Guam Professional Development Conference

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The Current State of the Government of Guam Retirement Fund

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Government of Guam Retirement Fund

CURRENT AND PROPOSED PLAN STATUS

Agenda

- Government of Guam Retirement Fund
  - Purpose
  - History
- Defined Benefit Plan
- Defined Contribution Plan
- Proposals being considered
  - Social Security option
  - Hybrid Plan option

Organization

- Government of Guam Retirement Fund
  - Established in May 1, 1951.
    - Originally, the assets of the plan were administered by the Director of Administration. Eventually, the GGRF was created.
    - The plan was created to help attract civil servants to local government service. Talent required included teachers, engineers, and other needed professionals to help build the local government.
  - Governance. Oversight is from a 7 member board whose membership is composed of
    - 4 are elected members
      - 2 from among retirees
      - 2 from among the active employees
    - 3 members appointed by the Governor and confirmed by the Legislature

Organization

- The Board hires an Executive Director who is responsible for managing the operations.
  - This includes
    - The execution of the Board approved strategic plan
    - The day to day operations

Defined Benefit Plan – “The Old Plan”

- Traditional pension plan.
  - Benefits are paid for using assets of the Trust Fund.
  - Law requires the trust to be fully funded by 2031
- Benefits
  - Provides a fixed income to a retiree until death
  - Maximum annuity is 85% of the average of the 3 highest salaries.
  - Provides the surviving spouse 60% of the annuity upon the death of the retiree until the spouse passes
  - It also provides a small annuity to the retiree’s minor children, up to 18 but 24 (if still in school), or for life, if the adult child is disabled.

Defined Benefit Plan

- What impacts the health of the plan

1. Contributions by the employer
   - Needs to be at actuarial rate
   - Needs to be timely

EXHIBIT 20. GASB 25 SCHEDULE OF EMPLOYER CONTRIBUTIONS

Government Accounting Standards Board (GASB) Statement No. 25 – Financial Reporting for Defined Benefit Pension Plans requires disclosure of the Schedule of Employer Contributions.

Fiscal Year Ending	Annual Required Contribution	Employer Contribution	Percentage Contributed
September 30, 1991	$ 83,988,000	$ 51,612,000	61.5%
September 30, 1992	88,187,000	54,111,000	61.4%
September 30, 1993	94,552,000	59,117,000	62.5%
September 30, 1994	99,280,000	80,965,000	81.6%
September 30, 1995	67,650,000	66,904,000	98.9%
September 30, 1996	71,187,000	68,969,000	96.9%
September 30, 1997	67,521,000	81,546,000	120.8%
September 30, 1998	61,929,000	81,877,000	132.2%
September 30, 1999	63,985,000	96,134,000	150.2%
September 30, 2000	52,463,000	85,831,000	163.6%
September 30, 2001	75,494,000	73,386,000	97.2%
September 30, 2002	75,906,000	78,087,000	102.9%
September 30, 2003	98,630,000	63,486,000	64.4%
September 30, 2004	115,978,000	63,388,000	54.7%
September 30, 2005	123,958,000	70,658,000	57.0%
September 30, 2006	117,041,000	85,771,000	73.3%
September 30, 2007	113,207,000	76,973,000	68.0%
September 30, 2008	116,063,000	86,806,000	74.8%
September 30, 2009	107,009,000	92,921,000	86.8%
September 30, 2010	129,196,000	101,232,000	78.4%
September 30, 2011	122,105,000	111,527,000	91.3%
September 30, 2012	129,838,000	113,876,000	87.7%
September 30, 2013	136,434,000	121,941,000	89.4%

Defined Benefit Plan

2. Benefit Payments
   - The cost of these future payments needs to be accurately calculated
   - The cost needs to be considered in the employer's contribution

Defined Benefit Plan

3. Investment returns

- Needs to be equal to or better than the actuarial rate of return
  - The actuarial rate of return is based on the expected return of the investment portfolio's strategic allocation
    - We are in the process of implementing a new strategic allocation with an expected return of 7.25%
    - Expected return of our current allocation has come down from 7.5% to 6.4%

Defined Benefit Plan

- As of 9/30/13, the Unfunded Actuarial Accrued Liability (UAAL) was 1.4 billion

- Security Ratio. This is a percentage that defines the plan's current funding status.
  - Current funding ratio is 49%.

- To amortize this liability, Gov-Guam pays an estimated 25% of total payroll

EXHIBIT 19. GASB 25 SCHEDULE OF FUNDING PROGRESS

Government Accounting Standards Board (GASB) Statement No. 25 – Financial Reporting for Defined Benefit Pension Plans requires disclosure of the Schedule of Funding Progress.

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Normal Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Total Government Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2001	$1,265,001,000	$2,333,862,000	$1,068,861,000	54.2%	$403,061,000	265.2%
9/30/2002	1,135,666,000	2,378,399,000	1,242,733,000	47.7%	395,967,000	313.8%
9/30/2003	1,206,911,000	2,614,840,000	1,407,929,000	46.2%	398,112,000	353.7%
9/30/2004	1,245,305,000	2,599,747,000	1,354,442,000	47.9%	365,592,000	370.5%
9/30/2005	1,293,564,000	2,583,366,000	1,289,802,000	50.1%	368,712,000	349.8%
9/30/2006	1,320,914,000	2,656,047,000	1,335,133,000	49.7%	389,786,000	342.5%
9/30/2007	1,448,655,000	2,682,118,000	1,233,463,000	54.0%	390,246,000	316.1%
9/30/2008	1,210,960,000	2,718,664,000	1,507,704,000	44.5%	425,781,000	354.1%
9/30/2009	1,294,604,000	2,738,765,000	1,444,161,000	47.3%	438,606,000	329.3%
9/30/2010	1,245,850,000	2,790,532,000	1,544,682,000	44.7%	444,061,000	347.9%
9/30/2011	1,264,080,000	2,906,899,000	1,642,819,000	43.5%	477,353,000	344.2%
9/30/2012	1,328,753,000	2,811,400,000	1,482,647,000	47.3%	470,695,000	315.0%
9/30/2013	1,413,025,000	2,855,364,000	1,442,339,000	49.5%	474,158,000	304.2%

Defined Benefit Plan

Life after we pay-off the unfunded liability

FY Year	Estimated Contribution Rate
2014	30.03
2015	29.85
2016	28.31
2017	27.57
2018	27.48
2019	27.47
2020	27.48
2021	27.49
2022	27.51
2023	27.52
2024	27.54
2025	27.54
2026	27.54
2027	27.54
2028	27.52
2029	27.52
2030	27.49
2031	18.77
2032	5.67

EXHIBIT 14. NORMAL COST

The normal cost has been calculated using the Entry Age Normal actuarial cost method.

	9/30/2013		9/30/2012	
Expected defined benefit payroll for next fiscal year	$ 152,372,948		$ 158,430,450	
		% of DB Payroll		**% of DB Payroll**
Normal cost [1]				
Retirement	$ 15,257,104	10.01%	$ 15,899,161	10.04%
Disability	1,244,988	0.82%	1,297,529	0.82%
Withdrawal	2,770,060	1.82%	2,871,643	1.81%
Death	984,445	0.65%	1,020,866	0.64%
Total active normal cost	$ 20,256,597	13.29%	$ 21,089,199	13.31%
Assumed DB administrative expenses	4,007,613	2.63%	5,228,000	3.30%
Total normal cost and expenses	$ 24,264,210	15.92%	$ 26,317,199	16.61%
Expected member contributions	(14,559,110)	(9.55%)	(15,050,893)	(9.50%)
Government portion of normal cost	$ 9,705,100	6.37%	$ 11,266,306	7.11%

[1] Includes interest to mid-year.

6.37% of DB payroll is the normal cost of the DB plan

EXHIBIT 17. PROJECTION OF CONTRIBUTION RATE (values)

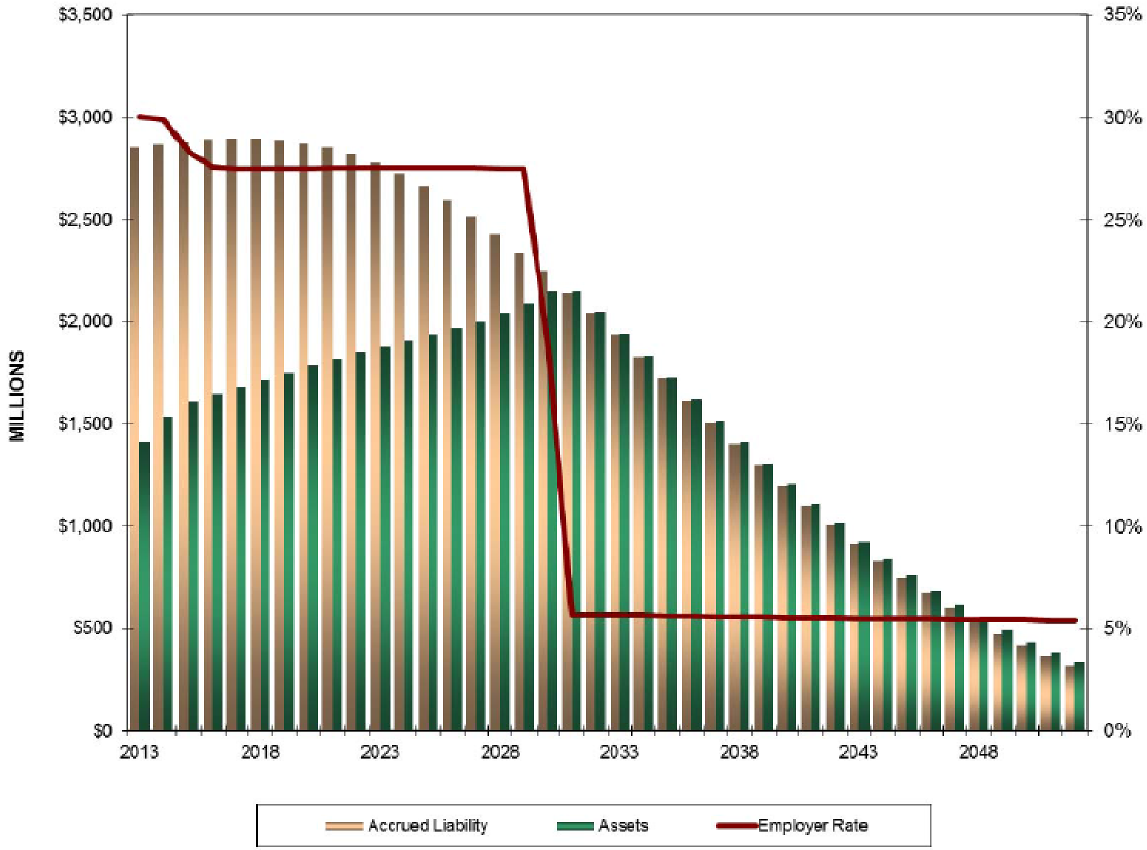
In 2032, estimated Contribution Rate will be 5.67%

Year Ending	PAYROLL [1] DB	PAYROLL [1] DC	CONTRIB RATE DB	CONTRIB RATE DC	CONTRIBUTIONS DB	CONTRIBUTIONS DC	CONTRIBUTIONS EE	Invest Gain [2]	Benefits/ Expenses	DB Fund Actuarial
2013										$1,413.02
2014	152.37	321.79	30.03%	24.57%	45.76	79.06	14.52	103.74	(201.11)	1,535.65
2015	147.97	340.42	29.85%	24.41%	44.16	83.10	14.08	106.59	(204.89)	1,611.16
2016	142.66	360.38	28.31%	22.90%	40.39	82.52	13.60	109.29	(208.73)	1,648.24
2017	136.67	381.45	27.57%	22.18%	37.68	84.61	13.03	111.68	(212.82)	1,682.43
2018	130.44	403.23	27.48%	22.12%	35.85	89.18	12.43	113.99	(216.86)	1,717.02
2019	123.01	426.67	27.47%	22.12%	33.79	94.38	11.73	116.32	(221.43)	1,751.80
2020	114.04	452.13	27.48%	22.15%	31.34	100.16	10.89	118.62	(226.91)	1,785.90
2021	103.85	479.30	27.49%	22.18%	28.55	106.33	9.93	120.86	(232.95)	1,818.61
2022	93.07	507.58	27.51%	22.22%	25.60	112.78	8.89	122.98	(239.24)	1,849.64
2023	82.00	536.67	27.52%	22.25%	22.57	119.38	7.85	125.00	(245.29)	1,879.16
2024	71.03	566.20	27.54%	22.27%	19.56	126.12	6.80	126.94	(250.93)	1,907.64
2025	60.65	595.69	27.54%	22.29%	16.70	132.79	5.82	128.86	(255.39)	1,936.42
2026	51.13	624.91	27.54%	22.31%	14.08	139.40	4.92	130.84	(258.80)	1,966.87
2027	43.08	653.23	27.54%	22.31%	11.86	145.73	4.15	133.02	(260.52)	2,001.11
2028	36.31	680.90	27.52%	22.30%	9.99	151.86	3.51	135.54	(260.51)	2,041.50
2029	30.39	708.34	27.50%	22.29%	8.36	157.92	2.94	138.55	(259.45)	2,089.82
2030	25.18	735.71	27.49%	22.28%	6.92	163.95	2.45	142.16	(257.16)	2,148.13
2031	20.65	763.96	18.77%	13.58%	3.88	103.61	2.02	144.17	(253.98)	2,147.83
2032	16.84	790.38	5.67%	0.49%	0.96	3.85	1.64	140.77	(249.72)	2,045.32
2033	13.63	817.81	5.66%	0.48%	0.77	3.92	1.34	133.79	(244.42)	1,940.73
2034	10.78	845.60	5.65%	0.47%	0.61	3.98	1.07	126.70	(238.31)	1,834.76
2035	8.35	873.73	5.63%	0.46%	0.47	4.03	0.83	119.53	(231.55)	1,728.07
2036	6.39	902.14	5.61%	0.45%	0.36	4.07	0.64	112.34	(224.20)	1,621.28
2037	4.82	930.97	5.60%	0.44%	0.27	4.10	0.48	105.18	(216.00)	1,515.31
2038	3.55	960.31	5.58%	0.43%	0.20	4.12	0.36	98.10	(207.35)	1,410.74
2039	2.55	990.23	5.57%	0.42%	0.14	4.14	0.26	91.14	(198.13)	1,308.29
2040	1.76	1,020.81	5.55%	0.41%	0.10	4.15	0.18	84.34	(188.58)	1,208.48
2041	1.14	1,052.11	5.54%	0.40%	0.06	4.16	0.12	77.73	(178.77)	1,111.78
2042	0.68	1,084.16	5.52%	0.38%	0.04	4.17	0.08	71.36	(168.77)	1,018.65
2043	0.36	1,117.03	5.51%	0.37%	0.02	4.17	0.04	65.23	(158.69)	929.43
2044	0.18	1,150.73	5.49%	0.36%	0.01	4.17	0.02	59.38	(148.53)	844.49
2045	0.08	1,185.35	5.48%	0.35%	-	4.17	0.01	53.83	(138.45)	764.05
2046	0.03	1,220.96	5.46%	0.34%	-	4.17	0.00	48.59	(128.50)	688.33
2047	0.01	1,257.62	5.45%	0.33%	-	4.17	0.00	43.68	(118.76)	617.42
2048	-	1,295.36	5.44%	0.32%	-	4.17	-	39.09	(109.27)	551.41
2049	-	1,334.22	5.42%	0.31%	-	4.17	-	34.83	(100.08)	490.33
2050	-	1,374.24	5.41%	0.30%	-	4.17	-	30.90	(91.25)	434.15
2051	-	1,415.47	5.40%	0.29%	-	4.17	-	27.30	(82.79)	382.84
2052	-	1,457.93	5.39%	0.29%	-	4.17	-	24.02	(74.74)	336.29

[1] Payroll is assumed to increase 3.0% per year.

[2] Investment earnings are assumed to be 7.0% per year on the market value of assets.

EXHIBIT 17. PROJECTION OF CONTRIBUTION RATE



Defined Benefit Plan

Historical occurrences that negatively affected the Plan Assets.

A. Late employer contributions
   - Certain departments until 2003, were chronically late payers and in some instances failed to remit contributions to the fund.
     - This resulted in a more than 25 million receivable that has since been repaid through bond proceeds.

Defined Benefit Plan

- Late employer contributions continued
  - The government contribution rate was less than the actuarially required contribution rate. This resulted in a need for the government to catch up every year after.
  - In 2004, legislature agreed to incrementally increase the contribution rate every year to eventually reach the required contribution rate

EXHIBIT 20. GASB 25 SCHEDULE OF EMPLOYER CONTRIBUTIONS

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September 30, 1995	67,650,000	66,904,000	98.9%
September 30, 1996	71,187,000	68,969,000	96.9%
September 30, 1997	67,521,000	81,546,000	120.8%
September 30, 1998	61,929,000	81,877,000	132.2%
September 30, 1999	63,985,000	96,134,000	150.2%
September 30, 2000	52,463,000	85,831,000	163.6%
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September 30, 2002	75,906,000	78,087,000	102.9%
September 30, 2003	98,630,000	63,486,000	64.4%
September 30, 2004	115,978,000	63,388,000	54.7%
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September 30, 2012	129,838,000	113,876,000	87.7%
September 30, 2013	136,434,000	121,941,000	89.4%

Defined Benefit Plan

B. Supplemental Pick-up. In the late 90's the government, decided to fund supplemental and COLA benefits through a loan from the Retirement Fund.

- This program was called the "Supplemental pick-up" and was meant to be a short term loan using trust fund assets to be repaid in 15 years. The amortization has since been extended to 2031.
- This program was used for 4 years and only stopped after a vigilant retiree, with the support of the GGRF Board filed a lawsuit putting a stop to this and similar acts.
- This Supplemental pick-up resulted in a receivable of more than 50 million.

Defined Benefit Plan

C. Tech Bubble of 2000, the Recession of 2002 (accounting scandals and the financial meltdown of 2008)

- The impact to fund assets by the market corrections exacerbates the impact of not complying with underfunding of the contribution rate and the non/late remittances.

Defined Benefit Plan

D. Early-retirement/ Early-out program. In an effort to reduce government cost, the government agreed to allow employees to:

- With at least 20 years of service to purchase up to 5 years, pay that over a 15 year period and begin to withdraw a pension assuming 30 years of service.

- Those with less that 20 years were given a severance equal to 50% of their annual salary and allowed to withdraw their retirement contributions in an “Early out” program.

Defined Benefit Plan

This was the single most costly program to the fund with an estimated drain of funds assets of 100 million dollars.

- Immediately, the funding ratio of the trust went from approximately 75% funded to less than 50%.

Where are we today

1. Total Fund
2. Total Accrued Liability
3. Unfunded Liability
4. No. of Active DB members
5. Total Retirees
6. Total Survivors

Defined Contribution – “New Plan”

- Implemented in 1995
- There is a 401(a) type component
  - Employee contributes 5% and the employer matches it 5%
- There is a voluntary 457 plan (open to both Old and New plan members)
- This is a self directed plan that gives employees the ability to make investment choices for their own account
- Some of the choices include target date funds. Options that take into consideration the expected number of years until a member is to retire

Defined Contribution – "New Plan"

- Number of Active participants
- Plan assets: more than 320 million
- Average Age
- Average Fund Balance

Defined Contribution – “New Plan”

- This forms the basis of the problem
  - Average fund balance is too small
  - Average age is only 20 or so years from retirement
  - The plan is coming on 20 years of existence
- The population at greatest risk are those over 40 with small to moderate balances

Proposals

- Inclusion of employees into Social Security
  - This plan will require that Guam's public employees become eligible to pay into Social Security
    - A resolution has been sent to the Congresswoman for begin that process.

Social Security option

- Pros
  - Does not impact the current unfunded liability
  - Promotes parity with private sector employees
  - Disability benefit is better under Social Security
  - Under certain circumstances, the benefit to the retiree is better under the Social Security plan.

Social Security option

Under certain circumstances, the benefit to the retiree is better under the Social Security plan.

Projected monthly benefit at age 65 for an employee earning $40,000

in 000's

Hire Age	SS	DC	SS+DC	Hybrid
25	3.4	3.2	6.6	6.1
35	2.5	1.7	4.2	3.6
45	1.5	1	2.5	1.9
55	1	0.3	1.3	1
60		0.1	0.1	0.3

Social Security option

- Cons
  - Cost to the employee and government. These costs are in addition to the current cost of the plan (including the amortization of the Unfunded Liability)

in %	**Social Security**	**DC**	**Total**
Employer	7.65	5	12.65
Employee	7.65	5	12.65

Social Security option

- Cons
  - Estimated employer contribution rate will go from 29.9% to 33.8% or increase an additional 21 million annually based on a total payroll of 550 million.
  - Employees with no earned SS quarters will start from zero.
    - This does not address the target population.

Social Security option

- Plan changes happen at the federal level.
  - To some this is a pro because it keeps local politics out away from the benefit changes. But changes can be in the way of cost and age to begin receiving benefits also.
- There remains a windfall provision that reduces benefits for those receiving income over a certain amount.

Hybrid Option

- Plan design

1. Cost

Employee cost:	9.5%, plus mandatory 1% to 457 plan
Employer normal cost:	1.8%

2. Benefits.

   - Benefit equal to 1.75% of average salary for each year of credited service. Minimum $1,200 maximum 85%.
   - Early retirement option at 55 with 25 years of service. .5% per month penalty for each month under the age of 65 or 6% annually.

Hybrid Option

3. Impact to Unfunded Liability.
   - Increases by 118 million, but the Security Ratio goes up from 49.49% to 51.77%
     - Assets increase by 380 million and liability increases by 262 million
     - Security Ratio increases as the percent of underfunding is reduced.
4. Impact to Contribution Rate.
   - Goes from 29.9% to 29.3%
   - How??
     - Current balances of the member's DC plan are transferred over to cover the cost of transfer.
     - In exchange for transferring assets, the employee gets service credits
     - Contribution in $$ amount increases with the addition of new members

Hybrid Option

Summary of Benefits compared to current DB Plan

	Current DB Plan	Hybrid Plan
Eligibilty	Employees hired on or before 9/30/95, who haven't previously transferred to the DC Plan	Required: Employee hired after effective date. Optional: Employees currently in the DC Plan
Benefit Formula	2% of average annual salary for each year of service up to 10 years plus, 2.5% of average salary for each year over 10 years plus, $20 multiplied by years of service, reduced by .01% of Average Annual Salary in excess of 6k	1.75% of Average Annual Salary for each year of service
	Min: 1.2k, Max: 85% of average annual salary	Min: 1.2k, Max: 85% of average annual salary

Hybrid Option

	Current DC Plan	**Hybrid Plan**
Average Annual Salary		
Unreduced Retirement	Age 65 or 30 years of service or age 60 and 15 years of service if uniform personnel	Age 65 Maximum benefit of 85% is achieved with 49 years of service
Reduced Retirement	25 years of service. Reduction: 3% per year early	Age 55 and 25 years of service. Reduction: 6% per year early
Disability Benefit	66 2/3% of average of the highest three years of salary	50% of the average of the highest three years of salary
457 Plan	Voluntary	1% Mandatory

Hybrid Option

Example:

- $40,000 employee 30 years of service and retiring at the age of 65 will be eligible for a monthly annuity of $3,582 plus the balance of their 457 plan

- A $40,000 employee with 10 years of service and retiring at the age of 65 will be eligible for an annuity of $729 monthly plus the balance of their 457 plan

	Current Plan	100% Transfer	100% over age 40	100% over age 50	SS+DC
DC Participants					
Assumed to transfer	0	7,827	4,403	2,109	0
Not assumed to transfer	7,827	0	3,424	5,718	7,827
Total	**7,827**	**7,827**	**7,827**	**7,827**	**7,827**
DC assets transferred to DB	262.28	189.35	95.14		
DC assets transferred to 457	42.71	34.68	18.81		
UAAL					
Actuarial Accrued Liability	2,855	3,236	3,161	3,031	2,855
Actuarial Value of Assets	1,413	1,675	1,602	1,508	1,413
UAAL	**1,442**	**1,561**	**1,558**	**1,522**	**1,442**
Estimated Change in UAAL	0	119	116	80	0
Security Ratio	49.49%	51.77%	50.70%	49.76%	49.49%

	Current Plan	100% Transfer	100% over age 40	100% over age 50	SS+DC
Employer Normal Cost Rate (NC)					
DB Plan	6.37%	6.37%	6.37%	6.37%	
Hybrid Plan		1.84%	1.84%	1.84%	
Blended NC Rate (DB + Hybrid)	6.37%	3.34%	4.60%	5.90%	
Estimated Contribution Rate	29.85%	29.30%	30.86%	31.13%	33.80%
Estimated Contribution	141.52	138.95	146.33	147.59	160.25
Change		(2.57)	4.81	6.07	18.73

Comparison of Estimated Benefits

Projected monthly benefit at age 65 for an employee earning $40,000

in 000's

Hire Age	SS	DC	SS+DC	Hybrid
25	3.4	3.2	6.6	6.1
35	2.5	1.7	4.2	3.6
45	1.5	1	2.5	1.9
55	1	0.3	1.3	1
60		0.1	0.1	0.3

Takeaways

- DC Plan needs addressing
- Past the point of assigning blame
- Different options with corresponding Trade-offs
- No Silver Bullet
- Get involved

Questions

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