



Government of Guam Retirement Fund FY 2016 Financial Highlights

March 3, 2017

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2016 with a \$64.6 million (M) increase in net position (income) for the Defined Benefit (DB) plan, and a \$54.9M increase in net position for the Defined Contribution (DC) plan. These positions are significant improvements from FY 2015 as a result of improved market conditions. The Fund's rate of return on its DB Plan investment portfolio was 9.53% compared to 0.83% in FY 2015 resulting in an average a return rate of over 8% from 1995 through 2016. For the five years ended December 31, 2016, the Fund's rate of return on its DB Plan Investment Portfolio was 9.44% compared to the 8.95% Benchmark Index.

Independent auditors Burger • Comer • Magliari rendered an unmodified or "clean" opinion on the Fund's financial statements. For over a decade, the Fund's Reports on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments. We commend the Fund's management and staff for this continued achievement.

New Hybrid Plan for DC Members

The DC plan net position increased significantly by \$54.9M from \$402.4M in FY 2015 to \$457.3M, primarily due to the increased carrying value of investments. However, the Fund found that the average retirement account balance of DC plan members is \$40 thousand (K), which is not enough to: (1) support their basic needs, (2) maintain a comfortable standard of living, and (3) last their lifetime. 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. Since 2012, the Fund has been working with the Legislature on a proposed Hybrid Plan to provide DC members a reasonable opportunity to build sufficient post-retirement benefit levels. The proposed Hybrid Plan combines a defined "floor" of benefits determined by a formula of years of service and salary, along with a salary reduction deferred compensation account program.

Optional DB 1.75 Plan and Cash Balance Plan

In May 2016, Bill 2-33 was passed by the 33rd Legislature, but vetoed by the Governor, as it was estimated to increase the unfunded liability by an additional \$173M. In September 2016, the veto on the bill was overridden by the Legislature and passed into law without the Governor's signature as Public Law (P.L.) 33-186. In effect, the law created: (1) the DB 1.75 Plan and (2) the Guam Retirement Security Plan (a cash balance plan) as alternative options to the DC plan upon election by applicable members commencing on April 1, 2017 and ending on December 31, 2017. P.L. 33-186 also increased the DC Plan member and employer contributions from 5% to 6.2%.

Elimination of the Unfunded Liability

Due to the generous benefits of the DB plan, which were underfunded over a number of years, the Fund's unfunded liability totaled \$1.30 billion (B) as of the latest actuarial report of FY 2015. Since 2014, the statutory contribution rates were equal to the actuarially determined rates of 30.03% for FY 2014, 29.85% for FY 2015, 28.16% for FY 2016 and 27.41% for FY 2017. If future contributions continue to equal the actuarially determined rate, and investments earn 7% each year, the DB Plan is expected to become fully funded by 2031 in accordance with Title 4 of the Guam Code Annotated §8137.

With the expected increase in the unfunded liability due to the implementation of the DB 1.75 Plan, effective January 1, 2018, the amortization period of the unfunded liability will be extended two more years per P.L. 33-186.

DB Plan Annuity Payments and Liquidations Increased

The DB plan's net position increased by \$64.6M or 4% from \$1.61B in FY 2015 to \$1.68B in FY 2016 due to the volatile market. DB Plan investments amounted to \$1.64B, an increase of \$87.5M or 5.6% from the prior year. However, employee and employer contributions continue to fall short of benefit payments resulting in the liquidation of investments in order to meet benefit payment obligations. At \$132.2M, contributions declined by \$12M from \$144.2M in FY 2015.

Benefit payments increased by \$6.3M, from \$201.2M in FY 2015 to \$207.5M in FY 2016. The increase is comprised of a \$5.8M increase in age and service annuities, an \$850K increase in survivor annuities, and a \$340K decrease in disability annuities. The DB plan's benefit payments were paid to 7,298 retirees and beneficiaries.

Government Accounting Statements- Pension Liability

The implementation of GASB 68 and 71 related to accounting and financial reporting for pensions resulted in recognizing the Fund's pro rata share of GovGuam's net pension liability. In FY 2016, GovGuam's pension liability increased to \$1.4B from \$1.2B in FY 2015. The Fund's pro rata share increased by \$705K, going from \$3.7M in FY 2015 to \$4.5M in FY 2016.

No Management Letter Comments

The Fund is to be commended for its eleventh consecutive year of no compliance and internal control findings as well as no management letter comments for this year. The Fund's Management Letter, instead, discussed a prior year comment update on the DB plan's funding status. The independent auditors continue to be concerned that annuity payments continue to exceed contributions. Therefore, plan assets must be liquidated to meet annuity obligations and all contributions cannot be remitted to investment managers due to the cash flow situation.

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.