GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

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

MINUTES

DEFINED CONTRIBUTIONS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contribution Plan was called to order at 3:30 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
James J. Taylor, Secretary
Katherine T.E. Taitano, Trustee

Board of Trustees Absent:
Gerard A. Cruz, Treasurer
George A. Santos, Trustee
Antolina S. Leon Guerrero, Trustee

Staff Present:
Paula Blas, Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Rose Cruz, Recording Secretary

Public Present:
Alfred F. Duenas, Senator Ben Pangelinan's Office
Richard Wight, Milliman Consulting, Inc.

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II. REVIEW AND APPROVAL OF BOARD MINUTES
A. February 27, 2009 and March 27, 2009 Regular Meetings

Secretary James Taylor, seconded by Trustee Katherine Taitano, moved to table the Minutes of February 27, 2009 and March 27, 2009 Regular Meetings. Without objection, the motion passed.

III. CORRESPONDENCE
None

IV. INFORMATIONAL ITEMS
None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY
1. ***Request for Proposal (RFP): Third Party Administrator (TPA)*** – Director Paula Blas stated that draft copies of the TPA agreements with Great-West Retirement Services (Great-West) and Advisory Assets Group (AAG) are attached for the Board's review. Director Blas stated that there are a few issues that still need to be worked out, but that it is close to being finalized. Director Blas stated that the Service Level Agreement (SLA) is still under review by the Retirement Fund and Great-West legal counsels. Director Blas stated that it is the Retirement Fund's Legal Counsel's recommendation that the SLA not hold up the Board's review of the TPA and AAG agreements. Chairman San Agustin requested that Legal Counsel provide a section analysis of the agreements. Director Blas stated that she could set up something with Legal Counsel to go over the agreements.

2. ***Replacement of American Bond Funds of America*** – Director Blas stated that at the March 6, 2009 Board meeting, Mercer Investment Consulting, Inc. (Mercer) was asked to conduct a search for a replacement fund for the American Bond Funds of America. Director Blas stated that Mr. Terry Dennison of Mercer reported that he will provide Mercer's recommendations for a replacement fund after the March 31, 2009 performance information for the funds are available. Director Blas stated that the report should be available by the first week of May 2009.

3. ***Hybrid Defined Benefit (DB)/Defined Contribution (DC) Plan*** – Director Blas stated that at the March 6, 2009 Board meeting, Mercer briefly discussed the advantages and disadvantages of a DB and DC plan. Director Blas stated that the Retirement Fund is currently gathering the data for the DC plan and further discussion on alternative retirement plan designs will take place at the next Mercer quarterly performance meeting in May 2009.

<u>Financial Report</u>
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.

VI. THIRD PARTY ADMINISTRATOR'S REPORT

Director Blas stated that Mike Perez of Great-West Retirement Services (Great-West) has provided, at this meeting, the TPA Report for the month ending March 31, 2009 on the Defined Contribution

Retirement System 401(a) Plan and the 457 Deferred Compensation Plan. Director Blas stated that a report of hardships, payment to self, and direct rollovers are included in this report. Secretary James Taylor stated that he would like a condensation of this report into one page. Director Blas stated that she will ask Mr. Perez to summarize his report.

VII. INVESTMENT COMMITTEE REPORT

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

1. **Third Party Administrator (TPA)** – Vice-Chairman Leon Guerrero stated that management provided the Investment Committee with an update on the status of the TPA Contract.

2. **Replacement of American Bond Funds of America** – Vice-Chairman Leon Guerrero stated that at the March 6, 2009 Board meeting, the Board authorized replacing the American Bond Funds of America as an investment option for DC Plan participants. Vice-Chairman Leon Guerrero stated that Mercer was tasked to perform a search for a replacement manager.

3. **Hybrid Defined Benefit (DB)/Defined Contribution (DB) Plan** – Vice-Chairman Leon Guerrero stated that due to the impact of market volatilities on the DC Plan, the Investment Committee previously requested that Milliman Consulting, Inc. (Milliman) provide an analysis of a Hybrid DB/DC Plan. Vice-Chairman Leon Guerrero stated that Mr. Richard Wright of Milliman will provide his report at today's meeting.

4. **Letter from Dr. Robert Ryan (DC Plan Participant)** – Vice-Chairman Leon Guerrero stated that the Investment Committee reviewed Dr. Ryan's April 2, 2009 letter to Director Blas wherein he requested that the Board consider including in the options of funds available to DC Plan participants, some funds that are heavily weighted in precious metals, oil and gas, and other commodities. Director Blas stated that she sent a letter to Dr. Ryan letting him know that she is in receipt of his letter and that she will be responding back to him. Vice-Chairman Leon Guerrero stated that based on email comments from Mr. Dennison of Mercer, Management was instructed to inform Dr. Ryan that the types of investments he suggested are generally unsuitable for the broad range of participants due to concentrated risk and difficulty in producing appropriate educational material and that his request will be discussed during the quarterly performance meetings with Mercer on May 28, and 29, 2009.

VIII. OLD BUSINESS

A. Contribution Report – March 2009

Director Blas stated that Mr. Perez of Great-West submitted, for this meeting, a copy of the DC Plan and the Deferred Compensation (457) Plan report for the month of March 2009.

Mr. Perez's report shows that the DC Plan has 7,031 participants with a total contribution amount of $941,066.24. The Deferred Compensation Plan (457) has 883 participants with a total contribution amount of $115,107.82.

IX. NEW BUSINESS

A. Milliman Consulting, Inc.

1. Defined Benefit (DB)/Defined Contribution (DC) Hybrid Plan Study

Director Blas stated that Mr. Wright of Milliman provided, at this meeting, a copy of Milliman's Hybrid Plan Study. Mr. Wright stated that Milliman was asked to review the possibility of modifying the Retirement Fund DC Plan to include DB Plan features. Mr. Wright stated that they have reviewed adding either a "cash balance" feature or a "floor offset" arrangement. Mr. Wright stated that this report reviews broad concepts and provides general cost comparisons.

Cash Balance – Mr. Wright stated that a cash balance plan is a "hybrid plan" that combines elements of a DC plan and a DB plan. A member's benefit is expressed as an account balance, similar to the balance maintained for a DC plan. However, no assets are segregated for this hypothetical account. Instead, as for a DB plan, all plan assets are maintained in a trust, to which contributions are made in accordance with an actuarial valuation. Mr. Wright stated that a member's account is increased each year by contribution allocations and interest credits. The contribution allocations can consist of both employer and employee contributions, similar to a regular DC plan. However, interest credits are based upon a fixed rate or tied to an index, and do not depend on the actual underlying performance of the assets. Mr. Wright stated that the cash balance plan offers a lump sum form of payment. An individual could request to have the balance converted to an annuity. Mr. Wright stated that it's a DB plan that looks like a DC plan.

Mr. Wright stated that the interest credits in a cash balance plan are typically designed to be less than the expected return on the invested assets. Investment earnings in excess of the interest credits serve to reduce the required employer contribution. Mr. Wright stated that the following are some examples of typical interest credits: 1) Fixed rate per year (e.g. 5%); 2) Fixed percentage above the inflation rate (e.g. CPI plus 2%); and 3) a bond or stock index (e.g. 90-day U.S. Treasury plus 3%).

Mr. Wright stated that the advantages of a cash balance plan include: 1) Fixed investment credits for member accounts are not subject to market swings; 2) Plan sponsor may be better able to invest assets than individual members; and 3) Investment gains above the interest crediting rate reduce employer contribution requirements.

Mr. Wright stated that the disadvantages of a cash balance plan include: 1) Members may feel investment credits are low during bull markets; 2) Investment returns below the interest crediting rate will increase employer contribution requirements; and 3) Members may be tempted to take lump sums, if they are offered, rather than annuities and not have sufficient income in retirement.

Mr. Wright stated that they have reviewed four alternative cash balance designs. These designs were chosen to provide comparable benefits to the current DC plan. Mr. Wright stated that for Option A, the employer and employee contribution allocations are 5% and the interest crediting rate is also 5%. Option B also has 5% employer and employee contribution allocations, but provides a fixed 7% interest crediting rate. Option C has a 5% interest crediting rate, but increases the employer contribution allocation to 7%. Option D is similar to Option A, but includes a one-time 20% increase to the starting DC account balance. The following are the alternative cash balance plans:

Alternative Cash Balance Plans

	Option A	Option B	Option C	Option D
Employer Contribution Allocation Rate	5.0%	5.0%	7.0%	5.0%
Employee Contribution Rate	5.0%	5.0%	5.0%	5.0%
Interest Crediting Rate	5.0%	7.0%	5.0%	5.0%
Initial Cash Balance Account as % of DC	100%	100%	100%	120%
DC Members	7,191	7,191	7,191	7,191
DC Payroll	$238.0	$238.0	$238.0	$238.0
Initial Cash Balance Account	$135.0	$135.0	$135.0	$162.0
Accrued Liability	$138.5	$166.6	$156.5	$146.3
Less: Plan Assets	135.0	135.0	135.0	135.0
Unfunded Accrued Liability	$3.5	$31.6	$21.5	$11.3
Total Normal Cost	$16.4	$19.3	$18.5	$17.6
Less: Employee Contribution	11.8	11.8	11.8	11.8
Employer Normal Cost	$4.6	$7.5	$6.7	$5.8
Amortization of Unfunded Liability	0.2	2.0	1.4	0.7
Total Employer Cost	$4.8	$9.5	$8.1	$6.5
As % of DC Payroll	2.1%	4.0%	3.4%	2.8%

Mr. Wright stated that the above cost estimates are based on the current valuation interest assumption of 7.0%. The employer normal cost rate is lower than the employer allocation rate.

Secretary Taylor stated that, by looking at this, it does not increase what the members will be getting when they retire. Mr. Wright stated that it depends on the plan design, you can design it to increase by increasing the guaranteed interest. Secretary Taylor asked Mr. Wright whether he is saying that we could modify this to increase what is going to the employer. Mr. Wright replied, "Yes."

Vice-Chairman Leon Guerrero asked what is the difference between the Hybrid Plan and the DB Plan? Mr. Wright stated that the difference is on how you define the benefits the members are getting. In the DB Plan, you're defining the members' benefit to be some percentage of their pay. Mr. Wright stated that the Hybrid Plan (Cash Balance Plan) defines the benefits. In the DC Plan, the participant assumes the investment risk. The participants are responsible for investing their own account. Chairman San Agustin stated that the DB Plan has an actuarial assumption rate of return. In the DC Plan, you would have to calculate your return. Mr. Wright stated that in the Cash Balance Plan, the Board of Trustees is responsible for investing the assets. Chairman San Agustin stated that in the DB Plan, the benefits are structured on years of services. In the DC Plan, it is what the member has contributed. Mr. Wright stated that in the Cash Balance Plan, when you reach retirement age, you could convert the balance to an annuity. Mr. Wright stated that these plans were designed to appeal to the younger population.

Secretary Taylor stated that the data seems to show that we are not contributing enough to the employees' share on the DC Plan. Secretary Taylor asked why the Retirement Fund can't design a plan to increase the amount contributed to the employee. If we do that, then we've dealt with the DC Plan; why create a whole new plan. Chairman San Agustin stated that an alternative would be to convert the DC Plan back into the DB Plan. However, the cost of converting will be very high. Mr. Wright stated that if the Board is looking at redesigning the plan, you have a philosophical decision whether to go DB or DC. Once the Board decides, you could figure out the contribution rates, cash balance, and other options the Board may want. Mr. Wright stated that the DC Plan is not a retirement plan. It is more of a savings plan.

Floor Offset - Mr. Wright stated that if the Retirement Fund wanted to keep the DC Plan, and the Board is concerned about members not having enough money, there is another option the Board could add – the Floor-Offset Arrangement. Mr. Wright stated that a floor-offset arrangement consists of two plans, a DC plan and a DB plan, with benefits under the DB plan ("floor") offset by the benefits provided under the DC plan. The DB plan, in effect, provides a minimum annuity benefit, a portion of which will be payable if the benefit accumulated under the DC plan at retirement is less than that minimum. The DC account balance is compared with the DB minimum by converting it to an equivalent annuity using interest and mortality assumptions specified by the DB plan.

Mr. Wright stated that the advantages of a floor-offset arrangement include: 1) Members have a guaranteed minimum benefit at retirement; and 2) The cost of the program can be low during periods of steady investment returns.

Mr. Wright stated that the disadvantages of a floor-offset arrangement include: 1) The existence of a guaranteed minimum may make some members take more risk with their investments; 2) The minimum benefit is generally kept very low, otherwise the cost of the program will increase; and 3) The cost of the program will rise during periods of poor investment performance.

Mr. Wright stated that for the purpose of this study, Milliman used the following features for the floor-offset arrangement: 1) Benefit formula of 1% of final 3 years of average earnings times service; 2) Benefit payable at age 65; 3) No early retirement benefit; and 4) No disability benefits.

Mr. Wright stated that the following table compares the cost and accumulated balances under the current DC Plan with the estimated cost and accrued liability for the same DB floor plan:

Floor-Offset Arrangement – Estimated Costs

	Current DC Plan	1%DB Floor Plan	Floor-Offset Arrangement
Account Balance (DC)/Accrued Liability (DB)	$134,979,540	$99,779,000	$146,301,000
Employer Cost (as % of DC Payroll)	5.0%	4.4%	5.4%

Director Blas stated that the Board does not have to make a decision at this time. This is still in draft form. Chairman San Agustin stated that the question is who is going to take the first step on this. Chairman San Agustin asked whether the Retirement Fund is going to take the first step and form a committee and propose legislation or are we going to let the Legislature form their own committee and make their own study. Director Blas stated that it could be a combination of both.

2. Impact of Allowing Defined Contribution to Defined Benefit Transfers

Director Blas stated that Milliman provided, at this meeting, a copy of their report on the impact of allowing DC to DB transfers. Mr. Wright stated that he has estimated the cost and the effect on the Retirement Fund if members who transferred from the DB Plan to the DC Plan were allowed to transfer back to the DB Plan. Director Blas stated that this would apply only to those members who elected to take advantage of transferring from the DB Plan to the DC Plan. Mr. Wright stated that there were 676 members who transferred from DB to DC. Mr. Wright stated that in order to transfer back to the DB Plan, they would have to convert their DC account balance and give it back to the DB Plan. The total amount for the 676 members is $29,838,000. Mr. Wright stated that the members would also have to pay back, with interest, any withdrawal made on their account. Mr. Wright stated the members need to also pay the difference between the employee contribution rate from the DB Plan of 9.5% and the DC Plan of 5%. Mr. Wright stated that if the members did all the above-mentioned payments then they will be eligible to transfer back to the DB Plan. Mr. Wright stated that repayment could be set up to be made in installments. Director Blas stated that the total amount due must be paid back before retirement. Chairman San Agustin stated that there are still a lot of details that needs to be worked on. Director Blas asked whether the Board wants to form a committee to do research and submit input. Chairman San Agustin suggested inviting members of the Legislature and Government of Guam departments to get involved with this.

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XI. ANNOUNCEMENTS

None

XII. ADJOURNMENT

There being no further business before the Board for the Defined Contribution Plan, on motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, and without objection, the meeting was adjourned at 4:45 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.

ASL Guerrero

Antolina S. Leon Guerrero, Board Secretary

RECORDING SECRETARY:

Jackie Blas