

BOARD OF TRUSTEES

Regular Meeting

Friday, January 14, 2005, 12:00 p.m.

Retirement Fund Conference Room

MINUTES

DEFINED BENEFITS

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefits Plan was called to order at 12:07 p.m. Friday, January 14, 2005, 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
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee
George A. Santos, Trustee

Staff Present:

Wilfred G. Aflague, Director
Paula M. Bamba, Deputy Director
Pete Tajalle, Controller
Ken Dunstan, Acting Benefit Program Administrator
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary
Rosalia Bordallo, Accountant III

Legal Counsel Present: Meredith Sayre

Public Present:

Craig B. Schilling, GMHA Business Office
Steve Limtiaco, Pacific Daily News
Dennis Zermeno, Parks and Recreation Commission
Mark Heath, Metropolitan West Capital Management

Chairman San Agustin stated that the meeting agenda will be amended to include the following items: 1) January 14, 2005 Attorney General's Opinion as item B under Correspondence; 2) January 14, 2005 letter from Governor Felix P. Camacho regarding DOE as item C under Correspondence; and 3) Pension Benefits Guarantee Corporation Technical Assistance as item B under Old Business. Without objection, the January 14, 2005 meeting agenda was amended.

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 17, 2004 Regular Meeting

Vice-Chairman Wilfred Leon Guerrero pointed out that a minor correction be made on the December 17, 2004 Board Minutes under the Director's Report on the FY 2005 Supplemental on Page 3, third paragraph: "Vice-Chairman Wilfred Leon Guerrero stated that on the Defined Contributions Plan, if GMHA does not pay, they can go to jail." It should read: "**Vice-Chairman Wilfred Leon Guerrero stated that on the Defined Contributions Plan, if GMHA does not pay, they *should* go to jail.**"

On motion of Trustee Anthony Blaz, seconded by Trustee George Santos, and without objection, the Minutes of December 17, 2004 Regular Meeting were approved, with corrections as noted by Vice-Chairman Wilfred Leon Guerrero. Motion passed.

III. CORRESPONDENCE

A. January 3, 2005 Letter Addressed to Cecilia Martinez, DOA HR Division from Elizabeth G. Salas, Payroll Technician

Chairman San Agustin stated that the January 3, 2005 letter from Ms. Elizabeth Salas is for the Board's information and is being referred to Director Wilfred Aflague as an administrative matter. Director Aflague stated that he has contacted Ms. Martinez regarding this matter.

B. January 14, 2005 Memorandum Addressed to Director of Retirement Fund from Attorney General Regarding Clarification of RF-04-0958 – "Double-Dippers"

Chairman San Agustin stated that Director Aflague had just received a corrected AG's opinion dated January 14, 2005 regarding "Double Dippers." Chairman San Agustin stated that the previous AG opinion stated to suspend annuity for anyone who has retired and is re-employed with the Government of Guam. Chairman San Agustin stated that the earlier Board resolution made it prospective. Chairman San Agustin stated that the Fund had asked for clarification and the January 14, 2005 AG opinion states that the law says to suspend annuity for anyone who has retired and is re-employed with GovGuam.

Chairman San Agustin asked Director Aflague if he is in the process of identifying and informing the retirees receiving annuities, based on the January 14, 2005 AG opinion. Director Aflague replied yes. Deputy Director Paula Bamba stated, for clarification, that this is going to be for those who don't meet the exception of the law, such as teachers and health care officials.

Chairman San Agustin recommended to amend the prior resolution (Resolution No. 2005-003 adopted on November 12, 2004) to reflect the January 14, 2005 Attorney General's opinion.

C. January 14, 2005 Letter Addressed to Chairman Joe T. San Agustin from Governor Felix P. Camacho Regarding DOE

Chairman San Agustin informed the Board that he just received a letter dated January 14, 2005 from Governor Felix Camacho requesting the Board of Trustees to consider his proposal, which if approved, would allow the employees of DOE, whose applications for retirement are now pending before the Board, to retire.

Chairman San Agustin stated that it looks like DOE Officials may agree to pay interest due on a monthly basis. DOE will then consider the 2002 and 2003 outstanding contributions as a performing asset. Chairman San Agustin stated that the total interest due as of December 31, 2004 is \$2.6 Million. Controller Tajalle stated that the total of outstanding balances for members and government contributions is \$14.3 Million with an interest component of \$2.6 Million for a grand total of \$16.7 Million outstanding for DOE as of December 31, 2004. Trustee Gerard Cruz asked what is the interest rate. Controller Tajalle stated that the interest being charged is based on the rate of return from the previous fiscal year. Controller Tajalle stated that the Fund has an interest component that is composed of 9.9% interest for Fiscal Year 2003, which was charged on the outstanding balance through Fiscal Year 2004. Trustee Cruz asked if the rate is compounded. Controller Tajalle stated that the new interest rate for Fiscal Year 2005 would be charged the rate of return for 2004, which is 9.3%. Chairman San Agustin stated that interest is being charged on an annual basis. Chairman San Agustin stated that there is an investment opportunity loss to the Fund of about half a million dollars.

Trustee Blaz said that the Governor, in his letter, stated that recognition of the current fiscal condition simply does not allow them to remit the entire amount due on past obligations of DOE. Trustee Blaz stated that the Governor is committed to pay the interest on this obligation. Trustee Blaz asked if the Governor and DOE are aware of the amount of interest due. Controller Tajalle replied yes, a fax was sent to DOE's controller on January 7, 2005. Trustee Blaz asked if the Governor and DOE are aware of the additional calculations mentioned earlier. Director Aflague replied, "no." Chairman San Agustin stated that the Governor is figuring interest on a monthly basis whereas the Fund is figuring interest on an annual basis. Secretary Taylor stated that he has a question on Trustee Blaz's statement and stated that he does not find anywhere in the letter that states that the Governor is taking responsibility for this. Chairman San Agustin stated that the Governor made a statement to him that he has no recourse except to assist in this matter. Trustee Blaz stated that the Governor is making a request to this Board to consider his proposal. Trustee Blaz asked if and when the check for interest is received, would the Board then entertain and act favorably on the Governor's request. Secretary Taylor asked why the Retirement Fund would be asking DOE for less than what the Fund has asked from GMHA.

Vice-Chairman Leon Guerrero stated that he agrees with Trustee Blaz and he is inclined to respond favorably. Vice-Chairman Leon Guerrero stated that the Board should entertain the Governor's request and recommends that the Chairman appoint a committee to work with the Governor with regards to both DOE and GMHA. Chairman San Agustin stated that Director Aflague and Controller Tajalle have been communicating with DOE and GMHA. Trustee Cruz suggested going through the numbers and working out a payment plan. Chairman San Agustin stated that the Governor's letter states that interest will be paid on a monthly basis.

Trustee Blaz stated that Vice-Chairman Leon Guerrero has a good point. The Board and Management should meet with the Governor's office and DOE officials to try to resolve this issue. Secretary Taylor stated that this proposal is essentially the same issue as GMHA and proposes that the Retirement Fund deal with it together. Treasurer Taitano stated that if the Board can agree on what's being proposed, then the Fund can just have Management meet with the Governor's office and DOE. Chairman San Agustin stated that the Governor is proposing that interest be paid on a monthly basis and once that's done the Retirement fund can start retiring employees. Chairman San Agustin stated that the question now is how can the Retirement Fund start retiring employees whose contributions are not paid up to date. Chairman San Agustin asked if it is the consensus of the Board to have Director Aflague arrange a meeting with the Governor's office and DOE officials and invite the Board of Trustees to attend the meeting. Trustee Cruz suggested meeting with the Governor to begin negotiations. Secretary Taylor suggested that before the Retirement Fund meets with the Governor, the Fund should have its position clearly stated in dollar amounts and what the Fund agrees on what it should be doing. Trustee Cruz stated that they have to pay 100% up front for any employee who will be retiring. Secretary Taylor stated that he feels very strongly that the Retirement Fund has to get a commitment to repay the balance of the loan.

Chairman San Agustin agreed to accept Vice-Chairman Leon Guerrero's recommendation and have Director Aflague arrange a meeting with the Governor's office and DOE officials. Vice-Chairman Leon Guerrero recommended that Chairman San Agustin and Secretary Taylor take the lead on this effort and the rest of the Board could participate. Trustee Blaz stated that he will participate in these meetings. Director Aflague stated that, per the budget law, the Fund must maintain that all agencies must be current with this fiscal year's contribution payments. Chairman San Agustin stated that Secretary Taylor had stated that this is not a performing asset. Chairman San Agustin stated that this is not a performing asset; this is a delinquent account for two years. Chairman San Agustin stated that he maintains that this is detrimental to the Fund.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Governor's "State of the Island" Address - Director Aflague reported to the Board of Trustees that he had sent information to the Governor's Communication Director for use in the Governor's State of the Island Address. Director Aflague stated that he provided a list of anticipated goals and objectives for FY 2005. Director Aflague apologized to any Board member that might read this as a presumption on the Director's part. Director Aflague noted that no action will happen unless the Board gives its approval.

Director Aflague stated that the Fund is reviewing the current Defined Benefit Disability benefits and would like to outsource the Disability Benefits for the Defined Benefit Plan to a third party. Director Aflague stated that the Fund has discussed this with Trustee Santos' committee. Chairman San Agustin stated that the problem with the estimated annuity goes back to the problem with the Oracle system. Chairman San Agustin asked how many more estimated annuities does the Retirement Fund still have to adjust? Director Aflague stated that there are about 400 retirees on estimated annuities. The Retirement Fund will have a breakdown and the Fund will bill DOA for these retirees based on what the Retirement Fund feels should be on its books.

Chairman San Agustin asked how much money we are talking about? Director Aflague stated that the Fund is identifying that amount. Deputy Director Bamba stated that there are about 200 retirees affected. Director Aflague stated the other reason why the Fund has estimated annuities is on the basis that the retirees need to remit the extra 10½ percent to the Fund in order to finalize their annuity. Chairman San Agustin asked if this was before the law was repealed on non-base pay. Director Aflague replied, "yes."

Director Aflague reported that BBMR met with the Committee on Finance and Taxation and the Fund was informed that they are willing to look at the budget bill in a budget reconciliation. Director Aflague stated that they are only going to entertain administrative and provisional amendments, which would affect this Board. Director Aflague stated that if the Retirement Fund submits recommended changes to lift the prohibition on limited term appointments and unclassified appointments then this will allow the Fund to be able to hire on a limited term basis.

Director Aflague also reported to the Board of Trustees that at 11:00 a.m. this morning Mr. William McMillan, GMHA Administrator, hand carried six checks totaling \$885,000.00 to the Retirement Fund. This will make GMHA current on their FY 2005 contributions.

Organizational Matters - Director Aflague reported to the Board of Trustees that the Fund has moved to meet the needs and requirements of members and annuitants with the addition of much needed staff in the Members and Benefits Division and the Accounting and Investment Division.

Director Aflague stated that he has provided a list of promotions and new employees to support the Fund's mission. Director Aflague stated that the Fund is currently announcing four positions in the Accounting Division and one position in the Members and Benefits Division. Chairman San Agustin asked Treasurer Taitano if this is in conformance with the budget. Treasurer Taitano said yes.

Director Aflague stated that he has provided, for the Board's information, a summary of the Fund's Administrative budget and expenditures for FY 2003, 2004 and 2005. Director Aflague stated that the Fund's Administration and Staff have always kept within the confines of the approved budget.

Vice-Chairman Leon Guerrero pointed out that the Retirement Fund has a situation where the Civil Service Commission Rules and Regulations for the Government of Guam hinders the mission of the Retirement Fund. Vice-Chairman Leon Guerrero stated that the Fund has a position called the Investment Specialist for which the salary is really low. This position was vacated in favor of an accountant position. Vice-Chairman Leon Guerrero stated that the Fund needs to come up with a position classification that meets the needs of the Fund. Chairman San Agustin stated that the Fund's rules and regulations fall under DOA. Chairman San Agustin also stated that under statute, the Retirement Fund can set up its own rules and regulations subject to the approval of the Civil Service Commission. Chairman San Agustin stated that on this position, if the administrative provision is lifted, it's possible that the Fund could develop a position that is competitive. Deputy Director Bamba stated that there's nothing to stop the Board of Trustees or the Fund from requesting the creation of a position that does not currently exist in the Civil Service Commission position classifications. Chairman San Agustin asked what the salary structure for the Investment Specialist position is. Deputy Director Bamba replied that it's a classified position at Pay Grade M, with salary starting at \$28,000.00 per annum.

Director Aflague stated that the Retirement Fund is governed by the Civil Service Commission. Treasurer Taitano recommended reevaluating the skills that are needed for that position and then have them reclassify the pay for that position. Deputy Director Bamba stated that at the time the position was created, the Civil Service Commission looked at it based on the duties being performed. Vice-Chairman Leon Guerrero stated that UOG employees are not subject to the Civil Service Commission Rules and Regulations. Deputy Director Bamba stated that UOG is a different entity. Director Aflague stated that the Fund is in the final stages of adjusting the Personnel Rules and Regulations of DOA so that the Board can promulgate the Retirement Fund Personnel Rules and Regulations. Chairman San Agustin recommended going ahead and having Management initiate a request to have the Investment Specialist position reevaluated. Director Aflague stated that this also applies to the Members and Benefits Division because the Administrator's pay for that division also is really low. Chairman San Agustin stated to keep in mind that the Fund did request for PBGC to do a technical review and that will be something they will consider.

V. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Taitano reported to the Board of Trustees that a copy of the Fund's unaudited income statement, as of September 30, 2004, has been provided for the Board's review. Treasurer Taitano stated that the Fund needs to schedule a specific meeting to close out the year. Trustee Blaz stated that he'll work with Treasurer Taitano on this and that the Board will be informed of the meeting once it's scheduled.

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos reported to the Board of Trustees on his Committee's December 2004 end of the month report.

Trustee Santos, seconded by Trustee Blaz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 through 10, based on the Committee's review during their meeting of December 20, 2004 and continuation meetings pertaining thereto, with Vice-Chairman Leon Guerrero objecting approval of Item IV A 3a on Page 6, and without any further objections, motion passed with six affirmative votes.

Chairman San Agustin asked if the GMHA and DOE employees listed were approved earlier. Director Aflague replied, "yes." Director Aflague stated that there's no conflict with outstanding contributions.

Vice-Chairman Leon Guerrero wanted clarification on pages 4-6, Section A 1 & 2. Were these regular retirees? Trustee Santos replied, "yes." Trustee Santos stated that the Fund is finalizing their annuities. Vice-Chairman Leon Guerrero asked if No. 3a on Page 6 is a regular retirement. Trustee Santos stated that No. 3a is under the Early Retirement Incentive Program (ERIP). Trustee Santos stated this is no longer estimated. Vice-Chairman Leon Guerrero stated he understands there is a problem with the ERIP Program where not everyone has paid off their contributions. Deputy Director Bamba stated that the ERIP Program allows them to pay over a period of time while receiving the credit. Controller Tajalle stated that participants with the ERIP Program are given the

ability to apply for a loan to repay the service credit they are purchasing. Vice-Chairman Leon Guerrero asked how payment is being made. Controller Tajalle stated that it's through payroll deductions. Chairman San Agustin stated that there is still a question about people who have died prior to paying off their loans. Chairman San Agustin asked if the Fund has to absorb the cost.

Vice-Chairman Leon Guerrero asked if the Retirement Fund can get credit life insurance for persons under No. 3a on Page 6. Deputy Director Bamba replied, "no." Controller Tajalle stated that at the time the note was signed, there should have been a credit life insurance attached, but that didn't occur. Vice-Chairman Leon Guerrero stated that corrective action should have been taken to get the ERIP participants to purchase credit life insurance. Director Aflague stated that two months ago, per the Board's directive, the Fund set up a reserve account on behalf of the ERIP retirees. Director Aflague also stated the Fund is exploring the possibility of setting up an insurance program. Controller Tajalle stated that the auditor had recommended the Fund write off the \$300,000.00. Chairman San Agustin stated that the auditor wanted the Fund to reserve \$16 Million for GMHA, which the Fund is not about to agree with. Chairman San Agustin stated that the prior Board chose not to purchase insurance. Deputy Director Bamba stated that the Fund did contact three insurance companies locally to look for credit life outstanding balance insurance on promissory notes and term policies. Deputy Director Bamba stated that you cannot get credit life on any type of a note that has already been executed. Deputy Director Bamba stated that from day one, when the Fund entered into the note, there was no way that the Fund could have bought credit life at that time because there were only thirty days to get everybody on board and signed off. Deputy Director Bamba stated that the term life insurance that is available for the notes now will insure people only up to the age of 70. Deputy Director Bamba stated that the law did allow for the Fund to set aside the insurance premium up to what the government is currently paying for group life insurance for active members and retirees to set aside as a reserve. Vice-Chairman Leon Guerrero stated that the Board of Trustees made a mistake in the past and that the Fund needs to correct this matter.

Chairman San Agustin stated that the Fund needs to create a reserve and also to get credit life insurance. Chairman San Agustin asked if there is a delinquency on the ERIP. Controller Tajalle replied, "no." Vice-Chairman Leon Guerrero asked if there is a receivables breakdown on the note. Chairman San Agustin asked what the Retirement Fund is exposed to now. Controller Tajalle stated that there is an exposure of roughly \$8 Million from retirees.

B. Investment Committee

Vice-Chairman Leon Guerrero reported that the Investment Committee has a couple of items, which require Board action.

a) Reimbursement of Defined Contributions Plan Start-up Costs and Administrative Fees -

Controller Tajalle stated that the Investment Committee is recommending that the Board authorize the reimbursement of Defined Contribution Plan start-up costs and administrative fees in the amount of \$425,000.00. This will be provided to the Defined Benefits Plan from Defined Contribution Plan forfeitures. Treasurer Taitano stated that it's money due to the Defined Benefits Plan.

Chairman San Agustin inquired about the recapture amount. Controller Tajalle stated that the recapture amount is \$500,000.00 with another expected forfeiture check coming this year in June or July of about \$1.2 Million.

On motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, and without objection, the Board of Trustees voted to authorize the reimbursement of Defined Contribution Plan start-up costs and administrative fees to the Defined Benefits Plan from the Defined Contribution Plan forfeitures. Motion passed.

b) Adoption of Projected Cash Drawdown Plan - Controller Tajalle stated that the Investment Committee is recommending the adoption of the projected cash drawdown plan. Controller Tajalle stated that based on FY 2004, the Retirement Fund drew down approximately \$60.4 Million. Controller Tajalle stated that the assumption that the Fund is making for FY 2005 is that there is no significant change in contribution receipts from all agencies other than GMHA, and no significant change in FY 2005 annuity requirements. Controller Tajalle stated that the drawdown plan calls for liquidation rate of \$5.5 Million. Chairman San Agustin asked what is the total monthly cash pay out. Controller Tajalle replied \$13.6 Million per month. Chairman San Agustin asked how much the investment earnings are in a month. Controller Tajalle stated that the interest and dividend component averages about \$800,000.00 per month. Chairman San Agustin asked how much the total contributions are. Controller Tajalle replied roughly \$5.6 Million per month. Chairman San Agustin stated that the Fund will need \$7.2 Million to meet the requirements. Trustee Cruz stated that the rate of return was 9.3% for FY 2004.

Vice-Chairman Leon Guerrero asked Chairman San Agustin if he is suggesting that the Fund borrow the money. Chairman San Agustin stated that it's easier to cash in. Vice-Chairman Leon Guerrero asked if the Fund needs the Legislature's approval to borrow money. Deputy Director Bamba replied, "yes." Controller Tajalle stated that this will be evaluated quarterly.

On motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, and without objection, the Board of Trustees voted to approve the adoption of the projected cash drawdown plan, to be reviewed on a quarterly basis. Motion passed.

a) Manager Due Diligence Meetings - Vice-Chairman Leon Guerrero stated that the Manager Due Diligence Meetings are tentatively scheduled for the week of February 21, 2005 through February 25, 2005. Controller Tajalle stated that Tuesday and Thursday afternoon are not a good time for one of the Trustees. Vice-Chairman Leon Guerrero pointed out that Friday, February 25, 2005, is not a Due Diligence Meeting. Vice-Chairman Leon Guerrero stated that it should be a Board Meeting or a Board Working Session. Chairman San Agustin stated that all the input from the various committees should be in one strategic plan to be presented on February 25, 2005 and at that time the Fund will have the Legal Counsel, the Actuary and the Investment Consultant. Chairman San Agustin stated that he could call for a Special Board Working Session.

Controller Tajalle stated that the Actuarial Meeting is scheduled for February 4, 2005. Controller Tajalle informed the Board that the Fund should be getting a draft by the last week of January 2005. Chairman San Agustin requested to hold off for the 4th of February since the Fund will need the Actuary for the strategic plan. Chairman San Agustin suggested having the Actuary come in the week of February 21-25, 2005. Secretary Taylor stated that he's concerned with having the

meetings all in the same week. Secretary Taylor stated that if the Fund will need the Actuary, he would prefer if the Fund paid his way back again. Deputy Director Bamba stated that the Fund should have the Actuary send in the draft. Trustee Santos recommended keeping the current meeting schedule. Chairman San Agustin asked if it is the consensus of the Board to keep the current meeting schedule.

On motion of Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George A. Santos, and without objection, the Board of Trustees voted to maintain the current meeting schedule. Motion passed.

b) Mercer Global Investment Forum held on December 9, 2004 in Tokyo, Japan - Vice-Chairman Leon Guerrero stated that Controller Tajalle has provided a travel report for the Board's review and information.

c) Status of Defined Contributions Plan Administration Request for Proposal - Vice-Chairman Leon Guerrero stated that this is an update. Secretary Taylor stated that the Defined Contributions Committee received as of yesterday, a report from the Director of the Retirement Fund about the most recent meeting of one of the entities and a satisfactory letter was drawn up reflecting that particular meeting. Secretary Taylor stated that that particular letter has been reviewed by members of the Defined Contributions Committee. Secretary Taylor stated that the Defined Contributions Committee made two minor suggestions about it and the Defined Contributions Committee is recommending to the Investment Committee as a whole that the Investment Committee recommend that the Director go ahead and negotiate a contract which will then be presented to the Board. Chairman San Agustin asked if the process is to go to the Director to develop and negotiate and from there on it goes to the Investment Committee and then to the Board. Secretary Taylor replied, "yes."

On motion of Secretary James Taylor, seconded by Vice-Chairman Wilfred Leon Guerrero, and without objection, the Board of Trustees voted to authorize the Retirement Fund Director to negotiate a contract, which will then be presented to the Investment Committee and then to the Board of Trustees. Motion passed.

d) Position of Investment Specialist - Vice-Chairman Leon Guerrero stated that this item was discussed earlier under IV on the Director's Report under Organizational Matters.

C. Audit and Operations Committee

Trustee Blaz thanked Director Aflague and Deputy Director Bamba for getting out the RFP for legal services to recapture investment losses of the last five years in the amount of about \$220 Million. Trustee Blaz reported that nine (9) firms have picked up the RFP packages.

Trustee Blaz also reported that Controller Tajalle met with the Public Auditor, Ms. Doris Brooks, and Mr. Dave Burger regarding their entrance conference for the new fiscal year. Controller Tajalle stated that the time frame for the completion of the 2004 audit was discussed. Controller Tajalle stated that the draft will be issued the first week of March 2005 with finalization of the audit report by March 31, 2005. Controller Tajalle stated that this is well in front of the June 30, 2005 deadline.

Trustee Blaz stated that the Audit Committee will be scheduling a committee meeting to address the hiring of an internal auditor. Trustee Blaz stated that he has drafted an RPF, which he'll give to Controller Tajalle and to Legal Counsel for review and recommendation. Chairman San Agustin stated that he has requested the Pension Benefits Guarantee Corporation to provide technical assistance for internal controls. Chairman San Agustin stated that PBGC is willing to come, at no charge to the Fund, because the Fund is a federal government agency. PBGC will provide technical assistance to evaluate the Fund's internal controls. Chairman San Agustin stated that PBGC needs a letter from the Retirement Fund Board inviting them to provide technical assistance.

On motion of Trustee Anthony Blaz, seconded by Vice-Chairman Wilfred Leon Guerrero, and without objection, the Board of Trustees voted to send a letter to the Pension Benefits Guarantee Corporation (PBGC) inviting them to provide technical assistance. Motion passed.

D. Governmental Liaison

Trustee Cruz reported that several pieces of legislation are at committee level for review. Vice-Chairman Leon Guerrero recommended for the Board of Trustees to meet with Speaker Mark Forbes and requested that Director Aflague arrange a meeting.

VII. OLD BUSINESS

A. Status of Merrill Lynch AIM Market Report

Chairman San Agustin stated that there's limited utilization of the \$50,000.00 report. Controller Tajalle made a recommendation to Management to discontinue subscription of the AIM Report. Controller Tajalle stated that he's generating a letter to cancel the current subscription with Merrill Lynch.

B. Pension Benefits Guarantee Corporation Technical Assistance

This item was discussed earlier under VI. C. on the Audit and Operations Committee report.

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At this time Chairman San Agustin stated that there is a request from Mr. Dennis Zermeno to address the Board. Chairman San Agustin asked the Board if there's any objection to allowing Mr. Zermeno to address the Board before item VIII New Business. The Board of Trustees had no objection to having Mr. Zermeno address the Board at this time.

Dennis Zermeno - Mr. Zermeno stated that based on the letter addressed to the Board from the Governor regarding DOE, Public Law 27-106 has authorized the amount of \$1.2 Million to be paid to the Retirement Fund to help defray the shortfall of GMHA. Mr. Zermeno stated that the Fund should hold the Governor to this. Mr. Zermeno stated that the government has money to pay, it's the matter of the will to pay. Mr. Zermeno stated that Public Law 26-70, Section 10, took the unfunded liability of the Fund pertaining to GTA in the amount of roughly \$11.9 Million. There is money in the hands of the government from the sale of GTA to pay the Retirement Fund. Mr. Zermeno is asking for the Board to ask for full restitution of the unfunded liability of that portion of GTA's money. The Retirement Fund should demand for the money.

Mr. Zermeno stated that he requested a meeting with Ms. Carlotta Leon Guerrero, Chief of Staff for Senator Mike Cruz, regarding proposed legislation to get GMHA to pay their debt to the Fund. Mr. Zermeno stated that the Retirement Fund is losing \$17 Million a year because the actuarial rate is too low. The government continues to contribute far less than what is needed to meet the Fund's expenses. Mr. Zermeno stated that the Retirement Fund needs to ask for the 25.92% actuarial rate. Mr. Zermeno asked that this Board be aggressive and demand money.

Craig B. Schilling - Mr. Schilling stated that he is capable of retiring from GMHA. Mr. Schilling stated that GMHA employees are being told that if they have intentions of retiring, they need to submit a letter of intention on when they are retiring. Mr. Schilling informed the Board that he has been employed at GMHA since September 1981 and he had trusted his employer to do what they were supposed to do, according to law. Mr. Schilling stated that GMHA owes the Retirement Fund \$52,714.61 for his retirement contributions, plus interest. Chairman San Agustin stated that the law says that as a condition of employment a person must be a member of the Fund and that the agency is responsible to remit the money to the Retirement Fund.

Trustee Cruz stated that Mr. Schilling has a valid complaint. Trustee Cruz asked why more people haven't thought to file suit. Mr. Schilling stated that people had asked him when is he going to file suit. Mr. Schilling stated that most of the hospital employees are classified employees and are afraid to speak up against the hospital administration. Mr. Schilling stated that it may be better to go with a class action lawsuit.

Vice-Chairman Leon Guerrero stated that Dr. Dauterman was also being deducted but payment was not being remitted to the Fund. Vice-Chairman Leon Guerrero stated that GMHA employees should get together and sue the hospital for failing to pay their retirement contributions. Chairman San Agustin asked Mr. Schilling if he is a member of the union. Mr. Schilling replied, "no." Trustee Cruz reiterated that Mr. Schilling does have a valid complaint and that would be something that he could pursue. Mr. Schilling stated that he has contacted four local attorneys but has had no response. Legal Counsel Meredith Sayre stated that the local Department of Labor's Fair Labor Standards takes these complaints and suggested Mr. Schilling file a complaint with them.

Mr. Schilling thanked the Board for giving him the opportunity to voice his concerns.

VIII. NEW BUSINESS

A. GMHA / DOE

Chairman San Agustin stated that the real question is "What Would Be Detrimental to the Fund." Chairman San Agustin stated that there have been some disagreements with the Retirement Fund's Legal Counsel on two separate issues: appropriations have been made to have employees retire vs. the outstanding debt obligation. Chairman San Agustin stated that the Fund's Legal Counsel maintains that they represent two separate issues and that one of them is a collection matter.

Chairman San Agustin stated that, with DOE, the Fund has lost almost half a million dollars because of investment opportunity losses by charging on an annual basis. Chairman San Agustin stated that, according to George Bamba, Governor's Senior Advisor, they are going to pay the interest rate up to date. That's about \$2.5 Million and \$1.2 Million of the appropriation. Chairman San Agustin stated that discussions have been held. Up front, the Governor's Administrative have

agreed to come up with \$3.5 Million before the Retirement Fund could even start talking about having anyone retire. Trustee Blaz stated that there's a positive dialogue and commends the Governor for taking the first major step towards seeking resolution to this problem.

Secretary Taylor stated that the Fund needs to take any proposal from the Governor seriously. Secretary Taylor suggested a radical solution. Secretary Taylor stated that the radical solution would be going back to the key element of the Retirement Fund's existence. The Board does not have a trust document. The Board of Trustees could accept the Governor's proposal if an appropriate trust document is put in place. Trustee Blaz stated that the Retirement Fund should get the Governor to get with Fund on this trust document issue. Chairman San Agustin stated that in 1972 it was the government's position to establish a trust agreement. There was an attempt made by the Legislature at that time to have this agency funded by direct appropriation.

Chairman San Agustin stated that the Retirement Fund has not gotten anything from GMHA at the point; the Retirement Fund has received the Governor's proposal on DOE and the Retirement Fund is still standing pat. Chairman San Agustin stated that GMHA and DOE needs to show the money before the Fund can even entertain anyone. Chairman San Agustin stated that these are repeated instances that the agencies in question have not made good on their contributions.

Chairman San Agustin asked what is the average rate at which DOE and GMHA retire. Director Aflague stated that, lately, the average is about one or two a month. Trustee Blaz stated that the Retirement fund would see some positive movement on the bond issuance with the new legislature. Chairman San Agustin stated that the Governor has indicated that he will get the legislature to earmark a great portion of the bond proceeds to satisfy all the past obligations.

B. Health Insurance

Director Aflague reported to the Board of Trustees that there is a public law creating a health insurance committee for GovGuam employees and retirees. Director Aflague stated that the Governor's office had asked him to recommend three (3) retiree members so that the Governor could appoint them. Director Aflague stated that Messrs. Frank G. Blaz, Dennis Zermeno and Frank Q. Taitano have expressed interest in assisting the Retirement Fund on health insurance.

Director Aflague stated that he has several meetings scheduled on Monday, January 17, 2005. A meeting is scheduled for 8:00 a.m. with Ms. Liz San Nicolas from GMHA; 9:00 a.m. with Ms. Sherry Blas from Department of Public Health and Social Services; meeting at 10:00 a.m. with Mr. Dennis Clark, of the Social Security District Office.

Director Aflague stated that an AARP brochure was passed out to the Board for information on alternative health insurance available to retirees.

Vice-Chairman Leon Guerrero stated that it would be useful for someone in the Retirement Fund to be knowledgeable about health insurance and Social Security. That person could be the point of contact. Chairman San Agustin stated that a lot of the retirees cannot afford health insurance. Chairman San Agustin mentioned that there is a program under AARP that, even if an individual is not a Social Security recipient, AARP can provide insurance. Treasurer Taitano stated that she appreciates what AARP could do for the Fund's members, but the Fund should not advocate

sending people to AARP. Director Aflague stated that the Fund is not going to advocate AARP but just to present options that are available. Chairman San Agustin stated that the Fund should have a cost comparison. Vice-Chairman Leon Guerrero stated that he would like for Director Aflague to hire someone for this position. Director Aflague stated that the Fund is in the process of recruiting a Benefit Specialist I.

[Trustee Anthony Blaz was excused from the meeting at this time (2:24 p.m.)]

Director Aflague stated that an individual is eligible for AARP at the age of 55 years and older. Chairman San Agustin stated that the retirees are not being informed of what's available. Secretary Taylor stated that the Human Resources Office can no longer be used to advocate on health care issues. Vice-Chairman Leon Guerrero stated that the Fund needs someone here to help members. Ken Dunstan, Acting Benefit Program Administrator, stated that the Fund does advise members to visit insurance representatives. Mr. Dunstan stated that during open enrollment, insurance representatives were present to assist members.

Chairman San Agustin stated that some members are having problems meeting with Mr. Dunstan. Mr. Dunstan stated that he attends to both appointments and walk-ins. Deputy Director Bamba stated that files have to be pulled and researched. Vice-Chairman Leon Guerrero inquired about the timetable on the recruitment of the Benefit Specialist I. Director Aflague stated that the closing date is January 28, 2005.

Director Aflague mentioned that he was served with a Subpoena. Director Aflague stated that the Attorney General is suing Pacific Care and the Attorney General needs data from the Retirement Fund.

C. Proposed Legislation

Chairman San Agustin stated that proposed legislation was discussed earlier under Item VI. D.

Trustee Cruz inquired about the GTA employees under the Defined Benefits Plan. Chairman San Agustin stated that the unfunded liability was transferred to the General Fund. Chairman San Agustin stated that the problem with the GTA retirees is whether they will be eligible for supplemental. Director Aflague stated that he's concerned about who will pay the supplemental for GTA employees and that he will bring up this issue with Speaker Forbes.

IX. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

X. ANNOUNCEMENTS

Director Aflague reported to the Board of Trustees that there will be Board Development Training Session sponsored by Sanctuary scheduled for January 27-28, 2005 at the Outrigger Resort. A copy of the brochure has been provided to the Board.

[Trustee George Santos was excused from the meeting at this time (2:41 p.m.)]

XI. ADJOURNMENT

There being no further business before the Board for the Defined Benefits Plan, on motion of Treasurer Katherine Taitano, seconded by Secretary James Taylor, and without objection, the meeting was adjourned at 2:42 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 14, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 11, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas

<p>DEFINED CONTRIBUTIONS</p>

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum, the Retirement Fund Board of Trustees Regular Meeting for the Defined Contributions Plan was called to order at 2:42 p.m. Friday, January 14, 2005, 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
James J. Taylor, Secretary
Katherine T.E. Taitano, Treasurer
Gerard A. Cruz, Trustee

Board of Trustees Absent:

Anthony C. Blaz, Trustee *(Excused from Meeting 2:24 p.m.)*
George A. Santos, Trustee *(Excused from Meeting 2:41 p.m.)*

Staff Present:

Wilfred G. Aflague, Director
Paula M. Bamba, Deputy Director
Pete Tajalle, Controller
Ken Dunstan, Acting Benefit Program Administrator
Vince Camacho, Great West Retirement Services
Jackie Blas, Recording Secretary

Legal Counsel Present: Meredith Sayre

Public Present:

Mark Heath, Metropolitan West Capital Management

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. December 17, 2004 Regular Meeting

On motion of Trustee Gerard Cruz, seconded by Treasurer Katherine Taitano, and without objection, the Minutes of December 17, 2004 Regular Meeting were approved, as corrected. Motion passed.

III. OLD BUSINESS

A. Contribution Report – December 2004

Director Aflague stated that the agencies are current but some departments show diskette error, however the payments were remitted. Mr. Vince Camacho, Great West Retirement Services, stated that the diskette is needed to allocate to the individual members. Director Aflague stated that the checks that were hand carried by Mr. McMillan brings them up to par. Secretary Taylor stated that the difficulty would be on the employees on the DC Plan because you don't know where to allocate the money. Deputy Director Bamba stated that the problem with the diskettes is for this pay period only. Chairman San Agustin asked if the Retirement Fund could show the employee and employer share. Director Aflague replied yes, the Fund could show a break down.

Mr. Camacho asked when the Board would like to have the annual review for the last fiscal year. Vice-Chairman Leon Guerrero asked Controller Tajalle to schedule the annual review and to inform the Board of the date.

IV. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

V. ANNOUNCEMENTS

None

VI. ADJOURNMENT

There being no further business before the Board for the Defined Contributions Plan, on motion of Treasurer Katherine Taitano, seconded by Trustee Gerard Cruz, and without objection, the meeting was adjourned at 2:47 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of January 14, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on February 11, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas