



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
 Monday, April 1, 2013, 12:00 p.m.
 Retirement Fund Conference Room

MINUTES

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

James R.F. Duenas
 Trustee

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 1:17 p.m. Monday, April 1, 2013, 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
- George A. Santos, Trustee
- Katherine T.E. Taitano, Trustee
- James R.F. Duenas, Trustee

Staff Present:

- Paula Blas, Director
- Diana Bernardo, Controller
- Jackie Blas, Recording Secretary

Public Present:

- Ricky Hernandez, Senator Ben Pangelinan's Office

Trustee James Duenas stated that he would like to request to have the Regular Board Meeting for the Defined Contribution (DC) Plan and the Defined Benefit (DB) Plan held at 12:30 p.m. instead of 12:00 p.m. Trustee Duenas stated that he has a conflict with the current meeting time. The Board of Trustees indicated that they have no problem with moving the meeting time to 12:30 p.m.

Trustee James Duenas, seconded by Trustee George Santos, moved to change the Board of Trustees regular monthly meeting time to 12:30 p.m. for both the Defined Contribution Plan and the Defined Benefit Plan. Without objection, the motion unanimously passed.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 22, 2013 Regular Meeting

On motion of Trustee George Santos, seconded by Treasurer Gerard Cruz, and without objection, the Minutes of February 22, 2013 Regular Meeting were approved, subject to technical corrections. Motion unanimously passed.

III. CORRESPONDENCE

None

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 Paula Blas stated that the Retirement Fund maintains a 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 mentioned that five (5) beneficiaries were located just by going through the Bridal Guide Magazine. Treasurer Gerard Cruz asked what the estate process is. Director Blas stated that it goes through estate if the award is over \$20,000. There is a small affidavit process if the award is under \$20,000. Director Blas stated that there are under 400 award disbursements remaining. It is slowly chipping away.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - Director Blas stated that BLBG's Litigation Status Report dated March 22, 2013 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**

Chairman San Agustin inquired about the status of the report from Rosalia Bordallo, General Accounting Supervisor, regarding costs and recovery amounts. Controller Diana Bernardo stated that she will provide a list of the latest recovery received. Secretary Antolina Leon Guerrero asked whether Lehman Brothers was settled. Director Blas stated that Lehman Brothers was actually settled. They are now going after the auditors. Chairman San Agustin stated that we need a tabulation of recovery. Chairman San Agustin asked whether the recovery is recorded in the books. Director Blas stated that it

is recorded as miscellaneous. Treasurer Gerard Cruz stated that it is recorded on the market value of the investment portfolio as a loss.

3. Request for Proposal (RFP) - Legal Services: Portfolio Monitoring and Securities Litigation

- Director Blas stated that evaluations for a second portfolio monitoring service are ongoing. The Selection Panel consists of George Santos, Antolina Leon Guerrero, and Katherine Taitano. Trustee George Santos stated that the Panel is working on this.

4. Legislative Bills/Public Laws:

- **Bill 47-32** – Director Blas stated that Bill 47-32 amends the DB Plan statute by adding a new Section 8103.1 to comply with the requirements for tax-qualified governmental pension plans under Section 401(a) of the U.S. IRC of 1986, as amended, applicable to Guam under the mirror provisions of the Guam Territorial Income Tax Code. Bill 47-32 was passed by the Legislature on March 25, 2013 and has been transmitted to the Governor for his signature. The bill must be signed by April 4, 2013 to meet the federal requirements. Director Blas stated that she spoke to the Governor’s Legal Counsel on Friday and she is hoping to have it signed by today or tomorrow by the Acting Governor.
- **Public Law 31-279** – Director Blas stated that Bill 507-31 was enacted into law as Public Law 31-279 on December 31, 2012 without the Governor’s signature. In accordance with the public law, the Retirement Fund shall transmit to the Governor and the Speaker, a report analyzing the feasibility of Retirement Fund Reforms which must include, but is not limited to the following:

1. Actuarial analysis of a limited Early Retirement Incentive Program (ERIP), admitting no more than six hundred (600) employees within three (3) years of retirement, and excluding those employees that the Governor determines to be essential to the health and safety of the people of Guam.

Director Blas stated that ERIP A eliminates the penalty for employees who are within three years of retirement. Director Blas stated that there are approximately 411 employees that are eligible. ERIP B allows the employees to purchase the additional three years. Director Blas stated that with the current plan, the contribution rate is 30.08%. ERIP A will increase the contribution rate to 31.90%. ERIP B will increase the contribution rate to 31.82%.

2. The issuance of a Pension Bond to decrease the unfunded liability of the Retirement Fund.

Director Blas stated that there were three dollar figures that the Administration had asked to look at: \$200 Million, \$300 Million, and \$500 Million.

3. Any other retirement reforms which the Retirement Fund reasonably believes will decrease the cost of the Retirement Fund to the taxpayer and is in the best interest of its members.

Director Blas stated that the exclusion of non-base pay applies to the new employees. Effective October 1, 2014, exclusion will not be allowed.

Director Blas stated that Rich Wright of Milliman, Inc., the Retirement Fund's actuary, was on island from March 20-22, 2013 and has completed the experience study and the analysis. A copy of the report is included in the Board's packet for the Board's review. The Retirement Fund's report to the Governor and the Speaker will be submitted by April 5, 2013.

Director Blas stated that the Retirement Fund was asked to do an analysis. Director Blas stated that it is up to the Legislature to pick and choose. This will be transmitted to the Governor and the Legislature and they will decide which one to implement. Secretary Leon Guerrero stated that it would be beneficial to give the Governor the analysis and sit down and explain it. Vice Chairman Wilfred Leon Guerrero asked Chairman San Agustin and Director Blas to discuss this with the Governor. Secretary Leon Guerrero suggested making the offer. Director Blas stated that she will include the offer to sit in and discuss this in the transmittal letter to the Governor. Secretary Leon Guerrero stated that we need to avoid discussing this for the first time in an open public forum. We need to sit down and provide them with an understanding of the different options and their impact on the contribution rate. Chairman San Agustin agreed to let them know what the impact will be. It's up to them to answer to the members. Chairman San Agustin stated that the only concern is the viability of the Retirement Fund.

Secretary Antolina Leon Guerrero, seconded by Vice Chairman Leon Guerrero, moved to approve to transmit the Analysis Report of the three (3) options to the Governor and the Speaker of the Legislature and to extend an invitation to sit down with them to discuss the analysis. Without objection, the motion unanimously passed.

Financial Report

- 1. Contributions** - Director Blas stated that as of March 27, 2013, all agencies are current with their Fiscal Year 2013 employee and employer contributions.
- 2. Financial Statements** - Director Blas stated that the books for the month ending February 2013 were closed on March 20, 2013.
- 3. Fiscal Year 2013 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of March 2013 were paid.
- 4. Fiscal Year 2013 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the March 2013 allotment from the General Fund and reimbursements were processed accordingly. Treasurer Cruz asked whether an individual who is eligible for Medicare reimbursement who passes away while under medical care off-island still receive reimbursement. Director Blas stated that the reimbursement does not get paid to a survivor because it is not a survivor benefit. Vice Chairman Leon Guerrero asked whether the General Fund still has money for Medicare reimbursement since they are paying out tax refunds. Director Blas stated that we do get the monthly allotments from the General Fund on time.
- 5. Fiscal Year 2012 Actuarial Valuation** - Director Blas stated that the actuarial valuation for Fiscal Year ending September 30, 2012 is completed.

6. *Actuarial Experience Study from October 1, 2007 to September 30, 2011* – Director Blas stated that the actuarial experience study for the Retirement Fund’s actuarial assumptions for the period October 1, 2007 to September 30, 2011 has been completed.

Trustee Katherine Taitano was excused from the meeting at this time (1:35 p.m.)

VI. LEGAL COUNSEL’S REPORT

No report was made at this time.

VII. TREASURER’S REPORT OF FINANCIAL STATUS

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 February 28, 2013. Treasurer Cruz stated that the drawdown authorization is still within its existing authorization. Treasurer Cruz stated that the total assets are \$1.494 Billion. Vice Chairman Leon Guerrero inquired about the Supplemental/COLA benefits receivables. Director Blas stated that this is being paid. Vice Chairman Leon Guerrero stated that the Treasurer’s Report previously indicated that there are no receivables. Director Blas stated that it was during 1996 through 1999 where the Retirement Fund had to pay the Supplement and COLA benefits for retirees. Director Blas stated that this is the pre Judge Alberto Lamorena order.

VIII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos presented his Committee’s March 2013 report to the Board of Trustees. Treasurer Cruz asked whether there are any pending disability cases. Director Blas stated that there is one (1) pending our Medical Consultant’s evaluation and two (2) awaiting their individual physician’s evaluation.

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 16, including the attached Annuity Worksheets, based on the Committee’s review and findings during their meeting of March 22, 2013 and subsequent meetings thereafter. Without objection, the motion unanimously passed.

B. Investment Committee

Vice Chairman Wilfred Leon Guerrero reported that the Investment Committee Meeting was held on March 8, 2013. The Committee reviewed and approved the Investment Committee Minutes of January 24, 2013 and February 21, 2013 regular meetings. Vice Chairman Leon Guerrero stated that the portfolio is \$1.456 Billion as of March 29, 2013.

Vice Chairman Leon Guerrero stated that he would like to officially affirm Trustee James Duenas’ appointment as a member of the Investment Committee.

Vice Chairman Wilfred Leon Guerrero, seconded by Secretary Antolina Leon Guerrero, moved to affirm the appointment of Trustee James Duenas as a member of the Investment Committee. Without objection, the motion unanimously passed.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero informed the Board that the next Quarterly Performance Meeting is scheduled for May 29, and 30, 2013.

IX. TRAVEL REPORT

A. Trustee George Santos: IFEBP Certificate Series – 401(k) Plans on February 18-19, 2013; Investment Basics on February 20-21, 2013; and Retirement Plan Basics on February 22-23, 2013 in Orlando, Florida

Chairman San Agustin stated that Trustee Santos' travel report on the IFEBP Certificate Series he attended on February 18-23, 2013 in Orlando, Florida, is submitted for the Board's information.

X. OLD BUSINESS

None

XI. NEW BUSINESS

A. Actuarial Valuation as of September 30, 2012

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

The following highlights were provided:

- The required contribution under GCA Section 8137 is 30.08% of payroll. Of this amount, 23.54% is for the unfunded liability of the DB Plan, 2.90% is for the normal cost of the DB Plan, and 3.64% is for contributions and expenses for the DC Plan. The primary reasons for the decrease in the contribution rate are the recognition of 1/3rd of the investment gains from the 2009-2010 and 2011-2012 fiscal years, and demographic factors such as lower salaries for active employees than were expected. These decreases were partially offset by the recognition of 1/3rd of the investment loss from the 2010-2011 fiscal year and a decrease in total payroll.
- 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 2012-2013 Fiscal Year is 30.09%.
- The DB payroll for the 2011-2012 Fiscal Year was \$169.9 Million compared with \$179.0 Million for the 2010-2011 Fiscal Year. The total DB and DC payroll for the 2011-2012 Fiscal Year was \$457.0 Million compared with \$461.2 Million for the 2010-2011 Fiscal Year, a decrease of 0.9%. The long term assumption is a 3.5% annual growth in total payroll. If total payroll had increased by 3.5%, the required contribution rate would have been 29.01%.
- Based on the audited financial statements, we calculated an investment return on the total market value of assets of 18.1% for the Fiscal Year ending September 30, 2012. The average annual return on the market value of assets for the last five fiscal years has been 3.6%. The investment return on the actuarial value of assets which recognizes investment gains and losses over a three year period was 9.7%.
- The unfunded actuarial accrued liability decreased from \$1.642 Billion as of September 30, 2011, to \$1.517 Billion as of September 30, 2012. The primary causes for the decreases were

the return on the actuarial value of assets of 9.7% and actuarial gains during the fiscal year related to salaries for active employees which were lower than expected. The payment required to amortize the unfunded actuarial accrued liability under GCA Section 8137 has decreased from \$116.2 Million to \$111.3 Million. The payment as a percentage of payroll has decreased from 24.33% to 23.54%.

- The Security Ratio as of September 30, 2012 was 46.70% compared to 43.49% as of September 30, 2011.

Treasurer Gerard Cruz, seconded by Trustee George Santos, moved to approve the Actuarial Valuation Report as of September 30, 2012. Without objection, the motion unanimously passed.

B. Actuarial Experience Study – October 1, 2007 to September 30, 2011

1. Economic Assumptions:

Investment Return - Director Blas stated that the current assumption is 7.0%. Based upon the expected geometric mean return of 6.99%, and a best estimate range of 5.35%, to 8.60%, the recommended assumption range is 6.75% to 7.0%. The recommendation is keeping the current assumption at 7.0%. Vice Chairman Leon Guerrero stated that he wants a clarification on the use of 7%. Vice Chairman Leon Guerrero stated that the law requires the Retirement Fund to consult with its Investment Consultant before making any changes. Vice Chairman Leon Guerrero stated that he didn't realize that by changing the rate it will increase our unfunded liability. Director Blas stated that the actuary uses the rate of return that we tell him to use. Treasurer Cruz stated that the Retirement Fund gives the actuary the rate to run as an assumption, and the immediate adoption of the strategic allocation would have closed the gap on the unfunded liability sooner. Vice Chairman Leon Guerrero asked what the law calls the Board of Trustees to do. Chairman San Agustin stated that 7% is what you should get to break even. Chairman San Agustin asked whether the assumption and actual are recorded in the books. Director Blas replied, "No, we are not doing that." We book the differences as a reserve. Controller Bernardo stated that she will look into it. Chairman San Agustin suggested getting the Retirement Fund's Investment Consultant's input. Director Blas stated that our Investment Consultant is saying that we are going to realize about 6.8%. Chairman San Agustin suggested looking at the actual allocation versus the actual returns. Secretary Leon Guerrero asked what the intent of the Experience Study is. Director Blas stated that it is to give us the actual experience versus assumptions. Director Blas stated that if we adopt the changes that the actuary is proposing, that will drop the contribution rate by an additional .05% from 30.08% to 30.03%. The effect of these changes, if adopted and made a part of the 2012 valuation, then the contribution rate would change from 30.08% to 30.03%. Chairman San Agustin stated that the budget calls for 31.04%. Secretary Leon Guerrero asked whether the 31% is for Fiscal Year 2014. Director Blas replied, "Yes." Director Blas stated that based on the experience study, the proposal will reduce the rate to 30.03%. Director Blas asked whether this is to be applied to 2012 valuation or 2013 valuation. Chairman San Agustin stated that it is not our call to do that. Director Blas stated that the actuary stated that we could apply it to either 2012 or 2013. Controller Bernardo stated that Director Blas is asking, given the valuation that we have now, does the Board want the actuary to apply the change in the assumptions in this report to show 30.03% instead of 30.08%? Chairman San Agustin replied, "Yes, apply it to this." Secretary Leon Guerrero asked when the valuation report needs to be submitted. Director Blas replied, "By April."

Member Salary Increases - Director Blas stated that the current assumption ranges from 8.5% for employees with between 0 to 5 years of service, to 4.0% for members with over 20 years of service.

The proposed assumption ranges from 7.5% for employees with between 0 to 5 years of service, to 4.5% for members with over 20 years of service. The proposed assumptions will produce an average salary increase of 5.4% for a 30-year career.

Payroll Growth – Director Blas stated that the current assumption is 3.5% per year. The proposed assumption is 3.0% per year to reflect a new inflation assumption of 2.75%, wage productivity growth of 0.25%, and personnel growth of 0%.

Administrative Expenses - Director Blas stated that the current assumption is budgeted administrative expenses. The recommendation is to continue use of the budgeted administrative expenses in the actuarial valuation.

2. Demographic Assumptions:

Healthy Retiree Mortality – Director Blas stated that the current assumption is the RP-2000 mortality table (Males +3, Females +1). The recommendation is to revise the healthy retiree mortality assumption for males to the RP-2000 mortality table, set forward by 4 years. The female mortality would remain at RP-2000 mortality table, set forward by 1 year. Director Blas stated that the study shows that there are more males dying. Treasurer Cruz stated that the impact is that the contribution rate goes down. Director Blas stated that an average 60 year old male on Guam equals to a 63 year old male in the mainland. Treasurer Cruz stated that the locals are dying sooner than those in the mainland. The 60 year old locals dying are equal to the 64 year olds in the mainland.

Disabled Retiree Mortality - Director Blas stated that the current assumption is the RP-2000 disability mortality table with no age adjustment. There is no recommendation at this time to change the current assumption.

Disability Incidence - Director Blas stated that the current assumption is the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo Table. The proposed assumption is the 1974-78 Society of Actuaries Long Term Disability Non-Jumbo Table, with male and female rates reduced by 50%.

Active Withdrawal and Mortality - Director Blas stated that the current assumption is the rates based upon actual experience that vary by service. There is no recommendation at this time to change the current assumption.

Retirement - Director Blas stated that the current assumption is 50% retire at first eligibility for unreduced retirement. 20% of the remaining members retire in each year until age 70. 100% of the remaining members at age 70 retire immediately. The recommendation is lowering the assumed percentage at initial retirement eligibility from 50% to 40%, and lowering subsequent years until age 65 from 20% to 15%. The rates from 65 to age 70 will remain at 20%.

Refund of Contributions - Director Blas stated that the current assumption is employees who separate from service before retirement age with less than 20 years of service will elect a refund of contributions. There is no recommendation at this time to change the current assumption.

Marital Status - Director Blas stated that the current assumption is 75% of active members will be married at retirement. There is no recommendation at this time to change the current assumption.

3. Actuarial Methods:

Actuarial Cost Method - Director Blas stated that the current method is entry age normal. The recommendation is to continue the use of the Entry Age Actuarial Cost Method.

Asset Valuation Method - Director Blas stated that the current method is 3-year phase-in of investment gains/losses that differ from assumed rate of return. There is no recommendation at this time to change the current asset valuation method.

Secretary Antolina Leon Guerrero, seconded by Vice Chairman Wilfred Leon Guerrero, moved to adopt the changes in assumptions as presented in the Actuarial Experience Report to be included in the Actuarial Valuation Report for Fiscal Year 2012. Without objection, the motion unanimously passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None


XIII. ANNOUNCEMENTS

None

XIV. 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 3:02 p.m. Motion unanimously passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of April 1, 2013 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on June 28, 2013.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas