



Government of Guam Retirement Fund FY 2017 Financial Highlights

May 2, 2018

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2017 with a \$105.8 million (M) increase in net position (income) for the Defined Benefit (DB) plan, and a \$79.3M increase in net position for the Defined Contribution (DC) plan. The Fund's rate of return on its DB Plan investment portfolio was 11.88% in FY 2017 compared to 9.53% in FY 2016, resulting in an average return rate of 8.49% from 1995 through 2017. In FY 2017, the total performance of the Fund's DB Plan Investment Portfolio of 11.88% outperformed the benchmark index of 11.23%.

Independent auditors, Burger • Comer • Magliari, rendered an unmodified or "clean" opinion on the Fund's financial statements. FY 2017 is the 12th consecutive year that the Fund's Report on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments. The Chamorro Language Commission is currently assisting the Office of Public Accountability (OPA) with determining the appropriate Chamorro designation for a "low-risk auditee" that does not receive federal funding. Given the Fund's accomplishments, and issuing their financial audits by March 31 (with FY 2017 being the exception), the Fund qualified for the OPA's designation.

New Hybrid Plan for DC Members

The DC plan net position increased significantly by \$79.3M, from \$457.3M in FY 2016 to \$536.6M in FY 2017, primarily due to the increased carrying value of investments. However, the average retirement account balance of DC plan members remains less than \$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. Accordingly, the Fund's Board of Trustees (the Board) considered alternative plan designs to enhance the retirement benefits available to DC Plan members, while also fully recognizing GovGuam's current financial condition.

Optional DB 1.75 Plan and Guam Retirement Security Plan (GRSP)

In September 2016, Public Law (P.L.) 33-186 was passed and created alternative options for the DC Plan members: (1) the DB 1.75 Plan and (2) the Guam Retirement Security Plan (GRSP), a cash balance plan. The law also increased the DC Plan member and employer contributions from 5% to 6.2%.

At the end of the election period on December 31, 2017, approximately 38% or 3,379 of the 8,947 DC Plan participants transferred to DB 1.75 Plan. Under the DB 1.75 Plan, members are required to contribute 9.5% of their base salary, and 1% of their base salary to the 457 Plan. In January 2018, the DC Plan funds of employees who elected to transfer to the DB 1.75 Plan, approximately \$225M, were deposited into the Fund's Northern Trust Administrative Account based on asset reallocation.

On the other hand, only six participants elected the GRSP. Given the level of GRSP assets expected to fund the administrative costs and potential benefit obligations, the Board determined that it is reasonable to expect that there could be a shortfall of GRSP assets to cover GRSP liability with no designated funding source. In addition, the Board agreed that the implementation of GRSP remained subject to the enactment of legislation to comply with the Internal Revenue Code requirements and the Lamorena Order. Accordingly, it was determined that the DC Plan is appropriate to serve as a default plan until the GRSP can be properly implemented. The six participants were allowed to evaluate their options and change their election.

Elimination of Unfunded Liability on the DB Plan

Due to the generous benefits of the DB plan, which were underfunded over a number of years, the Fund's unfunded liability totaled \$1.25 billion (B) as of the latest actuarial report of FY 2016. This is, however, an improvement from the \$1.30B unfunded liability as of FY 2015 actuarial report.

The Fund has a lower security ratio of 56.99% (fund assets over unfunded liability) than most pension plans in the U.S., which are at 70%. However, the Fund has been contributing at the high end of the range than most other funds in the country for the past five years. Typical employer contribution is from 12.5% to 35%. The Fund contributes 27.83%, equal to actuarially determined rate. If this continues, and plan investments earn 7% each year, the DB Plan is expected to become fully funded by 2031.

Meanwhile, 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 by two more years from May 1, 2031 to May 1, 2033.

DB Plan Annuity Payments and Liquidations Increased

The DB plan's net position increased by \$105.8M or 6%, from \$1.67B in FY 2016 to \$1.78B in FY 2017 due mainly to the increased fair value of the investments. DB Plan investments amounted to \$1.75B, an increase of \$106.6M or 6% from the prior year. However, employee and employer contributions continue to fall short of benefit payments, resulting in the liquidation of investments. In FY 2017, \$82M in investments were liquidated in order to meet benefit payment obligations.

Benefit payments increased by \$6.2M, from \$207.5M in FY 2016 to \$213.7M in FY 2017. The increase is comprised of a \$5.5M increase in age and service annuities, a \$1.1M increase in survivor annuities, and a \$350K decrease in disability annuities. The DB plan's benefit payments were paid to 7,236 retirees and beneficiaries. The average annuity is \$30K, with 32 retirees making more than \$100K per year.

Government Accounting Statements – Post-Employment Benefits

In FY 2017, the Fund implemented the GASB No. 73, which aligns the reporting of pensions, ad hoc cost-of-living adjustments (COLA) and supplemental annuity payments. The implementation caused the restatement of the Fund's financial statements resulting in a \$1.2M decrease in the Fund's net position as of FY 2016. GovGuam's net pension liability decreased from \$1.67B to \$1.60B as of FY 2017. The Fund's pro rata share was \$5.5M as of FY 2017, which included \$706K for ad hoc COLA and supplemental annuity.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis in the audit report at www.opaguam.org.