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Government of Guam 457 Deferred Compensation Plan – Calendar Year 2020 Financial Highlights

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Hagåtña, Guam – The Office of Public Accountability has released the Government of Guam (GovGuam) 457 Deferred Compensation Plan (457 Plan) financial statements and report on internal control and compliance for calendar year (CY) 2020. The 457 Plan ended CY 2020 with a \$21.5 million (M) increase in net position amounting to a total net position of \$117.5M from \$96.0M in CY 2019. This was primarily due to appreciation in the fair value of investments.

Independent auditors Burger & Comer, P.C. rendered an unmodified or “clean” opinion on the 457 Plan financial statements. The 457 Plan’s Report on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments.

The Government of Guam Retirement Fund (the Fund) is responsible for the administration of the 457 Plan. Empower Retirement (Empower) is the trustee and record keeper of the 457 Plan. Empower invests funds received from contributions in accordance with participants’ elections, records investment sales, interest income, and makes distribution payments to participants. During CY 2020, the Fund paid \$177 thousand (K) in administrative fees to Empower.

Coronavirus (COVID-19) Impact on the 457 Plan

At the end of the first quarter of CY 2020 (March 31, 2020), the 457 Plan investments totaled \$78.3M, compared to the December 31, 2019 balance of \$91.8M. This represented a decline in market value of \$13.5M. Conditions changed in February 2020 when COVID-19 became a global pandemic. As COVID-19 continued to spread, governments deployed large fiscal stimulus programs, while central banks slashed interest rates and significantly expanded asset purchase programs, enabling economies to build a bridge to recovery. As such, 457 Plan investments recovered and ended CY 2020 on a strong note with \$114.0M in investments.

The COVID-19 global pandemic caused unprecedented volatilities in the financial markets. Since the portfolio’s inception, the 457 Plan endured and survived extreme market events stemming from terrorist attacks and global financial crises. The Fund continues to manage the 457 Plan in the same disciplined manner as it had in the past periods of market volatility and uncertainty. Due to the significant uncertainties caused by COVID-19, the Fund is unable to reasonably estimate the ultimate financial impact.

GovGuam 457 Plan Participation and Contributions

The 457 Plan was established in May 1999. It was amended in January 2018 to comply with the requirements of Public Law No. 33-186, 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, it 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.

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. There are 22 mutual fund options with an overall value of \$114.0M as of December 2020. Participants who do not choose an investment option for all or part of their account will be deemed to have elected the default investment alternative under the 457 Plan for that portion of their account balance.

Increase in Additions

In CY 2020, the 457 Plan's investments were \$114.0M at fair value. This was a \$22.3M increase from \$91.8M in CY 2019. The money used to pay benefits is accumulated from contributions made by each participant and income generated from the participant's investments, including investment appreciation and interest. Investment income net of fees during CY 2020 was \$14.4M.

The 457 Plan's member contributions increased by approximately \$171K or 1.4% in CY 2020. This change was primarily due to fluctuations in the average contribution per participant and the number of active plan participants. There were 6,846 active participants with account balances in CY 2020, which is an increase of 498 from CY 2019's 6,348 active participants.

Increase in Deductions

Benefits paid to participants increased by \$1.1M from \$4.0M in CY 2019 to \$5.1M in CY 2020. This was largely due to COVID-19 related distributions in accordance with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the number of participants choosing to take a lump sum distribution at retirement in any one year, changes in the number of participants receiving benefits in the 457 Plan, as well as the size of their account balance. Distributions are largely due to retirements and severance of employment.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis or review the reports in their entirety at www.opaguam.org and www.ggrf.com.