



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, April 29, 2016, 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 BENEFITS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 12:34 p.m. Friday, April 29, 2016, 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
- David M. O'Brien, Trustee
- Katherine T.E. Taitano, Trustee
- Albert H. Santos, Trustee

Staff Present:

- Paula Blas, Director
- Diana Bernardo, Controller
- Jackie Blas, Recording Secretary

Actuarial Consultant Present:

Richard Wright, Milliman, Inc.

Public Present:

Isa Baza, KUAM

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 18, 2016 Regular Meeting

Secretary Antolina Leon Guerrero, seconded by Treasurer Gerard Cruz, moved to approve the Minutes of the March 18, 2016 Regular 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 April 23, 2016 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.

- MF Global
- Invacare Corporation
- Apollo Education Group, Inc.

Director Paula Blas stated that BLBG is recommending that the Retirement Fund submit an application for Lead Plaintiff Appointment in the Apollo Education Group, Inc. case. The Retirement Fund's exposure is \$558,000. Chairman San Agustin asked what the overall claim is. Director Blas replied, "\$30 Million." Treasurer Gerard Cruz stated that the BLBG works for the Retirement Fund on a contingency basis. There is no real downside to the Fund. Treasurer Cruz asked if there is a specific reason why the Retirement Fund is being asked to be Lead Plaintiff. Director Blas stated that it may be because the size of loss is significant. Trustee David O'Brien stated that they do have a strong case.

Treasurer Gerard Cruz, seconded by Secretary Antolina Leon Guerrero, moved to approve Bernstein Litowitz Berger and Grossmann's recommendation for the Retirement Fund to submit an application for Lead Plaintiff Appointment in the Apollo Education Group, Inc. case. Without objection, the motion passed.

3. *Request for Proposal (RFP): Defined Benefit (DB) Plan Investment Consultant* - Director Blas stated that RFP No. 001-16 for Investment Consultant Services for the DB Plan will close on May 13, 2016. Director Blas stated that she needs a Selection Panel. Chairman San Agustin stated that Vice Chairman Wilfred Leon Guerrero will chair the Selection Panel and that he and Trustee Albert Santos will also sit on the panel.

4. *Legislative Bills*

- **Bill 282-33: AN ACT TO ADD A NEW §71114 TO CHAPTER 71 OF DIVISION 3, TITLE 11, GUAM CODE ANNOTATED, TO ESTABLISH A WITHHOLDING ASSESSMENT FEE FOR A NON-RESIDENT PERSON TO CAPTURE THE FOUR PERCENT (4%) EQUIVALENT OF THE BUSINESS PRIVILEGE TAX, ON CONTRACTS AWARDED BY THE GOVERNMENT OF GUAM FOR PROFESSIONAL SERVICES.**

Director Blas stated that Bill 282-33 is provided for the Board's information. The bill may affect the professional services contracts from off-island. Chairman San Agustin stated that the professional contracts may be subject to a 4% tax. Chairman San Agustin recommended to have the Retirement Fund's Legal Counsel review the bill. Director Blas stated that a copy of the bill has been forwarded to Legal Counsel for review.

Financial Report

1. *Contributions* - Director Blas stated that as of April 26, 2016, all agencies are current with their Fiscal Year 2016 employee and employer contributions with the exception of the Guam Memorial Hospital Authority (GMHA). Director Blas stated that GMHA is living up to their agreement and are current with their payment plan.

2. *Financial Statements* - Director Blas stated that the books for the month ended March 31, 2016 were closed on April 26, 2016.

3. *Fiscal Year 2016 Retirees' Supplemental Benefits* - Director Blas stated that supplemental benefits for retirees and survivors for the month of April 2016 were paid.

4. *Fiscal Year 2016 Medicare Reimbursements* - Director Blas stated that the Retirement Fund received the April 2016 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 Cruz stated that the Treasurer's Report is provided at this meeting. It covers the Retirement Fund's Statement of Fiduciary Net Position for both the Defined Benefit (DB) Plan and the Defined Contribution (DC) Plan for the month ended February 29, 2016.

Treasurer Cruz stated that the Retirement Fund is still operating within its drawdown authority. Treasurer Cruz stated that the drawdown schedule will be revisited in May 2016.

Chairman San Agustin inquired about the backlog of retirees on estimate being finalized. Controller Diana Bernardo stated that they are working to bring it up to date. Controller Bernardo stated that they have completed 40 and at the same time also working on the new retirees. Chairman San Agustin

asked what the range of payment is. Controller Bernardo stated that the estimate to final could range from \$1,000 to \$3,000.00. Chairman San Agustin asked if a higher drawdown is anticipated. Controller Bernardo stated that the Fund is still operating within the drawdown authority.

Trustee David O'Brien, seconded by Secretary Antolina Leon Guerrero, moved to accept the Treasurer's Report. Without objection, the motion passed.

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Vice Chairman Leon Guerrero reported that the Investment Committee Meeting was held on April 28, 2016. The Committee reviewed and approved the Investment Committee Meeting Minutes of March 11, 2016 and the November 18, and 19, 2015 Due Diligence Meeting Minutes for the Quarter Ended September 30, 2015.

Vice Chairman Leon Guerrero stated that the Retirement Fund's portfolio as of April 25, 2016 is \$1.5 Billion. Chairman San Agustin asked what the rate of return as of this quarter is. Treasurer Cruz stated that it is 2.58% for the quarter ended December 31, 2015.

Next Quarterly Performance Meeting – Vice Chairman Leon Guerrero informed the Board that the next Quarterly Performance Meeting is scheduled for May 25, and 26, 2016.

Treasurer Gerard Cruz, seconded Trustee David O'Brien, moved to accept the Investment Committee Report. Without objection, the motion passed.

B. Members and Benefits Committee

Trustee Katherine Taitano presented the Committee's April 2016 report to the Board of Trustees.

Trustee Katherine Taitano, seconded by Trustee David O'Brien, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 17, including the attached Annuity Worksheets and relevant documents, based on the Committee's review and findings during their meeting of April 21, 2016. Without objection, the motion passed.

DISABILITY CASE NO. 15-007

Director Blas stated that Disability Case No. 15-007 was tabled at the March 18, 2016 Board meeting so that Management could communicate with the Port Authority of Guam regarding Vince Pangelinan. Director Blas stated that this case is still pending.

IX. TRAVEL REPORT

**A. Vice Chairman Wilfred Leon Guerrero: IFEBP Investments Institute
March 14-16, 2016, Las Vegas, Nevada**

**B. Secretary Antolina Leon Guerrero, Trustee David O'Brien
Wilshire Consulting Client Conference
April 10-12, 2016, San Francisco, California**

Chairman San Agustin stated that Vice Chairman Leon Guerrero, Secretary Leon Guerrero, and Trustee O'Brien submitted their travel report, for the Board's information, on the conference they attended.

X. OLD BUSINESS

A. Request for Proposal (RFP): Policy and Strategy Consultant

Chairman San Agustin stated that the original proposal is asking for an Investment Adviser. Trustee O'Brien stated that it is not for an Investment Adviser, it's for a Policy and Strategy Consultant. Trustee O'Brien stated that he will rewrite the scope of work. Chairman San Agustin stated that he will be meeting some people in San Diego regarding a Strategic Planner. Trustee O'Brien stated that the intent is to guide the Board in discussions and help the Board on the fiduciary side. Trustee O'Brien stated that he will work with Director Blas on redrafting the scope of the RFP. Trustee O'Brien stated that he would like to discuss this again at the next M&B Committee Meeting. Chairman San Agustin stated that he will provide a feedback from San Diego. Director Blas stated that this will be revisited next month.

XI. NEW BUSINESS

A. Actuarial Valuation as of September 30, 2015

Director Blas stated that Milliman, Inc. was retained by the Retirement Fund to provide an actuarial valuation of the Retirement Fund as of September 30, 2015.

Richard Wright of Milliman provided the following highlights on the valuation:

- The required contribution under GCA Section 8137 is 27.41% of payroll. Of this amount, 21.60% is for the unfunded actuarial accrued liability of the DB Plan, 1.87% is for the normal cost of the DB Plan, and 3.94% is for contributions and expenses for the DC Plan. The primary reasons for the decrease in the contribution rate are the recognition of $\frac{1}{3}$ of the investment gains from the 2012-2013 and 2013-2014 Fiscal Years, and lower than expected increases in individual salaries which decreased the value of projected benefits for active employees.
- Public Law 28-150 provided that the current employer contribution rate will increase over a 5-year period until it reaches the actuarial contribution rate. The employer contribution rate for the 2015-2016 Fiscal Year is 28.16%.
- The DB payroll for the 2014-2015 Fiscal Year was \$155.5 Million compared with \$169.9 Million for the 2013-2014 Fiscal Year. The total DB and DC payroll for the 2014-2015 Fiscal Year was \$511.4 Million compared with \$504.9 Million for the 2013-2014 Fiscal Year, an increase of 1.3%. The long term assumption is a 3.0% annual growth in total payroll. Because the 2014-2015 total payroll includes some retroactive salary increases, Milliman has estimated that total payroll for the 2015-2016 Fiscal Year will be \$519.0 Million, and is then assumed to grow 3.0% per year thereafter.

- Based on the audited financial statements, Milliman calculated an investment return on the total market value of assets of 0.6% for the Fiscal Year Ending September 30, 2015. The average annual return on the market value of assets for the last 5 Fiscal Years has been 8.1%. The investment return on the actuarial value of assets, which recognizes investment gains and losses over a 3-year period, was 8.2% for the Fiscal Year Ending September 30, 2015.
- The unfunded actuarial accrued liability decreased from \$1.369 Billion as of September 30, 2014 to \$1.298 Billion as of September 30, 2015. The primary causes for the decrease were the return on the actuarial value of assets of 8.2% and lower than expected increases in individual salaries. The payment required to amortize the unfunded actuarial accrued liability under GCA Section 8137 has decreased from \$113.1 Million to \$112.1 Million. The payment as a percentage of payroll has decreased from 22.42% to 21.60%.
- 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.

Chairman San Agustin stated that the contribution rate always exceeds the assumption rate. Mr. Wright stated that it will go back up. If it hits the target, then the rate will go up to 27.71% next year. Chairman San Agustin inquired about the Legislative rate. Director Blas stated that it is 28.16%. Director Blas stated that it will be 27.41% in 2017. Right now 26.71% is what's in the budget. Chairman San Agustin asked whether it will go up or down. Mr. Wright stated that it will go up. Director Blas stated that if the assumptions are met, it may go down.

Mr. Wright stated that the actuarial accrued liability as of September 30, 2015 was \$2.927 Billion. The unfunded actuarial accrued liability as of September 30, 2014 was \$1,369 Billion and \$1.298 Billion as of September 30, 2015. The Security Ratio increased from 53.30% to 55.66%. Chairman San Agustin asked what happens if the Hybrid goes through. Director Blas stated that the Security Ratio is expected to go up. Mr. Wright stated that the total count of active DB employees as of September 30, 2015 was 2,460. The total count of DC employees as of September 30, 2014 was 8,181 and 8,697 as of September 30, 2015.

Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, moved to accept the Actuarial Valuation Report as of September 30, 2015. Without objection, the motion passed.

XII. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

XIII. ANNOUNCEMENTS

None

XIV. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Gerard Cruz, seconded by Trustee Katherine Taitano, and without objection, the meeting was adjourned at 1:10 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of April 29, 2016 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on May 27, 2016.



ANTOLINA S. LEON GUERRERO, Board Secretary

RECORDING SECRETARY:



Jackie Blas