



GOVERNMENT OF GUAM  
**RETIREMENT FUND**  
 STABILITY · SECURITY · REWARDS

Eddie Baza Calvo  
 Governor

Ray Tenorio  
 Lieutenant Governor

Paula M. Blas  
 Director

**BOARD OF TRUSTEES**  
**Reconvened Regular Meeting**  
 Friday, April 1, 2011, 10:00 a.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 reconvened at 10:35 a.m. Friday, April 1, 2011, in the Retirement Fund Conference Room. Treasurer Gerard Cruz officiated.

**Board of Trustees Present:**

Joe T. San Agustin, Chairman (10:50 a.m.)  
 Wilfred P. Leon Guerrero, Vice-Chairman (10:37 a.m.)  
 Antolina S. Leon Guerrero, Secretary  
 Gerard A. Cruz, Treasurer  
 Wilfred G. Aflague, Trustee  
 George A. Santos, Trustee

**Board of Trustees Absent:**

Katherine T.E. Taitano, Trustee

**Staff Present:**

Paula Blas, Director  
 Diana Bernardo, Controller  
 Jackie Blas, Recording Secretary  
 Vivian Mantanona, Management Analysis III  
 Alice Tajjeron, Great-West Retirement Services

**Public Present:**

Richard Wright, Milliman, Inc.  
 Ricky Hernandez, Senator Ben Pangelinan's Office of Finance and Budget (12:00 p.m.)

## **II. DEFINED CONTRIBUTION (DC) PLAN INVESTMENT CONSULTING SERVICES PROPOSAL – MERCER INVESTMENT CONSULTING, INC. (MERCER) FEE INCREASE**

Director Paula Blas stated that she checked with Legal Counsel regarding Mercer's request for a fee increase. Director Blas stated that she asked Legal Counsel whether Mercer's new proposal changes anything else in the agreement other than the fee. Director Blas stated that Legal Counsel replied, "No." Director Blas stated that Legal Counsel provided a Supplemental Agreement for the Board's review. Director Blas stated that Trustee Wilfred Aflague was concerned that the proposed change to the present agreement would need to go out on a Request for Proposal (RFP). Treasurer Cruz stated that Mercer is asking for a fee increase for the DC Plan. Is there a substance change to the Scope of Work? Director Blas replied, "No." Trustee Aflague asked whether the requested fee increase is reasonable. Director Blas stated that she did look at other firms. Treasurer Cruz asked whether the \$100,000.00 is inclusive of all costs? Director Blas stated that it includes four quarterly meetings. Treasurer Cruz asked whether Mercer's request will not violate the current RFP. Vice-Chairman Wilfred Leon Guerrero suggested acting on Mercer's request.

**Trustee Wilfred Aflague, seconded by Secretary Antolina Leon Guerrero, moved to accept Mercer Investment Consulting, Inc.'s Fee Increase Proposal for the Defined Contribution Plan Investment Consulting Services with the Supplemental Agreement to be executed by the Government of Guam Retirement Fund and Mercer Investment Consulting, Inc. Without objection, the motion unanimously passed.**

## **III. ACTUARIAL VALUATION AS OF SEPTEMBER 30, 2010**

Director Blas stated that Milliman, Inc. was retained by the Retirement Fund to provide an actuarial valuation of the Retirement Fund. In their valuation they:

- Summarize the membership data
- Calculate the actuarial accrued liability and normal cost
- Determine the contribution requirements
- Provide financial information required by the Government Accounting Standards Board (GASB) Statement No. 25
- Project the fund balance and security ratio forward 40 years

Mr. Wright provided the following highlights:

- The required contribution under GCA Section 8137 is 30.09% of payroll. Of this amount, 23.75% is for the unfunded liability of the Defined Benefit (DB) Plan, 3.03% is for the normal cost of the DB Plan, and 3.31% is for contributions and expenses for 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 2010-2011 Fiscal Year is 27.46%. The previous rate was 28.06%.
- The DB payroll for the 2009-2010 Fiscal Year was \$175.8 Million compared with \$182.0 Million for the 2008-2009 Fiscal Year. The total DB and DC payroll for the 2009-2010 Fiscal Year was \$429 Million compared with \$423.8 Million for the 2008-2009 Fiscal Year, an increase of 1.2%. This is below the long term assumption of 3.5% annual growth in total

payroll. If total payroll had increased by 3.5%, the required contribution rate would have been 29.54%.

- The unfunded accrued liability increased from \$1.4 Billion as of September 30, 2009, to \$1.5 Billion as of September 30, 2010. The primary cause of the increase was a lower return on the actuarial value of assets than the 7% assumption, due to the deferred recognition of investment gains for the 2009-2010 Fiscal Year and the recognition of investment losses for the 2007-2008 Fiscal Year that had been excluded as of September 30, 2009. The payment required to amortize the unfunded accrued liability under GCA Section 8137 has increased from \$95.4 Million to \$105.5 Million. The payment as a percentage of payroll has increased from 21.75% to 23.75%.
- Based on the audited financial statements, we calculated an investment return on the total market value of assets of 11.7% for the Fiscal Year ending September 30, 2010. The average annual return on the market value of assets for the last five fiscal years has been 4.8%.
- There have been no changes in plan provisions since the prior actuarial valuation.

Vice-Chairman Leon Guerrero asked whether recognition of full earnings is being deferred. Mr. Wright stated that assumptions changed. The Board adopted a three-year smoothing technique. This was done after the 2008 loss. The method was applied to both gains and losses. Chairman Joe San Agustin asked what happens if the market drops. Mr. Wright stated that an adjustment will be made.

Mr. Wright reported on the results of the valuation. The number of DB participants declined to 3,594 this year. The inactive DB members declined to 6,466. Vice-Chairman Leon Guerrero inquired about the balance. Mr. Wright stated that it is \$11 Million. Vice-Chairman Leon Guerrero asked whether there is anything that can be done with the 6,466 inactive members. Treasurer Cruz suggested to initiate legislation to have a statute of limitation on how long inactive members could leave their contributions in. Director Blas stated that the numbers will improve next year. Management is working on a project to clear out the inactive accounts. Vice-Chairman Leon Guerrero asked what the disadvantage of keeping the 6,466 members' contributions is. Mr. Wright stated that the disadvantage is keeping the records. It may also create a liability to those coming back. Vice-Chairman Leon Guerrero asked whether the inactive members get interest if they withdraw their contributions. Director Blas replied, "Yes, 4.5%."

Mr. Wright stated that the total DB payroll declined from \$182 Million to \$175 Million. The total payroll increased to \$429 Million from \$423 Million. The accrued liability increased to \$2.79 Billion from \$2.73 Billion, a \$52 Million increase. The unfunded accrued liability increased to \$1.5 Billion from \$1.4 Billion. The security ratio dropped from 47.27% to 44.65%.

Mr. Wright reported on the principal valuation results over the last five years. The payroll increased to 29.31% in 2008, dropped to 28.06% in 2009 and then increased to 30.09% in 2010. Trustee George Santos asked whether this is the last year of the five-year period. Director Blas replied, "Yes."

Mr. Wright reported on the actuarial value of assets. Mr. Wright stated that the actuarial value of assets as of September 30, 2010 is equal to the market value of DB plan assets adjusted to phase in gains and losses relative to the assumed rate of return over a three-year period, and to exclude certain receivables and liabilities whose payments are deducted from employer contributions to the Retirement Fund. Mr. Wright stated that the normal cost, total benefits is 17% of pay. The unfunded accrued liability is 23.75%, a \$10 Million increase.

In conclusion, Mr. Wright reported that the unfunded liabilities of the Retirement Fund are to be completely funded within 80 years from 1951. There are 20.58 years remaining to the point where the Retirement Fund has to be fully funded (2031).

**Trustee George Santos, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to approve the Actuarial Valuation Report as of September 30, 2010. Without objection, the motion unanimously passed.**

#### **IV. DEFINED CONTRIBUTION (DC) PLAN RETIREMENT ALTERNATIVES / DEFINED BENEFIT (DB) PLAN DESIGN OPTIONS**

Trustee Santos reported on the new Bronze Plan. Trustee Santos stated that Milliman provided a summary of the plan provisions of the alternative New DB plans. These New DB plan benefits are referred to as "Tier 2", and are compared with the provisions of the existing DB plan, which is referred to as "Tier 1". The provisions shown for the existing DB Plan are those provisions applicable to employees who became members on or after August 22, 1984. Mr. Wright stated that this is optional for DC Plan participants. Treasurer Cruz stated that there may be some tax implications since it is not a qualified plan. Director Blas stated that it could be written as a qualified plan. Director Blas stated that she will verify the tax implications with Legal Counsel. Mr. Wright stated that the benefit formula for Design #6 is 1.75% of Average Annual Salary for each year of service with a 9.5% employee contribution rate.

*Trustee Wilfred Aflague asked to be excused from the meeting at this time (11:45 a.m.)*

Mr. Wright stated that the new plan is 5% government share. Treasurer Cruz stated that we need to insure not to dip further into the corpus. Treasurer Cruz stated that based on the numbers, he does not know how this will be resolved. Treasurer Cruz inquired about the conversion of the plan. Trustee Santos suggested obtaining more numbers on the target list. Director Blas stated that Mr. Wright provided assumptions on conversion. Treasurer Cruz asked what the projected full liability is. Mr. Wright replied, "\$107 Million." Trustee Santos stated that we need to conduct more research. Mr. Wright stated that to allow the conversion to occur, a presentation of the different options on what the costs would be must be made. Treasurer Cruz stated that the goal is to minimize the unfunded liability. Treasurer Cruz would like to see possible scenarios on costs and potential unfunded liability.

#### **V. REQUEST FOR PROPOSAL (RFP) FOR INVESTMENT CONSULTANT SERVICES**

Vice-Chairman Leon Guerrero reported that ten (10) firms responded to the RFP. Two firms were eliminated because they did not meet the requirements. Two firms were receiving fees from managers and another firm was eliminated due to regulatory issues. Five firms were interviewed on March 31, 2011. The two top offerors were Wilshire Associates and Wurts & Associates. Vice-Chairman Leon Guerrero stated that the Selection Panel recommends Wilshire Associates to be hired. Vice-Chairman Leon Guerrero stated that Wilshire Associates is about the same size as Mercer. Treasurer Cruz asked whether Wilshire Associates does Investment Management. Vice-Chairman Leon Guerrero replied, "No." Treasurer Cruz asked whether the fee was negotiated. Director Blas stated that it will be done after approval. Vice-Chairman Leon Guerrero stated that the proposed fee is \$195,000.00. Trustee Santos asked what Mercer's fee was. Director Blas stated that it was \$176,000.00. Treasurer Cruz

asked how often they will be here. Director Blas replied, "Quarterly." Treasurer Cruz asked whether management searches are included. Director Blas replied, "Yes."

**Trustee George Santos, seconded by Treasurer Gerard Cruz, moved to approve Wilshire Associates as the Government of Guam Retirement Fund's Investment Consultant related to the Defined Benefit Plan. Without objection, the motion unanimously passed.**

**VI. ADJOURNMENT**

**There being no further business before the Board for the Defined Benefits Plan, on motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the meeting was adjourned at 12:25 p.m. Motion unanimously passed.**

**I hereby certify that the foregoing is a full, true and correct copy of the Minutes of April 1, 2011 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on April 29, 2011.**



**ANTOLINA S. LEON GUERRERO, Board Secretary**

**RECORDING SECRETARY:**

  
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**Jackie Blas**