



# A Report to Our Members

For Fiscal Year 2011

Issued April 2012

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## MISSION

*The purpose of the Fund is to provide retirement annuities and other benefits for the employees of the government of Guam enabling them to accumulate reserves for themselves and their survivors to meet the hazards of old age, disability, death & termination of employment.*

## About US

The Government of Guam Retirement Fund (the “Fund”) was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. Plans administered by the Fund are as follows:

The *Defined Benefit (DB) Plan* is a single-employer defined benefit pension plan. The DB plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Retirement System.

The *Defined Contribution Retirement System (the “DC Plan”)* was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam. The DC Plan is a single-employer pension plan and shall be the single retirement program for all new employees whose employment commences on or after October 1, 1995. The DC Plan, by its nature, is fully funded on a current basis from employer and member contributions.

The *Deferred Compensation Plan* (the “457 Plan”) is available to both DB and DC Plan members. It is a retirement savings plan that allows eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a **voluntary** salary contribution. Contributions and earnings are **tax-deferred** until money is withdrawn. Distributions are usually taken at retirement, but participants can also take distributions if they terminate employment.

### Board of Trustees

The Retirement Fund Board of Trustees (the “Board”) is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board comprises seven members. Three are appointed by the Governor with the advice and consent of the Legislature. Four trustees - 2 retirees and 2 active members - are elected by the class of members they represent. The term of office for all Board Members is five years.

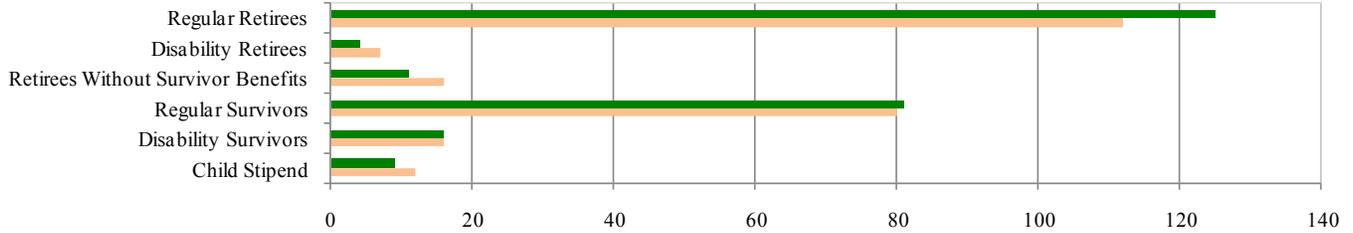
The Fund is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

	FY 2011	FY 2010
<b>Participant Counts - DB Plan</b>		
Active	3,361	3,594
Retired	7,117	7,082
Total Actives and Retirees	10,478	10,676
Inactive and Terminated Members with Accumulated Contributions		
	5,673	6,466
	16,151	17,142
<b>Participant Counts - DC Plan</b>		
Active	7,690	7,471
Retired	380	278
	8,070	7,749

# How We Have Progressed

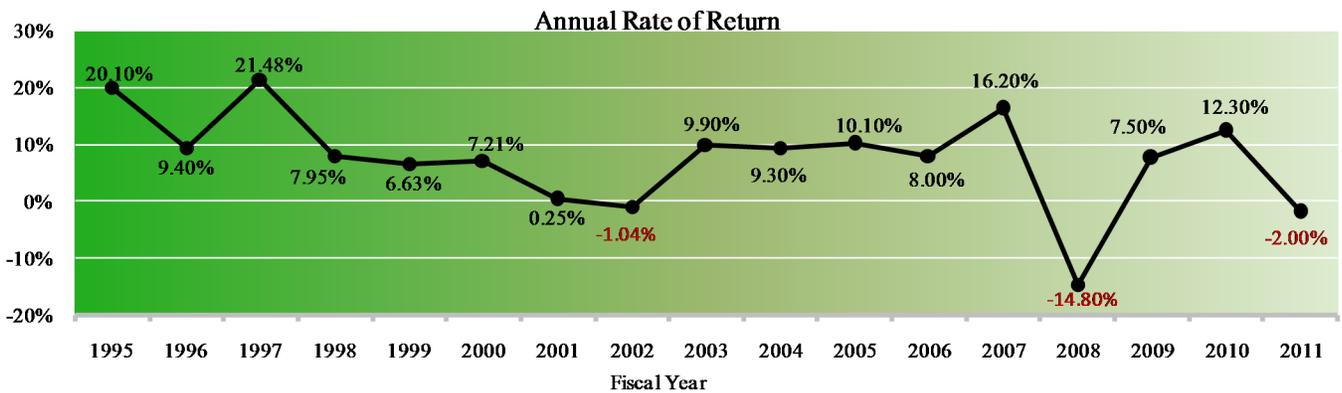
## DEFINED BENEFIT PLAN

New DB Retirees



	Regular Retirees	Disability Retirees	Retirees Without Survivor Benefits	Regular Survivors	Disability Survivors	Child Stipend
2011	125	4	11	81	16	9
2010	112	7	16	80	16	12

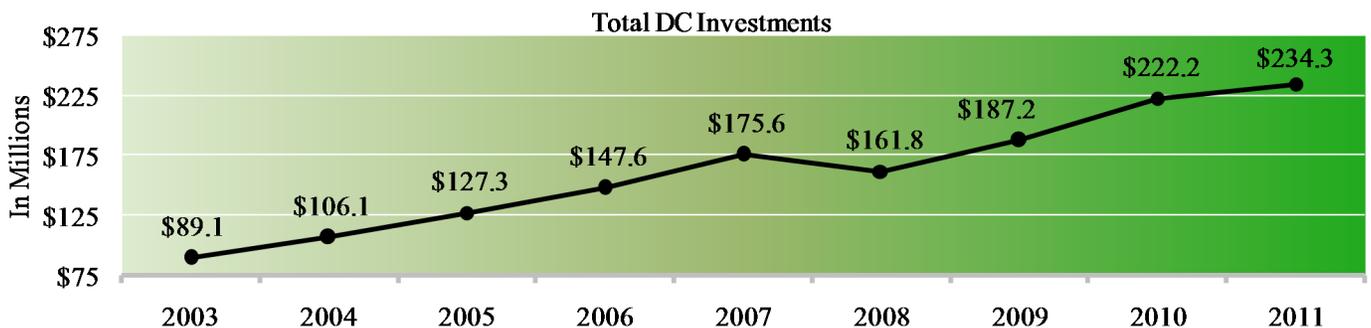
For 2011, the **DB Plan** investment portfolio posted a negative return of 2.0%, compared to 2010's return of 12.3%, and 2009's return of 7.5%.



GGRF investment returns averaged 7.6% percent from 1995 through 2011. Over that period, there have been three years with negative returns, all of which occurred in the last ten years.

## DEFINED CONTRIBUTION PLAN

For 2011, DC Plan investments totaled \$234.3M compared to the \$222.2M and \$187.2M in 2010 and 2009, respectively.

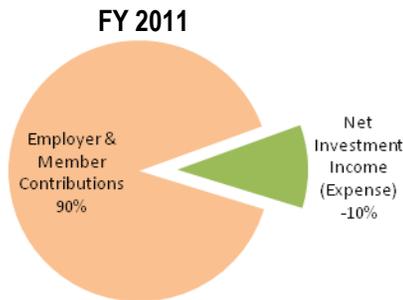


In addition, DC Plan employer and employee contributions increased by \$2.6 million or 9.9% over 2010. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2011.

# Income & Expense

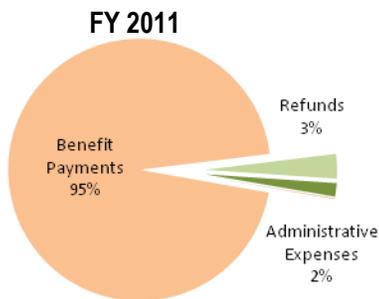
## DEFINED BENEFIT PLAN

### DB Contributions and Net Investment Income



	2011	2010
Net Appreciation in Fair Value of Investments	-\$46,794,683	\$108,837,367
Interest, Dividends & Other		
Investment Income	38,161,152	40,533,708
Less Investment Expenses	4,958,871	3,615,702
<b>Net Investment Income (Expense)</b>	<b>-13,592,402</b>	<b>145,755,373</b>
<b>Employer &amp; Member Contributions</b>	<b>118,424,693</b>	<b>115,753,096</b>
<b>Total Additions</b>	<b>104,832,291</b>	<b>261,508,469</b>

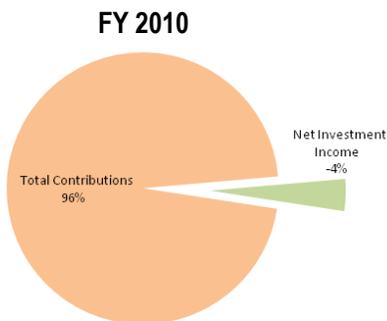
### DB Expense



Benefit Payments	176,716,825	173,808,545
Refunds	3,615,187	2,871,814
Interest on Refunds	1,968,048	1,362,795
Administrative Expenses	3,047,424	2,778,942
Transfers to DC Plan	111,474	6,836
<b>Total Deductions</b>	<b>185,458,958</b>	<b>180,828,932</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>-\$80,626,667</b>	<b>\$80,679,537</b>

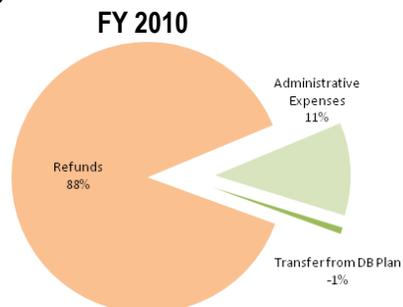
## DEFINED CONTRIBUTION PLAN

### DC Contributions and Net Investment Income



	2011	2010
Net Appreciation in Fair Value of Investments	-\$5,970,107	\$15,033,002
Interest, Dividends & Other		
Investment Income	4,911,745	2,624,057
Less Investment Expenses	74,000	-48,000
<b>Net Investment Income</b>	<b>-1,132,362</b>	<b>17,609,059</b>
<b>Total Contributions</b>	<b>28,619,272</b>	<b>26,045,757</b>
<b>Total Additions</b>	<b>27,486,910</b>	<b>43,654,816</b>

### DC Expense



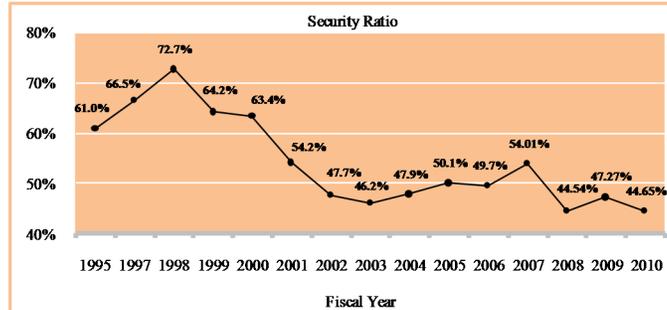
Refunds	12,716,717	7,837,201
Administrative Expenses	1,596,283	1,585,959
Transfer from DB Plan	-111,474	-6,836
<b>Total Deductions</b>	<b>14,201,526</b>	<b>9,416,324</b>
<b>Net Increase (Decrease) in Net Assets</b>	<b>\$13,285,384</b>	<b>\$34,238,492</b>

## Independent Audit

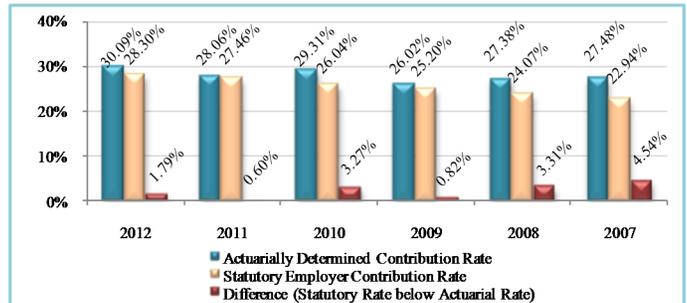
An independent audit was conducted, resulting in a clean audit opinion. Complete financial information can be found at our website: [www.ggrf.com](http://www.ggrf.com).

## DEFINED BENEFIT PLAN

Underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.54 billion at September 30, 2010. This represents an increase in the unfunded liability ratio from 39% in 1995 to 55.3% in 2010, and a decrease in the security ratio, from 61.0% in 1995 to 44.7% in 2010. The decrease in the security ratio reflects a decline in GGRF's ability to meet future benefit obligations.



Management continues to recommend that the Guam Legislature fully fund the actuarially determined contribution rate each year. The uncertainties in the investment markets, and the years remaining in the funding period underscores the need for the Guam Legislature to fully recognize the magnitude of the problem and provide full funding each year. A comparison of the "actuarially determined" versus the "statutory" employer contribution rates for 2007 to 2012 are reflected below.



## Issuance of General Obligation Bond for Repayment of Outstanding Contributions

During Fiscal Year 2011, the Guam Memorial Hospital Authority (GMHA) was delinquent in the remittance of both employer and member contributions to GGRF.

### Impact of Late Contributions by GMHA

GMHA's failure to make timely remittances has a negative effect on GGRF, and GMHA and its employees as noted below:

- GGRF has liquidated DB Plan investments in order to cover benefit payments. Continued non-remittance of contributions will undoubtedly result in continued liquidations.
- In addition to applicable interest, a 1% penalty is assessed for late DB contributions.
- GMHA exposes itself to both civil and criminal liability. Its employees can seek enforcement assistance through the Guam Department of Labor and the U.S. Department of Labor.
- GMHA's delinquency prevents its eligible employees from retiring. In addition, DC contributions not deposited timely may result in harm to the member's account.

As a result of GMHA's FY2011 delinquencies, and General Fund budget shortfalls, **Public Law 31-74** was passed in June 2011, mandating the following:

- A reduction in the statutory employer contribution rate from 27.46% to 21.44% for agencies receiving appropriations from the Guam Legislature and for Federally-funded programs, between June 4, 2011 and September 30, 2011.
- That the GGRF Board and the Governor of Guam enter into the "Health Insurance Bail-out Agreement of FY2011" reducing the contribution rate accordingly (entered into on June 15, 2011).

- An amendment to *P.L. 28-38* to include "interest-only" payments on 1) GMHA's FY2011 delinquent DB Plan contributions, and 2) the savings from the reduction of the government contribution rate.

*Public Law 28-38 (June 2005; amended Sept. 2007 by P.L. 29-19; and Sept. 2010 by P.L. 30-196), requires the General Fund to remit monthly "interest-only" payments to the GGRF for GMHA and Guam Department of Education (GDOE) receivables for various pay periods during the fiscal years ended September 30, 1988 through 2004.*

- That GMHA remit to GGRF, all of the savings arising from the reduced statutory employer contribution rate, and additional GMHA funds as needed, to ensure remittance of all FY2011 GMHA DC Plan delinquent contributions, by September 30, 2011.
- That the Governor of Guam shall include the re-financing of the outstanding principal and interest owed to the GGRF in the next General Obligation Bond "Bond" issue of the government of Guam."

Although the November 2011 Bond Issue did not include repayment of amounts owed to GGRF in accordance with *P.L. 31-74*. During a February 2012 meeting with the GGRF Director and Board of Trustees, the Governor indicated that repayments to GGRF will be included in the next Bond issue. GGRF Management notes that if not included in the next Bond issue, Agencies included in the rate reduction may be deemed delinquent, and GGRF will be forced to suspend retirements by employees of these Agencies until such amounts are paid in full.

## DEFINED CONTRIBUTION PLAN

### Enhancing the Retirement Benefits of DC Plan Members

The GGRF Board is still considering alternative plan designs to enhance the retirement benefits available to DC Plan members.

With member ("participant") balances averaging less than \$40,000, the Board is cognizant that 1) most participants are not saving enough, 2) many lack the basic knowledge of investment concepts and practices, 3) participant account balances are not protected from adverse market conditions, and 4) participants can exhaust their assets during retirement.

The Board has made some changes to the investment options available to DC participants, but in light of the average investment balances, the continued volatility of the investment environment, and the difference in benefits between the existing DB Plan and the DC plan, it appears that more drastic measures must be taken to improve the sustainability of the DC Plan.

If participants are left without adequate income when they retire, Gov Guam may find itself subsidizing their costs of living through public assistance programs. Unlike the DB Plan which provides a guaranteed retirement benefit for the life of the member, the DC Plan provides no guaranteed benefit. The retirement benefit of DC Plan members depends on the amount of money accumulated in their participant account at retirement.

Upon completion of its assessment of benefit enhancement options, legislative action will be needed to move forward.

## We would like to hear from you...

Do you like this report? Do you believe it should include different or additional information? Please contact the Fund through our website [www.ggrf.com](http://www.ggrf.com), by telephone at (671)475-8900, or by fax at (671) 475-8922. More information is available on our website.