



Government of Guam Retirement Fund FY 2014 Financial Highlights

March 4, 2015

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2014 with a \$94.3 million (M) increase in net position (income) for the Defined Benefit (DB) plan, and a \$47.4M increase in net position for the Defined Contribution (DC) plan. FY 2014 had smaller positive increases in net positions of 6% (\$94.3M) compared to 9.1% (\$130.7M) in FY 2013 in the DB plan, and 13.8% (\$47.4M) compared to 15.8% (\$47M) in the DC plan. The DB plan posted a 10.04% annual rate of return, which outperformed the DB plan's overall average return of 8.65% for the last two decades.

Independent auditors Burger • Comer • Magliari rendered an unmodified or "clean" opinion on the Fund's financial statements. FY 2014 is the ninth 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. We applaud the Fund's management and staff for this continued achievement.

The Fund's unfunded liability slightly decreased from \$1.48 billion (B) to \$1.44B as of the latest actuarial report of FY 2013. GovGuam has been paying the DB retirement contribution rate of 30.09% for FY 2013, 30.03% for FY 2014, and 29.85% for FY 2015. The FY 2014 contribution rate of 30.03% 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 \$94.3M or 6% from \$1.6B in FY 2013 to \$1.7B in FY 2014 due to the global market recovery. However, the slow pace of the recovery has led to smaller positive returns, such as the DB plan investments' return of 10% compared to 14.4% in FY 2013. The Fund's investment returns averaged 8.65% from 1995 to 2014.

DB plan contributions increased by \$11.7M from \$134.2M in FY 2013 to \$145.9M, primarily due to the implementation of the 2014 Competitive Wage Act, payment of prior year merit bonuses, and partial payment of retroactive law enforcement salary increases. The increase in contributions, however, were insufficient to fund the DB plan benefit payments. The DB plan benefit payments increased by \$4.8M from \$190.3M in FY 2013 to \$195.1M. Similar to FY 2013, the difference between \$195.1M of benefit payments and \$145.9M of contributions is made up from the investment income of \$150.6M, with the remainder adding to the Fund's investments.

Over a five year period, the number of DB plan retirees increased by 133 from 7,085 in FY 2009 to 7,218 in FY 2014. During FY 2014, the DB plan's benefit payments were paid to 7,281 retirees, consisting of 5,142 age and service retirees (\$162.8M), 1,815 survivors (\$25.7M), and 324 to disabled retirees (\$6.6M). The average annuity payment per retiree was \$27K. The average annuity payments for age and service retirees is \$32K, for survivors is \$14K, and for disabled retirees is

\$22K. The annuity payments range from \$1,200 to \$152K, but most annuitants fall within the \$10,000 to \$39,999 range.

Increase in the DC Plan

The DC plan net position increased by \$47.4M from \$344.2M in FY 2013 to \$391.6M, primarily due to the increased carrying value of investments. Interest increased by \$15M and other investment income increased by \$141K. In addition, DC plan employer and member contributions increased by \$3.9M from \$29.8M in FY 2013 to \$33.7M. The contributions increased due to the increase in DC plan membership by 296 from 7,885 in FY 2013 to 8,181 in FY 2014.

Unlike the DB plan members, DC plan members do not receive guaranteed annuity payments. Refunds to separated employees and withdrawals was a \$207K increase from \$14.9M in FY 2013 to \$15.1M. The \$15.1M consisted of payments for severance of employment (\$10.3M), retirements (\$2.7M), beneficiary payments (\$1.4M), financial hardship (\$552K), and IRS levy (\$114K). Most were lump sum payments for full liquidation of their accounts.

Proposed Hybrid Plan for DC Members

The average retirement account balance of less than \$40K for DC plan members is not enough to support their basic needs, allow them to maintain a comfortable standard of living, and to last their lifetime. The average retirement account balance in the U.S. reported by Fidelity Investments is \$91K. 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. To ensure a reliable stream of retirement income, the Fund is working with the Legislature for alternatives that would provide members a reasonable opportunity to build sufficient post-retirement benefit levels, while also balancing GovGuam's budgetary needs and obligations. The proposed Hybrid Plan combines a defined benefit "floor" of benefits determined by a formula based on years of service and salary, along with a salary reduction deferred compensation account program.

Government Accounting Statements- Pension Liability

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement No. 67 requires certain changes and additional disclosures to be made to the Fund's financial statements, notes, and required supplementary information. GASB 68 related to the Financial Reporting for Pensions will result in a change to the Fund's statements as the Fund will be required to report its pro rata share of \$4.4M of the Government of Guam's (GovGuam) net pension liability, which is currently at \$1.3B as of FY 2013. The Fund will recognize its \$4.4M share of the pension liability in its FY 2015 financial statements.

No Management Letter Comments

The Fund is to be commended for its ninth 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. The independent auditors continue to be 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.opaguam.org and www.ggrf.com.