



**Financial Highlights
Government of Guam 457 Deferred Compensation Plan
Calendar Year 2023**

July 3, 2024

The Government of Guam’s 457 Deferred Compensation Plan (the “457 Plan”) received an unmodified (clean) opinion from independent auditors, Burger & Comer, P.C. (BC), on its calendar year (CY) ended December 31, 2023, financial statements. In BC’s Report on Internal Control over Financial Reporting, they did not identify any deficiencies in internal control that are considered material weaknesses. In the report on Compliance & other Matters, BC did not identify any instances of non-compliance or other matters that are required to be reported under the Government Auditing Standards.

The 457 Plan ended CY 2023 with a fiduciary net position of \$155.2 million (M), an increase of \$29.7M (or 24%) from the prior year’s \$125.5M.

Investment Balances Consistently Increasing

As reflected in the Table below, the 457 Plan investments increased by \$29.1M from \$119.9M as of CY 2022 and increased further by \$11.2 M as of March 31, 2024. However, it is not possible to state the rate of return of the 457 Plan over a particular time because it is not managed by a single portfolio. Instead, each participant selects their own investment strategy.

Table: 457 Plan Investment Balances

| As of | Investment | Rate of Return |
|-------------------|-----------------------|----------------|
| | Balance (in millions) | |
| December 31, 2022 | \$119.9 | Not Applicable |
| December 31, 2023 | \$149.0 | |
| March 31, 2024 | \$160.2 | |

The Government of Guam Retirement Fund (GGRF) Board of Trustees is responsible for the administration of the 457 Plan, while Empower Retirement (Empower) is the trustee and record keeper. Empower invests funds received from contributions in accordance with participants’ elections, records investment sales and interest income, and makes distribution payments to participants. During CY 2023, GGRF paid Empower \$252.5 thousand (K) in administrative fees.

The 457 Plan has weathered periods of market volatility and uncertainty in the past. The GGRF Board of Trustees continues to manage the 457 Plan in the same disciplined manner as it has in the past.

Total Plan Additions Increased due to Increased Investment Income by \$43.7M

The net investment income increased by \$43.7M from a negative \$23.4M in FY 2022, resulting mainly from the net appreciation in fair value of investment due largely to investment market

fluctuations. In addition, member contributions increased by \$1.1M, resulting in an overall increase in total fund additions by \$44.8M, net of decreases in interest/dividends and investment expenses totaling \$151K. The increase of \$1.1M in member contributions was primarily due to fluctuations in the average contributions per participant and the number of active plan participants. There were 7,604 active participants with account balances as of December 31, 2023, an increase of 446 from CY 2022.

Increase in Deductions from 457 Plan by \$435K

The money used to pay participants' benefits is accumulated from contributions made by each participant and income generated from the participant's investments, including investment appreciation and interest/dividends. In CY 2023, benefits paid to participants increased by \$435K, from \$6.0M in CY 2022 to \$6.4M. This was attributed to: 1) the number of participants choosing to take lump sum distributions at retirement or upon severance of employment in any one year; 2) changes in the number of participants receiving benefits in the 457 Plan; and 3) the size of the participant's account balance.

GovGuam 457 Plan Participation and Contributions

The 457 Plan was established in May 1999. In January 2018, it was amended to comply with the Public Law No. 33-186 requirements, which established the "Government of Guam Defined Benefit 1.75 Retirement System (DB 1.75 Plan)." Participation in the 457 Plan is voluntary for all employees who are members of the GovGuam Defined Benefit Plan and GovGuam Defined Contribution Retirement System; however, participation is mandatory for all employees who are members of the DB 1.75 Plan. These employees are required to contribute a minimum of 1% of their base salary to the 457 Plan. Each participant's account is credited with the participant's contributions and allocations of 457 plan earnings, including interest, dividends, and gains/losses from investments.

Plan participants, including DB 1.75 participants, may contribute up to 100% of their annual compensation, not to exceed Internal Revenue Service limits. Participants may direct the investment of their accounts in various investment options offered by the 457 Plan. The investment options are monitored by GGRF or the Board of Trustees, which comprises seven members, four of whom are elected while the Governor appoints three with the consent of the Guam Legislature.

Risks and Uncertainties

Investment securities are exposed to various risks, such as credit risks, custodial credit risks, interest rate risks, concentration of credit risks, and foreign currency risks. Interest Rate Risk is the risk when changes in interest rates adversely affect the value of the investment; a Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investment to a single issuer; and a Foreign Currency Risk refers to the risk that changes in exchange rates will adversely affect the fair value of an investment.

As of December 31, 2023, there were 24 mutual fund investment options with an overall value of \$149.0M. Two mutual funds valued at \$28.1M have exposure to both Concentration of Credit Risk and Interest Rate Risk, while three valued at \$16.0M have exposure to Foreign Currency Risk.

Plan Termination

Although it has not expressed an intent to do so, the GovGuam Legislature may, in its sole discretion, completely discontinue contributions or terminate the 457 Plan by action of the GGRF Board of Trustees and direct the GGRF Board of Trustees with respect to the disposition of the Trust. GovGuam established the 457 Plan with the bonafide intention and expectation that the 457 Plan shall continue indefinitely.

For a more detailed discussion, refer to the 457 Plan's Financial Statements and Report on Internal Control and Compliance, and Auditor's Communication with Those Charge with Governance at www.opaguam.org and www.ggrf.com.