	\$0	\$988
HSA 1500	\$228	\$1,708
PHIL 1000	\$3,036	\$10,360

Mr. Wright stated that there is a broad concern among members that, because of high deductibles and out-of-pocket maximums, medical care is not affordable even if the members are covered by a GovGuam health plan. In addition, the cost to the Government of Guam for members' health insurance, especially retirees, has increased dramatically in recent years. Mr. Wright stated that the range of GovGuam premiums for both active and retirees, paid by GovGuam in addition to member premiums, for Fiscal Year 2009 is shown in the following table:

Annual GovGuam Medical Premiums

<i>Plan</i>	<i>Single Coverage</i>		<i>Family Coverage</i>	
	<i>Active</i>	<i>Retiree</i>	<i>Active</i>	<i>Retiree</i>
HSA 2000	\$1,380	\$4,692	\$3,164	\$13,424
HSA 1500	\$1,380	\$5,448	\$3,164	\$15,812
HSA 1000	\$1,380	\$6,624	\$3,164	\$19,424

Director Blas suggested that Mr. Wright ask Mr. Ripps to include another table showing totals.

Mr. Wright stated that health care is expensive especially for retirees. Vice-Chairman Leon Guerrero asked Mr. Wright what is the basis for health care being expensive especially for retirees. Mr. Wright stated that retirees have more claims. Mr. Wright stated that the insurance carriers are charging higher premiums for retirees. Mr. Wright stated that there are no easy ways to reduce the costs of care to GovGuam or to members. Mr. Wright stated that Milliman's report recommends consideration of difficult broad-scale changes to the structure of health benefits for members, to some of the benefits themselves, and to the process of bidding by insurance carriers to provide those benefits, as follows:

A. Structure of Health Insurance Benefits for Members

1. Split the Health Insurance Program into Three Components
 - Program A covering retirees over age 65 and certain retirees under age 65 with disabilities that qualify them for Medicare.
 - Program B covering retirees who are not covered by Program A.
 - Program C covering active employees.

Mr. Wright stated that for Program A, Milliman recommends that GovGuam consider buying into Medicare instead of operating an independent health insurance program. The current total annual premiums for retirees, depending on which health plan the retiree is enrolled in, range from \$4,692 to \$9,660, including both member and GovGuam premiums. Mr. Wright stated that it appears that the total premiums to buy into Medicare Part A and B, not including late enrollment penalties, range from \$1,156.80 to \$6,472.80.

Mr. Wright stated that for Program B, Milliman recommends that GovGuam consider a health insurance benefit design with no HSA feature and benefits similar to the current Calvo's SelectCare PHIL 1000 plan. To control costs, such a program could cover off-island care only in the Philippines. To reduce costs further, GovGuam may wish to consider paying for hospital services in Guam at a rate commensurate with what it pays in the Philippines, adjusted for differences in labor and other costs between Guam and the Philippines.

Mr. Wright stated that for Program C, Milliman recommends continuation of benefit designs similar to Calvo's SelectCare HSA 1500 or HSA 2000. To encourage participation in the plan, Milliman recommends that GovGuam consider modest government contributions to each participating member's HSA, perhaps on the order of \$50 per member per month.

2. Rescind the Statute Regarding Equality of Active and Retiree Member Premiums

Mr. Wright stated that currently, the premium amounts paid by active employees and retirees are equal. Mr. Wright stated that they understand that this is a statutory requirement. The result of this requirement is that active employees pay a much higher percentage of the total premium for their health insurance than do retired employees.

3. Eliminate Multiple Options Under Programs B and C

Mr. Wright stated that multiple options are attractive because they give members more choices about their health insurance benefits. However, multiple options tend to raise overall costs, because relatively healthy members tend to select the leanest, lowest cost options, while relatively unhealthy members tend to select the broadest, richest options. The net result is higher costs to the employer in total, because insurers factor such selection patterns into their rates if there are multiple options. In addition, having multiple options results in instability among the broader coverage options. The premiums for such options must be raised to reflect the selection effects, which tends to drive even more such selection, in an unsustainable cycle of increased adverse selection and increased premiums.

Mr. Wright stated that this effect is apparent in the current GovGuam health insurance program. The following shows the ratios of active employee single coverage premiums for the PHIL 1000 option versus the HSA 1500 option, as compared to the comparable ratio in the absence of selection effects, as predicted by Milliman's Health Care Guidelines Rating Model:

Actual Premium - Reflecting Selection Effects	2.75%
Hypothetical Premium – No Selection Effects	1.07%

Chairman San Agustin asked what is the significance of the 2.75% and the 1.07%? Mr. Wright stated that there are unhealthy members in the PHIL 1000 plan. There are a lot more claims in the PHIL 1000 plan.

B. Bidding Process for GovGuam Health Insurance Benefits

Mr. Wright stated that the bidding process for GovGuam health insurance is not working effectively. Over the years, the number of bidding carriers has diminished. Mr. Wright stated that only Calvo's SelectCare remains. Among the local insurance carriers who do not bid for GovGuam health insurance

benefits are NetCare Life & Health, Staywell, and TakeCare Asia. Mr. Wright stated that there are no non-local insurance carriers bid.

Mr. Wright stated that effective competition is important to controlling the costs of Programs B and C recommended above. To restore effective competition, Milliman recommends that GovGuam consider the following changes to the bidding process:

1. Implement a “Winner Take All” Process

Mr. Wright stated that under the current process, successful bidders compete for enrollees among plan members. This has resulted in unsatisfactory financial results for some participating carriers, as they enrolled a disproportionate share of relatively unhealthy members. Mr. Wright stated that to eliminate this problem, GovGuam should consider awarding the entire GovGuam health insurance program to a single insurance carrier, rather than having multiple carriers compete to sign up enrollees among plan members. Mr. Wright stated that implementing this change would require rescinding the clause in the current statute that requires GovGuam and successful carriers to enter into contracts that renew automatically.

2. Award Contracts for More Than One Year

Mr. Wright stated that the carriers may be reluctant to invest the resources required to bid and implement coverage if they know they can be replaced after one year. Mr. Wright stated that GovGuam should consider awarding contracts for more than one year, subject to the right to terminate the contract if performance standards are not met.

3. Assure the Timely Payment of Insurance Premiums

Mr. Wright stated that several carriers expressed concern that the Government of Guam does not pay its insurance premiums on time. Mr. Wright stated that they do not know whether this has been the case; if so, Milliman recommends that the government implement steps to assure that premiums are paid timely, perhaps by appropriating a year’s worth of premiums in the annual budget process and placing that amount in an escrow account to be used for the sole purpose of paying premiums timely.

4. Furnish Comprehensive Claims History with RFP

Mr. Wright stated that the insurance carriers are likely to bid more aggressively if they have full, up-to-date claim experience information. If they do not, the carriers tend to add margins to their bids to allow for more uncertainty regarding the risks they are assuming. Mr. Wright stated that the furnishing of claim experience will be especially useful in soliciting bids if the insurance program is split into components as recommended above.

C. Other Cost Containment Measures

Mr. Wright stated that the changes to the structure of the health insurance program and to the bidding process are the major recommendations to reduce and control costs. Mr. Wright stated that there are several other possible changes that GovGuam may wish to consider which would have less impact but may be effective:

1. Self-Insurance

Mr. Wright stated that GovGuam may wish to consider self-insurance or minimum premium arrangements in lieu of the current fully insured arrangements. Self-insured and minimum premium arrangements can avoid insurance premium taxes. Mr. Wright stated that self-insured and minimum premium arrangements can also reduce insurance carrier risk or profit charges, since the carrier is assuming less risk under some of these arrangements than under fully insured arrangements, and they can reduce charges that carriers may make for the cost of capital required for them to assume insurance risk.

2. Encourage Carrier Creativity

Mr. Wright stated that GovGuam should consider, as part of the Request for Proposal (RFP) process, encouraging carriers to propose new medical management, disease management, and provider network arrangements, subject to GovGuam approval.

D. Using the Medically Indigent Plan as GovGuam Health Insurance Benefits

Mr. Wright stated that Milliman considered the possibility of using the MIP to administer or to substitute for the GovGuam Health Insurance Program. Mr. Wright stated that they specifically discussed this possibility with Ms. Theresa Arcangel of the Department of Public Health and Social Services. Mr. Wright stated that MIP has some appeal, because it appears to offer comprehensive benefits at a low administrative cost.

Vice-Chairman Leon Guerrero asked what the premium would be for the retirees if the retirees were separated with the active members. Mr. Wright stated that they can't really determine the cost savings on this without looking at the claims data to see where the claims are coming from. Mr. Wright stated that there will be a strong potential to save money by buying Medicare for the retirees. Chairman San Agustin stated that the current contract states that the health provider should provide the claims data. Rosalia Bordallo, General Accounting Supervisor, stated that the provider has not provided the data as stipulated in the contract. Alfred Duenas from Senator Ben Pangelinan's office stated that their office has communicated with Mr. Campillo regarding the data. Mr. Duenas stated that he will follow up on the letter sent to Mr. Campillo regarding the claims data. Chairman San Agustin stated that he just placed a call to Shannon Taitano, the Governor's Legal Counsel, to find out why they can't release the claims data. Chairman San Agustin stated that the health study can not be completed without the claims data.

XI. NEW BUSINESS

A. Milliman Consulting, Inc.

1. Actuarial Valuation as of September 30, 2008

Director Blas stated that Milliman submitted, at this meeting, a draft copy of the Retirement Fund's actuarial valuation as of September 30, 2008. Mr. Wright stated that in their valuation they:

- Summarized the membership data
- Calculated the actuarial accrued liability and normal cost
- Determined the contribution requirements

- Provided financial information required by GASB No. 25
- Projected the fund balance and security ratio forward 40 years

Mr. Wright stated that the results contained in this report represent their best estimates. However, it is likely that actual experience will vary from these estimates.

Mr. Wright provided the following highlights:

- The required contribution under GCA 8137 is 29.31% of payroll. Prior year was 26.02%. The reason for the increase was there was a -14.6% return for the year ending September 30, 2008. From the 29.31%, 22.69% is from the unfunded liability of the Defined Benefit (DB) Plan, 3.73% is for the normal cost of the DB Plan, and 2.89% is for contributions to the Defined Contribution (DC) Plan.
- Public Law 28-150 provided 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 2008-2009 Fiscal Year is 25.20%. This is scheduled to increase for the next fiscal year up to 26.33%.
- The DB payroll for the 2007-2008 Fiscal Year was \$186.0 Million compared with \$180.8 Million for the 2006-2007 Fiscal Year. The total DB and DC payroll for the 2007-2008 Fiscal Year was \$411.4 Million compared with \$377.0 Million for the 2006-2007 Fiscal Year.
- The unfunded accrued liability increased from \$1.233 Billion as of September 30, 2007 to \$1.508 Billion as of September 30, 2008 due to investment returns (-14.6%) lower than assumed for the Fiscal Year ending September 30, 2008. The payment required to amortize the unfunded accrued liability under GCA 8137 has increased from \$76.8 Million to \$96.6 Million. The payment as a percentage of payroll has increased from 19.68% to 22.69%.
- Based on the audited financial statements, we calculated an investment return on the total market value of assets of -14.6% for the Fiscal Year ending September 30, 2008. The average annual return on the market value of assets for the last five fiscal years has been 4.9%.
- There have been no changes in plan provisions or actuarial assumptions since the prior actuarial valuation.

Mr. Wright stated that their recommendation to the Board is to increase the Defined Contributions rate.

Mr. Wright stated that the following table summarizes the principal valuation results and compares them with the prior year:

Participant Counts	9/30/2008	9/30/2007
Active - Non-Uniformed (DB)	3,576	3,674
- Uniformed (DB)	<u>376</u>	<u>387</u>
- Total (DB)	3,952	4,061
Retired (DB)	<u>7,085</u>	<u>7,037</u>
Total Actives & Retirees (DB)	11,037	11,098
Inactive & Terminated Members		
w/Accumulated Contributions (DB)	6,634	6,738
Active Participants (DC)	6,759	6,686

Actual Payroll for Prior Fiscal Year

DB Payroll	\$186.0	\$180.8
Total Payroll (DB & DC)	411.4	377.0

Expected Payroll for Next Fiscal Year

DB Payroll	\$179.5	\$183.8
Total Payroll (DB & DC)	425.8	390.2

Financial Status

Accrued Liability	\$2,718.7	\$2,682.1
Actuarial Value of Assets	<u>1,211.0</u>	<u>1,448.7</u>
Unfunded Accrued Liability	\$1,507.7	\$1,233.5
Security Ratio	44.54%	54.01%

		<u>% of DB Payroll</u>		<u>% of DB Payroll</u>
Normal Cost				
Total Normal Cost	\$32.9	18.34%	\$31.9	17.36%
Estimated Employee Contributions	<u>(17.1)</u>	<u>(9.50%)</u>	<u>(17.5)</u>	<u>(9.50%)</u>
Government Normal Cost	\$15.9	8.84%	\$14.4	7.86%

		<u>% of Total Payroll</u>		<u>% of Total Payroll</u>
Required Contribution Per GCA 8137				
Unfunded Liability Cost	\$96.6	22.69%	\$76.8	19.68%
Government DB Normal Cost	15.9	3.73%	14.4	3.70%
Expected Gov't DC Contributions	<u>12.3</u>	<u>2.88%</u>	<u>10.3</u>	<u>2.64%</u>
Total DB & DC Contributions	\$124.8	29.31%	\$101.6	26.02%

Yield on Market Value of Assets (14.6%) 14.7%

Mr. Wright stated that the following is a Five-Year Historical Summary:

	9/30/2008	9/30/2007	9/30/2006	9/30/2005	9/30/2004
Participant Counts					
Active (DB)	3,952	4,061	4,298	4,705	5,113
Retired (DB)	7,085	7,037	7,055	6,852	6,822
Inactives (DB)	<u>6,634</u>	<u>6,738</u>	<u>6,978</u>	<u>7,063</u>	<u>7,034</u>
Total (DB)	17,671	17,836	18,331	18,620	18,969
Active (DC)	6,759	6,686	5,992	5,703	5,133
Actual Payroll					
DB Payroll	\$186.0	\$180.8	\$192.4	\$196.2	\$203.6
DC Payroll	<u>225.4</u>	<u>196.3</u>	<u>184.2</u>	<u>163.7</u>	<u>149.6</u>
Total Payroll	\$411.4	\$377.0	\$376.6	\$359.9	\$353.2

Mr. Wright stated that the following are the major assumptions used in the actuarial valuation, and they should be reviewed for reasonableness. Mr. Wright stated that to the extent that actual experience differs from the assumptions below, future pension costs will differ as well.

Interest Rate Assumption

Mr. Wright stated that the interest rate used as of September 30, 2008, was 7.0%. Milliman’s expected long-term returns on various asset classes is shown below. The target asset allocation is the expected long-term asset allocation and is based on the Retirement Fund’s Investment Policy.

Asset Class	(a) Target Asset Allocation	x	(b) Expected Nominal Return	=	(c) Component Return
U.S. Equities (Large Cap)	30%		10.30%		3.09%
U.S. Equities (Small Cap)	10%		11.83%		1.18%
Non-U.S. Equities	17%		10.37%		1.76%
Non-U.S. Equities (Emerging Markets)	3%		12.62%		0.38%
U.S. Fixed Income (Aggregate)	30%		5.52%		1.66%
Real Estate (REITs)	10%		9.32%		<u>0.93%</u>
Expected Average Return for One Year					9.00%
Expected Geometric Mean (50 Years)					8.27%
25 th to 75 th Percentile Return					7.08% - 9.48%

Mr. Wright stated that the current assumption of 7.0% is less than the geometric average expected return over the next 50 years, and falls slightly outside the 25th to 75% percentile of expected results. Mr. Wright noted that if investments fail to achieve the assumed interest rate, future pension costs will increase. Chairman San Agustin asked whether the current assumption of 7.0% will generate enough money without touching principal. Mr. Wright replied, “Yes.” Secretary Taylor asked whether the 8.27% a projection for the Government of Guam Portfolio or projection for returns in general. Mr. Wright stated that it is for returns in general, looking at specific asset classes.

Other Assumptions

Mr. Wright stated that the assumptions on the following are unchanged from the prior year valuation: Mortality, Salary Increases, Total Payroll Growth, Retirement Age, Return of Contributions, Rates of Withdrawal and Disability, and Probability of Marriage.

Mr. Wright stated that the total payroll for DB and DC members is assumed to increase 3.5% per year.

Mr. Wright stated that the following are the assets reported in the Retirement Fund's audited Financial Statements as of September 30, 2008, excluding certain receivables and liabilities whose payments are deducted from employer contributions to the Retirement Fund, along with the audited assets as of September 30, 2007:

	<u>9/30/2008</u>	<u>9/30/2007</u>
Investments		
Common Stocks	\$531,049,327	\$708,474,204
Mutual Funds	95,152,521	148,728,892
U.S. Government Securities	257,225,870	273,223,515
Non-U.S. Fixed Income	4,758,395	1,900,973
Corporate Bonds and Notes	201,550,038	213,266,240
Money Market Funds	<u>36,492,500</u>	<u>40,184,479</u>
Total Investments	\$1,126,228,651	\$1,385,778,303

Mr. Wright stated that receivables and liabilities are comparable to the prior year. Mr. Wright stated that there are certain assets they excluded from the valuation: Receivable – ERIP Employer Share, Supplemental/COLA Benefits Receivable, and Deferred Revenue for Service Credits. Mr. Wright stated that these assets were excluded because payments towards these receivables are deducted from employer contributions.

Mr. Wright reported on the unfunded accrued liability. Mr. Wright stated that the unfunded accrued liability is used to determine the funding requirements. The unfunded accrued liability equals the accrued liability less the valuation assets. Mr. Wright provided the following table:

	<u>9/30/2008</u>	<u>9/30/2007</u>
Accrued Liability		
Active Members	\$896,413,751	\$875,393,286
Retirees and Survivors	1,807,472,472	1,792,517,142
Terminations and Inactives	<u>14,777,316</u>	<u>14,207,131</u>
Total Accrued Liability	\$2,718,663,539	\$2,682,117,559
Actuarial Value of Assets	<u>1,210,960,228</u>	<u>1,448,654,799</u>
Unfunded Accrued Liability	\$1,507,703,311	\$1,233,462,760
	=====	=====
Security Ratio (Assets/Accrued Liability)	44.54%	54.01%

Mr. Wright reported on the contribution requirements. Mr. Wright stated that the required contribution is equal to the sum of: (1) the government normal cost for the DB Plan, (2) the amortization payment towards the unfunded liability of the DB Plan, and (3) the expected government contributions to the DC Plan. The required contribution is then divided by the sum of the DB and DC payroll to determine the contribution rate as a percentage of the payroll. Mr. Wright noted that the contribution rate actually received by the DB Plan from DC payroll will be 5% less than the total contribution rate shown below, since 5% DC payroll is deposited into the DC Plan.

	<u>9/30/2008</u>	<u>9/30/2007</u>
Expected Payroll for Next Fiscal Year		
DB	\$179,541,572	\$183,752,128
DC	<u>246,239,873</u>	<u>206,493,531</u>
Total Payroll (DB & DC)	\$425,781,445	\$390,245,659
Government Normal Cost (DB)	15,865,864	14,446,663
As % of DB Payroll	8.84%	7.86%
As % of Total Payroll (DB & DC)	3.73%	3.70%
Amortization of Unfunded Liability (DB)	96,603,185	76,787,147
As % of Total Payroll (DB & DC)	22.69%	19.68%
Government DC Contributions	12,311,994	10,324,677
As % of DC Payroll	5.00%	5.00%
As % of Total Payroll (DB & DC)	2.88%	2.64%
Total DB & DC Contributions	\$124,781,043	\$101,558,487
% of Total Payroll (DB & DC)	29.31%	26.02%

Vice-Chairman Leon Guerrero stated that he would like to see a recommendation to increase the contributions to the DC Plan. Director Blas stated that Mr. Wright will make a presentation to the Board on the DC portion of the meeting. Director Blas stated that Milliman has been asked to prepare other reports based on the Board's recommendation. Director Blas stated that one report was on the Hybrid Plan with two types of options. Director Blas stated that the goal is to make sure that DC participants have some sort of income security.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the Actuarial Valuation Report as of September 30, 2008. Without objection, the motion passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT


There being no further business before the Board for the Defined Benefits Plan, on motion of Secretary James Taylor, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 3:29 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of April 24, 2009 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on August 28, 2009.



Antolina S. Leon Guerrero, Board Secretary

RECORDING SECRETARY:



Jackie Blas