Government of Guam Retirement Fund

Bill #3
Impact on Member's Earnings

SALARY	CURRENT CONTRIBUTION	PROPOSED CONTRIBUTION	NET ANNUAL INCREASE	NET PAY PERIOD INCREASE
$14,000	$1,050	$1,330	$280	$11
16,000	1,200	1,520	320	$12
18,000	1,350	1,710	360	$14
20,000	1,500	1,900	400	$15
22,000	1,650	2,090	440	$17
24,000	1,800	2,280	480	$18
26,000	1,950	2,470	520	$20
28,000	2,100	2,660	560	$22
30,000	2,250	2,850	600	$23
32,000	2,400	3,040	640	$25
34,000	2,550	3,230	680	$26
36,000	2,700	3,420	720	$28
38,000	2,850	3,610	760	$29
40,000	3,000	3,800	800	$31
42,000	3,150	3,990	840	$32
44,000	3,300	4,180	880	$34
46,000	3,450	4,370	920	$35
48,000	3,600	4,560	960	$37
50,000	3,750	4,750	1,000	$38
52,000	3,900	4,940	1,040	$40
54,000	4,050	5,130	1,080	$42
56,000	4,200	5,320	1,120	$43
58,000	4,350	5,510	1,160	$45
60,000	4,500	5,700	1,200	$46
62,000	4,650	5,890	1,240	$48
64,000	4,800	6,080	1,280	$49
66,000	4,950	6,270	1,320	$51

Guam Visitors Bureau
Setbision Bisitan Guahan

Commonwealth Now!

February 2, 1993

Senator Carl T.C Guiterrez
Chairman, Committee on Ways & Means
22nd Guam Legislature
155 Hesler Place
Agana, Guam 96910

Dear Mr. Chairman:

The Guam Visitors Bureau wishes to submit testimony on Bill No. 3(LS), an act making amendments to Chapter 8 of Title IV, Guam Code Annotated, and appropriating FIVE MILLION DOLLARS ($5,000,000) to the Department of Administration for the purpose of paying government of Guam contributions only.

Section 8 of the bill states in part, "...contributions to the Retirement Fund for the Judicial Branch, Legislative Branch and Executive Branch departments, authorities and agencies for which appropriations from the General Fund are made in the General Appropriations Act of 1992, for their operations,..." The Bureau's FY1993 budget was a part of the General Appropriations Act of 1992, yet its source of funding was and is the Tourist Attraction Fund. The Bureau is seeking clarification on whether the additional contributions it may have to pay if this bill becomes law are included in the appropriation? If the answer to this question is no, the Bureau respectfully requests that the bill be amended to include the Bureau specifically, and that the appropriation also be amended to include the calculated increases to the Bureau's contributions.

The Bureau thanks the committee for allowing it to present testimony on Bill No. 3 (LS).

Sincerely,

JOEY B. CEPEDA
General Manager

xc: All Members, GVB Board of Directors

P.O. Box 3520, Agana, Guam 96910
1270 North Marine Drive, Suite 201-205 Upper Tumon, GU 96911 • (671) 646-5278/9 • Cable:GUAMTOUR • Fax: (671) 646-8861

Territory of Guam
Teritorion Guam

OFFICE OF THE GOVERNOR
UFISINAN I MAGA'LAHI
AGANA, GUAM 96910 U.S.A.

received 4:10 pm 3/12/93

March 12, 1993

The Honorable Carl T. C. Gutierrez
Chairman, Committee on Ways & Means
Twenty-Second Guam Legislature
155 Hesler Street
Pacific Arcade
Agana, Guam 96910

Dear Mr. Chairman:

Thank you for your letter regarding Bill No. 3 regarding the amendments to the laws governing the Government of Guam Retirement Fund. When I made my original funding request I assumed full implementation of the government share. However, I understand that you are advising incremental implementation.

I have reviewed this bill with the Guam Retirement Fund and the Bureau of Budget and Management Research. The funds required to implement the increase in government contributions for fiscal year 1993 are as follows:

	General Fund
Line Agencies	$1,754,000
UOG	159,000
GCC	26,000
GMHA	160,000
PUAG	115,000
PDSC	10,000
Judicial Branch	53,000
Legislative Branch	64,000
	$2,341,000
10% contingency	234,000
Total for year	$2,575,000

Other autonomous agencies need not be funded as they have sufficient funds available. Therefore, I am revising my request from the original submittal to $2,575,000 from the General Fund for fiscal year 1993.

It is my understanding that you desire to appropriate funds from the General Fund to complete construction of the GARP building. Original funding for this project was provided in Section 5(b) of Public Law 20-221. Now four Hundred Thousand Dollars ($400,000) should be available for this worthwhile purpose.

Recently your committee heard testimony on Bill No. 242 which appropriates funds necessary to open the new mental health facility. At the hearing you asked for identification of a source of funding. From the remaining portion of the original request I ask that you fund the request of the Department of Mental Health and Substance Abuse which has been reduced to four hundred sixty thousand dollars ($460,000.)

Finally, the trial before the Federal Maritime Commission regarding shipping rates to Guam is being held in April 1993. I request that you appropriate one million dollars ($1,000,000) to the Department of Law to fund this litigation.

On January 16, 1993 I transmitted Bill No. 218 for the Legislature's consideration. This is a vital measure which reappropriates Twenty Million Dollars ($20,000,000) for important capital improvement projects. Of utmost importance is the appropriation for the architectural and engineering services and other consultants necessary for the design of the new Guam Community College campus. I need not repeat again that time is of the essence in this matter. I urgently request that you act favorably on this bill.

It is vital that we address the issue of the unfunded liability of the Retirement Fund. For the past two years I have requested the Legislature to act to increase the Fund's future viability. I look forward to signing Bill No. 3 into law and once again request favorable action on this measure and the other urgent matters discussed above.

Cordially,

Joseph F. Ada

JOSEPH F. ADA
Governor

Date: **March 15, 1993**

To: **The Honorable Carl T.C. Gutierrez**
Chairman, Ways and Means Committee

Fr: **Daniel Roland**
Shearson Lehman Brothers

RE: **Investing Internationally Only In "U.S. Dollars"**

If the purpose of adding language to the effect that "foreign investments shall be made in U.S. dollars" was to eliminate foreign currency exchange risk, it would be unsuccessful as it applies to equity investments. The only type of investment in equities of foreign corporations that can be made in U.S. dollars, are in what is known as "American Depository Receipts". These are negotiable certificates issued by a U.S. depository bank which represent shares of non-U.S. companies that trade on U.S. stock exchanges. A misconception exists that ADRs eliminate the potential currency exchange risk associated with global investing. In fact, ADRs are exposed to the same currency exchange fluctuation risks as the ordinary shares underlying ADRs. All else being equal, as the U.S. dollar appreciates versus other currencies, the U.S. dollar share price of an ADR will decline proportionately. The converse is also true; a depreciating U.S. dollar will cause the ADR to appreciate in U.S. dollar terms. Another problem with limiting investment in foreign corporations to ADR's, is that while the ADR market is growing, it is largely comprised of only the largest foreign companies, from a few foreign markets. Therefore, this requirement would overly restrict the flexibility of the Fund to take advantage of overseas investment markets and opportunities.

On the fixed income side of investing, allowing investments in debt securities of foreign corporations only in U.S. dollars, effectively eliminates the rationale of investing internationally. The reason one invests in foreign bonds is to realize appreciation through exchange rate changes and/or to earn a higher interest rate due to interest rate differentials between countries. If one buys a fixed income investment that is denominated in U.S. dollars, there is obviously no potential for exchange rate gains, nor is there much room for yield enhancement as the bonds will yield pretty much in line with rates available in the United States.

The concept must be understood that exchange rate fluctuations **should not** be looked upon only as a risk. There always has been, is and will be, potential benefits through currency diversification that can both reduce the overall volatility of the Fund and increase returns over time.

Lastly, if there is a true desire and intent to restrict foreign **equity** investing to ADR's, I would strongly urge the deletion of the existing language and the inclusion of the language developed through ERISA which deals with this issue. At the same time, the restrictive language in relation to fixed income investments would need to be deleted.

TESTIMONY ON BILL No. 945

• *Delivered by F. Jay Lingo, Consulting Actuary to the Government of Guam Retirement Fund.*

This testimony relates to Sections 8, 9 and 10 of Bill No. 945. The purpose of these comments is to provide testimony to the contribution rate aspects of the bill.

Current funding of the Government of Guam Retirement Fund (Fund) is not being accomplished on any generally excepted actuarial funding basis. Any acceptable actuarial funding basis would provide for the funding of the current years normal cost plus an amount to amortize any unfunded accrued liability over a reasonable period of time.

The term "normal cost" refers to the contribution required to fund the liability for retirement plan benefits accruing in the current fiscal year.

The term "accrued liability" as of any date refers to the accumulation of past normal costs to the valuation date. As of any valuation date, the accrued liability may or may not have been fully funded. The accrued liability for current retirees of the Fund is equal to the present value of expected future benefit payments to be made to these retirees. For active members of the Fund, the accrued liability is the portion of the present value of expected future benefit payments attributable to service rendered as of the date of valuation. Expressed another way, liabilities of the Fund are accrued over the working lifetime of the active members of the Fund, so that at the point of retirement, retirement obligations are fully accrued.

As of September 30, 1991, the approximate accrued liabilities and unfunded portion of these accrued liabilities are shown below.

Retiree Liability:	$511,000,000
Active Member Liabilities:	$641,000,000
TOTAL ACCRUED LIABILITY:	$1,152,000,000
Assets:	$532,000,000
UNFUNDED ACCRUED LIABILITIES:	$620,000,000

One measure of the funding status of any retirement system is a comparison of the ratio of plan assets to accrued liabilities. In the case of the Government of Guam Retirement Fund as of September 30, 1991, this funding ratio was 46.2% ($532,000,000/$1,152,000,000).

Table A (attached) graphically displays the downward trend in this funding ratio since 1971.

Table B compares the funding ratio (security ratio) of the Government of Guam Retirement System with other state retirement systems. It is obvious that the Government of Guam Retirement Fund does not compare favorably with other retirement systems.

Based on September 30, 1991 actuarial survey results of the Fund, the Government of Guam share of the actuarial cost rate is 25.64% of member payroll. The Government of Guam is currently contributing at 13.106% of payroll or in other words only 51% of the full actuarial cost rate.

Table C shows that many state retirement systems contribute the full actuarial cost rate. Again, the Government of Guam Retirement Fund falls far short of contribution practices of other systems.

Title 4 GCA, §8137 (b) as amended by P.L. 17-66:10 requires the full amortization of any unfunded accrued liability of the Government of Guam Retirement Fund by May 1, 2031. Assuming continuation of current member and government contribution levels, we have projected that the Fund will fall far short of meeting this requirement. Our projections estimate that while the funding or security ratio may increase to somewhat over 60%, unfunded plan accrued liabilities will have grown from approximately $620 million on September 30, 1991 to approximately $4 billion dollars as of May 1, 2031.

Assuming that Bill No. 945, Section 9, is amended to require 100% funding of the full actuarial cost rate at the end of the four year phase-in period, it is projected that the unfunded accrued liability would be fully funded by the year 2017. Retention of the 80% requirement rather than the 100% requirement will seriously impede progress in diminishing the size of the unfunded liability.

Table D displays estimates of the projected contribution rates under Bill No. 945 as amended to require 100% funding of the full actuarial cost rate at the end of the four year phase-in period.

In summary, we believe that the passage of Bill No. 945, as amended to require 100% funding of the full actuarial cost rate will result in a rational set of funding guidelines which will result in the amortization of the unfunded liabilities of the Government of Guam Retirement Fund over a reasonable period of time and will directly recognize in funding requirements the effect of plan amendments and actuarial gains and losses as they occur. We believe that funding of the full actuarial cost rate demonstrates an increase in fiscal responsibility on the part of the government and will avoid a deferral of significant costs to future generations of taxpayers.

F. Jay Lingo, F.S.A.
DELOITTE & TOUCHE

TABLE A

Government of Guam Retirement Fund Security Ratio

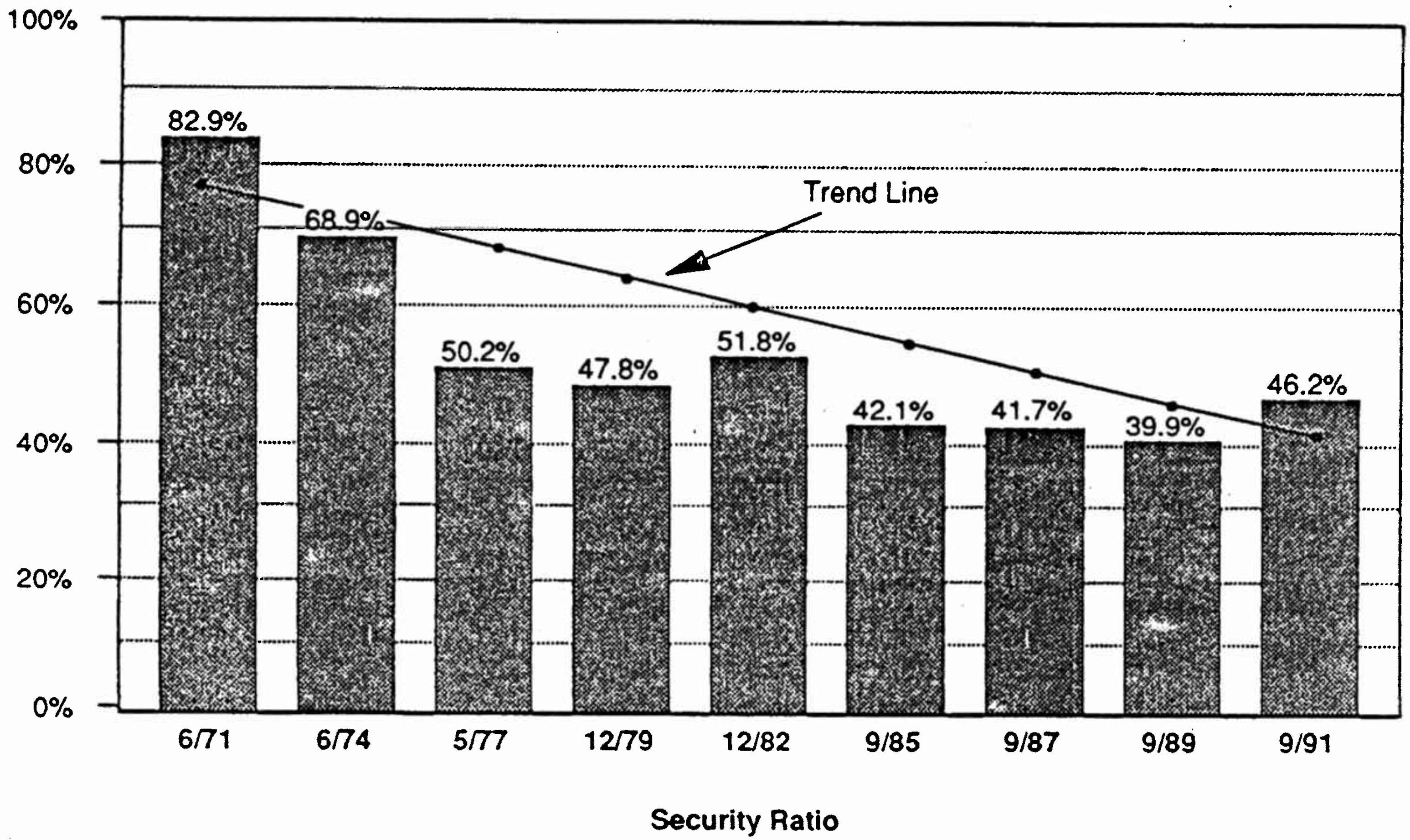


TABLE B

SURVEY OF PERS & TEACHERS RETIREMENT SYSTEMS (1)

State	Security Ratio (2)	Market Asset Value	Interest Rate Assumptions
ALABAMA			
ALASKA	100.00%	1,739,843,000	9.0%
AMERICAN SOMOA	90.92%	58,962,599	7.5%
ARKANSAS	130.20%	1,169,442,000	7.0%
COLORADO	97.40%	6,997,824,000	7.5%
CONNECTICUT	49.90%	3,422,467,000	8.0%
DELAWARE	94.00%	1,349,382,100	8.0%
FLORIDA	67.10%	13,720,000,000	8.0%
GEORGIA	69.80%	2,734,636,000	7.0%
GUAM	44.73% (3)	372,884,000 (3)	8.0%
IDAHO	68.30%	1,265,700,000	8.0%
ILLINOIS	68.20%	2,499,972,641	8.0%
INDIANA	96.40%	2,454,901,917	7.5%
KANSAS	93.00%	3,184,818,389	8.0%
KENTUCKY	107.00%	2,540,850,616	8.0%
LOUISIANA	53.30%		7.5%
MAINE	29.00%	870,575,284	9.0%
MARYLAND	69.80%	8,889,489,647	7.5%
MASSACHUSETTS	42.00%	2,670,000,000	8.0%
MINNESOTA	95.50%	1,631,357,000	8.0%
MISSISSIPPI	80.20%	3,314,434,000	8.0%
MISSOURI	80.60%	4,335,100,000	8.0%
MONTANA	73.00%	758,496,644	8.0%
NEVADA	67.00%	2,637,335,600	8.0%
NEW HAMPSHIRE	99.30%	1,047,992,635	8.0%
NEW MEXICO	74.00%	1,743,263,912	7.0%
NEW YORK	111.70%		8.0%
NORTH CAROLINA	97.30%	10,199,106,916	7.5%
NORTH DAKOTA	123.86%	294,358,553	8.0%
OHIO	74.00%	15,149,196,000	7.8%
OKLAHOMA	80.00%	1,325,531,038	7.5%
OREGON	92.40%	8,388,200,000	7.5%
PENNSYLVANIA	91.00%	7,376,577,000	7.8%
PUERTO RICO	59.00%	730,500,000	8.0%
RHODE ISLAND	111.07%	1,550,723,000	7.5%
SOUTH CAROLINA	73.10%	4,938,382,000	7.0%
SOUTH DAKOTA	102.60%	927,569,480	7.0%
TENNESSEE	97.00%	6,220,823,877	8.5%
TEXAS	87.70%	19,111,165,055	8.0%
UTAH	85.00%	992,630,000	7.5%
VERMONT	75.17%	261,966,300	8.0%
AVERAGE	82.54%	$3,917,801,000	7.80%

(1) Data from NASRA and NCTRA 1989 Survey.
(2) Ratio of Assets to Accrued Liability (Financial Statement Disclosure Basis).
(3) As of September 30, 1989.

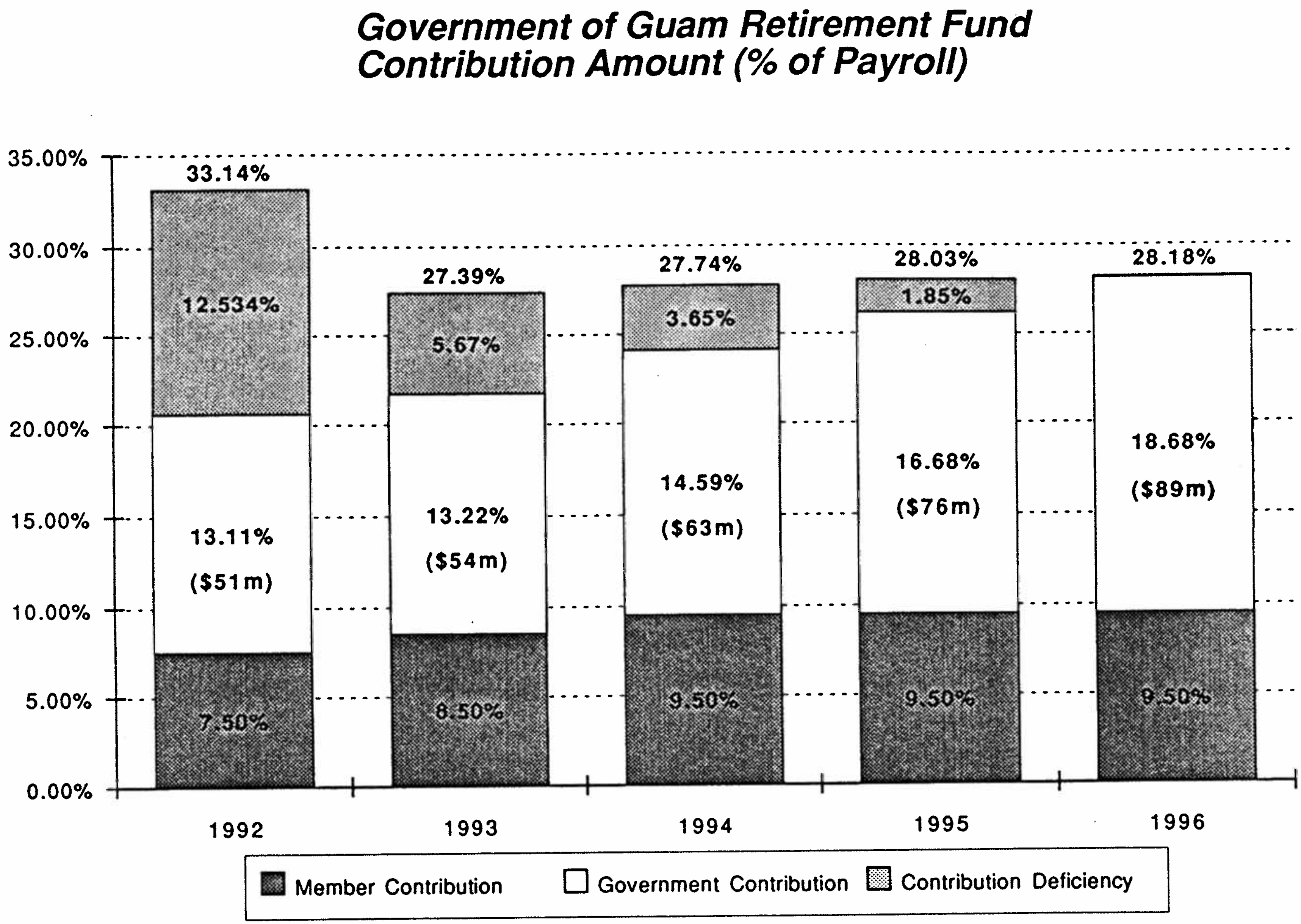
TABLE C

SURVEY OF PERS & TEACHERS RETIREMENT SYSTEMS (1)
($ millions)

State	Full Actuarial Employer Contribution Requirement		Actual Employer Contribution		Percent
ALASKA	$ 82.897		$103.719		125.1%
AMERICAN SOMOA	2.503		2.785		111.3
ARKANSAS	50.389		28.451		56.5
COLORADO	243.358		216.089		88.8
CONNECTICUT	398.277		348.639		87.5
DELAWARE	62.114		66.228		106.6
FLORIDA	1,128.147		1,177.908		104.4
GUAM	71.224	(2)	35.738	(2)	50.2
IDAHO	77.360		76.330		98.7
ILLINOIS	141.467		99.991		70.7
INDIANA	129.818		143.381		110.4
KANSAS	63.553		63.553		100.0
KENTUCKY	97.404		101.646		104.4
LOUISIANA	124.434		132.957		106.8
MARYLAND	576.766		576.766		100.0
MINNESOTA	43.090		47.114		109.3
MISSISSIPPI	176.909		176.909		100.0
MISSOURI	132.112		132.112		100.0
MONTANA	42.143		27.026		64.1
NEW HAMPSHIRE	22.398		22.398		100.0
NEW MEXICO	69.783		69.783		100.0
NEW YORK	1,189.000		1,321.300		111.1
OHIO	613.240		613.240		100.0
OKLAHOMA	80.663		73.066		90.6
OREGON	312.411		312.411		100.0
PENNSYLVANIA	348.597		352.185		101.0
PUERTO RICO	54.035		43.352		80.2
RHODE ISLAND	44.889		38.381		85.5
SOUTH CAROLINA	203.808		203.808		100.0
SOUTH DAKOTA	23.588		25.259		107.1
TENNESSEE	373.800		373.800		100.0
TEXAS	701.476		701.476		100.0
UTAH	26.570		26.570		100.0
VERMONT	17.906		17.717		98.9
AVERAGE					96.2%

(1) Data from NASRA and NCTRA 1989 Survey.
(2) As of September 30, 1989.

TABLE D


Government of Guam Retirement Fund
Contribution Amount (% of Payroll)
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
33.14%
12.534%
13.11%
($51m)
7.50%
27.39%
5.67%
13.22%
($54m)
8.50%
27.74%
3.65%
14.59%
($63m)
9.50%
28.03%
1.85%
16.68%
($76m)
9.50%
28.18%
18.68%
($89m)
9.50%
1992
1993
1994
1995
1996
Member Contribution
Government Contribution
Contribution Deficiency

Senator Carl T. C. Gutierrez
Chairman
Committee on Ways and Means
20th Guam Legislature
P. O. Box
Agana, GU 96910

TESTIMONY ON BILL NO. 945
BY GOVERNMENT OF GUAM RETIREMENT FUND
DELIVERED BY SYLVIA L.G. STAKE, DEPUTY DIRECTOR

This prepared written testimony represents the collective opinion and response of the Board of Trustees and management of the GovGuam Retirement Fund to BIll No. 945, after discussions with Retirement Fund advisers.

On the whole, we agree with the liberalization of the investment provisions and with the proposed increase in the contribution rate both for individual employees and for Government of Guam, the employer. However, we would like to go through each proposed change, stating our position and providing our comments and rationale for the position.

SECTION 1. The first proposed change is to subsection (c) of 4 GCA 8145, found on page 2, line 3, reducing the period that the investment counsel and its predescessors must have been continuously engaged in such business from ten (10) to five (5) years.

We object to this change for the following reasons:

(1) As pointed out by one of our advisers, a full economic cycle runs about seven (7) years. We would like an investment counsel that has been through an entire cycle or that has a track record through lean as well as productive years. In fact, we are interested in seeing how an investment counsel fares in comparison to others in lean years, since most everyone fares well in profitable years.

(2) We also feel that the universe of investment counsels is large enough that we would not be foregoing too much opportunity by restricting our choice to those that have been around for at least 10 years. If we started contracting firms that have been in existence for a limited time, the prudence of that action might be questioned.

SECTION 2. 4 GCA 8146 (a) is amended by the repeal of the phrase, "the Dominion of Canada", found on page 2, line 20. This restricts the application of 8146(a) to domestic investments.

The next change is the repeal and reenactment of subsection (b), which dealt with government and private Canadian investments. We have no objection to the new subsection (b), which permits other foreign investments besides Canadian and imposes an overall limit of 30% on foreign corporate bonds and foreign common stock. However, we would like to have included sections 8151 and 8156, so that new provision would read as follows:

<u>(b) Any combination of investment instruments as covered by Section 8151, Subsection (b) of 8154, Subsection (b) of 8156 [which we are proposing], and Subsection (b) of 8157 in excess of thirty percent (30%) of Fund assets at cost.</u>

Rationale for the inclusion of 8151 and 8156:

(1) The proposed language covers foreign <u>corporate bonds</u> (8154 (b)) and foreign <u>common stock</u> (8157 (b)). We believe that those sections dealing with foreign <u>government bonds</u> (8151) and with foreign <u>preferred stock</u> (8156 - A new subsection (b) needs to be inserted before the subsection dealing with "limitations") were inadvertently omitted. Therefore, we are suggesting that sections dealing with the foreign government bonds and foreign preferred stock be included in the overall limitation of 30% for all foreign investments.

(2) In general, we support this new provision, which allows foreign investments. Foreign investments under ERISA are permitted so long as they are done through U. S. intermediaries (such as ADRS/American Depositary Receipts or mutual funds). We feel this change, allowing expansion into foreign markets, would increase the Fund's ability to diversify, and diversification constitutes another ERISA requirement.

Although the statutory ceiling on foreign investments is just under one-third of Fund assets at cost, the Board of Trustees has the authority to set the ceiling at less than that amount.

SECTION 3. 4 GCA 8151, dealing solely with Canadian Bonds, is repealed and reenacted to allow investment in any foreign government bonds or other evidence of indebtedness, that are secured by the full faith and credit of the foreign government and for which payment the government is empowered to levy taxes.

This section is silent on the subject of bond ratings and in the absence of rating standards, it substitutes in Subsection (b) the Prudent Person Standard to which all investment managers are held, whether stated or not.

The new Subsection (c) places a limit of 10 % on any one issue of a corporation. We have no problem with this provision. However, Section 8151 as a whole does not impose a ceiling on this type of foreign investment and therefore, we propose that it be included in the overall limitation for all foreign investments of thirty percent (30%) of Fund assets at cost.

SECTION 4. The proposed amendment to 4 GCA 8154 (a) eliminates references to the Dominion of Canada or any of its provinces and eliminates reference to rating standards and substitutes in its place the phrase, "carry investment grade or better rating."

Subsection (a) refers to domestic corporate bonds. Although it is understood in the industry what is meant by "investment grade", it is perhaps better to define what the exact standards are, if they are available. When we get to the new subsection (b), where there is an absence of any rating standard and reference is made again to the general Prudent Person Standard, by looking at the first section, any one reading the Code can see what standards are required for domestic bonds and can apply what would be the foreign equivalent for foreign corporate bonds.

4 GCA 8154 (a)(1) & (2)(a) through (c) are proposed to be eliminated. We would like to have these subsections left intact.

8154(a)(1) simply repeats what is contained in the sentence immediately preceding it.

8154(a) (2)(a) through (c) deal with non-rated bonds and we would like to have these provisions left intact. We would like to preserve the ability to invest in such bonds, especially if they are local, if the conditions set forth in these sections are met. In addition, if foreign investments or a similar nature are made, having these standards for domestic non-rated bonds would serve as a basis for comparison.

8154(b) This proposed section allows investment in any foreign corporate bonds, debentures, notes and other evidences of indebtedness and makes reference to the Prudent Person Rule as a standard in making investment decisions. Again we express discomfort in not having any more definite standard to insert here. We ourselves would like to conduct additional research in this area to see what sort of standards we can propose. However, we agree with the expansion of markets to invest in from just Canadian to any foreign country.

We propose that a new subsection (1) be added after 8154(b) to read as follows:

"(b)(1) No more than one and one-half percent of the Fund at cost shall be invested in the obligations of any one (1) foreign corporation or other foreign single issuing entity described in this Section."

We propose that the new subsection (c) be made applicable only to domestic corporations. This change and the above proposed section would have the effect of placing a ceiling of one and one-half percent of Fund assets at cost for foreign corporations and a ceiling of five percent (5%) of Fund assets at cost for domestic corporations. We feel that a 5% limitation, which translates into roughly $28.1 million, in any one foreign corporation creates undue exposure for the Fund. However, a limitation of five percent of the thirty percent ceiling of all foreign investments combined (5% of 30% = 1 1/2% or $8.4 million) is acceptable to the Fund Trustees.

SECTION 5. This section (4 GCA 8156) deals with domestic and Canadian preferred stocks. References made to the Dominion of Canada and its provinces are eliminated in 4 GCA 8156(a). The proposed repeal of subsections (a)(2)(a) & (b) and subsection (b) are not objectionable; however, we feel more research should be done on the subject of standards for investing in preferred stocks.

A new "Subsection (b) International. Preferred Stocks." should be added to be consistent with the changes made in other sections where references to the Dominion of Canada and any of its provinces are eliminated and replaced with provisions encompassing all foreign countries.

The section on "Limitations" should be relettered (c). There is no objection to the limitation in subsection (1). With regard to subsection (2), we do not object to this limitation if applied to domestic corporations. With respect to foreign corporations and their preferred stock, we propose that the limit be one and one-half of the Fund assets at cost or five percent of the thirty percent ceiling for all foreign investments. The reason, as stated before, is that a five percent limit of Fund assets at cost, which translates into $28.1 million, creates undue exposure and would raise questions on diversification and that one and one-half percent of the Fund assets at cost, which translates into roughly $8.4 million invested in any one foreign corporation is more acceptable.

SECTION 6. This entire section, dealing with common stocks, is proposed for repeal and reenactment. Subsection (a) applies to domestic stocks and the new subsection (b) expands the market to include all foreign countries. We agree with this expansion and with the limitation in subsection (c). However, we propose that the five percent (5%) of the Fund assets at cost limitation on common or capital stock in any one issuing company be applied to domestic companies. With respect to foreign corporations, we propose that one and one-half percent of the Fund assets at cost (or five percent of the thirty percent limit for all foreign investments) be used as the ceiling.

We also agree with the increase from twenty-five percent (25%) to fifty percent (50%) of the Fund assets at cost as the ceiling for all investments in common or capital stock.

SECTION 7. This section deals with all real estate -related investments. The only proposed change here is the ceiling found in subsection (j), found on page 10, lines 16 & 17. We prefer to leave this section intact as it grants us more flexibility for the future.

Sections 8, 9, and 10 contain provisions dealing with proposed increases in the employee and GovGuam/employer contributions to the Retirement Fund in order to amortize the unfunded liability. We would like to go line by line since there are pertinent omissions from our original suggested language.

SECTION 8. This section deals with the member's contribution. There is a typographical error in subsection (a), page 10, line 20. The word "number" should be replaced with "member". We propose that headings be added to subsection to read:

8136.

"(a) Member contribution. Base Pay.

Each member of the Fund shall contribute the following:"

Two new subsections are added to 4 GCA 8136 (a): Subsection (4), page 11, lines 1 & 2, provides for the increase in employee contribution to eight and one-half percent, subsequent to October 1, 1992; Subsection (5), page 11, lines 3 & 4, provides for an increase in employee contribution rate to nine and one-half percent, subsequent to October 1, 1993.

We propose that a new subsection (b) be added with new headings to read as follows:

8136.

"(b) Member Contribution. Non Base Pay."

There are no objections to the substitution of the word "election" for the word "option" on line 5, page 11. There are also no objections to the additional phrase, which provides for an increase in the employee contribution rate with respect to non-base pay on a graduated basis. However, we feel that the punctuation marks we have inserted might make this amendment more understandable:

> 8136.
> (b) Member Contribution. Non-Base Pay.
> At the written election of the member prior to October 1, 1992, eight and one-half percent (8.5%); from October 1, 1992, nine and one-half percent (9.5%) through September 30, 1993; and ten and one-half percent (10.5%) thereafter of the following non-base pay of such members:

There is a significant portion of the current subsection (4) that has been omitted and we would like to have clarified if that was the intent of the drafter. There are portions of the section that have been omitted that might have current applicability and therefore, we are curious why they have been omitted.

SECTION 9. This section deals with the government contribution rate to the Retirement Fund. We propose that a heading be placed on this section to read as follows: "Section 8137. Contribution by Government."

Again there are typographical errors or omissions. On page 12, line 8, there should be a period after "contributions" and the phrase added between the period and the word "shall": "From July 1, 1955 to August 30, 1972, the rate of contributions ...."

The new language on page 12, lines 20 through 27 and lines 1 and 2 on page 13, provide for a decrease in government contribution for normal cost from October 1, 1992 to October 1, 1993 from 10.699% to 6.010%. In addition, the phrase "and the pay" has been omitted on page 12, line 22. The contribution rate to cover the government normal cost after October 1, 1993 is left open and is to be determined by the latest actuarial valuation.

Subsection (b) has a few typos, such as line 6 page 13, the word "as" should be substituted for "ad". The new language, found on page 13, lines 14 through 20, provides for an increase in the government contribution rate from 1.407% to 13.665% subsequent to October 1, 1992. After October 1, 1993, the contribution rate designated to be applied to the amortization of the unfunded liability is left open to be determined by the latest actuarial valuation.

On page 14, line 7, the word " die" should be replaced by "due". The additional one percent mandated by subsection (d) has been extended through September 30, 1992 (page 14, line 14). This contemplates an ending of this additional one percent because it is compensated by the other amendments to this section.

The new language in subsection (e), page 14, lines 16 through 21, is a qualifier on the government contribution rate and it is incomplete. The full text of this amendment reads as follows:

(e) From October 1, 1992, the government rate of contribution shall equal 70% of the sum of the contribution rates required under 8137(a) and 8137(b). From October 1, 1993, the government rate of contribution shall equal 80% of the sum of the contribution rates required under 8137(a) and 8137(b). From October 1, 1994, the government rate of contribution shall equal 90% of the sum of the contribution rates required under 8137(a) and 8137(b). From October 1, 1995, the government rate of contribution shall equal 100% of the sum of the contribution rates required under 8137(a) and 8137(b).

There is a typographical error on Line 17 of page 14. That should read seventy percent (70%) of the sum of the contribution rates.

Section 8157(e) provides for a phase-in approach. The full Government share under the current 8137(a) (b) and (d) equals 13.106%. The total government share under the proposed bill for FY 93 is 19.675%, or a difference of 6.569%. With the phase-in approach, the government need only contribute 70% of the 19.675%. However, the rest of this section, which provide for funding of 90% from October 1, 1994 and 100% funding of the government share from October 1, 1995, must be included.

For a fuller explanation of the need to increase contribution rates, we would like to turn to our actuary, who has prepared a written statement or justification for the increase. In addition, we would like to state that the Inspector General's Office was highly critical of the Retirement Fund because of its failure to implement the actuarially required rates. In order to fulfill its promise of solvency and delivery of expected benefits to future retirees, the Retirement Fund Board of Trustees and the management make this appeal to this body to increase the contribution rate.

Respectfully submitted by

Sylvia Stake

Sylvia L. G. Stake
Deputy Director

TWENTY-FIRST GUAM LEGISLATURE
COMMITTEE ON WAYS & MEANS
PUBLIC HEARING TESTIMONY SIGN-IN ROSTER
Bill No. 3

AN ACT TO AMEND SUBSECTION (a) OF §8136, §§8146, 8154, 8156, AND 8137, AND TO REPEAL AND REENACT §§8151 AND 8157, ALL OF CHAPTER 8 OF TITLE 4, GUAM CODE ANNOTATED, RELATIVE TO GOVERNMENT OF GUAM RETIREMENT FUND INVESTMENTS AND GOVERNMENT AND EMPLOYEE CONTRIBUTIONS TO THE FUND, AND TO APPROPRIATE FIVE MILLION DOLLARS ($5,000,000) TO THE DEPARTMENT OF ADMINISTRATION FOR THE PURPOSE OF PAYING GOVERNMENT OF GUAM RETIREMENT FUND CONTRIBUTIONS ONLY.

NAME OF WITNESS *(Please print clearly)*	REPRESENTING	*STATEMENT* *(Written or Oral)*	*TESTIMONY (check one)* *FOR*	*AGAINST*
Tor Gutierrez	Retirement	✓	✓	
Joey Cepeda	GVB	Written	✓	
JOAQUIN G. BLAZ	Rev & Tax	Written	✓	
Dan Tejarang	Ret Fund	Both	✓	
Martin Dagu	"	"	✓	
J. Stahr	"		✓	

FISCAL NOTE
BUREAU OF BUDGET AND MANAGEMENT RESEARCH **BBMR-F7**

Bill No. 3 (LS) **Date Received** 2/2/93
Amendatory Bill YES [X] NO [ ] **Date Reviewed** 2/11/93

Department/Agency Affected: Retirement/ Department of Administration
Department/Agency Head: Atanacio B. Gutierrez/ Wilfred Aflague
Total FY Appropriation to Date: $27,127,322 (Retirement)/ $11,955,837 (DOA-General Fund Operations)

Bill Title (preamble) : AN ACT TO AMEND SUBSECTION (A) OF SS8136, SS'S8146, 8154, 8156 AND 8137, AND TO REPEAL AND REENACT SS'S8151 AND 8157, ALL OF CHAPTER 8 OF TITLE 4, GUAM CODE ANNOTATED, RELATIVE TO GOVERNMENT OF GUAM RETIREMENT FUND INVESTMENTS AND GOVERNMENT AND EMPLOYEE CONTRIBUTIONS TO THE FUND, AND TO APPROPRIATE FIVE MILLION DOLLARS ($5,000,000) TO THE DEPARTMENT OF ADMINISTRATION FOR THE PURPOSE OF PAYING GOVERNMENT OF GUAM RETIREMENT FUND CONTRIBUTIONS ONLY

Change in Law: (A) OF SS8136, SS'S8146, 8154, 8156 & 8137 to be amended; SS'S8151 & 8157, to be repealed and reenacted, all of Chapter 8 of Title 4, GCA

Bill's Impact on Present Program Funding:
x Increase ___ Decrease ___ Reallocation ___ No Change

Bill is for: ___ Operations ___ Capital Improvement x Other (Retirement Fund)

FINANCIAL/PROGRAM IMPACT

ESTIMATED SINGLE-YEAR FUND REQUIREMENTS (Per Bill)

PROGRAM CATEGORY	GENERAL FUND	OTHER	TOTAL
Semi-Autonomous/ Gov't-Wide Support	$5,000,000		$5,000,000

ESTIMATED MULTI-YEAR FUND REQUIREMENTS (Per Bill)

FUND	1st	2nd	3rd	4th	5th	TOTAL
GENERAL FUND	$5,000,000	$8,643,771	$9,162,397	$9,712,141		$32,518,309
OTHER						
TOTAL	$5,000,000	$8,643,771	$9,162,397	$9,712,141		$32,518,309

FUNDS ADEQUATE TO COVER INTENT OF THE BILL? YES/NO-IF NO, ADD'L AMOUNT REQUIRED $ 5,000,000
AGENCY/PERSON/DATE CONTACTED: Retirement Fund / M. Dugan / 2/11/93

ESTIMATED POTENTIAL MULTI-YEAR REVENUES

FUND	1st	2nd	3rd	4th	5th	TOTAL
GENERAL FUND	N/A					
OTHER						
TOTAL						

ANALYST A. Flores **DATE** 2/11/93 **DIRECTOR** GIOVANNI T. SGAMBELLURI **DATE** 2/11/93

FOOTNOTES:

GOVERNMENT OF GUAM
AGANA, GUAM 96910
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 * Agana, Guam 96910
Tel.: (671) 475-1169/1221 * FAX: (671) 472-8483

2/5

January 28, 1993

The Honorable Carl T.C. Gutierrez
Chairman, Committee on Ways and
Means
155 Hesler Street
Pacific Arcade
Agana, Guam 96910

Dear Senator Gutierrez:

In response to your letter of January 15, 1993, you identified five (5) reports as missing.

1. <u>Monthly Combined Balance Sheet Fiscal Year 1993</u>

   Due to budget cuts in the Division of Accounts, this report is not being prepared, except on a quarterly basis.

   The report for the First Quarter ending (December 31, 1992) is expected on February 3, 1993.

2. <u>Comparative Balance Sheet for Fiscal Year 1993 (Quarterly)</u>

   This report has <u>never</u> existed and is not now contemplated.

3. <u>Monthly Comparison of Estimated to Actual Revenues</u>

   Enclosed, please find three (3) pages covering the months October, November and December, 1992.

4. <u>Monthly Comparison of Statement of Tax Revenues</u>

   Enclosed, please find three (3) pages covering the months October, November and December, 1992.

5. Monthly Disbursements

We have no record of such report ever being issued. As you have noted in your letter, our Analysis of Cash Disbursement has been provided to you and is the only report we issue pertaining to disbursements.

We trust you will make this information available to your committee members and point out to them the continuing trend of actual revenues falling short of approved estimates.

Sincerely,

WILFRED G. AFLAGUE
Director

Enclosure(s)

155 Hesler Street
Pacific Arcade
Agana, Guam 96910
Telephone: (671) 472-3407 thru 9
Fax: 477-3161

Twenty-Second Guam Legislature

Chairman, Committee on Ways & Means

Vice-Chairman, Committee on Rules

Vice-Chairman, Committee on Tourism & Transportation

CARL T.C. GUTIERREZ
Senator

RECEIVED
JAN 15 1993
DEPT. OF ADMINISTRATION

January 15, 1993

Mr. Wilfred Aflague, Director
Department of Administration
P.O. Box 884
Agana, Guam 96910

Dear Director Aflague:

Thank you for your letter of January 5, 1992 in which you enclosed the following financial reports:

1. General Fund Report (Daily)
2. Government of Guam Cash and Investment Report
3. Monthly Analysis of Cash Collections
4. Monthly Analysis of Cash Disbursement

However the following financial reports are still missing as follows:

1. Monthly combined balance sheet for FY 1993
2. Comparative balance sheet for Fiscal Year 1993 (Quarterly)
3. Monthly comparison of estimated to actual revenues
4. Monthly comparative statement of Tax Revenues
5. Monthly disbursements

Please send the missing financial reports at your earliest convenience.

Sincerely,

CARL T.C. GUTIERREZ

GOVERNMENT OF GUAM
AGANA, GUAM 96910
DEPARTMENT OF ADMINISTRATION
(DIPATTAMENTON ATMENESTRASION)
DIRECTOR'S OFFICE
(UFISINAN DIREKTOT)
Post Office Box 884 * Agana, Guam 96910
Tel.: (671) 475-1169/1221 * FAX: (671) 472-8483

March 2, 1993

The Honorable Carl T.C. Gutierrez
Chairman, Committee on Ways and
Means
155 Hesler Street
Pacific Arcade
Agana, Guam 96910

Dear Senator Gutierrez:

Enclosed herewith are the following financial reports generated by our Division of Accounts' staff for January 1993, provided for your information:

1. General Fund Cash Report (Daily)
2. GovGuam Cash and Investment Report
3. Monthly Analysis of Cash Collections
4. Monthly Analysis of Cash Disbursement

Should you have any questions, please contact Mr. John P. DeNorcey, Controller at 475-1169/1221.

Sincerely,

WILFRED G. AFLAGUE
Director

Enclosures

cf: Honorable Joseph F. Ada, Governor of Guam
Senator Thomas V.C. Tanaka, Minority Leader
Mr. Giovanni Sgambelluri, BBMR Director
Mr. Joaquin Blaz, DRT Director
Mr. Carl Taitano, Governor's Office

GOVERNMENT OF GUAM RETIREMENT FUND
ANALYSIS OF NON-BASE PAY IMPACT ON ANNUITY & LIABILITIES

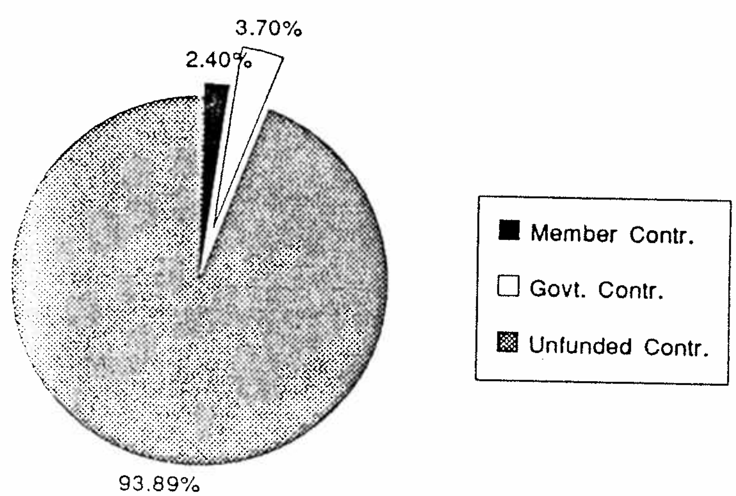
ASSUMPTIONS:	
Incr. Factor -	0.1
Leave Hrs -	688
Age -	48

1. BENEFIT IMPACT:

	Salary	3 yr. Average	25 yr. Benefit Amt.	% Incr.
a. BASE PAY				
3rd Highest Yr	$45,000.00			
2nd Highest Yr	$49,500.00			
Highest Yr	$54,450.00			
		$49,650.00	$28,548.75	
b. OVERTIME PAY (40 hrs per year assumed)				
3rd Highest Yr	$1,297.80			
2nd Highest Yr	$1,428.00			
Highest Yr	$1,570.80			
		$1,432.20	$823.52	2.88%
c. LUMP SUM PAY	$18,011.84			
		$6,003.95	$3,452.27	12.09%
Combined		$57,086.15	$32,824.53	14.98%

2. COST APPORTIONMENT FOR NON-BASE PAY ONLY(PV):

a. Member Contr.	$1,896.22
b. Govt. Contr.	$2,923.74
c. Unfunded Contr.	$74,110.18
d. Reserve Reqmt.	$78,930.14



4/9/92

FILE: Non-Base Analysis(3/92)

Government of Guam Retirement Fund

SUMMARY OF PROPOSED RATE INCREASE AND ANALYSIS OF IMPACT ON THE GENERAL FUND

	FY 92 + Part FY93 **Current** [10/1/91 - 9/31/92]	Projected Remainder of **FY 1993** [10/1/92 - 9/31/93]	**FY 1994** [10/1/93 - 9/31/94]	**FY 1995**	**FY 1996**
1. MEMBER CONTRIBUTION:					
§ 8136(a)(3) - Base Pay	7.50%	8.50%	9.50%	9.50%	9.50%
(a)(4) - Non Base Pay	8.50	9.50	10.50	10.50	10.50
II GOVERNMENT CONTRIBUTION:		70%	80% To be determined by actuary	90%	100%
§ 8137(a) - Normal Cost *	10.699%	6.010 ~~4.447%~~	~~4.808%~~ 6.010	~~5.409%~~	~~6.010%~~
§ 8137(b) - Prior ~~Cost~~ service Govt. Unfunded liability Amortization Cost **	1.407%	~~10.112%~~ 13.665	~~10.932%~~	~~12.299%~~	~~13.665%~~
§ 8137(d) - Unfunded Liability	1.000%	0.000%	0.000%	0.000%	0.000%
Total Gov't Contribution	13.106%	19.675 ~~14.559%~~	~~19.675~~ 15.740%	~~17.708%~~	~~19.875%~~
§ 8137(e) - Phase-in Factor	13.77 Δ.66	70%	80%	90%	100%
COMBINED RATE:	20.606% Σ Δ 6.6	28.175 ~~23.059%~~	~~25.240%~~	~~27.208%~~	~~29.175%~~
III Phase-in factor Δ	Δ 7.58%	19.723 / 8.452			
2. PROJECTED GOVERNMENT PAYROLL:		$ 387,500,000	406,875,000	427,218,750	448,579,688
3. PROJECTED GOV'T COST:					
PROPOSED RATE		56,416,125	64,042,125	75,651,896	88,258,054
a. PRIOR YEAR RATE		50,785,750	59,236,931	67,244,231	79,434,491
INCREASE ABOVE PRIOR YEAR		5,630,375	4,805,194	8,407,665	8,823,562
b. 13.106%		50,785,750	53,325,038	55,991,289	58,790,854
INCREASE ABOVE 13.106%		5,630,375	10,717,088	19,660,607	29,467,200
4. PROJECTED GENERAL FUND COST: (Includes Line Depts, UoG, GCC, Courts, PUAG, Legislature, GMHA and others funded by appropriation)					
PROPOSED RATE		47,953,706	54,435,806	64,304,112	75,019,345
a. PRIOR YEAR RATE		43,167,888	50,351,392	57,157,597	67,519,317
INCREASE ABOVE PRIOR YEAR		4,785,819	4,084,415	7,146,515	7,500,028
b. 13.106%		43,167,888	45,326,282	47,592,596	49,972,226
INCREASE ABOVE 13.106%		4,785,819	9,109,524	16,711,516	25,047,120

2/1/93

Normal cost - sum of annual contributions required for each participant from his entry date to his assumed retirement date so that the accumulated contributions at retirement is equal to the liability for the projected benefit.

19.35 Act. Valuation