



Government of Guam Retirement Fund FY 2013 Financial Highlights

March 5, 2014

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2013 with a \$130.7 million (M) increase in net position (income) for the Defined Benefit (DB) plan, and a \$47M increase in net position for the Defined Contribution (DC) plan. Global market recovery reflected a smaller positive return in FY 2013 with 9.1% or \$130.7M increase in the DB plan's net position and 15.8% or \$47M increase in the DC plan's net position.

Independent auditors Burger and Comer, P.C. rendered an unmodified or "clean" opinion on the Fund's financial statements. FY 2013 is the eighth consecutive year that the Fund's Reports on Compliance and Internal Control contained no material weaknesses or significant deficiencies. The Fund also did not receive any Management Letter comments. The Fund's management and staff is to be commended for this continued achievement.

The Fund's unfunded liability decreased from \$1.6 billion (B) to \$1.5B as of the latest actuarial report of FY 2012. Correspondingly, the government's DB retirement contribution rate was at 30.09% for FY 2013 and 30.03% for FY 2014. The FY 2013 contribution rate of 30.09% was among the highest in the country due to the very generous benefits of the DB plan, which were underfunded over a number of years. Title 4 of the Guam Code Annotated §8137 requires the plan to be fully funded by 2031.

Increase in the DB Plan and Annuity Payments to DB Retirees

The DB plan net position increased by \$130.7M or 9.1% from \$1.4B in FY 2012 to \$1.6B in FY 2013. The net position increased due to global market recovery, reflected by increases in dividends of \$1.7M and other investment income of \$874,000 (K). Because of the slower global market recovery, DB plan investments gained a smaller positive return of 14.4% in FY 2013 compared to 20.1% in FY 2012. The Fund's investment returns averaged 8.6% from 1995 to 2013.

DB plan contributions increased by \$974K or 0.7% from \$133.2M in FY 2012 to \$134.2M in FY 2013. The contributions were insufficient to fund the DB plan benefit payments. The DB plan benefit payments increased by \$5.9M or 3.2% from \$184.4M in FY 2012 to \$190.3M in FY 2013. For FY 2013, the difference between \$190.3M of benefit payments and \$134.2M of contributions is made up from the investment income, with the remainder adding to the Fund's investments.

Over a five year period, the number of DB plan retirees increased by 110 or 1.6% from 7,085 in FY 2009 to 7,195 in FY 2013. This growth, however, was outpaced by the increased amount of annuity payments of \$18.8M or 11% from \$171.5M in FY 2009 to \$190.3M in FY 2013.

In FY 2013, the DB plan's benefit payments were paid to 7,195 retirees, consisting of 5,054 age

and service retirees (\$158.5M), 1,828 survivors (\$25M), and 313 to disabled retirees (\$6.8M). The average annuity payment per retiree was \$26K. The average annuity payments for age and service retirees is \$31K, for survivors is \$16K, and for disabled retirees is \$22K. The annuity payments range from \$3K to \$152K, but most annuitants fall within the \$10K to \$40K range.

Increase in the DC Plan

The DC plan net position increased by \$47M or 15.8% from \$297.2M in FY 2012 to \$344.2M in FY 2013. The net position increased due to global market recovery, reflected by increases in interest of \$3M and other investment income of \$170K. In addition, DC plan employer and member contributions increased by \$826K or 2.9% from \$28.9M in FY 2012 to \$29.8M in FY 2013. The contributions increased due to the increase in DC plan membership by 119 from 7,766 in FY 2012 to 7,885 in FY 2013.

Unlike the DB plan members, DC plan members do not receive guaranteed annuity payments. Refunds to separated employees and withdrawals was a 21.9% or \$2.7M increase from \$12.2M in FY 2012 to \$14.9M in FY 2013. The \$14.9M consisted of payments for severance of employment (\$8.7M), retirements (\$4.9M), beneficiary payments (\$796K), financial hardship (\$381K), and IRS levy (\$81K). Most were lump sum payments for full liquidation of their accounts.

No Safety Net for DC Members

The average retirement account balance of \$40K for DC plan members is not enough to support their basic needs, allow them to maintain a comfortable living standard, and to last their lifetime. The average retirement account balance in the U.S. reported by Fidelity Investments is \$89K. Under the current DC plan, the employee contributes 5% of their base salary and the government matches 5%. When DC plan members retire, their benefits will be based on their retirement account balances. DC plan members need a safety net, like Social Security or some other retirement plan, to ensure a reliable stream of retirement income.

Recognition of \$1.5B Unfunded Liability

An unfunded liability is the difference between the value of future retirement benefits and the present value of funds available to pay the benefits. The Government Accounting Standards Board requires GovGuam to reflect the unfunded liability on its financial statements beginning FY 2015. As of FY 2012, the Fund's actuary determined GovGuam's unfunded liability to be \$1.5B. GovGuam's unfunded liability is presently footnoted in the Government-Wide Basic Financial Statements. The actuary will allocate the unfunded liability cost to other GovGuam agencies.

No Management Letter Comments

The Fund is to be commended for its eighth consecutive year of no compliance and internal control findings, and not receiving management letter comments for this year. The Fund's Management Letter, instead, discussed prior year comments updates on the: (1) unfunded liability, (2) financial statements, and (3) DB plan's funding status. Similar to FY 2012, the independent auditors were concerned that annuity payments continue to exceed contributions.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis in the audit report at www.guamopa.org and www.ggrf.com.