



Government of Guam Retirement Fund FY 2012 Financial Highlights

March 05, 2013

The Government of Guam Retirement Fund (Fund) closed fiscal year (FY) 2012 with a \$177.8 million (M) increase in net assets for the Defined Benefit (DB) plan, and a \$58.5M increase in net assets for the Defined Contribution (DC) plan. Global markets showed signs of recovery as the DB plan posted a 14% increase in net assets held in trust, while the DC plan increased by 24.5% during the year. The Fund's unfunded liability continues to increase and is now recorded at \$1.64 billion (B). As a result, the government's retirement contribution rate is 28.30% for FY 2012, 30.09% for FY 2013, and is expected to increase to 31.02% for FY 2014. The unfunded liability and the increasing contribution rate are due in part to the amortizing period set in the next 20 years. Given the expected members' mortality, rate the amortization period may be too short and should be lengthened.

The contribution rate now at 28.30%, is among the highest in the country and future increases are unsustainable at the General Fund level. The increase in contribution rates is the result of increasing benefits such as the most recent increase to survivor benefits, underfunding the DB plan, and past negative returns on plan investments due to the worldwide economic recession of 2008. Independent auditors Burger and Comer P.C., rendered an unqualified or "clean" opinion on the Fund's financial statements, and no findings were identified on the report on compliance and internal control. This marks the seventh consecutive year, the accompanying report on compliance and internal control did not identify any current year findings, which is a credit to the management and staff of the Fund.

Increases in Defined Benefit and Defined Contribution Plans

Recovering global markets resulted in notable increases to the DC and DB Plans. The DB plan investments posted a return of 20.1%, the highest return since 1997. The cumulative rate of return on the fund averaged 8.3% from 1995 through 2012. The DB plan's net assets totaled \$1.4B, an increase of \$177.8M compared to the \$1.2B reported in FY 2011. Likewise, the DC plan's net assets increased by \$58.5M from \$238.7M to \$297.2M

Annuity Payments to Defined Benefit and Defined Contribution Retirees

The DB plan paid out \$184.4M in retiree benefit payments to 7,155 retirees. This equates to an average annuity payment of \$25,769 per retiree. Of the \$184.4M in benefit payments, \$153.2M was paid to 5,082 age and service retirees, \$24M was paid to survivor annuities for 1,709 eligible survivors, and \$7.1M was paid to 364 disabled retirees. Over the past five years, the numbers of retirees have grown from 7,037 in 2008 to 7,155 in 2012 an increase of 118 retirees, or just under 2%. However, total annuity payments increased by 9.3%, going from \$168.7M to \$184.4M over the five year period.

In FY 2012, there were 71 new DC retirees. However, DC members did not receive any annuity payments. A total of \$12.2M was paid to approximately 1,400 employees who left the GovGuam. The average pay out was \$8,717, of which the vast majority was received in a lump sum payment for full liquidation of their account.

Defined Contribution Members at Risk Upon Retirement

According to Fund Officials the average DC retirement balance is \$40K, which arises from the member and employer contributions and is set by law at five percent (5%) of base pay. Of the 28.30% of DC members' salaries that GovGuam is contributing, the remaining 23.30% is contributed towards the unfunded liability to fund the DB retirees.

When the DC plan was originally envisioned in 1995, Social Security was not made available to the DC members. It is unclear why the Fund did not establish the DC plan with Social Security as a major component, but the Fund reasons that Social Security will only increase costs to the Government of Guam. Had Social Security been available, DC members and all new members would have already been contributing into the system, and for some over 15 years.

DC plan members are currently left with the performance of their 5% base salary contribution, and the 5% matching contribution from the government. Therefore, it is imperative that GovGuam take action to rectify the inequity to DC employees. If a viable solution is not implemented timely, DC members could be left without adequate income when they retire, and GovGuam may find itself subsidizing their costs of living through public assistance programs. Ensuring income for DC retirees requires difficult choices.

The Fund has recommended a hybrid plan for DC employees. The Fund believes the hybrid plan will provide similar benefits to Social Security with lower costs. However, given the past track record of GovGuam's unfunded liability for the DB plan which is now at \$1.64B, there is a high likelihood that the hybrid plan would give GovGuam another unfunded liability, which the government cannot afford and could jeopardize the solvency of the Fund.

Outside independent retirement consultants have instead recommended that GovGuam move forward to enrolling DC members in the Social Security system. Similar actions have occurred in the Commonwealth of the Northern Mariana Islands where the retirement plan was jeopardized. Other retirement funds in American Samoa and Virgin Islands have similar plans that incorporate a blend of investments with Social Security.

Bonds Repays Outstanding Obligations

In June 2012, the Fund received \$24.8M from the General Fund representing full payment of prior years' receivables from Guam Department of Education, Guam Memorial Hospital Authority, and for receivables arising from P.L. 31-74. Of the \$24.8M, \$8.8M was allocated to GDOE and \$12.3M to GMHA. The remaining \$3.7M was allocated to other GovGuam agencies arising from the temporary reduction in rates.

Management Letter

A separate management letter was issued in which the auditor discussed two prior year comments as follows: (1) The Fund's preparation of the Management Discussion and Analysis, Financial Statements, footnotes to the financial statements, and all supporting schedules; and (2) the DB's funded status and unfunded liability concern the auditors, in that the annuity payments exceed contributions, resulting in the liquidation of plan net assets.

See Management's Discussion and Analysis for further details. You may view the reports in its entirety at the Office of Public Accountability's website, www.guamopa.org and the Fund's website at www.ggrf.com.