

BOARD OF TRUSTEES

Regular Meeting

Friday, May 13, 2005, 12:00 p.m.
Retirement Fund Conference Room

MINUTES

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 12:14 p.m. Friday, May 13, 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
George A. Santos, Trustee

Board of Trustees Absent:

Gerard A. Cruz, Trustee

Staff Present:

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

Public Present:

David John, Administrative Services Corporation (ASC)
Teresa John, Ada's Trust & Investment
Attorney Jay Arriola, Legal Counsel for ASC
Clint Ridgell, KUAM

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 11, 2005 Regular Meeting; March 18, 2005 Special Meeting and April 8, 2005 Regular Meeting

Secretary James Taylor stated that he has reviewed the Minutes of March 11, 2005 Regular Meeting, March 18, 2005 Special Meeting and April 8, 2005 Regular Meeting and has made changes which the Recording Secretary has corrected.

On motion of Secretary James Taylor, seconded by Trustee Anthony Blaz, and without objection, the Minutes of March 11, 2005 Regular Meeting; March 18, 2005 Special Meeting and April 8, 2005 Regular Meeting were approved, as corrected. Motion passed.

III. CORRESPONDENCE

A. April 24, 2005 Letter to Chairman Joe T. San Agustin from Judy S. Flores Regarding Repayment of Credits

Chairman San Agustin stated that the April 24, 2005 letter from Judy S. Flores is being referred to the Members and Benefits Committee.

B. May 13, 2005 Letter to Director Wilfred Aflague from Judge Elizabeth Barrett-Anderson Regarding Request for Extension of Payment Plan for an Additional Five Years

Chairman San Agustin stated that the May 13, 2005 letter from Judge Elizabeth Barrett-Anderson is being referred to the Members and Benefits Committee.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

Director's Move to Guam Memorial Hospital Authority (GMHA) - Director Aflague stated that about a month ago he was asked by Governor Felix Camacho to help at the hospital. Director Aflague stated that last week Mr. PeterJohn Camacho, GMHA's Administrator, asked him for his resume. Director Aflague further stated that he received a call from Mr. Camacho early this morning informing him that he is hired at GMHA. Director Aflague stated that his hiring was acted on at the May 12, 2005 GMHA Board Meeting.

Director Aflague stated that he wanted to thank the Retirement Fund Board of Trustees and Staff. Director Aflague stated that he would tender his letter of resignation to be effective June 3, 2005. Chairman San Agustin stated that Deputy Director Paula Blas would be Acting Director. The Board of Trustees congratulated Director Aflague.

Controller's Travel Report - Controller Pete Tajalle stated that the "Investment Institute" seminar presented by the International Foundation of Employee Benefit Plans he attended was very informative. Controller Tajalle stated that the seminar featured presentations from various speakers on topics including "Integrating Contributions," "Investment Returns," "Payout Expectations," the "Asset Allocation Process," and "Controlling Costs."

Controller Tajalle further stated that the presentation included the following points the Fund needs to consider: 1) periodic analysis of cash inflows versus cash outflows with emphasis on the benefits structure, investment returns, and plan contribution rates; 2) investment in Treasury Inflation Protected Securities (“TIPS”) and real estate to combat the future effects of inflation; 3) consideration of investment in “Hedge Funds” for increased returns; and 4) the monitoring of fees as the basic tenet of any plan should be the maximization of returns after fees. Accordingly, review and analysis of investment manager fees, custodial fees, broker-dealer fees, attorney fees, accountant fees, and consultant fees should be performed to ensure the reasonableness of the fee structure.

Controller Tajalle stated that he has the information from an individual regarding ways of determining costs. Controller Tajalle stated that he would have the information on this by the next meeting. Controller Tajalle stated that the individual has the database for calculating fees. Chairman San Agustin stated that the Fund does not have a cost control system in place.

Annuitant EFT Information - Identity Theft Protective Measures - Director Aflague stated that the Fund has received correspondences from annuitants expressing concerns over potential theft of identity should their EFT statements be opened while in the mail. Director Aflague stated that the Fund has made changes to the statements including the use of a “Pensioner ID” number versus the pensioner’s Social Security number, and the use of a modified account number versus the full account number for miscellaneous deductions. Director Aflague stated that notification letters were sent to all annuitants about this matter.

Chairman San Agustin asked if any checks had ever been forged. Controller Tajalle stated that annuitants fill out a lost check form.

Senior Officials Workshop for Weapons of Mass Destruction and Terrorism Incident Preparedness - Director Aflague stated that he attended the workshop sponsored by the Office of Civil Defense in preparation for the upcoming “Top Officials Exercise 4” scheduled for spring of 2007.

Investment Manager Due Diligence Review - Director Aflague stated this section is being moved to the Defined Contributions portion of the meeting agenda.

Contributions - Controller Tajalle stated that all agencies are current with their Fiscal Year 2005 employee and employer contributions except GMHA. Controller Tajalle stated that GMHA is behind for the pay periods ended February 5, 2005, February 19, 2005, March 5, 2005, March 19, 2005, and April 2, 2005. Controller Tajalle stated that delinquent notices have been sent to the GMHA Administrator.

Financial Statements - Controller Tajalle stated that the financial statements for the months ended March and April 2005 have been submitted to Treasurer Katherine Taitano for review. Controller Tajalle mentioned that the books are off by \$200.00.

FY 2005 Supplemental - Controller Tajalle stated that the supplemental annuities have been issued for the month of April 2005. Treasurer Taitano asked if Management has been in contact with the Department of Administration (DOA) regarding using EFT for these payments. Director Aflague stated that the Director of DOA, Ms. Lou Perez, and the Director of BBMR, Mr. Carlos Bordallo, are considering using EFT. Controller Tajalle stated that Ms. Perez and Mr. Bordallo were given two options: 1) DOA would develop the EFT format; 2) DOA would allow the Retirement Fund access to upload data.

2004 Financial Audit - Controller Tajalle stated that the 2004 financial audit is in its final stages. Controller Tajalle stated that he has the final draft. Finalization is scheduled for May 31, 2005. Controller Tajalle stated that the 2004 financial audit would be transmitted to Trustee Anthony Blaz for the Audit Committee's review. Controller Tajalle stated that the target date to finalize the audit with Mr. Dave Burger is May 20, 2005.

V. TREASURER'S REPORT OF FINANCIAL STATUS

Treasurer Taitano stated that Controller Tajalle had reported on the Fund's financial status earlier.

VI. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee Santos reported to the Board of Trustees on his Committee's April 2005 end of the month report.

Chairman San Agustin asked if the DOE employees listed are being proposed prior to the Board resolution. Trustee Santos replied, "yes."

Trustee George Santos, seconded by Trustee Anthony Blaz, moved to approve the recommendation of the Members and Benefits Committee on Pages 4 through 7, based on the Committee's review and findings during their meeting of April 15, 2005 and continuation meetings pertaining thereto. Without objection, the motion passed.

Application for Minor Child Survivor Benefit for Jonathan Robert P. Santos - Director Aflague stated that he is requesting for the Members and Benefits Committee's approval of Ms. Jeanenne P. Cordero's request for consideration to expedite her application for the minor child benefit due to a current financial hardship. Members and Benefits Committee Chairman George A. Santos recused himself from any discussion of the case.

Director Aflague stated that the biological mother (Jeanenne Cordero) of Jonathon Santos was informed back in September 1989 that she was not entitled to any benefits. Director Aflague stated that Ms. Cordero was not asked if she had any children by the deceased. Director Aflague stated that there is no deadline for approval of an application for minor child benefit. Chairman San Agustin asked if Ms. Cordero was the common-law wife of the deceased and asked if they had a child together. Director Aflague replied, "yes." Chairman San Agustin stated that the common-law wife of the deceased is not entitled to survivor benefits but that a child is entitled to benefits.

Chairman San Agustin asked Management to conduct a research on deceased death benefits.

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee Anthony Blaz, moved to approve the application for Minor Child Survivor Benefit for Jonathan Robert P. Santos. Without objection, the motion passed.

B. Investment Committee

Vice-Chairman Leon Guerrero stated that the Investment Committee Meeting was focused on the Defined Benefits Plan.

Cash Drawdown Plan - Controller Tajalle stated that the Investment Committee would like to continue with the proposed monthly drawdown of \$5.5 Million for the month of May 2005. Chairman San Agustin asked about cash flow. Controller Tajalle stated that he would make an adjustment to the schedule in June 2005.

Vice-Chairman Wilfred Leon Guerrero, seconded by Secretary James Taylor, moved to approve the proposed monthly drawdown of \$5.5 Million for the month of May 2005. Without objection, the motion passed.

Vice-Chairman Leon Guerrero stated that the Investment Committee is still trying to get an RFP to provide help in developing an RFP for custodial services. Chairman San Agustin stated that the proposed RFP for custodial services needs to be developed. Chairman San Agustin stated that Controller Tajalle has samples of an RFP, which could be used.

C. Audit Committee

Trustee Blaz stated that Controller Tajalle had given an update of the Fiscal Year 2004 audit earlier. Trustee Blaz stated that the proposed Legal Services Agreement for the recapture of investment losses is being provided for the Board's review. Trustee Blaz suggested the Board recess and reconvene on Tuesday, May 17, 2005, to consider the proposed Legal Services Agreement. Chairman San Agustin asked if the Audit Committee agreed with the firm. Trustee Blaz replied, "yes." Trustee Blaz stated that the Legal Services Agreement requires ratification by the Board of Trustees.

D. Governmental Liaison

Chairman San Agustin stated that Trustee Gerard Cruz is absent at today's meeting. Vice-Chairman Leon Guerrero stated that Senator Adolpho Palacios introduced Bill 133. This bill states the Attorney General will be the attorney for all Government of Guam departments and agencies. Vice-Chairman Leon Guerrero stated that the Attorney General cannot be the attorney for the Retirement Fund. Vice-Chairman Leon Guerrero stated that the Fund should oppose Bill 113. Chairman San Agustin stated that the Board's position is to oppose Bill 113. Chairman San Agustin stated that there is a conflict with having the Attorney General as the attorney for the Retirement Fund.

[Trustee George Santos and Trustee Anthony Blaz were excused from the meeting at this time (1:04 p.m.)]

VII. OLD BUSINESS

A. Organic Act Proposed Draft Amendments

Director Aflague stated that he is still in contact with Congresswoman Bordallo's office regarding the draft amendments to the Organic Act. Director Aflague stated that Congresswoman Bordallo wants to get the support of the Governor and the Legislature for the amendments.

B. Investment Mandates Amendments (Mercer)

Controller Tajalle stated the proposed amendment on Section 8158 provides investing up to 30% of the Retirement portfolio in Mutual Funds. Controller Tajalle stated that Mercer has not responded to the impact on rate of return with this amendment. Controller Tajalle stated that Mercer would make a presentation on the impact on June 6-7, 2005 at the quarterly investment oversight review.

C. RFP – Custodial Bank Services

Chairman San Agustin stated that the RFP for Custodial Bank Services was discussed earlier.

D. RFP – Legal Services to Recapture Investment Losses

Chairman San Agustin stated that the Legal Services Agreement for legal services to recapture investment losses will be discussed when the Board reconvenes on Tuesday, May 17, 2005.

E. Bill 118 (Public Hearing was held April 27, 2005)

Chairman San Agustin thanked Secretary Taylor for participating at the Public Hearing on Bill 118. Chairman San Agustin stated that it is nice to have the Board's support on bills introduced. Chairman San Agustin stated that Bill 118 will be reported by the Legislature on May 19, 2005. Controller Tajalle stated that it would be an agency-by-agency basis.

F. International Manager Search

Director Aflague stated that three out of five contracts for international management have been signed and are with the Retirement Fund. Director Aflague stated that they would be distributed to the Board by next week. Controller Tajalle stated that Mercer has provided their recommendation on the matter. Vice-Chairman Leon Guerrero stated that he sees Secretary Taylor and Chairman San Agustin's concern about having fewer managers. Controller Tajalle stated that there is a limitation on managers.

G. Trust Agreement

Director Aflague stated that he received the comments on the Trust Agreement from Legal Counsel Joanne Grimes. Chairman San Agustin stated that the Trust Agreement will be discussed when the Board reconvenes on Tuesday, May 17, 2005.

H. Status of Legal Cases

Director Aflague stated that there are four pending legal cases: two (2) disability retirees, the former governor, and a disability applicant. Director Aflague stated that a court hearing is scheduled for June 20, 2005 on the case with the former governor. Director Aflague stated that the two cases on the disability retirees are to recapture the overpayment of annuities. Chairman San Agustin suggested asking the Legal Counsel for the status report of all pending cases.

Vice-Chairman Leon Guerrero asked about the status on hiring a staff attorney. Chairman San Agustin stated that the statute states that the Board has the authority to hire a staff attorney. Chairman San Agustin stated that the Civil Service Commission (CSC) is saying that a department or agency cannot have an attorney in a classified position. Chairman San Agustin stated to issue an RFP to contract to hire an attorney to work full time.

Treasurer Taitano asked if time is an issue. Treasurer Taitano asked Management to contract to hire an attorney expeditiously.

Secretary James Taylor, seconded by Vice-Chairman Wilfred Leon Guerrero, moved to issue an RFP to contract to hire an attorney. Without objection, the motion passed.

VIII. NEW BUSINESS

A. Custodial Bank Report

Chairman San Agustin stated that the custodial bank report was covered by the Director's report.

B. Status of Overpayment to Retirees

Chairman San Agustin stated that retirees are being overpaid. Controller Tajalle stated that there are \$710,000 of overpayments to be reviewed. Chairman San Agustin asked what is the Fund's chance of collecting on the overpayments. Chairman San Agustin asked if the Fund is making any effort to collect. Controller Tajalle replied, "yes." Chairman San Agustin asked about the existing overpayment and the overpayment to retirees who have died. Vice-Chairman Leon Guerrero stated that, in the case where retirees have a joint EFT account, it is hard to determine if the retiree has died because the money goes directly into the account.

Secretary Taylor asked if the Fund could further improve the identification of overpayments. Director Aflague stated that the Fund has sent a survey to off-island retirees and survivors. Director Aflague stated that the Fund's Legal Counsel has stated that the Fund cannot hold annuity payment if the retiree or survivor does not fill out the survey. Vice-Chairman Leon Guerrero asked what would be the penalty for holding back annuity payments. Chairman San Agustin stated that a survey should be sent out to determine if a retiree or survivor is still alive. Controller Tajalle stated that the option would be to seek benefit insurance. Chairman San Agustin stated that the law says that the retiree must get life insurance. Chairman San Agustin stated that with the Early Retirement Incentive Program (ERIP) on self-insurance, the Fund had a \$350,000 loss.

Director Aflague stated that the Fund is also researching survivors remarrying before the age of forty (40).

C. Status of Number of Retirees on Estimated Annuity

Chairman San Agustin stated that this falls under the report from the Members and Benefits Committee.

D. Status of Death Benefit Payments

Controller Tajalle stated that the process takes five to seven days.

IX. OPEN DISCUSSION / GENERAL PUBLIC INPUT

Controller Tajalle stated that the Attorney General's office has requested information regarding the status of DOE and GMHA payments to the Retirement Fund. Controller Tajalle stated that he met with two investigators and an attorney from the Attorney General's office. Controller Tajalle stated that he has provided the Attorney General's office with the information requested.

X. ANNOUNCEMENTS

None

XI. RECESS

The meeting recessed at 1:40 p.m. May 13, 2005 and will reconvene on Tuesday, May 17, 2005 at 12:00 Noon in the Retirement Fund Conference Room.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of May 13, 2005 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on July 8, 2005.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas