



Executive Summary
Effect of Non-Base Pay on Retirement Annuity
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Inclusion of non-base compensation in the calculation of retirement annuity is a unique benefit afforded to certain Defined Benefit (DB) members who elected to contribute the mandated contribution rate for non-base earnings in addition to their base pay. DB members enrolled by March 1993 are the only Government of Guam (GovGuam) employees allowed this additional benefit which can potentially increase their lifetime guaranteed retirement annuity.

In contrast, Defined Contribution (DC) members whose retirement benefit depends on the balance in their account upon retirement, are not able to apply non-base salary earnings toward their 5% contributions to their individual accounts. Likewise, the government does not match the 5% employee contribution in consideration of non-base pay earned by the DC member.

Our review of the eight sampled DB members from the top 10 agencies in Fiscal Year (FY) 2015 who elected to include non-base pay in their annuity calculation showed that they were able to spike their retirement annuity by an average of 55% or \$30 Thousand (K). The spike in annuity ranged from a low of 10% or \$8K to as high as 159% or \$50K.

Non-base pay represents payments above an employee's entitlement to regular work hours and base salary. These payments include overtime, bonuses, hazardous duty pay, night differential, holiday pay, and other specialty type pay. From FY 2011 through FY 2015, GovGuam paid a total of \$41.1 million (M) in non-base pay for active DB members. Our analysis indicated that the top 10 agencies received the bulk of non-base in FY 2015, accounting for 90% or \$8M of the \$8.9M paid to active DB members. The \$8.9M is an increase of \$1.7M or 24% from FY 2011.

Top 10 Agencies for Non-Base Pay in 2015

Only certain positions in the GovGuam are allowed non-base compensation. The most common are uniformed personnel that include police, firefighters, and nurses. Our review of membership data and payroll cost, provided by the Government of Guam Retirement Fund (GGRF), disclosed that the following GovGuam agencies ranked above all other agencies in FY 2015 for non-base compensation: (1) Guam Fire Department (GFD), (2) Guam Police Department (GPD), (3) Guam Memorial Hospital Authority (GMHA), (4) Guam Power Authority, (5) Port Authority of Guam, (6) Department of Corrections, (7) University of Guam, (8) Judiciary of Guam, (9) Guam Waterworks Authority, and (10) Guam Community College.

Of the top 10 agencies, GFD is by far the top agency to receive non-base pay, accounting for \$3M or 34% of total non-base pay. The next agency is GPD receiving, \$1.4M or 16%. Together, these two agencies account for 50% of total non-base pay. By comparison, the remaining 37 agencies

accounted for only \$878K of the total FY 2015 non-base pay, which shows a wide disparity when it comes to non-base pay.

Effect of Non-Base Pay on DB Employees' Annuities

GGRF does not maintain a database of DB members who elected the inclusion of non-base pay in their annuity calculation and only determines a DB member's non-base pay election upon the member's retirement. GGRF acknowledges it cannot estimate the percentage of remaining DB members who elected non-base pay inclusion. Since the number of members who elected inclusion of non-base pay is unknown, GGRF also cannot calculate the full potential liability for DB members.

In order to determine the effect of non-base pay on annuities for the purpose of this audit, the audit team sampled the top annuity earners (earning \$80K or more) in FY 2015 from each of the top 10 agencies who received non-base pay in FY 2015. We found that eight DB members who elected to include non-base pay in their annuity calculation were able to spike their lifetime annuity by an average of 55% or \$30K. The highest increase was by 159% or \$50K.

During our review of the files, we encountered challenges in recalculating the annuity due to the manual process and lack of consistency of some files. We recommend this process be reviewed by GGRF management to find ways to improve the documentation efficiency and effectiveness.

Of the eight files tested, we found one of the top annual salaries for a GMHA retiree was understated by \$750.47. This in effect understated the Retiree's average annual salary by \$250.16 and understated their retirement annuity by \$186.84 or a total of \$3,409.75 for the 18 years and 3 months period of retirement (January 1, 1998 to April 1, 2016). We recommend GGRF pay the amount owed and adjust the annuity for this retiree moving forward, in accordance with Title 4 of the Guam Code Annotated Chapter 8 § 8122.1.

Conclusion and Recommendation

Inclusion of non-base pay gives only a select few of DB Plan retirees the ability to spike their annuity. For example, uniformed personnel and nurses are the most likely to benefit as the majority of GovGuam employees do not have non-base pay. Of the eight files tested, we found non-base pay increased annuities by an average of 55% or \$30K. In addition, DC members do not have this benefit. In line with their fiduciary responsibility, we recommend the GGRF Board of Directors address this disparity, and reevaluate this benefit.

As a matter of disclosure, the Public Auditor is a DB member that elected non-base pay inclusion and all auditors in the Office of Public Accountability are DC members, including the auditors who conducted this review.

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