



A Report to Our Members

For Fiscal Year 2016

Issued May 2017

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MISSION

The purpose of the Fund is to provide retirement annuities and other benefits for the employees of the government of Guam enabling them to accumulate reserves for themselves and their survivors to meet the hazards of old age, disability, death & termination of employment.

About US

The Government of Guam Retirement Fund (the “Fund”) was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. Plans administered by the Fund are as follows:

The *Defined Benefit (DB) Plan* is a single-employer defined benefit pension plan. The DB plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Retirement System.

The *Defined Contribution Retirement System (the “DC Plan”)* was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam. The DC Plan is a single-employer pension plan and shall be the single retirement program for all new employees whose employment commences on or after October 1, 1995. The DC Plan, by its nature, is fully funded on a current basis from employer and member contributions.

The *Deferred Compensation Plan (the “457 Plan”)* is available to both DB and DC Plan members. It is a retirement savings plan that allows eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a **voluntary** salary contribution. Contributions and earnings are **tax-deferred** until money is withdrawn. Distributions are usually taken at retirement, but participants can also take distributions if they terminate employment.

Board of Trustees

The Retirement Fund Board of Trustees (the “Board”) is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board comprises seven members. Three are appointed by the Governor with the advice and consent of the Legislature. Four trustees - 2 retirees and 2 active members - are elected by the class of members they represent. The term of office for all Board Members is five years.

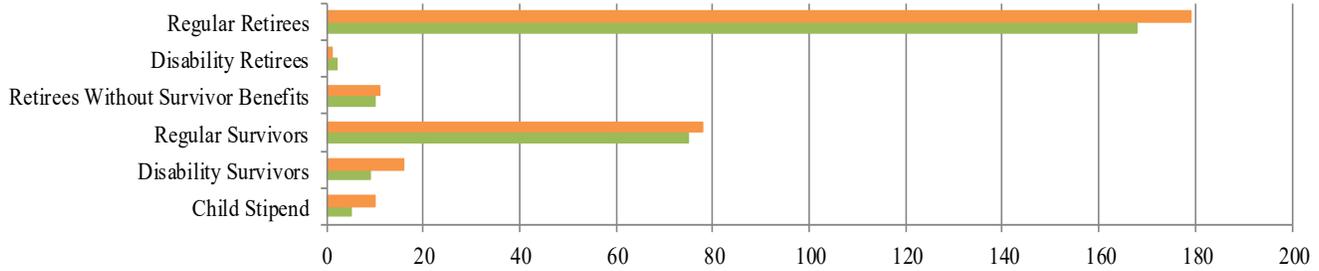
The Fund is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

	FY 2016	FY 2015
Participant Counts - DB Plan		
Active	2,234	2,459
Retired	7,298	7,202
Total Actives and Retirees	9,532	9,661
Inactive and Terminated Members with		
Accumulated Contributions	4,485	4,734
	14,017	14,395
Participant Counts - DC Plan		
Active	8,947	8,697
Inactive (Non-Contributing) Members with		
Account Balances	4,204	4,117
	13,151	12,814

How We Have Progressed

DEFINED BENEFIT PLAN

New DB Retirees



	Regular Retirees	Disability Retirees	Retirees Without Survivor Benefits	Regular Survivors	Disability Survivors	Child Stipend
2016	168	2	10	75	9	5
2015	179	1	11	78	16	10

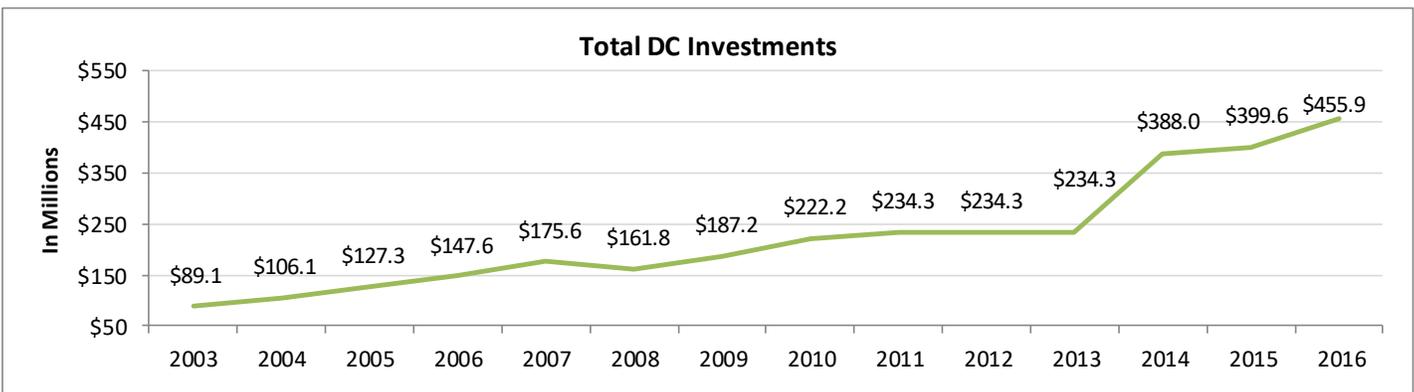
For 2016, the **DB Plan** investment portfolio posted a positive return of 9.53%, compared to 2015's return of .83%.



GGRF investment returns averaged 8.33% percent from 1995 through 2016. Over that period, there have been three years with negative returns, all of which occurred in the last fifteen years.

DEFINED CONTRIBUTION PLAN

For 2016, DC Plan investments totaled \$455.9M compared to the \$399.6M in 2015.



In addition, DC Plan employer and employee contributions increased by 1,099,774 or 3.1% over 2015. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2016.

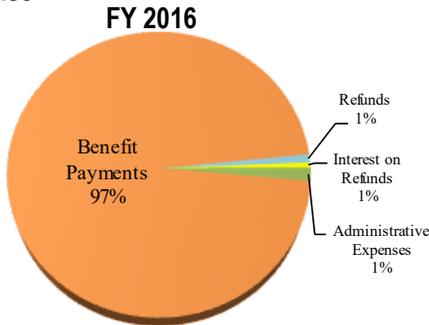
Income & Expense

DEFINED BENEFIT PLAN

DB Contributions and Net Investment Income FY 2016



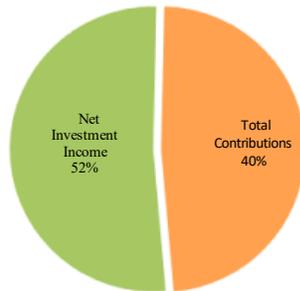
DB Expense FY 2016



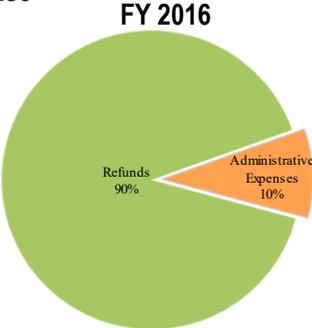
	2016	2015
Net Appreciation in Fair Value of Investments	\$107,455,032	(\$20,642,359)
Interest, Dividends & Other Investment Income	43,570,927	35,844,218
Less Investment Expenses	(4,790,928)	(5,640,872)
Net Investment Income	146,235,031	9,560,987
Employer & Member Contributions	132,244,840	144,207,190
Total Additions	278,479,871	153,768,177
Benefit Payments	207,497,350	201,199,394
Refunds	2,035,400	2,942,602
Interest on Refunds	1,284,833	939,653
Administrative Expenses	3,111,254	2,851,694
Total Deductions	213,928,837	207,933,343
Net Increase in Net Assets	64,551,034	(54,165,166)

DEFINED CONTRIBUTION PLAN

DC Contributions and Net Investment Income FY 2016



DC Expense FY 2016



	2016	2015
Net Appreciation in Fair Value of Investments	16,967,995	(31,031,154)
Interest, Dividends & Other Investment Income	22,911,564	27,146,331
Less Investment Expenses	(119,325)	(114,735)
Net Investment Income	39,760,234	(3,999,558)
Total Contributions	37,088,994	35,989,220
Total Additions	76,849,228	31,989,662
Refunds	19,847,080	19,181,613
Administrative Expenses	2,107,552	1,997,336
Total Deductions	21,954,632	21,178,949
Net Increase in Net Assets	\$54,894,596	\$10,810,713

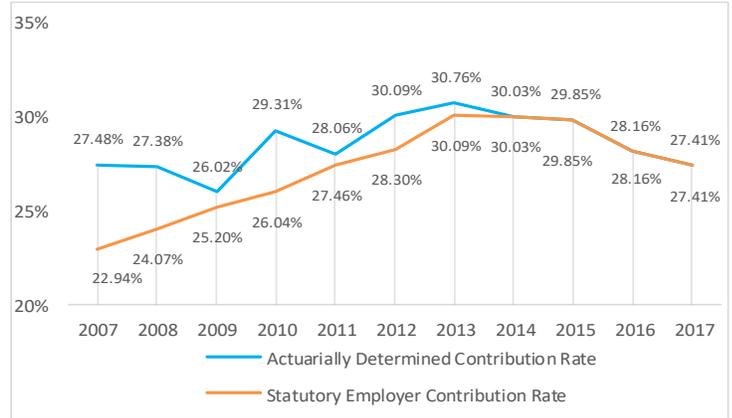
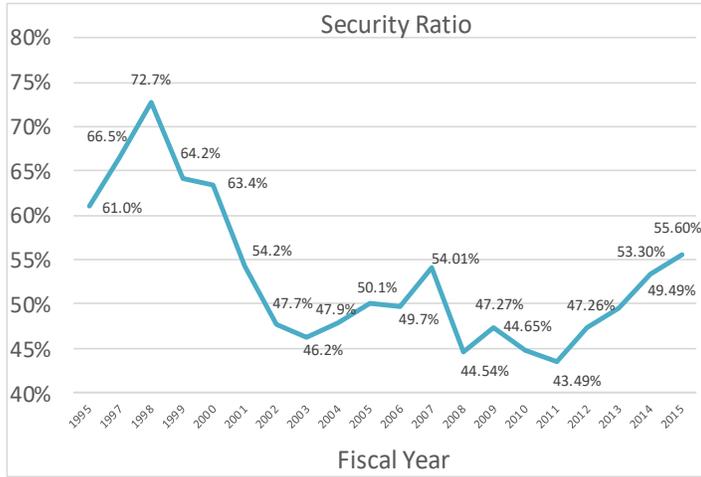
Independent Audit

An independent audit was conducted, resulting in a clean audit opinion. Complete financial information can be found at our website: www.ggrf.com.

DEFINED BENEFIT PLAN - UNFUNDED LIABILITY & SECURITY RATIO

Underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.30 billion at September 30, 2015. This represents a decrease in the security ratio, from 61.0% in 1995 to 55.6% in 2015, and an increase in the unfunded liability ratio from 39% in 1995 to 44.4% in 2015. The security ratio is the ratio of assets to liabilities.

If future contributions equal the actuarially determined contribution rate, and plan investments earn 7% each year, the DB Plan is expected to become fully funded in 2031. The Guam Legislature's efforts toward full funding since 2007 have definitely narrowed the gap between the statutory and actuarially determined contribution rate. The increase in the gap from .82% in 2009 to 3.27% in 2010 is due largely to the negative return of 14.8% in 2008. A comparison of the "actuarially determined" versus the "statutory" employer contribution rates for 2007 to 2015 are reflected below.



DEFINED CONTRIBUTION PLAN - Enhancing the Retirement Benefits of DC Plan Members

DC Plan Alternatives

The GGRF Board established a working committee several years ago to assess benefit enhancement options that would provide DC Plan members a reasonable opportunity to build sufficient post-retirement benefit levels, while also balancing GovGuam's budgetary needs and obligations. The working committee's extensive analysis involved consideration of a comprehensive and detailed study of alternative retirement plans and arrangements. The alternatives included 1) a Hybrid Plan, 2) Transitioning to Social Security, and 3) Combining DC with Social Security.

Hybrid Plan

Under the proposed plan: 1) All new employees and their employers will be required to contribute a certain percent of the employee's wages to GGRF (similar to current retirement contributions), 2) Mandatory participation will be required for all new employees, and 3) Voluntary participation in certain circumstances for current DC Plan participants.

With DC Plan members' balances averaging less than \$40,000, they may be left without adequate income when they retire, and GovGuam may find itself subsidizing their costs of living through public assistance programs.

2012 Audit

On April 20, 2012, proposed legislation to establish a Hybrid Plan was submitted to the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement & Land (the "Committee"). A public hearing on the legislation, Bill No. 453-31, was held on August 14, 2012. *The Bill however, was not acted on by the 31st Guam Legislature.*

2013 Audit

During 2013, the Committee requested updated (based on the 2012 valuation) and additional information on the proposed Hybrid Plan. GGRF transmitted updated and additional information provided by our Actuary, to the Committee in 2014.

2014 Audit

On June 6, 2014 revised legislation, Bill No. 394-32, was transmitted to the Committee.

The Committee considered different benefit options, the corresponding effect on the contribution rate, its' impact on the unfunded liability, and comparison of costs between the proposed DB Plan component and a Social Security component. Upon the passing of the Honorable Vicente 'Ben' C. Pangelinan in July 2014, Vice-Speaker Benjamin 'B.J.' Cruz was named Chairman of the Committee. Public hearings on Bill No. 394-32 were held in September 2014. The Bill was reported out of Committee and discussed in a Legislative Special Session.

2015 Audit

GGRF was present during the Committee as a whole on October 17, 2014 to provide additional information and answer questions. On October 21, 2014, the Bill was referred back to Committee to give the public and the Legislature additional time to review supplemental reports provided by GGRF. On November 6, 2014, Vice Speaker Cruz held a round table discussion.

On January 20, 2015, Vice-Speaker Cruz held a round table discussion to discuss the Hybrid Bill which was reintroduced as Bill No. 002-33. Vice-Speaker Cruz indicated that the Bill

would be deferred until after the government of Guam audit is completed in June 2015.

Update – 2016 Audit

A public hearing on Bill 002-33 (LS) took place on November 19, 2015. Testimony and concerns were presented by a number of government of Guam employees. Vice-Speaker Cruz scheduled round table hearings on December 7, 2015, March 23, 2016, and April 21, 2016 to address the inquiries and comments received on the Bill. On May 3, 2016 the Bill was passed by the 33rd Legislature, and vetoed by Governor Edward Calvo on May 17, 2016.

On September 14, 2016, Bill No. 2-33 was overridden by the 33rd Guam Legislature, and passed into law without the Governor's signature on September 20, 2016, as Public Law 33-186. Public Law 33-186 thereby: Created as alternatives to the Defined Contributions Retirement System (DC Plan), upon timely election by applicable members in accordance with regulations to be promulgated, a new "Defined Benefit 1.75" retirement system and "Guam Retirement Security Plan", a cash balance plan. In addition, it increased the DC Plan member and employer contributions from five percent (5%) to six and two-tenths percent (6.2%). The DB 1.75 Plan (the "Plan") is comprised of participation in the preexisting Defined Benefit Plan and the Deferred Compensation Program. **Participation in the Plan is voluntary.** Eligible employees may elect, during the "Election Window", commencing on April 1, 2017 and ending on December 31, 2017, to participate in the Plan effective as of January 1, 2018.