



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, February 27, 2017, 1:00 P.M.
 Retirement Fund Conference Room

MINUTES

DEFINED CONTRIBUTION

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contribution Plan reconvened at 1:04 p.m. Monday, February 27, 2017, in the Retirement Fund Conference Room. Acting Chairman Gerard Cruz officiated.

Board of Trustees Present:

Wilfred P. Leon Guerrero, Vice Chairman (1:15 p.m.)
 (Excused)

Antolina S. Leon Guerrero, Secretary
 Gerard A. Cruz, Treasurer
 David M. O'Brien, Trustee
 Albert H. Santos, Trustee
 Katherine T.E. Taitano, Trustee

Board of Trustees Absent:

Joe T. San Agustin, Chairman

Staff Present:

Paula Blas, Director
 Vivian Mantanona, Management Analyst IV
 Jackie Blas, Recording Secretary
 Alice Tajeron, Director, Client Relations & Plan Counseling, Empower Retirement

Legal Counsel Present:

Vince Camacho (1:17 p.m.)
 Joanne Grimes via Teleconference

Actuarial Consultant Present:

Richard Wright, Milliman, Inc. via Teleconference

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

Katherine T.E. Taitano
 Trustee

David M. O'Brien
 Trustee

Albert H. Santos
 Trustee

II. PROPOSED PLAN DOCUMENTS PURSUANT TO PUBLIC LAW 33-186

- A. 1. AMENDMENT NO. 2017-1 TO THE GOVERNMENT OF GUAM DEFINED CONTRIBUTION RETIREMENT SYSTEM PLAN AND TRUST AGREEMENT**
- 2. GOVERNMENT OF GUAM RETIREMENT FUND RESOLUTION NO. 2017-02 RELATIVE TO THE DEFINED CONTRIBUTION RETIREMENT SYSTEM**

Acting Chairman Cruz stated that the Board is going to discuss the amendment to the DC Plan Document. Director Paula Blas asked Legal Counsel Joanne Grimes whether the dates on Page 2 are the only changes to Amendment No. 2017-1 to the Government of Guam Defined Contribution Retirement System Plan and Trust Agreement. Legal Counsel Grimes stated that there are some changes on Page 4. Acting Chairman Cruz asked whether there are any questions on the changes made on Pages 2 and 4. Legal Counsel Grimes stated that there are two parts to the DC Plan: 1) is the amendment to the DC Plan; and 2) the increase of the contribution rate from 5% to 6.2% without violating the Lamorena Order. Legal Counsel Grimes stated that the impact of the 6.2% increase is reflected in the final cost estimate. Acting Chairman Cruz stated that Resolution No. 2017-02 discusses the Board's acceptance of the changes to include the 6.2% contribution rate.

Trustee David O'Brien asked whether the Board believes that the 6.2% is within the Lamorena Order. Legal Counsel Grimes stated that the increase of the 6.2% has some impact on the proposed contribution rate. The implementation of the DB 1.75 Plan can reasonably be expected to be funded pursuant to actuarial standards. Acting Chairman Cruz stated that it's in the fifth "Whereas" clause in Resolution No. 2017-02. Legal Counsel Grimes stated that she wrote it like that and would like to know whether the Board agrees with it. The Board indicated that they agree with the fifth "Whereas" as written. Trustee O'Brien asked whether the Board needs to adopt Milliman's actuarial study dated February 23, 2017 since the Board will choose one of the scenarios on Page 7 of the study. Director Blas stated that the sixth "Whereas" clause in Resolution No. 2017-02 does that.

Vice Chairman Wilfred Leon Guerrero joins the meeting at this time 1:15 p.m.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve to adopt Government of Guam Retirement Fund Resolution No. 2017-02 Relative to the Defined Contribution Retirement System, as written, incorporating Amendment No. 2017-1 to the Government of Guam Defined Contribution Retirement System Plan and Trust Agreement. Without objection, the motion passed.

Legal Counsel Vince Camacho joins the meeting at this time 1:17 p.m.

- B. 1. GOVERNMENT OF GUAM DEFERRED COMPENSATION PLAN**
- 2. GOVERNMENT OF GUAM RETIREMENT FUND RESOLUTION NO. 2017-03 RELATIVE TO THE DEFERRED COMPENSATION PLAN**

Legal Counsel Grimes stated that the Deferred Compensation Plan mirrors a lot of the DB 1.75 Retirement System. The Deferred Compensation Plan is a component of the DB 1.75 Retirement

System. You can't adopt one without the other. The resolution refers to the same documents, the cost estimates, as well as the most recent actuarial report. Trustee O'Brien stated that the new thing is we talked about putting in the Roth conversion, but this is the first time we're looking at that. Director Blas stated that we are not converting it, we are adding it. Trustee O'Brien inquired about Section 4.01. Legal Counsel Grimes stated that at the last meeting, it was requested that the section be added. Legal Counsel Grimes pointed out that the Deferred Compensation Plan Document only has other provisions that were never formerly adopted. Director Blas inquired about the other provisions. Legal Counsel Grimes stated "EGTRRA." Director Blas stated that EGTRRA was adopted when Legal Counsel Vince Camacho was Director of Great-West. Trustee O'Brien stated that a high percent of the 457 participants are in Secure Foundation. If they were to do a Roth conversation, that will have an effect on the base benefit amount. Legal Counsel Camacho stated that they would have to pay taxes. Treasurer Cruz stated that the tax does not come out the top. Alice Tajeron of Empower Retirement stated that there is no change out on conversion.

Treasurer Gerard Cruz, seconded by Trustee Albert Santos, moved to approve to adopt Government of Guam Retirement Fund Resolution No. 2017-03 Relative to the Deferred Compensation Plan, as written. Without objection, the motion passed.

- C. 1. **GOVERNMENT OF GUAM DEFINED BENEFIT 1.75 RETIREMENT SYSTEM**
2. **GOVERNMENT OF GUAM RETIREMENT FUND RESOLUTION NO. 2017-01 RELATIVE TO THE GOVERNMENT OF GUAM DEFINED BENEFIT 1.75 RETIREMENT SYSTEM PLAN DOCUMENT AND DRAFT BILL TO MAKE TECHNICAL CORRECTIONS**

Trustee O'Brien inquired about the table on Page 3 of Milliman's February 23, 2017 and February 14, 2017 report. The February 14, 2017 report states "Excess assets for 457 accounts," but the February 23, 2017 report states "Excess DC assets." Richard Wright of Milliman, Inc. stated that Legal Counsel Grimes pointed that out so for the final draft he did not make any reference of the 457 Plan. Mr. Wright stated that it is also in Exhibit 1 on Page 7 of the report. Trustee O'Brien stated that it is also in Appendix B - 2a on Page 11. Treasurer Cruz stated that in terms of the costs in the contribution rate, we're using the "Declining %'s by Age Transfer" as the basis for calculating costs. Trustee O'Brien asked whether we need to formally say that. Director Blas stated that it's in the resolution. Legal Counsel Grimes suggested that a number should be placed in the "Now Therefore, Be it Resolved" clause on Page 2 of the resolution, which would be 14.96% and 7.48%. Legal Counsel Grimes stated that it should read: **"To approve and adopt the 14.96% full actuarial cost of credited service and the 7.48% employee's share of the actuarial cost of credited service as set forth in the cost estimate prepared by the Fund's Consulting Actuary."**

Trustee O'Brien asked whether 54% of the declining by age will transfer to the DB 1.75. Legal Counsel Grimes stated that it's a reasonable assumption to make.

Legal Counsel Grimes stated that there are technical corrections to be made on the draft bill: Section 8504 and Section 8508. The changes to Section 8504 are to make sure that excess assets remain in the DC and don't get transferred to the 457. The changes to Section 8508 are to clear up the internal inconsistencies and treat the 1% contribution as mandatory. Trustee O'Brien asked whether this is pretaxed. Director Blas replied, "Yes." Treasurer Cruz asked whether we are going to be able to move

forward with the DB 1.75 if the bill passes or not. Legal Counsel Grimes stated that she would probably advise not to implement a plan that will fall into a taxable status. You would be implementing provisions that would blow it up. Secretary Antolina Leon Guerrero stated that her understanding is that we could go ahead and implement the DB 1.75 with the mandatory 1% with the existing law that's in place while working with these technical corrections. Legal Counsel Grimes replied, "Yes, because the intent is trying to implement it in a matter that achieves favorable tax results." Legal Counsel Grimes stated that the education process should mention that contributions are mandatory.

Acting Chairman Wilfred Leon Guerrero asked what the connection between Milliman's actuarial report and the proposed legislation is. Legal Counsel Grimes stated that for the DB 1.75 Plan and the 457 Plan, Public Law 33-186 contains some provisions that if followed will result in an adverse tax impact.

Acting Chairman Leon Guerrero asked the Board if they are satisfied with Milliman's actuarial report dated February 23, 2017. The Board indicated yes. Acting Chairman Leon Guerrero stated that Board Chairman Joe San Agustin was concerned about costs being expended using the DB Plan funds to implement the DB 1.75 Plan. Acting Chairman Leon Guerrero asked whether the proposed legislation addresses this issue. Legal Counsel Grimes replied, "No." Acting Chairman Leon Guerrero stated that the Director of the Retirement Fund does not have the authority to use money from the DB Plan to implement the DB 1.75 Plan. Someone needs to authorize the Director to be able to do that. Legal Counsel Grimes stated that she agrees that all of the plans should pay their administrative fees. The initial discussion on implementing a hybrid plan was the result of the monitoring of the DC Plan account balances in observation that the balances would be too low to be useful for a retiree in the DC Plan. Legal Counsel Grimes stated that she thinks it is appropriate that the structural advanced costs be funded from the DC Plan and then once it's up and running, there should be some allocation for the various costs to be borne by the various individual plans. Acting Chairman Leon Guerrero asked whether Legal Counsel Grimes could propose legislation to that effect. Legal Counsel Grimes stated that she does not know that we need legislation for that. Treasurer Cruz stated that he is concerned of the going costs of running the GRSP. Legal Counsel Grimes stated that part of the proposed legislation will be to make sure that no costs of the Cash Balance Plan will be borne by the other Plans. Trustee O'Brien asked whether the DC participants will be affected by the advance that will be reimbursed to the DC Plan. Legal Counsel Grimes stated that the DC participants will not bear any costs.

Secretary Leon Guerrero asked how we can make sure that our DC participants' plans will take care of them. Trustee O'Brien stated that the DC participants are benefiting because many of them will transfer. Director Blas stated that the law was giving the authority to establish new benefits for a new plan that will be developed. Trustee O'Brien asked whether this is affecting the DB Plan. Legal Counsel Camacho stated that when the DC Plan was implemented there was legislation that the DB would front the initial expenditures from the DC, but once the forfeiture accounts were at a drawn down point, those forfeiture accounts would be used to pay back to the DB Plan. Legal Counsel Grimes stated that with the DB advancing funds for the DC, there was legislation as well as a promissory note between the two plans. Legal Counsel Grimes stated that this is different because the advances that are being provided by DC are for DC purposes. Treasurer Cruz stated that it still will require legislation on the costs going forward for the Cash Balance. Legal Counsel Grimes stated that

there is no legislation for the Cash Balance at this time since there are issues that needs to be addressed.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to approve to adopt Government of Guam Retirement Fund Resolution No. 2017-01 Relative to the Government of Guam Defined Benefit 1.75 Retirement System Plan Document and Draft Bill to Make Technical Corrections, as amended to read: "To approve and adopt the 14.96% full actuarial cost of credited service and the 7.48% employee's share of the actuarial cost of credited service as set forth in the cost estimate prepared by the Fund's Consulting Actuary." Without objection, the motion passed.

- D. 1. GUAM RETIREMENT SECURITY PLAN AND TRUST AGREEMENT**
- 2. GOVERNMENT OF GUAM RETIREMENT FUND RESOLUTION NO. 2017-04 RELATIVE TO A CASH BALANCE PLAN TO BE KNOWN AS THE GUAM RETIREMENT SECURITY PLAN**

Trustee O'Brien pointed out that there is no Attachment B (proposed legislation) attached to Resolution No. 2017-04. Treasurer Cruz stated that this proposal is not ready for the Board to entertain. There are more questions than what the GRSP and Trust Agreement provide in the way of answers. Trustee O'Brien asked why defer this. Trustee O'Brien stated that the Board is mandated by P.L. 33-186 to address and adopt the resolution by March 31, 2017. Treasurer Cruz asked if the Board should pass a resolution that is not complete. Trustee O'Brien suggested to revise the resolution to have it direct Legal Counsel and the Director to address the issues outstanding in the GRSP proposal that have to do with funding and administrative matters.

Director Blas asked whether the GRSP could still be implemented if the proposed bill that's going to address the issues regarding the GRSP is not passed. Legal Counsel Grimes stated that it's going to be up to the Board under the Lamorena Order if the Board feels that the funding portion is clear enough to implement without violation. Trustee O'Brien asked whether we could include something in the resolution to defer implementation of the Plan pending resolution of funding and other issues are addressed. Legal Counsel Grimes stated that the language is in the resolution: **"To refrain from implementation of the Guam Retirement Security Plan until appropriate legislation is enacted to comply with the Internal Revenue Code requirements and the Lamorena Order."** Trustee O'Brien suggested to direct Management to work with all parties involved to get this in order. Legal Counsel Camacho stated that if there is a policy call that needs to be determined then it goes back to the Board. Treasurer Cruz stated that he is more interested in ensuring that the DB 1.75 goes through. Secretary Leon Guerrero stated that she is hesitant to pass a resolution because the plan does not include funding for the implementation of the plan. Acting Chairman Leon Guerrero asked Legal Counsel Grimes whether the resolution could say that the director is hereby instructed to implement once these conditions are met instead of saying to refrain implementation. Legal Counsel Grimes stated that the reason she used that language is because it comes out of the Lamorena Order.

Legal Counsel Grimes stated that the Board could be challenged whether the Board implements or does not implement is why she wanted to parrot the language in the Lamorena Order. Legal Counsel Grimes stated that she was worried that at the beginning of the education period you don't have something for people to look at as choices. Legal Counsel Grimes stated that to present the plan to the

DC participants, it should be noted that implementation is subject to enabling legislation. Legal Counsel Grimes pointed out that the issue to resolve funding won't be included in the Plan Document, it has to be in the statute. Treasurer Cruz asked whether we could move forward with the DB 1.75 Plan while we're still working on the need to implement this new legislation. Director Blas stated that if these legislative changes are not done by January 1, 2018, then the GRSP Plan is dead. Legal Counsel Grimes replied, "Right." Acting Chairman Leon Guerrero asked Legal Counsel Grimes whether she is comfortable with the wording in the Resolution. Legal Counsel Grimes stated to delete the following from Resolution No. 2017-04: Page 1 - delete the bracket pertaining to Attachment B on the third "Whereas;" Page 2 - delete the shaded language in brackets on the third paragraph; and Page 5 - delete that page.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to approve to adopt Government of Guam Retirement Fund Resolution No. 2017-04 Relative to a Cash Balance Plan to be known as the Guam Retirement Security Plan, as amended. Without objection, the motion passed.

III. ADJOURNMENT

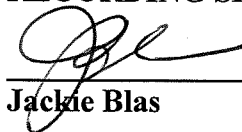
There being no further business before the Board for the Defined Contribution Plan, Treasurer Gerard Cruz moved to adjourn the meeting. Without objection, the meeting was adjourned at 2:15 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of February 27, 2017 Reconvened Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on April 28, 2017.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas