



Government of Guam Retirement Fund FY 2018 Financial Highlights

March 7, 2019

The Government of Guam (GovGuam) Retirement Fund (Fund) closed fiscal year (FY) 2018 with a \$35 million (M) increase in net position (income) for the Defined Benefit (DB) plan, and a \$42.5M increase in net position for the Defined Contribution (DC) plan. The Fund's rate of return on its DB Plan investment portfolio was 5.75% in FY 2018 compared to 11.88% in FY 2017, resulting in an average return rate of 8.37% from 1995 through 2018.

Independent auditors, Burger • Comer • Magliari, rendered an unmodified or "clean" opinion on the Fund's financial statements. FY 2018 is the 13th consecutive year that the Fund's Report on Compliance and Internal Control contained neither material weaknesses nor significant deficiencies. The Fund also did not receive any Management Letter comments. Although the Fund does not receive any federal funding, however, OPA deems them equivalent to a "low-risk auditee" because of the Fund's accomplishments and issuing their financial audits by March 31st (with FY 2017 being the exception).

DC Members Transfer to DB 1.75

In September 2016, Public Law (P.L.) 33-186 was passed which created alternative options to the DC Plan members: (1) DB 1.75 Plan; and (2) Guam Retirement Security Plan (GRSP), a cash balance plan. The law also increased the DC Plan member and employer contributions from 5% to 6.2%.

As of the December 31, 2017 deadline for participants to elect to transfer to the DB 1.75 Plan or GRSP, approximately 3,379 of the 8,947 DC Plan participants elected to transfer to the DB 1.75 Plan. On January 23, 2018, the DC Plan funds of employees who elected to transfer to the DB 1.75 Plan, totaling approximately \$229M, were deposited into the Fund's Northern Trust Administrative Account, and allocated to the Fund's managers/cash accounts based on the asset reallocation.

Guam Retirement Security Plan (GRSP)

Only six participants elected to participate in the GRSP. The Fund notified those that elected to transfer to GRSP that the implementation of GRSP is uncertain and remains subject to the enactment of appropriate legislation to comply with Internal Revenue Code requirements and the Lamorena Order. As a result, the six participants were allowed to evaluate their options and change their elections.

DC Plan

During 2018, DC Plan net position decreased by approximately \$186.6M or 34.8% from \$537M in FY 2017 to \$350M in 2018, due primarily to the transfer of DC Plan funds of employees who elected to transfer to the DB 1.75 Plan.

The net appreciation in fair value of investments decreased by \$25.6M from \$44.5M in FY 2017 to \$18.9M in FY 2018, while interest dividends and other investment income increased by \$6.9M from \$18.3M in 2017 to \$25.2M in FY 2018. Refunds of member contributions totaled \$31.2M, an increase by \$9.6M or 44.7% from 2017.

DB Plan Unfunded Liability

The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased \$1.25 billion (B) to \$1.27B based on the 2016 and 2017 actuarial valuation, and the actuarially determined contribution rate decreased from 27.83% to 26.56%. The unfunded liability has grown from \$552M in 1995 to \$1.27B in FY 2017. This represents a decrease in the security ratio, from 66.5% in 1997 to 60.2% in 2017, and an increase in the unfunded liability ratio from 33.5% in 1995 to 39.8% in 2017. However, the security ratio has consistently risen in the last six years, from 43.49% in 2011 to 60.2% in 2017.

Pursuant to Title 4 of the Guam Code Annotated Chapter 8 §8137, the unfunded liability is to be completely funded within 80 years from May 1, 1951. Based on the 2017 valuation, there are 15.58 years remaining in the funding period.

Post-Employment Benefits

Due to the implementation of the Governmental Accounting Standards Board (GASB) No. 73 in FY 2017, a prior year adjustment was made to include cost-of-living adjustments (COLA) and supplemental payments in net pension liability. As of FY 2018 and FY 2017, the Fund has recorded a net pension liability of \$5.3M and \$5.5M, respectively.

Other Post-Employment Benefits (OPEB)

GovGuam, through its substantive commitment to provide OPEB, maintains a cost-sharing multiple employer DB plan to provide certain post-retirement healthcare benefits to retirees who are members of the Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare.

For the life insurance plan, GovGuam provides retirees with \$10 thousand (K) of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

In FY 2018 and 2017, the Fund's required contributions to this plan totaled approximately \$693K and \$844K for each year, respectively.

For a more detailed discussion, refer to the Fund's Management's Discussion and Analysis in the audit report at www.opaguam.org.