



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

BOARD OF TRUSTEES
Regular Meeting
 Friday, October 26, 2012, 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 12:16 p.m. Friday, October 26, 2012, 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
- Antolina S. Leon Guerrero, Secretary
- Gerard A. Cruz, Treasurer
- Wilfred G. Aflague, Trustee
- George A. Santos, Trustee
- Katherine T.E. Taitano, Trustee

Staff Present:

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

Public Present:

- Vice-Speaker Benjamin J.F. Cruz
- Ken Quintanilla, KUAM

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. September 28, 2012 Regular Meeting

On motion of Trustee George Santos, seconded by Secretary Antolina Leon Guerrero, and without objection, the Minutes of September 28, 2012 Regular Meeting were approved, subject to technical corrections. Motion unanimously passed.

III. CORRESPONDENCE

A. September 28, 2012 Letter from Wilfred G. Aflague Re: Request to Rescind his Memorandum Dated September 18, 2012

Chairman San Agustin stated that a copy of Wilfred Aflague's letter rescinding his Letter of Resignation dated September 18, 2012 is provided for the Board's information. Director Paula Blas stated that Trustee Aflague will be changing employers.

B. October 2, 2012 Letter from David M. O'Brien Re: Letter of Interest as Interim Trustee

Chairman San Agustin stated that he received a letter from David O'Brien expressing his interest to the Board in being selected as an Interim Trustee.

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 Blas stated that the Retirement Fund continues to work on the list of deceased COLA Awardees who did not name a beneficiary, or whose beneficiary may be deceased. COLA award disbursements for these individuals will be made to their respective estates. Director Blas stated that this is an on-going process until everyone is paid off.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated October 16, 2012 on the following lawsuits is provided for the Board's information. Director Blas stated that these cases are highly confidential and BLBG asked that the cases not be discussed in a public forum.

- **Lehman Brothers**
- **Genzyme Corporation**
- **AXA Rosenberg**
- **MF Global**

Treasurer Gerard Cruz inquired about Countrywide and Wells Fargo. Director Blas stated that Countrywide had a gross recovery of \$163,000 and the net recovery was \$148,000. Chairman San Agustin stated that he had requested to show the investment, exposure and settlement amounts. Vice Chairman Wilfred Leon Guerrero inquired about Lehman Brothers. Treasurer Cruz stated that it is partially settled. Chairman San Agustin requested an update of the settlement amounts.

3. **Request for Proposal (RFP) - Legal Services: Portfolio Monitoring and Securities Litigation** - Director Blas stated that the Selection Panel will consist of George Santos, Antolina Leon Guerrero, and Katherine Taitano. The Selection Panel will meet on November 21, 2012.

4. **Bill 507-31: Governor's Proposed Early Retirement and Benefits Cuts** - Chairman San Agustin deferred discussion on this item until the arrival of Vice-Speaker Benjamin J.F. Cruz.

Note: Discussion on Pages 5-8

Financial Report

1. **Contributions** - Director Blas stated that as of October 23, 2012, all agencies are current with their Fiscal Year 2013 employee and employer contributions. Director Blas stated that there is a pay period that is due today at 5:00 p.m.

2. **Financial Statements** - Director Blas stated that the books for the month ending September 2012 as well as the Fiscal Year 2012 closing will take place on November 7, 2012.

3. **Fiscal Year 2013 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of October 2012 will be paid at the end of the month.

4. **Fiscal Year 2013 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the October 2012 allotment from the General Fund and payments were processed accordingly.

5. **Annual COLA** - Director Blas stated that the annual COLA will be released on Monday or Tuesday next week. COLA will be received by retirees in the same manner as how their annuity is received. By law, COLA should be paid no later than November 1st.

VI. LEGAL COUNSEL'S REPORT

Director Blas stated that the Retirement Fund's Legal Counsel provided an update, for the Board's information, on the status of current litigation involving the Retirement Fund.

- **Jane M. Story vs. Government of Guam Retirement Fund** – The Retirement Fund's Motion for Summary Judgment remains pending before the Court. An Order is expected to be issued around November 7, 2012, which is the 90-day deadline for the Court to issue a decision.
- **Tenorio vs. Guam Memorial Hospital Authority (GMHA)** – Awaiting the outcome of the Motion to Dismiss filed by GMHA.
- **Bautista and Guthrie vs. Perez, et al.** – None of the three motions pending has been scheduled for a hearing. Mr. Guthrie has threatened to file further motions for enforcement if the Government does not pass a law allowing mandatory retirement. As the Legislature has not taken affirmative action on early retirement, the hybrid plan, mandatory retirement, or any of the Retirement Fund's recent proposals, Legal Counsel has found it unnecessary to respond to Mr. Guthrie's settlement offers.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

A. Fiscal Year 2012 Independent Financial Auditor

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 Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended September 30, 2012.

Treasurer Cruz stated that the Retirement Fund's total assets are \$1.7 Billion. There is a reduction in receivables. The Retirement Fund is within its drawdown authority for the next few months. Treasurer Cruz stated that the projected drawdown authority is \$5 Million per month. The total drawdown was lower than expected. For Fiscal Year 2012, the Retirement Fund withdrew from corpus of \$20 Million. The annual drawdown was lower than prior years due to good returns, timely contributions and the proceeds of the bond. The anticipated drawdown for Fiscal Year 2012 was \$60 Million.

Trustee George Santos, seconded by Trustee Katherine Taitano, moved to approve the Treasurer's Report. Without objection, the motion unanimously passed.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee's October 2012 report to the Board of Trustees.

Chairman San Agustin asked whether there are any disability cases. Trustee Santos stated that there are two cases pending Medical Consultant Services. Director Blas stated that the RFP was issued twice, but there were no offerors. Director Blas stated that she needs to revisit the scope and send it to the Guam Medical Association. Treasurer Cruz asked whether any of the physicians that conducted actual examinations were interested. Director Blas replied, "No." Secretary Leon Guerrero stated that the lack of responses and interest reflects a shortage of physicians on the island. The physicians either run a full time clinic or are retired.

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 15, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of October 10, 2012 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

B. Investment Committee

Vice Chairman Leon Guerrero reported that the Investment Committee meeting was held on October 12, 2012. The Committee reviewed and approved the Investment Committee Minutes of September 21, 2012. Vice Chairman Leon Guerrero reported that the Retirement Fund's portfolio at the beginning of the Fiscal Year was \$1.173 Billion. The Retirement Fund's portfolio ended at \$1.375 Billion as of September 30, 2012. There's an unrealized gain of \$200 Million.

Chairman San Agustin mentioned that there is a drop in Securities Lending Earnings from July through September 2012. Director Blas stated that it has a lot to do with the Queue System.

Quarter Ending September 30, 2012 Performance Meeting – Vice Chairman Leon Guerrero informed the Board that the next Quarterly Performance Meeting is scheduled for November 28, and 29, 2012.

IX. TRAVEL REPORT

A. Trustee George Santos and Director Paula Blas: IFEBP Certificate in Global Benefits Management Conference – September 10-14, 2012, Vancouver, British Columbia

Chairman San Agustin stated that Trustee Santos and Director Blas have submitted their trip report, for the Board's information, on the IFEBP Certificate in Global Benefits Management Conference they attended on September 10-14, 2012 in Vancouver, British Columbia.

B. Secretary Antolina Leon Guerrero: NAGDCA Annual Conference – “Surf's Up for a Secure Retirement,” October 1-3, 2012, San Diego, California

Chairman San Agustin stated that Secretary Leon Guerrero has submitted her trip report, for the Board's information, on the NAGDCA Annual Conference she attended on October 1-3, 2012 in San Diego, California.

X. OLD BUSINESS

None

XI. NEW BUSINESS

None

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

Chairman San Agustin announced that Vice-Speaker B.J. Cruz has joined the meeting at this time.

Bill 507-31: Governor's Proposed Early Retirement and Benefits Cuts – Director Blas stated that in their letter dated October 5, 2012 the Retirement Fund submitted to Vice-Speaker Cruz three alternatives that would realize a cost savings of approximately \$43 Million to the General Fund. Director Blas stated that John Rios, Director of BBMR, submitted the Administration's counter-proposal in his letter dated October 10, 2012. Director Blas stated that a supplemental round table discussion for Bill 507-31 is scheduled for Monday, October 29, 2012, at 5:30 p.m.

Vice-Speaker Cruz thanked Director Blas, Legal Counsel Vince Camacho, and the Board for being amenable to hearing the discussions. Vice-Speaker Cruz stated that he knows that the Retirement Fund is opposed to having an early retirement program. Vice-Speaker Cruz stated that he actually has stated that he is also not in favor of an early retirement program knowing what it cost the government the last time it happened. Vice-Speaker Cruz stated that it is important that we all continue to leave the lines of communication open. Vice-Speaker Cruz stated that he liked the Retirement Fund's suggestion of a voluntary separation incentive program. We need to be able to work on that. Vice-Speaker Cruz

stated that the Retirement Fund has the figures from its annual report on how many employees are in a position and in different age groups. Vice-Speaker Cruz stated that if the Retirement Fund could come up with the numbers and say that if the Governor would consider this, then the Retirement Fund could do a voluntary separation for employees with over 30 years of service. If we could assist these employees in making the decision to retire, we will be able to get this kind of a savings. There is no doubt that there is a need for some amount of money. Vice-Speaker Cruz stated that he wants to continue to figure out something.

Vice-Speaker Cruz stated that he is aware of the fact that there is some apprehension from the Director of BBMR about the Hybrid Plan. Vice-Speaker Cruz stated that he initially was not crazy about the Hybrid Plan, but now supports the idea of a Hybrid Plan. Vice-Speaker Cruz stated that the Administration is still a little apprehensive about this. There is no question that if the General Fund fails, so does the Retirement Fund because the Retirement Fund will not be getting the contributions. Vice-Speaker Cruz stated that if the number of government employees is drastically reduced, the contribution as it is, is barely making it. Vice-Speaker Cruz stated that Mr. Rios was trying to point out to him that in the Retirement Fund's chart of the amortization that by 2031 or 2037, under the five or ten-year partial amortization, we will be back on track again. There was something in the amortization schedule, indicating that if there was an extension of five or ten years, that somehow it catches up around the mid to late 2030's and will be back on track, and we will be down to about a 5% difference. If we could figure out a way to keep that and give them some kind of concession on the extension, even if it's partial, we would keep the discussion open. Vice-Speaker Cruz stated that he is not forcing the issue to have this done before the election. Vice-Speaker Cruz stated that his concern is to have some kind of a solution between the two sides that will survive a court battle because the last thing that he wants is for anyone to be tied up in litigation for years. Vice-Speaker Cruz stated that he needs to figure out a way to save the Retirement Fund, assist the General Fund and make sure that when some of the younger employees retire in 30 years, that there will be something left for them. He added, this is the only reason why I am doing this shuttle diplomacy between the two sides trying to find a way that we can find something. Vice-Speaker Cruz stated that he would like for the Retirement Fund to review the numbers and come back with something. We need to show with a combination of things that we are providing an annual savings of a substantial amount that the Governor will find acceptable.

Chairman San Agustin stated that we are discussing trying to marry the Hybrid Plan with the Governor's program. These are two separate items. The Hybrid Plan is a plan to take care of the DC employees. The Governor wants to piggyback on the Hybrid Plan in a way that may jeopardize the entire program. The Administration is seeking to have an early out program and an extended amortization schedule. Chairman San Agustin stated that less cash will be coming in and the Retirement Fund's annuity payroll will increase. Chairman San Agustin stated that the Retirement Fund will then have to liquidate investment assets. The Retirement Fund has been liquidating to meet its payments on capital gains. The Retirement Fund is reaching the point of liquidating at a loss. Chairman San Agustin stated that the Retirement Fund can not afford stretching out the amortization.

Chairman San Agustin reiterated that the Hybrid Plan is a separate item. The Hybrid Plan has no impact to the Retirement Fund. Chairman San Agustin stated that the Retirement Fund is currently liquidating on assets that have capital gains. Treasurer Cruz stated that the Retirement Fund's gross return was \$200 Million as of September 30, 2012. Vice-Speaker Cruz stated that he was surprised that Mr. Rios seems hesitant about the Hybrid Plan. Vice-Speaker Cruz stated that at this point if we could somehow get them together maybe this might be the time that we can do both. Otherwise, if the

General Fund does not have enough money to be able to continue its operation and there is any major reduction in workforce, the contribution is going to go down anyway. You will always have the retirees' annuities at a stable amount. The question is how much are the current employees contributing to assist in making the payment annually to the current retirees. If we lose government employees, it would seem that the Retirement Fund will not be getting as much money being paid in to help underwrite the cost of paying for the retirees. Vice-Speaker Cruz stated that he does not want to reduce the government workforce because if we reduce the government workforce then we will have to start digging into the corpus of the Retirement Fund. Chairman San Agustin stated that reducing employees does not necessarily affect the Retirement Fund. Vice-Speaker Cruz stated that the DC employees are supporting the DB retirees. Chairman San Agustin stated that the DC employees are not supporting the DB retirees. Treasurer Cruz stated that the DC employees are only paying 5%. Treasurer Cruz stated that if there is a reduction in the government workforce, the liability of the Retirement Fund also decreases. Secretary Leon Guerrero stated that there is no immediate increase in the annuity that is being paid out. This is what was really jeopardizing the Retirement Fund. The Retirement Fund will not only lose contributions (with the proposed reamortization) but it is also going the increase our payroll (with the proposed early out program). Treasurer Cruz stated that (under the proposed hybrid plan) the contribution rate could actually come down or remain the same. Chairman San Agustin stated that there is a problem in handling the cash management. The Administration is trying to raid the Retirement Fund at the expense of future retirees.

Vice-Speaker Cruz stated that he is trying to figure out a way to avoid ending up in litigation. Chairman San Agustin stated that what happened in the past with early retirement will happen again. Director Blas stated that her understanding is that the Administration does not just want the early retirement by itself, it has to come with a re-amortization. This is where the double whammy ends up hitting the Retirement Fund from both sides. Director Blas stated that the re-amortization is the most important thing that the Administration wants and that is something that the Retirement Fund does not even want to consider. The numbers the Administration was looking at were considering a reduction in the contribution rate for the first five years, but in the sixth year, the spike in the contribution rate ends up equating to over \$40 Million in addition to the regular rate for that year. Director Blas stated that it is more of whether the government is going to be able to sustain that kind of a bill in the sixth year. This is where the Retirement Fund needs to decide on whether to trust the Government of Guam when it comes to paying the contributions at that time or just leave it alone and let it take its course as far as the amortization. Vice-Speaker Cruz asked whether he misinterpreted the chart. Director Blas stated that there were several charts that were provided. One chart is with an Early Retirement Program, one with no Early Retirement Program, and one with a temporary re-amortization and that was the one that rolls it back for five years and then resets it to 2031. Treasurer Cruz stated that in the sixth year you will catch up.

Treasurer Cruz stated that there are options on the table that the Retirement Fund thinks will work excluding the furlough. Vice-Speaker Cruz stated that they would have to come up with the other options. Director Blas stated that the early retirement alone is just going to increase the contribution rate. Vice Chairman Leon Guerrero mentioned that the State of Hawaii has just gotten off their cost-cutting measures and they were saving money by reducing their work hours. Chairman San Agustin stated that he hopes that the Administration will stop looking at the Retirement Fund.

Chairman San Agustin referred to a chart in the conference room and stated that the trend shows that it is going down. Treasurer Cruz stated that the Retirement Fund will see some relief in the contribution rate by next year. Secretary Leon Guerrero stated that this is because of the big returns. Treasurer Cruz stated that it is also that the 5-year smoothing from 2008 may slightly improve.

Vice-Speaker Cruz thanked the Board of Trustees for giving him the opportunity to address the Board.

RECESS: 1:06 P.M.

RECONVENED: 1:34 P.M.

Chairman San Agustin, for the record, read out loud an email from Legal Counsel Joanne Grimes to Director Paula Blas dated October 26, 2006: *"The Board is obligated to fund current and future obligations in a prudent manner, the determination of prudence to be determined in consultation with the Board's actuary and investment advisor. Given that the DB Plan is closed, there will be a point at which current contributions and realized gains must be used to fund current obligations because interest and dividends constitute such a small portion of the Fund's obligations to retirees. I believe that this has been happening for a number of years, as actual total returns may be lower than the returns assumed by the actuary, the actual contribution rate has been lower than the contribution rate recommended by the actuary, as well as other factors. Liability arises not from the use of contributions or realized gains, but from the underlying reasons for failing to meet assumed returns, or not receiving contributions at the actuarially recommended rate; both of which appear to be a result of legislative constraints rather than Board discretion."* Chairman San Agustin stated that this is exactly what is happening now.

Chairman San Agustin stated that the Retirement Fund was not invited to Monday's hearing. Director Blas stated that she saw the public notice in the newspaper. Director Blas stated that she will summarize what the Board discussed today. Trustee Santos suggested saying that the Board reaffirm their position on this matter.

XIV. 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 1:40 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of October 26, 2012 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 30, 2012.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:


Jackie Blas