

GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

BOARD OF TRUSTEES

Regular Meeting

Friday, February 25, 2011, 12:00 p.m.
 Retirement Fund Conference Room

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

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 12:23 p.m. Friday, February 25, 2011, in the Retirement Fund Conference Room. Acting Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Vice-Chairman
 Antolina S. Leon Guerrero, Secretary
 Gerard A. Cruz, Treasurer
 Wilfred G. Aflague, Trustee
 George A. Santos, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman
 Katherine T.E. Taitano, Trustee

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Rosalia Bordallo, General Accounting Supervisor
 Jackie Blas, Recording Secretary
 Alice Tajeron, Great-West Retirement Services

Public Present:

Dave Burger, Burger & Comer
 Maripaz Perez, Office of Public Accountability
 Ricky Hernandez, Senator Ben Pangelinan's Office of Finance and Budget

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. January 28, 2011 Regular Meeting

On motion of Secretary Antolina Leon Guerrero, seconded by Trustee George Santos, and without objection, the Minutes of January 28, 2011 Regular Meeting were approved, subject to technical corrections. Motion unanimously passed.

III. TREASURER'S REPORT OF FINANCIAL STATUS

A. Fiscal Year 2010 Audit

Director Paula Blas stated that a copy of the Retirement Fund's Financial Statements, Independent Auditors' Report and Management's Discussion and Analysis for the period September 30, 2010 and 2009 are provided for the Board's review. Director Blas stated that a copy of the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards is also provided.

Treasurer Gerard Cruz opened the floor to Dave Burger of Burger & Comer and Maripaz Perez from the Office of Public Accountability (OPA). Mr. Burger reported that the audit report will be released on Monday, February 28, 2011. Mr. Burger stated that Ms. Perez will report on the OPA highlights of the audit. Ms. Perez stated that the Retirement Fund closed Fiscal Year 2010 with an \$80.7 Million increase in net assets for the Defined Benefit (DB) Plan and a \$34.2 Million increase in net assets for the Defined Contribution (DC) Plan. The Retirement Fund has a positive return of 12.3% on its DB Plan investments compared to the negative 14.8% return in Fiscal Year 2008. Noted in the highlight was the unfunded liability which has grown from \$552 Million in Fiscal Year 1995 to \$1.44 Billion in Fiscal Year 2009; increase in security ratio of 44.5% in prior year to 47.3%; and Guam Memorial Hospital Authority's (GMHA's) delinquent remittances totaling \$5.6 Million as of February 4, 2011. The OPA is in communication with GMHA on this issue. Treasurer Cruz asked what GMHA's response was. Ms. Perez stated that Doris Flores Brooks, Public Auditor, has not met with the new GMHA Team. The outlook on the DC Plan is good information for the public to know given that the Board is considering alternative plan designs, which may include DB Plan features to enhance the retirement available to DC Plan members. Ms. Perez thanked the Retirement Fund Management for being responsive and having a clean audit with no current year findings. Ms. Perez would also like to acknowledge the Retirement Fund's Finance Team for this achievement.

Acting Chairman Leon Guerrero inquired about the increase of \$20,000.00 in office supplies. Controller Diana Bernardo stated that it is for the Electronic Fund Transfer (EFT) supplies. Forms were replenished. Director Blas stated that retirees want to see the breakdown of their deductions on their statement. Rosalia Bordallo, General Accounting Supervisor, stated that the Retirement Fund will be able to cut down on costs if statements are sent only if a change occurs. Acting Chairman Leon Guerrero inquired about the increase on travel and transportation. Mrs. Bordallo stated that it is due to the increase in airfare and registration fees.

Treasurer Cruz asked whether there is an impact to the Retirement Fund on being a single-employer retirement plan. Mr. Burger stated that it is mainly the accounting rules. Treasurer Cruz asked if there is a liability on the Retirement Fund. Mr. Burger stated that it is immaterial. Treasurer Cruz inquired about the multi-employer plan vs. single-employer reporting. Ms. Perez stated that she will bring this up to Mrs. Brooks.

Acting Chairman Leon Guerrero inquired about the recurring issues on the unfunded liability. Mr. Burger stated that it is under the GMHA comment on the highlights. There is a concern regarding GMHA falling behind on their payments. Mr. Burger also mentioned that Chairman San Agustin wants something better for the DC Plan participants. The Board is still considering alternative plan designs, which may include DB Plan features to enhance the retirement available to DC Plan members.

Mr. Burger thanked the Retirement Fund Controller, Management and DC staff on the audit. Mr. Burger stated that performance was great in 2010. Treasurer Cruz noted that the Legislature is closing the gap on the contribution rate. Director Blas stated that it is 0.60%. Acting Chairman Leon Guerrero stated that it is respectable rate.

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve the Retirement Fund's Fiscal Year 2010 Audit Report. Without objection, the motion unanimously passed.

Treasurer Cruz stated that the Treasurer's Report is provided, at this meeting. It covers the Retirement Fund's Statement of Plan Assets (unaudited) and Prior Year Receivables for both the DB Plan and the DC Plan for the month ended January 31, 2011. Also submitted is the Retirement Fund's Cash Flow Statement which includes the drawdown schedule from October 2010 through September 2011. Treasurer Cruz stated that no additional authority is needed.

**RECESSED TO GO INTO DEFINED CONTRIBUTIONS MEETING 12:44 P.M.
RECONVENED: 1:10 P.M.**

IV. CORRESPONDENCE

None

V. INFORMATIONAL ITEMS

None

VI. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

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

Director Blas stated that as of February 16, 2011, Department of Administration (DOA) mailed approximately 846 checks for outstanding principal and interest amounts to retirees, survivors, and beneficiaries in accordance with the distribution method stated in Public Law 30-101. Director Blas stated that these disbursements complete the distribution for the \$3 Million reallocation as authorized in Public Law 30-239. COLA payments under this Bill will not exceed \$32,856.00. Director Blas stated that the Guam Economic Development Authority (GEDA) is packaging a Request for Proposal (RFP). It is a Promissory Note type RFP to purchase COLA Certificates. Director Blas stated that there will be an appropriation yearly to pay down the note. Acting Chairman Leon Guerrero inquired about the source of funding. Director Blas stated that it was not specified, but the interest rate is 8%. Director Blas stated that this is not only for the outstanding COLA payments, but it will also take care of the "Opt-Out" balance of \$1.2 Million. Acting Chairman Leon Guerrero inquired about the outstanding balance. Controller Bernardo stated that the outstanding principal and interest is \$19 Million.

2. **Public Law 28-38: Interest Only Payments** – Director Blas stated that the monthly interest payments for the Department of Education (DOE) and GMHA due on February 10, 2011 were paid. The Retirement Fund continues to process retirement applications for DOE. GMHA retirement applications will be suspended until GMHA is current with their employee and employer contributions.

3. **Guam Memorial Hospital Authority (GMHA) Outstanding Contributions** – Director Blas stated that as of February 16, 2011, GMHA received loan proceeds of \$12 Million from Bank of Guam. Director Blas stated that the Retirement Fund has not received any of these loan proceeds for outstanding retirement contributions. The total amount due is \$6,681,382.56. Director Blas stated that the hearing on the Writ of Mandamus is scheduled for March 11, 2011. Treasurer Cruz asked whether there is any response from GMHA. Director Blas stated that GMHA indicated that the Retirement Fund is not the only one that is not being paid. Trustee Wilfred Aflague stated that the Retirement Fund needs to think of the employees who are ready to retire.

4. **Bernstein Litowitz Berger and Grossmann (BLBG)** – Director Blas reported on the following lawsuits:

- **Lehman Brothers** – Director Blas stated that we are still waiting for the Court to set a date.
- **Wells Fargo** – Director Blas stated that the court scheduled a jury trial date on August 27, 2012. BLBG is working on a settlement with Wells Fargo.
- **Genzyme Corporation** – Director Blas stated that BLBG is waiting for the court’s decision on the motion to dismiss.
- **Countrywide** – Director Blas stated that the court issued an order placing an indefinite continuance on the final approval hearing date. BLBG believes this is likely related to ongoing negotiations between all parties regarding the requests for exclusions.
- **AXA Rosenberg** – Director Blas stated that the Retirement Fund’s exposure is approximately \$35 Million. AXA publicly admitted to a “coding error” that impacted the integrity of its computer-driven investment process and despite the knowledge of the coding error, AXA covered up the error for many months thereby violating internal reporting procedures and its fiduciary duty to its clients. Director Blas stated that AXA publicly acknowledged that investors should be compensated for their losses. BLBG conducted an investigation into the claims for the recovery of the Retirement Fund’s losses on investments with AXA, and filed a complaint against AXA due to the serious breaches of fiduciary duties by top executives at the company. The total amount of Retirement Fund losses are not known at this time. Director Blas stated that the complaint was filed on February 3, 2011. Treasurer Cruz asked whether we are going after losses. Director Blas stated that we are going after losses, gains, and management fees.

5. **Request for Proposal (RFP) for Investment Consultant Services** – Director Blas stated that evaluations for the DB Plan Investment Consulting Services (RFP No. GGRF-001-11) and DC/457 Investment Consulting Services (RFP No. GGRF-002-11) are ongoing. Director Blas stated that the Selection Panel consists of Joe T. San Agustin, Wilfred Leon Guerrero, and Diana Bernardo. Secretary Antolina Leon Guerrero asked when Mercer’s contract expires. Director Blas replied, “March 31, 2011.” Director Blas stated that the Selection Panel’s recommendation to the Board will be presented in April 2011.

6. **Legislative Bills: Bill 40-31 (COR) – Amends Public Law 30-233, Relative to Suspension of Annuity Payment from the Defined Benefit Plan** - Director Blas stated that Bill 40-31 was passed and

enacted into law as Public Law 31-01 on February 22, 2011. Director Blas stated that employees of the Governor and Lieutenant Governor or employees appointed by the Governor do not have to suspend their annuity. Director Blas stated that the door to exceptions keeps widening. Acting Chairman Leon Guerrero asked what the percentage of individuals not required to suspend their annuities is. Director Blas stated that there are a lot. Trustee George Santos stated that if all the positions were put together, half would be eligible. Acting Chairman Leon Guerrero stated that if the retiree can not enhance then they should just make everyone eligible. Mrs. Bordallo stated that the incentive is to move the old employees out and have the young ones come in. Acting Chairman Leon Guerrero asked whether DC employees are eligible to contribute to Social Security. Director Blas replied, "No."

Financial Report

1. Contributions – Director Blas stated that as of February 22, 2011, all agencies are current with their Fiscal Year 2011 employee and employer contributions with the exception of GMHA.

2. Financial Statements – Director Blas stated that the books for the month ending January 2011 were closed on February 18, 2011.

3. Fiscal Year 2010 Audit – Director Blas stated that the audit for Fiscal Year Ending September 30, 2010 has been completed. Final audit reports will be issued on Monday, February 28, 2011.

4. Fiscal Year 2011 Retirees' Supplemental Benefits – Director Blas stated that the supplemental benefits for retirees and survivors for the month of February 2011 will be paid at the end of the month. Director Blas stated that beginning March 2011 the Retirement Fund will be assisting DOA, to cut costs with the supplemental payments.

5. Fiscal Year 2011 Medicare Reimbursements – Director Blas stated that the Retirement Fund received the February 2011 allotment from the General Fund and payments are processed accordingly.

VII. LEGAL COUNSEL'S REPORT

No report was made at this time.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's February 2011 report to the Board of Trustees.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 23, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of February 9, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

1. Correspondence No. 10-001 – FRED A. GOFIGAN

Trustee Santos stated that Mr. Fred Gofigan submitted his letter dated December 9, 2010 requesting consideration to be granted the opportunity to change previous Non-Base Option election from Exclusion to Inclusion and to apply for Education Credit for retirement purposes. Trustee Santos stated that Mr. Gofigan completed his option form for submission to the Retirement Fund on June 9, 1989 indicating Exclusion for Non-Base Pay and further acknowledging that such election is irrevocable for the duration of his Retirement Fund membership. Trustee Santos stated that with regards to the Education Credit, the service credit program ended on June 14, 1989 and does not allow for prospective application or service credit claims. Trustee Santos stated that based on the M&B Committee's review and findings during their meeting of February 9, 2011, the Committee recommends disapproval. Acting Chairman Leon Guerrero stated that with regards to the Education Credit, the Board does not have the authority to extend the deadline of June 14, 1989 on the Service Credit Program. With regards to the Non-Base Option, Mr. Gofigan signed the document opting for Exclusion for Non-Base Pay. Trustee Aflague asked whether an extra step was taken to verify whether the check for the erroneous deduction issued to Mr. Gofigan was cashed. Director Blas replied, "No."

Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to disapprove Fred A. Gofigan's request to apply for Education Credit for retirement purposes, contained on Pages 24 and 25, including relevant documents, based on the Committee's review and findings during their meeting of February 9, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to disapprove Fred A. Gofigan's request to change previous Non-Base Option election from Exclusion to Inclusion, contained on Pages 24 and 25, including relevant documents, based on the Committee's review and findings during their meeting of February 9, 2011 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

2: Defined Contribution (DC) Plan Retirement Alternatives / Defined Benefit (DB) Plan Design Options

Trustee Santos stated that based on the M&B Committee's review and findings during their meeting of February 9, 2011, the following are recommended to be presented to the Board of Trustees for their review and disposition.

Trustee Santos stated that the Committee reviewed/considered the following DC Plan Retirement Alternatives:

- 1. *Creation of a New Optional DB Plan with a Mandatory 457 Employee Contribution***
 - Option to Move into New DB
 - Option to Transfer DC Account Balance for New DB Credits (One-Time 180-Day Election Period to Transfer)
 - Mandatory 457 Employee Contribution
 - Optional Employer Match to 457 Plan
 - Employee Rate to New DB Varies Based Upon Plan Design
 - Employee Rate to DC (for those who stay in DC) Will be 5% or Higher

2. ***Creation of a New Mandatory DB Plan, with an Optional 457 Employee Contribution***
 - Required to Move into New DB
 - No Transfer of DC Accounts into New DB
 - Optional 457 Employee Contribution
 - No Employer Match to 457 Plan
 - Employee Rate of 6.5% to New DB
 - 3% Contributions to DC for Employer and Employee
3. ***Adding Secured Foundation Option to the DC and 457 Plans (Effective 1/15/2011)***
4. ***Adding a Social Security Component to the DC Plan***

Trustee Santos stated that the Committee reviewed eight (8) New DB Plan Designs for both Alternatives 1 and 2 above, and narrowed it down to the two (2) most viable design options below:

- a. **Alternative 1, Plan Design #2, with a Benefit Rate of: 1.0%<10 Years, 1.5%>10 Years,**
- b. **Alternative 1, Plan Design #6, with Benefit Rate of: 1.75%.**

Trustee Santos provided the following comparison of the Existing DB Plan to the two New DB Plan Options:

- a. **Existing DB Plan**
 - Benefit Rate: 2.0%<10; 2.5%>10
 - Employer Actuarial Rate: 29.31%
 - Employee Contribution Rate for DB Plan: 9.50%
 - Mandatory Employee Contribution Rate for 457 Plan: Not Mandatory
- b. **New DB Plan Options – Alternative 1, Plan Design #2**
 - Benefit Rate: 1.0%<10; 1.5%>10
 - Employer Actuarial Rate: 30.99%
 - Employee Contribution Rate for DB Plan: 5.30%
 - Mandatory Employee Contribution Rate for 457 Plan: 1.00%
- New DB Plan Options – Alternative 1, Plan Design #6**
 - Benefit Rate: 1.75%
 - Employer Actuarial Rate: 30.83%
 - Employee Contribution Rate for DB Plan: 9.50%
 - Mandatory Employee Contribution Rate for 457 Plan: 1.00%

Trustee Santos stated that the Committee recommends the following:

1. Creation of a New Optional DB Plan with a Mandatory 457 Plan (Alternative 1), and
2. One of the following two Plan Designs:
 - a. Plan Design #2, with a Benefit Rate of: 1.0%<10 Years, 1.5%>10 Years
 - b. Plan Design #6, with a Benefit Rate of: 1.75%

Trustee Santos stated that Mr. Richard Wright of Milliman Consulting, Inc. presented retirement plan alternatives on March 11, 2010. Meetings were held throughout the year and a survey was conducted. Trustee Santos stated that if the Retirement Fund does not help the participants now, it will cost more in the future.

Trustee Santos stated that Ms. Tajeron has had the Secure Foundation in place since January 15, 2011. Trustee Santos stated that the New DB Plan will be known as the "Bronze Plan." Participants will have the option to remain in the DC Plan; opt to join the DB Plan while keeping their DC balance intact; or transfer to the DB Plan.

Secretary Leon Guerrero stated that the results of the survey indicate that the participants are willing to contribute more. Treasurer Cruz asked what the impact is. Director Blas stated that the employer rate will be calculated. Controller Bernardo stated that it is 30.83% for Design #6, and 30.99% for Design #2. Director Blas stated that it is combining assets. Treasurer Cruz asked what the actual DC rate is. Director Blas stated that it is 5% employee and 5% employer. Treasurer Cruz stated that this will pay down the unfunded liability. The new plan will not have any unfunded because it is new. Treasurer Cruz stated that if they are all retired today, the Retirement Fund will need \$1.3 Million to satisfy all current employees. Director Blas stated that the new plan will not have a Non-Base Option. Treasurer Cruz asked whether we need to choose between #2 and #6 in terms of benefits. Acting Chairman Leon Guerrero asked what the sense of the Legislature is. Director Blas stated that the Legislature is supporting it. Trustee Aflague asked what the timeline is after it is passed by the Legislature. Director Blas stated that the Retirement Fund will have a 180 day window to give notice to the participants of the options. Director Blas stated that a service only plan is easier to implement. Ms. Tajeron stated that she will work on administering this Bronze Plan with the Retirement Fund. Trustee Santos recommended waiting for the other Board members not present at today's meeting to review this. Acting Chairman Leon Guerrero suggested to have a work session and then the Board could further review it at the March 25, 2011 Board Meeting.

3. Disability Case No. 10-007

Trustee Santos stated that the M&B Committee recommends tabling Disability Case No. 10-007.

Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, moved to approve the Members and Benefits Committee's recommendation to table Disability Case No. 10-007. Without objection, the motion unanimously passed.

B. Investment Committee

Controller Bernardo reported that the Investment Committee meeting was held on February 11, 2011. The Committee reviewed and approved the Investment Committee Minutes of December 15, 2010 and January 14, 2011.

Informational Items:

1. Gain/Loss on Liquidations – Controller Bernardo stated that during the January 28, 2011 meeting, the Board requested that Management provide a report indicating gains/losses from the liquidation authorized in December 2010. Summary as follows:

- | | |
|--|---------------------------------|
| a. \$61 Million from Metropolitan West | Realized Gain of \$11.9 Million |
| b. \$32 Million from Fisher Investments | Realized Gain of \$5.1 Million |
| c. \$44 Million from I Shares EAFE Index | Realized Gain of \$3.6 Million |

Treasurer Cruz stated that the Retirement Fund realized \$20.6 Million. Controller Bernardo pointed out to include items d to g below:

- | | |
|---------------------------------------|------------------------------|
| d. \$14 Million from Winslow | Realized Gain of \$5 Million |
| e. \$14 Million from Intech | Realized Gain of \$3 Million |
| f. \$6 Million from Cornerstone | Realized Gain of \$2 Million |
| g. \$10 Million from Security Capital | Realized Gain of \$2 Million |

Trustee Santos asked what the total portfolio is and where was the improvement from. Treasurer Cruz stated that the most significant gain is from Domestic Large Cap Equity of \$25 Million.

Secretary Leon Guerrero asked whether there is any response from Mercer on the projects they will be able to do. Director Blas stated that she has not received any response from Mercer.

2. **Next Quarterly Performance Meeting** – Acting Chairman Leon Guerrero stated that he is encouraging the Board to attend the next Quarterly Performance Meeting scheduled for March 24, and 25, 2011.

IX. OLD BUSINESS

None

X. NEW BUSINESS

None

XI. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XII. ANNOUNCEMENTS

None

XIII. ADJOURNMENT


There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 2:30 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 25, 2011 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on March 25, 2011.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas