

BOARD OF TRUSTEES

Regular Meeting

Friday, May 12, 2006, 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 12:25 p.m. Friday, May 12, 2006, 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
Katherine T.E. Taitano, Treasurer
James J. Taylor, Secretary
Anthony C. Blaz, Trustee
Gerard A. Cruz, Trustee
George A. Santos, Trustee

Staff Present:

Paula Blas, Acting Director
Diana Bernardo, Controller
Rosalia Bordallo, General Accounting Supervisor
Ken Dunstan, Acting Benefit Program Administrator
Stephanie Herrera, Recording Secretary

Legal Counsel Present:

Pat Mason

Public Present:

Mindy Fothergill, KUAM
Rich Wright, Milliman, Inc.
Dave Burger, Berger & Comer (*1:10 p.m.*)

II. REVIEW AND APPROVAL OF BOARD MINUTES

A. February 24, 2006 and March 10, 2006 Regular Meetings, March 24, 2006 Special Meeting, April 12, 2006 Emergency Meeting, and April 21, 2006 Regular Meeting

Secretary James Taylor, seconded by Trustee Gerard Cruz, moved to defer approval of the minutes of February 24, 2006 and March 10, 2006 Regular Meetings, March 24, 2006 Special Meeting, April 12, 2006 Emergency Meeting, and April 21, 2006 Regular Meeting. Without objection, the motion passed.

III. CORRESPONDENCE

Acting Director Paula Blas stated that on May 8, 2006, the Retirement Fund received correspondence from the Attorney General's (AG's) Office to put a stop payment on the check authorizing payment to Joseph Rios in the amount of \$220,000. Acting Director Blas stated that the name Joseph Rios might be a typographical error. Acting Director Blas stated that on May 11, 2006, the Fund received a search warrant from the Attorney General's Office. Trustee Anthony Blaz noted for the record that the letter from the AG showed the name of Joseph Rios, not John Rios.

Secretary James Taylor inquired on the status of the check. Acting Director Blas stated that the check was cashed on May 3rd or May 4th, 2006.

A. May 15, 2006 Letter from the Law Offices of Cunliffe & Cook Regarding Appeal of Adjustment of Estimated Annuity

Acting Director Blas stated that she received a letter from Attorney Randall Cunliffe dated May 15, 2006 regarding adjustment of estimated annuity.

IV. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. Director/Chief Executive Officer (CEO) Search - Acting Director Blas stated that the interviews for the Director's position have been completed. Acting Director Blas stated that the Chairman of the Selection Committee would issue the Selection Committee report. Vice-Chairman Wilfred Leon Guerrero stated that he would like to recommend that today's meeting be recessed and by then the Selection Committee would be ready to make its report when the Board reconvenes within two weeks.

2. William Don Parkinson vs. Government of Guam, Guam Memorial Hospital Authority (GMHA) and Guam Public School System (GPSS) - Acting Director Blas stated that there has been a postponement of the hearings on the motions by all attorneys pending the decision on the application to disqualify Judge Michael Bordallo.

3. Candelaria Rios, et al. vs. Joseph Ada, et al (Special Proceedings Case No. SP206-98) - Acting Director Blas stated that Judge Arthur Barcinas handed down the ruling for the COLA to be paid to the eligible Government of Guam retirees. Acting Director Blas stated that a summary judgment has not been issued. Acting Director Blas stated that the Retirement Fund's role would be to calculate the COLA and funding for the COLA would be from the General Fund.

4. ***Investment Mandate Amendments – Section 8157 and Section 8158*** - Acting Director Blas stated that the public hearing on Bill Nos. 295 and 296 were held on May 3, 2006. Acting Director Blas stated that both bills received positive responses.
5. ***Organic Act / Trust Agreement*** - Acting Director Blas stated that the proposed Trust Agreement is currently being reviewed by Secretary Taylor. Acting Director Blas stated that Resolution No. 2006-002 would be forwarded sometime soon.
6. ***Request for Proposal (RFP): Custodial Bank Services*** - Acting Director Blas stated that at the April 21, 2006 Board meeting, it was decided to have Secretary Taylor review the RFP. Acting Director Blas stated that a draft of the RFP has been submitted to Secretary Taylor for his review and comments.
7. ***Request for Proposal (RFP): Medical Consultant Services*** - Acting Director Blas stated that a draft RFP for professional services has been submitted to the Members and Benefits Committee for their review and comments.
8. ***Request for Proposal (RFP): Legal Services for Investment Portfolio Monitoring Services*** - Acting Director Blas stated that the Selection Panel will meet next week to evaluate the proposals.
9. ***Public Law 28-94: Guam Telephone Authority (GTA) Sale Proceeds*** - Acting Director Blas stated that the remainder of the \$7.7 Million from Public Law 28-04 was received by the Fund on April 24, 2006.
10. ***Public Law 28-38*** - Acting Director Blas stated that the Fund is continuing to process applications for retirement for Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA) eligible employees. Acting Director Blas stated that the monthly interest payments for GPSS and GMHA are current.
11. ***Public Law 28-66*** - Acting Director Blas stated that Public Law 28-66 appropriated \$1.4 Million from the General Fund to the Retirement Fund as follows:
 - \$660,000 for the Guam Memorial Hospital Authority's (GMHA) past due contributions for FY2005;
 - \$800,000 for outstanding retirement contributions for GMHA employees waiting to retire, who have filed notices of intent to retire with the Retirement Fund.Acting Director Blas stated that \$300,000 from the outstanding retirement contributions were received by the Fund. Secretary Taylor asked whether there is an outstanding balance of \$500,000. Acting Director Blas replied "yes."
12. ***Century 21, Realty Management Company, Inc.: Parking Lot Lease*** - Acting Director Blas stated that the Retirement Fund received the amended Use Agreement from First Hawaiian Bank and the Retirement Fund is in the process of finalizing the agreement for signatures.
13. ***John Rios' Request for Indemnification/Reimbursement of Attorney Fees*** - Acting Director Blas stated that at the April 21, 2006 Board Meeting, the Board approved payment for partial reimbursement of up to \$220,000 for Mr. Rios' attorney fees. Acting Director Blas stated that payment was made.

Financial Report

1. Contributions - Acting Director Blas stated that all agencies are current with their fiscal year 2006 employee and employer contributions.

2. Financial Statements / FY2005 Audit - Acting Director Blas stated that the books for the month ending April 2006 are closed and the FY2005 final draft of the audit is being presented to the Board for approval.

3. FY2006 Retirees' Supplemental Benefits - Acting Director Blas stated that the supplemental benefits for retirees and survivors for the month of April 2006 were paid. Acting Director Blas stated that the supplemental benefits are funded by the General Fund.

4. Medicare Reimbursements - Acting Director Blas stated that the FY2005 appropriation for the Medicare Reimbursements funded by the General Fund and administered by the Retirement Fund has resulted in a shortage of funding for the fiscal year. Acting Director Blas stated that a letter was sent to the Legislature for the additional funding needed for the FY2005 Medicare Reimbursements. Acting Director Blas stated that for FY2006, Fund staff is currently assessing the dollar amount needed for the remainder of the fiscal year and this amount will be communicated to the Legislature for the additional funding.

V. LEGAL COUNSEL'S REPORT

A. Litigation Update

Acting Director Blas stated that Legal Counsel Pat Mason provided an update of the Retirement Fund's litigation cases.

VI. TREASURER'S REPORT OF FINANCIAL STATUS

No report was made at this time.

VII. STANDING COMMITTEE REPORTS

A. Members and Benefits Committee

Trustee George Santos reported to the Board of Trustees on his Committee's April 2006 end of the month report.

Secretary Taylor pointed out that the Social Security numbers on the Annuity Worksheets should be blacked out.

Rosalia Bordallo, General Accounting Supervisor, asked for clarification that the Fund does not wait for Board approval to put retirees on estimated annuity. Chairman San Agustin stated that the law states that retirees be on payroll within thirty (30) days after application. Chairman San Agustin pointed for the record that the Board occasionally did not have a quorum during a period in 2001, 2002 and 2003 so staff was forced to do an estimate of annuity.

Trustee George Santos, seconded by Trustee Gerard Cruz, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 9, including the attached Annuity Worksheets, based on the Committee's review and findings during their meeting of April 19, 2006 and subsequent meetings thereafter. Without objection, the motion passed.

B. Investment Committee

1. Funding of Grantham, Mayo, Van Otterloo & Co. LLC (GMO) - Revisions to Appendix A

Vice-Chairman Leon Guerrero reported that the Investment Committee Meeting Minutes of September 2, 2005 and April 7, 2006 were approved on May 5, 2006.

Vice-Chairman Leon Guerrero stated that Grantham, Mayo, Van Otterloo & Co. LLC (GMO) was approved at the last Board meeting. Mrs. Rosalia Bordallo, General Accounting Supervisor, stated that she received an email from Jonathan Goll that the Boston office has not received the legal contract from the Singapore office. Mrs. Bordallo stated that the Boston office would like to first review the contract but that the contract was already signed. Trustee Cruz recommended sending a letter to GMO that the Fund is looking at an executed contract. Controller Diana Bernardo stated that she would review the contract and draft a letter to GMO.

2. Enron

Acting Director Blas stated that copies of partial settlement on Enron were provided to the Board. Mrs. Bordallo stated that Enron dollar amounts are not settled yet. Chairman San Agustin asked whether the rate of recovery could be determined. Mrs. Bordallo replied, "yes."

3. Quarterly Review

Vice-Chairman Leon Guerrero stated that he is reviewing what would be the best time to bring Mercer to Guam for the quarterly review. Vice-Chairman Leon Guerrero stated that it might be best to wait until after the pending legislation passes.

C. Audit Committee

1. FY2005 Audit - Status Report

Trustee Anthony Blaz reported to the Board of Trustees that the Audit Committee has reviewed the Draft Audited Financial Statements for the fiscal years ended September 30, 2005 and September 30, 2004. Trustee Blaz reported that the Audit Committee has also reviewed the Draft Report on Compliance and Internal Control for the years ended September 30, 2005 and September 30, 2004.

Trustee Blaz stated that the Audit Committee is recommending approval of the Draft Audited Financial Statements and the Draft Report on Compliance and Internal Control for the fiscal years ended September 30, 2005 and September 30, 2004. Trustee Blaz stated that the draft reports would be finalized upon the Board's approval.

Dave Burger stated that he is just about ready to issue the audit in final form. Mr. Burger stated that, overall, the performance was good compared to last year. Mr. Burger asked Mrs. Bordallo how much is being liquidated. Mrs. Bordallo stated \$60 Million. Chairman San Agustin asked what the impact is. Trustee Cruz stated that the difference between the required for this year and the required for last year is the impact. Trustee Cruz stated that the impact next year is a higher contribution.

Chairman San Agustin inquired about the audit finding on the Defined Contribution Plan (DC) enrollment of employees not choosing portfolios. Chairman San Agustin stated that there is a potential liability. Mrs. Bordallo suggested that the Board make a policy that if the member does not come in to sign up, the Retirement Fund will return the funds to the agency and make the agency liable for the contributions. Secretary Taylor stated that this was a problem identified at the very first meeting with the new Board and the Board needs to resolve this issue.

Mr. Burger stated that the Board should address the interest rate risk. Secretary Taylor asked whether statistics have been done on a comprehensive basis in the last six to seven years. Mr. Burger replied, "yes." Mr. Burger stated that it should be on the website.

Trustee Anthony Blaz, seconded by Trustee Gerard Cruz, moved to approve the Fiscal Year 2005 Audit Report. Without objection, the motion passed.

2. 2005 Management Letter with Responses

Controller Bernardo provided the Board with a copy of the 2005 Draft Management Letter with Responses.

D. Governmental Liaison

No report was made at this time.

VIII. OLD BUSINESS

A. Actuarial Valuation as of September 30, 2005 and Funding and Management Review by Milliman Consulting

Rich Wright, Milliman, Inc. stated that a few changes would be made on the actuarial valuation before it is finalized. Mr. Wright stated that the audited financial statement would be used. Mr. Wright stated that he would have the finalized report using the audited assets for valuation.

Mr. Wright stated that the required contribution rate for the 2006-2007 fiscal years was calculated at 27.22% based on the unaudited assets. Using the audited assets, the rate will increase to 27.45%. Mr. Wright stated that of that amount, the 20.35% is for the unfunded liability of the Defined Benefits Plan. Mr. Wright stated that 4.32% was for the normal cost of the Defined Benefits Plan. Mr. Wright further stated that 2.55% is for contributions to the Defined Contributions Plan. Mr. Wright stated that this reflects the 5% of the contributions being pulled away from the Defined Benefits Plan and put into the Defined Contributions Plan.

Mr. Wright stated that the Defined Benefits Plan payroll has decreased from \$196 Million from this fiscal year compared with \$203 Million last year.

Mr. Wright stated that the unfunded accrued liability decreased from \$1.354 Billion as of September 30, 2004 to \$1.270 Billion as of September 30, 2005 due mainly to investment returns greater than expected. The payment required to amortize the unfunded accrued liability has decreased from \$78.1 Million to \$75.0 Million. The payment as a percentage of payroll has decreased from 21.35% to 20.35%.

Mr. Wright stated that based on the unaudited financial statements, they calculated an investment return on the total market value of assets of 10.7% for the fiscal year ending September 30, 2005. The average annual return on the actuarial value of assets for the last five fiscal years has been 5.8%.

Mr. Wright stated that the Fund's administrative expenses for the Defined Benefits Plans were \$3,076,635 for the year ending September 30, 2005. We have used this as the expense assumption for future years. The prior valuation assumed administration expenses of \$2,599,657 per year, which was net of the adjustment for bad debts.

Mr. Wright stated that there have been no changes in plan provisions or actuarial assumptions since the prior actuarial valuation.

Mr. Wright provided the Board of Trustees with a table summarizing the principal valuation results and compared them with the prior year.

Trustee Gerard Cruz, seconded by Trustee George Santos, moved to approve the Actuarial Valuation as of September 30, 2005 and the Funding and Management Report by Milliman Consulting. Without objection, the motion passed.

IX. EXECUTIVE SESSION

Vice-Chairman Wilfred Leon Guerrero, seconded by Trustee George Santos, moved to approve that the Board of Trustees go into Executive Session. Without objection, the motion passed.

EXECUTIVE SESSION: 3:05 p.m.

RECONVENED: 3:50 p.m.

Secretary James Taylor, seconded by Trustee George Santos, moved to approve the motion before the Board of Trustees and that the Retirement Fund's Legal Counsel, Carlsmith Ball, should provide a chronology of facts related to payment of attorney fees and the general law applicable to the situation. This will then be resolved into Resolution No. 2006-004. Without objection, the motion passed.

X. RECESS

Trustee Anthony Blaz, seconded by Trustee George Santos, moved to recess, and without objection, the meeting recessed at 4:05 p.m. May 12, 2006 and will reconvene on Friday, May 26, 2006 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 12, 2006 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on November 17, 2006.

James J. Taylor, Board Secretary

RECORDING SECRETARY:

Jackie Blas