



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Eddie Baza Calvo
 Governor

Ray Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

BOARD OF TRUSTEES
Regular Meeting
 Friday, March 24, 2017, 12:00 Noon
 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

Katherine T.E. Taitano
 Trustee

David M. O'Brien
 Trustee

Albert H. Santos
 Trustee

DEFINED BENEFIT

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefit Plan was called to order at 12:50 p.m. Friday, March 24, 2017, 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
 Albert H. Santos, Trustee
 Katherine T.E. Taitano, Trustee

Board of Trustees Absent:

David M. O'Brien, Trustee (*Excused*)

Staff Present:

Paula Blas, Director
 Diana Bernardo, Controller
 Jackie Blas, Recording Secretary
 Alice Tajeron, Director, Client Relations & Plan Counseling, Empower Retirement

Actuarial Consultant Present:

Richard Wright, Milliman, Inc.

Public Present:

Julian Janssen, Office of Senator Michael San Nicolas

II. REVIEW AND APPROVAL OF BOARD MINUTES

- A. February 24, 2017 Regular Meeting
- B. February 27, 2017 Reconvened Meeting

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Minutes of the February 24, 2017 Regular Meeting and February 27, 2017 Reconvened Meeting, subject to technical corrections. Without objection, the motion 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)*** - 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.

2. ***Bernstein Litowitz Berger and Grossmann (BLBG)*** - BLBG's Litigation Status Report dated March 20, 2017 on the following lawsuits is provided for the Board's information. These cases are highly confidential and BLBG asked that the cases not be discussed in a public forum.

- **Apollo Education Group, Inc.**
- **MF Global**

Director Paula Blas stated that there is no settlement yet on Apollo Education Group, Inc. Director Blas stated that on March 9, 2017, Plaintiffs filed the Amended Class Action Complaint and the defendants' deadline to respond to the Amended Complaint is March 29, 2017. Director Blas stated that the Retirement Fund has not received the settlement proceeds on the claims for MF Global. The Judge approve the settlement in June 2016. Chairman San Agustin inquired about the Retirement Fund's exposure on MF Global. Director Blas stated that it's \$2 Million.

3. ***Request for Proposals (RFPs):***

- a. **RFP No. 003-16: Investment Management Services Specifically for Master Limited Partnerships (MLPs)**

No report was made at this time.

Financial Report

1. ***Contributions*** - Director Blas stated that as of March 21, 2017, all agencies are current with their Fiscal Year 2017 employee and employer contributions.

2. ***Financial Statements*** - Director Blas stated that the books for the month ended February 28, 2017 is expected to close today.

3. ***Fiscal Year 2017 Retirees' Supplemental Benefits*** - Director Blas stated that supplemental benefits for retirees and survivors for the month of March 2017 will be paid at the end of the month.

4. ***Fiscal Year 2017 Medicare Reimbursements*** - Director Blas stated that the Retirement Fund received the March 2017 allotment from the General Fund and reimbursements were processed accordingly.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Gerard Cruz reported that the Retirement Fund needed to draw down just over \$3 Million in February 2017 to cover operations, inclusive of pension payroll. The Retirement Fund received \$3.7 Million in interest and dividends. The pension payroll is about \$19 Million a month. Treasurer Cruz stated that the current drawdown authorization of \$4 Million ends this month and would like to request to increase the authorization to withdraw up to \$4.5 Million monthly through September 2017.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to approve the request for a monthly drawdown authority of \$4.5 Million through September 2017. Without objection, the motion passed.

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Wilfred Leon Guerrero reported that the Investment Committee Meeting was held on March 10, 2017. The Committee reviewed and approved the Investment Committee Meeting Minutes of February 23, 2017 and the November 16, and 17, 2016 Due Diligence Meeting Minutes. Vice Chairman Leon Guerrero stated that as of March 14, 2017, the size of the Retirement Fund's portfolio is \$1.661 Billion.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero stated that the next Quarterly Performance Meeting is scheduled for May 24 and 25, 2017.

Treasurer Cruz mentioned that there are two people that are interested in speaking to the Board on some private equity investments: 1) The GTA - Huntsman Group is interested in selling off about \$5 Million to \$20 Million investment to local investors. Vice Chairman Leon Guerrero asked whether this is something the Board could do. Treasurer Cruz replied, "We can, it's a private equity investment." Chairman San Agustin stated that this must be reviewed by the Retirement Fund's Investment Consultant. 2) The GRMC - Royal Bank of Canada Asset Management is putting together a bond issue to take over the existing loans from Philippine banks. Treasurer Cruz stated that as of today, their cash flow is negative. Vice Chairman Leon Guerrero recommended to obtain a summary of the proposal in writing. Chairman San Agustin stated that the summary of proposal will be submitted to the Retirement Fund's Investment Advisor for review. Treasurer Cruz indicated that he will request for a written proposal to be sent to Director Blas and then Director Blas will send it to Wilshire Associates for Maggie Ralbovsky's review.

B. Members and Benefits Committee

Trustee Katherine Taitano presented the Committee's March 2017 report to the Board of Trustees.

Trustee Katherine Taitano, seconded by Treasurer Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 1 through 13, based on the Committee's review and findings during their meeting of March 21, 2017. Without objection, the motion passed.

IX. TRAVEL REPORT

A. Vice Chairman Wilfred Leon Guerrero: IFEBP Investments Institute March 13-15, 2017 - Phoenix, Arizona

Chairman San Agustin stated that Vice Chairman Leon Guerrero submitted his travel report, for the Board's information, on the conference he attended.

X. OLD BUSINESS

None

XI. NEW BUSINESS

A. Actuarial Valuation as of September 30, 2016

Director Blas stated that Milliman, Inc. performed an actuarial valuation of the Retirement Fund as of September 30, 2016. Richard Wright of Milliman, Inc. stated that the actuarial valuation is not reflected in Public Law 33-186. The next actuarial valuation as of September 30, 2017 will reflect the actual numbers.

Mr. Wright provided the following highlights on the valuation as of September 30, 2016:

- The required contribution under GCA Section 8137 is 27.89% of payroll. Of this amount, 21.98% is for the unfunded actuarial accrued liability of the DB Plan, 1.79% is for the normal cost of the DB Plan, and 4.12% is for contributions and expenses for the DC Plan. The current contribution rate is 27.41%. The primary reason for the increase in the contribution rate was the 1.0% reduction in total payroll. The assumption is that total payroll will increase 3.0% per year. There was also a slight increase in the contribution rate due to the net recognition of investment gains and losses over the last three years. These increases were partially offset by some actuarial gains due to demographic experience that differed from the actuarial assumptions.
- Public Law 28-150 provided that the current employer contribution rate will increase over a 5-year period starting in the 2006-2007 Fiscal Year until it reaches the actuarial contribution rate, which is the rate specified in the Retirement Fund's actuarial valuation report. The employer contribution rate for the 2016-2017 Fiscal Year is 27.41%.

- The DB payroll for the 2015-2016 Fiscal Year was \$141.3 Million compared with \$155.5 Million for the 2014-2015 Fiscal Year. The total DB and DC payroll for the 2015-2016 Fiscal Year was \$506.3 Million compared with \$511.4 Million for the 2014-2015 Fiscal Year, a decrease of 1.0%. The long term assumption is a 3.0% annual growth in total payroll. If total payroll had increased by 3.0%, the required contribution rate would have been 27.33%.
- Based on the audited financial statements, Milliman calculated an investment return on the total market value of assets of 9.5% for the Fiscal Year Ending September 30, 2016. The average annual return on the market value of assets for the last 5 Fiscal Years has been 10.3%. The investment return on the actuarial value of assets, which recognizes investment gains and losses over a 3-year period, was 6.4% for the Fiscal Year Ending September 30, 2016.
- The unfunded actuarial accrued liability decreased from \$1.298 Billion as of September 30, 2015 to \$1.263 Billion as of September 30, 2016. The payment required to amortize the unfunded actuarial accrued liability under GCA Section 8137 has increased from \$112.1 Million to \$114.6 Million. The payment as a percentage of payroll has increased from 21.60% to 21.97%.
- No changes have been made to the actuarial assumptions. These continue to be based upon the actuarial experience study for the period from October 1, 2007 to September 30, 2011. An experience study is currently being performed for the period from October 1, 2011 to September 30, 2015.

Vice Chairman Leon Guerrero inquired about the unfunded actuarial accrued liability as of 2015. Mr. Wright stated that it was 21.60%. Treasurer Cruz asked whether the 27.89% is what goes in the budget. Director Blas stated that the rate of 27.71% was taken from the previous valuation as of September 30, 2015. Director Blas stated that if the valuation gets approved, the 27.89% will be submitted to the Legislature. Secretary Leon Guerrero asked whether the 27.89% will be in the Fiscal Year 2018 Budget. Director Blas replied, "Yes." Vice Chairman Leon Guerrero asked what the average annual return is. Mr. Wright stated that it's 10.3% for the last 5 years. Treasurer Cruz inquired about the annual net withdrawal. Director Blas stated that it was \$73 Million in 2016, \$55 Million in 2015, and \$49 Million in 2014. Director Blas stated that the unfunded is going down.

B. Actuarial Experience Study as of October 1, 2011 to September 30, 2015

Director Blas stated that Milliman, Inc. performed an actuarial experience study for the Retirement Fund for the period from October 1, 2011 to September 30, 2015.

Mr. Wright provided the following key findings:

- Salary increases have been lower than expected during the study period. Milliman therefore proposes to lower assumed salary increases. Current Assumption: Ranges from 7.5% for employees with between 0 and 5 years of service to 4.5% for members with over 20 years of service. Proposed Assumption: Ranges from 7.5% for employees with between 0 and 5 years of service to 4.0% for members with over 20 years of service.

- Although payroll growth has been higher than expected during 10 years ending September 30, 2015, it has been lower than expected over the last 20 years. Milliman therefore proposes to lower the assumed payroll growth assumption. Current Assumption: 3.0% per year. Proposed Assumption: 2.75% per year.
- Mortality rates for healthy male retirees have been lower than expected and for healthy female retirees they have been higher than expected during the study period. Milliman therefore proposes to reduce the mortality set forward for males from 4 years to 3 years and increase the mortality set forward for females from 1 year to 2 years. Current Assumption: RP-2000 mortality table (Males +4, Females +1). Proposed Assumption: RP-2000 mortality table (Males +3, Females +2).
- In order to provide for anticipated improvements in future mortality, Milliman proposes to project the mortality assumptions generationally from 2016 using 50% of mortality improvement scale AA. Current Assumption: No projected mortality improvement.
- Mortality for disabled retirees has been higher than expected during the study period. Milliman therefore proposes to set forward the mortality rates by 6 years for males and 4 years for females. Current Assumption: RP-2000 Disability mortality table with no age adjustment. Proposed Assumption: RP-2000 Disability mortality table (Males +6, Females +4) projected generationally from 2016 using 50% of mortality improvement scale AA.
- Disability incidence during the study period has been lower than expected for females. Milliman therefore proposes to lower the disability assumption for females. Current Assumption: 1974-78 Society of Actuaries Long Term Disability Non-Jumbo table, with male and female rates reduced by 50%. Proposed Assumption: Increase the reduction for female rates from 50% to 75%.
- Retirement rates have been higher than expected at the earlier ages and lower than expected at later ages. Milliman therefore proposes to increase the assumed retirement rate at first eligibility for unreduced benefits, and extend the retirement rates up to age 75. Current Assumption: 40% retire at first eligibility for unreduced retirement, 15% of the remaining members retire in each year until age 65, 20% of the remaining members retire in each year from 65 to 69, 100% of the remaining members at age 70 retire immediately. Proposed Assumption: 50% retire at first eligibility for unreduced retirement, 20% of the remaining members retire in each year until age 75, 100% of the remaining members at age 75 retire immediately.
- For the survivor benefit payable to minor children, Milliman proposes to change the valuation method from percentage increases to active liabilities to a direct calculation assuming 0.2 minor child survivors for at death with payment for 6 years. Current Assumption: The liability for retirement benefits for active members is increased by 0.67% and the liability for death benefits for active members is increased by 20%. Proposed Assumption: 0.2 eligible child survivors age at the time of the retiree death, with payments to the minor child continuing for 6 years.

- For annual leave payouts included in average earnings, Milliman proposes to lower the assumption from 10% of compensation to 5%, based the experience observed. Current Assumption: Service increased by 1.5 years upon retirement. Average earnings increased by 10% upon retirement. Proposed Assumption. No change to service increased assumption. Average earnings increased by 5% upon retirement.

Chairman San Agustin asked whether the Board is making changes to the current assumptions. Treasurer Cruz replied, "Yes, Mr. Wright is going over the changes." Vice Chairman Leon Guerrero mentioned that Guam law allows for retirees to adopt their grandchildren as dependants. Director Blas stated that a survivor benefit is payable to children under the age of 18 and until age 24 if the child is a full time college student. Vice Chairman Leon Guerrero asked whether there's any abuse of this taking place. Director Blas stated that the law capped it at 5 minor children that can be covered by a retiree. Vice Chairman Leon Guerrero asked if the Director is concerned about this. Director Blas replied, "No." Director Blas mentioned that minor child stipend is \$120.00 bi-monthly.

Vice Chairman Leon Guerrero inquired about the mortality rate. Mr. Wright stated that the proposal is to decrease the mortality set forward for males from 4 years to 3 years and to increase the mortality set forward for females from 1 year to 2 years. Vice Chairman Leon Guerrero asked what it is based on. Mr. Wright stated that Milliman used the RP-2000 Mortality Table. It is based on the U.S. population adjusted for Guam. Secretary Leon Guerrero asked whether it is based on the Government of Guam's population. Mr. Wright stated that it's based on the retirees' population.

Treasurer Gerard Cruz, seconded by Trustee Albert Santos, moved to accept the Actuarial Valuation Report as of September 30, 2016, based on changes on the Actuarial Experience Study as of October 1, 2011 to September 30, 2015, which is applied to the Actuarial Valuation. Without objection, the motion passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

A. Director's Position

Chairman San Agustin stated that the director's contract expires on May 26, 2017. Chairman San Agustin recommended extending the director's contract for another three years which will expire on May 26, 2020.

Chairman Joe San Agustin, seconded by Trustee Albert Santos, moved to approve to extend the Retirement Fund Director's Employment Agreement for an additional three years from May 26, 2017, which will then expire on May 26, 2020. Without objection, the motion passed.

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

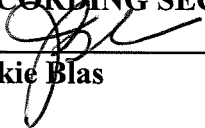
There being no further business before the Board for the Defined Benefits Plan, Trustee Albert Santos moved to adjourn the meeting. Without objection, the meeting was adjourned at 2:00 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of March 24, 2017 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