From an actuarial point of view, funding should get up to the full actuarial rate. There is a question of allocation between government and members. There is some leeway, and there can be some discussion over how much these member contributions should be raised.

In 1993, the government's contribution would go from $51 Million in 1992 to about $54 Million in 1993. The following year we would reach the 80% phase-in level and the government contribution level would go to about 14.9% and based on about 5% a year in payroll that results in a $63 Million contribution in 1994. In 1995 the government contribution would reach 16.68% of payroll with a projected cost of $76 Million. In 1996, 18.68%, and an $89 Million cost. At that point you will have reached the full actuarial requirement, except for changes in plan design and experienced gains and losses which come about because actuarial assumptions are not met. Absent those things, at 18.68% would remain for the level for a good many years. It is important to realize that we are basing these predictions on a certain set of assumptions, and when we do the next actuarial survey, we will come up with a different set of numbers because we will have actuarial gains and losses which will change these percentages.

Mr. Lingo expressed that he felt that the bill goes a long way towards resolving concerns about contribution levels, and if this track is taken that Fund members will feel a lot better about the security of their benefits. The government, from a financial reporting concern, is going to have less unfunded liabilities to show in its disclosures and if GASBY exposure draft passes, less liabilities will be showing up on the General Fund statements or ledgers.

Chairman Gutierrez questioned Mr. Lingo concerning the usage of the $5 Million appropriation contained in the bill for the employee's contribution this year instead of increasing the employees contribution this year. Mr. Lingo expressed that it is hard to increase employees share. Senator Gutierrez inquired whether the government should continue to pay the employees share, and Mr. Lingo did not agree with that. Mr. Lingo indicated that an increase in employees share can be supported. He pointed out that government of Guam employees are not covered by Social Security, and that many other public employees are covered by their retirement system and also by Social Security. He indicated that those employees covered also by Social Security pay about 6%, along with the contribution to their retirement Fund, which averages about 4-4 1/2%. Those individuals are contributing 10 to 10 1/25% of pay.

3. General Discussion then took place with questions by the Committee to those testifying. Chairman Gutierrez inquired whether Mr. Lingo was firm that the employees should be tapped another percent this year and an extra percent next year. Mr. Lingo indicated that the raise in contribution is not out of the range with what other public employees are paying, and that the full actuarial amount should be paid, it's just a question of sources.

Chairman Gutierrez made reference to a report that was issued to the Retirement Fund which indicated that the Fund is paying over $200,000 per year in needless commissions. If the fixed income portion of the Fund was removed and given to a broker who charged less, then this $200,000 per year would be saved.

Ms. Stake inquired whether Chairman Gutierrez felt that the Fund should concentrate the types of investments by manager. Chairman Gutierrez indicated that rather he was making the point of saving commissions. Ms. Stake indicated that the Board would like to get an investment consultant in to take a look at all those items. Chairman Gutierrez asked whether the Fund has had consultants over these years, and Ms. Stake indicated that the Fund has a "soft dollar" arrangement with some consultants. In other words, for every transaction that is done back in the States that credit is given to the brokers on Guam. Chairman Gutierrez asked if Mr. Joseph Stoll from Merrill Lynch had not been a consultant to the Board over the last several years, and Ms. Stake indicated that he had, in the sense that he gets paid indirectly. Ms. Stake pointed out that a regular investment consultant would be getting a percentage of the Fund assets.

Chairman Gutierrez inquired whether the Fund had hired a consultant yet. Ms. Stake indicated that an RFP is now out and the Board is considering the responses. Chairman Gutierrez inquired whether since the inception of the Retirement Fund that the Fund had never had a paid consultant and was informed that that was the case. The actuary is being paid for the services that he performs. Mr. Joaquin Blaz indicated that because of the fiduciary responsibility that there is a need for a paid consultant on investments.

Chairman Gutierrez inquired about the Fund's present investment guidelines. Ms. Stake indicated that the guidelines were written generally, and were specific in a few areas.

Chairman Gutierrez expressed that guidelines should be set out and passed on to the Legislature for approval, as a protection for the Board.

Chairman Gutierrez expressed that the reason that the provisions concerning the Retirement Fund were pulled out of the budget was because the Committee could not have the extensive discussion that was being presented at this hearing, which is necessary to revamp the entire Retirement Law system that we have now, and that a bill needs to be hammered out will full discussion. He felt the present law is antiquated. Chairman Gutierrez desired to sit down with the Board and go over the entire law and not have unpaid advisors there who are paid out of commissions, as that may be a conflict of interest, or at the least does not make sense.

On a further subject, Ms. Stake pointed out that the Board does not interfere with the judgment of any of the investment managers, as the managers assume also a portion of the fiduciary duty toward the Fund, however she pointed out that the overall picture, which the Board should have, should be provided to the managers by an expert. The fiduciary duty which the Board is held to under the ERISA guidelines if not the Prudent ordinary Person, but the Prudent Expert.

Chairman Gutierrez pointed out that the Retirement Fund is not covered by ERISA, however, it is a good idea to follow those guidelines.

Chairman Gutierrez inquired how often the Board has been meeting on their problems, and was informed that they meet twice a month. Ms. Stake informed Chairman Gutierrez that the Board has had a lot of work sessions also.

Chairman Gutierrez pointed out that the loss of $200,000 to $250,000 per year in investment commissions, which has been going on for the last 15 years, comes up to a lot of money.

Senator Gutierrez indicated that during his tenure as Chairman of the Committee with oversight over the Retirement Fund, that the close out for changes occurred with Public Law 20-4, and that, fundamentally, no particular changes were made that made any significant impact on the Retirement Fund since that time.

Chairman Gutierrez indicated that the staff of the Committee on Ways and Means would meet with the personnel of the Retirement Fund to finalize the bill to take care of the needs of the Retirement Fund.

With these comments, the Chairman closed the hearing on Bill No.945.

Testimony offered on Bill No. 3 on Wednesday, February 3, 1993:

Those persons offering testimony on Bill No. 3 on Wednesday, February 3, 1993 were Mr. Atanasio B. Gutierrez, Director of the Government of Guam Retirement Fund; Ms. Sylvia Stake, Deputy Director; Mr. Joaquin Blaz, Director of the Department of Revenue and Taxation; Mr. Martin Duggan, Retirement Fund; Mr. Dan Fejerang, Retirement Fund; and Mr. Joey Cepeda, Executive Director of the Guam Visitors Bureau.

Chairman Gutierrez indicated to those at the public hearing that Bill No. 3 is the same as that bill reported out previously as Bill No. 945.

1. Director Atanasio B. Gutierrez of the Government of Guam Retirement Fund testified first. Written testimony was submitted, along with data submitted showing the impact on members earnings and a graph showing the proposed increase in the Government's Contribution Rate. These are attached. A question and answer, step by step procedure was then followed including various persons testifying on the bill to give an understanding of the bill's provisions.

Mr. Gutierrez explained that presently the only foreign investments allowed to the Retirement Fund are those of the Dominion of Canada. Reference to the Dominion of Canada was deleted in the first section to allow Canada to be treated the same as other foreign investments in later amendments to the bill.

Director Gutierrez explained also that the changes in the first section of the bill limits foreign investments of the Fund to Thirty Percent (30%) of total assets.

Ms. Stake pointed out that foreign bonds are also included in the Thirty Percent (30%) limitation.

Senator Bamba inquired whether there are at present any foreign investments, and was informed by Director Gutierrez that there are none, due to the limitation in the present law, and there are some investments in the Dominion of Canada. Senator Bamba inquired whether the Fund has a plan to invest in foreign instruments, and Director Gutierrez replied that there is a plan that was devised three years ago for this type of investment. Investment will not take place immediately, however, the money managers will be apprised of the new opportunity to invest in foreign instruments should the bill pass.

Ms. Stake informed the Committee that there are some money managers presently putting money into American depository receipts (ADRs) which is permitted under ERISA, and is a foreign investment through an American investment company. It is a foreign company, but the money is in U. S. dollars.

Senator Ada and Senator Pangelinan asked various questions regarding how the Fund allocates the remaining Seventy Percent (70%). Senator Gutierrez pointed out that the limitation is only on foreign investments, not on domestic, and more than Seventy Percent (70%) of the Fund can be invested in domestic instruments.

General discussion took place between Ms. Stake and Senator Gutierrez regarding the price of fees in investing in equities and fixed income investments. It was pointed out that investing in equities involves a higher fee, and that if money managers invest in fixed income and equities, that the higher fee can be charged.

Director Gutierrez indicated that the prohibition on investing in foreign bonds is also removed. There is in the bill a limitation on Five Percent (5%) on bond investment in any one company for domestic bonds and One and One-Half Percent (1-1/2%) for bond investment in any one company for foreign bonds.

Senator Bamba inquired whether the Fund had lost any money investing in companies that had gone bankrupt, and was informed by Director Gutierrez that so far that has not happened. The Fund has lost some of the appreciated value, but not the total amount.

Chairman Gutierrez pointed out that the bill had been reworked over and over between the staff of the Ways and Means Committee and the staff of the Retirement Fund. Director Gutierrez indicated that he had been trying to get these changes enacted into the law for many years.

Director Gutierrez pointed out that there is in the bill a Two Percent (2%) limitation on investment in foreign preferred stock.

Director Gutierrez explained the function of the sections of the bill which modify government "normal" cost and payment of the unfunded liability. He indicated that to eliminate the unfunded liability, the Fund would have to increase the contributions by Fifty Percent (50%), so instead, the Fund devised another way to handle this situation. Instead, the members would increase their contribution by One Percent (1%) each year for two (2) years. Also, the amount of contribution on non-base pay would increase Two Percent (2%) at the maximum.

The government's contribution would increase .67% in 1993 and in 1994 it would increase 1.97% increase. The first year it will go up from 13.106% to 13.77%, and in 1994 it will be 15.74, and in 1995 it will be 17.71, and by 1996 it will be over 18%.

Ms. Stake explained that the government's share is divided into two portions, the "normal" cost and the "unfunded liability amortization" cost. The government normal cost now is less than what it has been in the past, according to the findings of the actuary. It was decided to lower the government's normal cost from 10.699% to 6.010%. In FY 1993, the government's normal cost will be 6.010%. The section concerning the unfunded liability originally was funded by the government at the rate of 1.407%. The actuary suggested that more of the government's money be put into the unfunded liability, which should be raised to 13.665%. This would entail an increase in about 6-1/2%, so it was decided that a phase-in approach should be adopted. To explain the situation in other words, the total government contribution for FY 1993 should be 19.675%. The phase-in approach would be to fund 70% of this amount in the first year, which would be 13.77%. When comparing 13.77% with 13.11% which the government is presently paying, there is only a change of .66%. It only requires about $2.7M to implement this plan for FY 1993. The rate of change over the next three years with increased contributions is only 1.97%, or close to $10M. The overall cost of bringing the Retirement Fund up to the necessary contributions is $10M.

There then was some discussion concerning government normal cost. Ms. Stake defined government normal cost as "The sum of the annual contributions required for each participant from his entry date to his assumed retirement date so that the accumulated contribution at retirement is equal to the liability for the projected benefit". Ms. Stake also defined "prior service" for the Committee as "Rate percent applied to the total salaries of all Fund members which will amortize the remaining liability for prior service over a specified period, but it is not to exceed the amortization period which is set by law" The amortization period set by law is eighty (80) years, however the Fund Board has adopted an amortization period of thirty (30) years.

Chairman Gutierrez summarized the effects of the changes in the bill for the Committee.

There was general discussion regarding the pay-in of the Five Million Dollar appropriation. If the employee share is retroactive to October 1, 1992, yet the bill is not passed until February, 1993, employees cannot be made to pay their own shares retroactively, yet the portion of their shares not paid between October 1, about a 14% contribution, which is equivalent to the contribution made as a result of the passage of this bill.

COMMITTEE ACTION

The staff of the Committee on Ways and Means, after due consideration of the testimony offered at the public hearing on February 3, 1993, and taking into consideration the additional information offered on the hearing on Bill 945 in the Twenty-First Guam Legislature, especially the testimony of the actuary of the Fund, and working with the staff of the Retirement Fund, decided to report out Bill No. 3 with funding to cover the agencies funded from the General Fund for Fiscal Year 1993, as well a various small modifications throughout the bill.

The appropriation of Five Million Dollars ($5,000,000) as estimated in the bill as introduced was reduced to Two Million Five Hundred Seventy-Five Thousand Dollars ($2,575,000).

COMMITTEE RECOMMENDATION

The Committee on Ways and Means wishes to report out Bill 3 to the full legislature to do pass, as amended.

Introduced

JAN 04 '93

TWENTY-SECOND GUAM LEGISLATURE
1993 (FIRST) Regular Session

Bill No. 3(LS)

Introduced by:

C.T.C. Gutierrez

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.

BE IT ENACTED BY THE PEOPLE OF THE TERRITORY OF GUAM:

Section 1. §8146 of Chapter 8 of Title 4, Guam Code Annotated, is amended to read;

"§8146. General Investment Limitations. No investment shall be made if, after such investment, the Fund would own:

(a) Any combination of obligations of any one political subdivision, corporation or other single issuing entity in excess of five percent (5%) of Fund assets at cost. This limitation shall not apply to general obligations of the United States~~[, The Dominion of Canada]~~ or the territory of Guam.

~~[(b) Obligations of the Dominion of Canada, together with its political subdivisions and corporations organized under its laws or the laws of its provinces, in excess of ten percent (10%) of the Fund assets at cost]~~

(b) Any combination of investment instruments as covered by Section 8151, Subsection (b) of §8154, Subsection (b) of §8156, and Subsection (b) of §8157 in excess of Thirty Percent (30%) of Fund assets at cost.

(c) Obligations or other investments issued or guaranteed by the territory of Guam in excess of Ten Percent (10%) of Fund assets at cost, provided however, that this limitation shall not apply to such obligations or other investments that are unconditionally guaranteed as to principal and interest by, or supported by lease assignment from, another entity whose principal business is outside of said Territory and whose obligations are authorized investments under §§8143 through 8159, inclusive.

Section 2. §8151 of Chapter 8 of Title 4, Guam Code Annotated, is repealed and reenacted to read:

"§8151. Same: Bonds Issued by National Governments Other Than The United States. Bonds and other evidences of indebtedness which are direct obligations of, or secured by, the full faith and credit of national governments other than the United States, where there exists the power to levy taxes for the prompt payment of the principal and interest of such bonds or evidences of indebtedness, provided that:

(a) The issuer shall not be in default in the payment of principal or interest on any bonds or other evidences of indebtedness; and

(b) The Investment Agent determines that such an investment would be employed by a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund with like character and with like aims; and

(c) No investment shall be made in any one (1) issue described in this Section in an amount in excess of ten percent (10%) of such issues."

Section 3. §8154 of Chapter 8 of Title 4, Guam Code Annotated, is amended to read:

"§8154. Same: Bonds of Domestic and Foreign Corporations. (a) Domestic Corporations. Bonds, debentures, notes and other evidences of indebtedness of any corporation or corporations created or existing under the laws of the United States, or of any of the states or territories of the United States or the District of Columbia ~~[or the Dominion of Canada or any of its provinces,]~~ which are not in default either as to principal or interest, provided that such bonds or other evidences of indebtedness carry investment grade or better rating.

(1) Such bonds or other evidences of indebtedness are rated within the four (4) highest categories by two (2) nationally recognized and published rating services which have been approved by the Board and the Investment Agent; or

(2) In case such bonds or other evidence of indebtedness are not so rated by two (2) such services, the net earnings available for fixed charges over a prior of five (5) fiscal years next preceding the date of investment have averaged per year and during either of the last two (2) years have been, after depreciation and after taxes, not less than:

(a) Two (2) times its average annual fixed charges over the same period, in the case of any public utility company;

(b) One and one-half (1-1/2) times its average annual fixed charges over the same period, in the case of any finance company; or

(c) Three (3) times its average annual fixed charges over the same period, in the case of any other company.

(3) No more than Five Percent (5%) of the Fund at cost shall be invested in the obligations of any one (1) domestic corporation or other single domestic issuing entity described in this Subsection.

(b) Foreign Corporations. Bonds, debentures, notes and other evidences of indebtedness of any corporation or corporations created or existing under the laws of nations other than the United States which are not in default either as to principal or interest, provide that the Investment Agent in its informed opinion, determines that such an investment would be employed by a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims. No more than One and One-Half Percent (1-1/2%) of the Fund at cost shall be invested in the obligations of any one (1) foreign corporation or other single issuing foreign entity described in this Subsection.

[~~(b)~~] (c) No investment shall be made in any one (1) issue described in this Section in an amount in excess of Ten Percent (10%) of such issues."

Section 4. §8156 of Chapter 8 of Title 4, Guam Code Annotated, is amended to read:

"§8156. Same: Domestic and Foreign Preferred Stock. (a) Domestic Preferred Stock. Domestic ~~[P]~~ preferred or guaranteed stock or shares of any institution created or existing under the laws of the United States or of any state, district or territory thereof or the District of Columbia, ~~[or the Dominion of Canada or any of its provinces]~~ provided that:

(1) All publicly held prior obligations and prior preferred stock, if any, of such institution at the date of acquisition are eligible as investments under §§8143 through 8160; and

(2) The net earnings of the institution available for fixed charges over a period of five (5) fiscal years next preceding the date of investment have averaged per year, and during either of the last two (2) years have been, after depreciation and after income taxes, no less than:

[~~(a)~~] (i) Two (2) times its average annual fixed charges, maximum contingent interest and preferred dividend requirements over the same period, in the case of any public utility company; or

[~~(b)~~] (ii) Three (3) times its average annual fixed charges, maximum contingent interest and preferred dividend requirements over the same period, in the case of any other company.

[~~(b)~~] For purposes of this Subsection, the term 'preferred dividend requirements' shall mean cumulative and noncumulative dividends on all preferred stock of the issuer, whether paid or not.

(b) Foreign Preferred Stock. Foreign preferred or guaranteed stock or shares of any institution created or existing under the laws of nations other than the United States which are not in default either as to principal or interest, provided that the Investment Agent in its informed opinion, determines that such an investment would be employed by a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.

(c) Limitations:

(1) No investment shall be made in any one issue described in [~~Subsection (1)~~] Item (1) of Subsection (a) of this Section in an amount in excess of ten percent (10%) of such issues.

(2) No more than [two percent (2%)] five percent (5%) of the Fund at cost shall be invested in the preferred stock of any one issuing domestic company.

(3) No more than two percent (2%) of the Fund at cost shall be invested in the preferred stock of any one issuing foreign company.

[~~(3)~~] (4) The aggregate of all investments authorized under this Section shall not exceed fifteen percent (15%) of Fund Assets at cost."

Section 5. §8157 of Chapter 8 of Title 4, Guam Code Annotated, is repealed and reenacted to read:

"§8157. Same; Common Stock. (a) Common or capital stock of any institution or entity created or existing under the laws of the United States or any state, district, or territory thereof, or the District of Columbia. No more than Five Percent (5%) of the Fund shall be invested in the common or capital stock of any one issuing domestic company described in this Section.

(b) Common or capital stock of any institution or entity created or existing under the laws of nations other than the United States provided that the Investment Agent determines that such an investment would be employed by a prudent man acting in a like capacity and familiar with such matters would use in the investment of a fund with like character and with like aims. No more than One and One-Half Percent (1-1/2%) of the Fund at cost shall be invested in the common or capital stock of any one issuing foreign company described in this Section.

(c) No investment shall be made in any one (1) issue described in this Section in an amount in excess of ten percent (10%) of such issues.

(d) The aggregate of all investments under this Section shall not exceed fifty percent (50%) of the Fund at cost.

Section 6. Subsection (a) of § 8136 of Title 4 of the Guam Code Annotated is amended, and item (6) of that same Subsection is redesignated to be Subsection (b), to read:

"(a) Each member of the Fund shall contribute the following:

(1) Six percent (6%) of salary earned and accruing to such member from the operative date of July 1, 1973;

(2) Six and one-half percent (6.5%) of salary earned and accruing to such member subsequent to July 1, 1973;

(3) Seven and one-half percent (7.5%) of the base pay earned and accruing to such member subsequent to October 1, 1981;

(4) Eight and one-half percent (8.5%) of the base pay earned and accruing to such member to be effective on the first full pay period after the date of enactment of this Section, which enactment date is subsequent to October 1, 1992;

(5) Nine and one-half percent (9.5%) of the base pay earned and accruing to such member subsequent to October 1, 1993; and

[(4)] (b) Non-Base Pay. At the written [~~option~~] election of the member prior to October 1, 1992, eight and one-half percent (8.5%); from October 1, 1992 through September 30, 1993, nine and one-half percent (9.5%); and

Check if retroactivity can't be for employees.

ten and one-half percent (10.5%) thereafter of the following non-base pay of such members: Overtime, bonuses, hazardous duty pay, night differential pay, lump sum annual leave, summer school pay, extra teaching assignments pay, and other salary for services rendered paid to members by the government. A new member shall exercise in writing his or her option to contribute for such non-base pay within sixty (60) days of joining the Fund, failing which such member shall be deemed to have permanently waived the right to exercise such option. All current members shall have until May 15, 1989 to exercise such option. After a member exercises such option the contribution of such member shall be based on such member's base and non-base pay. To complete a current member's exercise of such option, such a member shall pay into the Fund such member's share, plus regular interest to the date such deposit is completed, of the total contribution required for such non-base pay for such period for which such member wishes to make a retroactive contribution up to the effective date of this subitem, but not to exceed any period prior to October 1, 1983. In addition, any annual leave for which a member has received a lump sum payment (lump sum annual leave) and for which the member makes a contribution as herein provided shall be credited to the member in the same manner as unused accumulated annual leave is treated by §8116 of this Title. The Board shall report to the Legislature by July 1, 1989, (i) the number of members who have exercised the option to contribute for their non-base pay, (ii) the amounts necessary to constitute the employer's share of such contribution so as to maintain the integrity of the Fund so that the necessary amount shall be appropriated, authorization for which is given. A current member exercising his or her option shall have up to forty-eight (48) months in which to pay the contribution required for the non-base pay for which retroactive credit is sought, at regular interest, under such rules as to such extended payment plans as are promulgated by the Board; provided, however, that all such contributions shall be paid in by a member before such a member's retirement."

Section 7. § 8137 of Title 4 of the Guam Code Annotated is amended to read:

"§ 8137. Contribution by the Government. The Government shall make contributions to the Fund each year on an actuarial funded basis, toward the annuities and benefits herein provided. These contributions shall be equal to the sum of the following:

(a) Government Normal Cost. An annual amount resulting from the application of a rate percent of total salaries of all members representing the present value of the actuarial reserve requirement for membership service, for such year, for service retirement annuity, disability retirement annuity, and annuities to widows and children, and the one-year term premium for the Government's liability for death benefits, after taking credit for the contributions. From July 1, 1955 to August 30, 1972, the rate of contributions shall be seven and two hundred eighty-seven thousandths percent (7.287%) of the total salaries of the members participating in the Fund. From September 1, 1972, the rate of contribution shall be seven and six hundred ninety-seven thousandths percent (7.697%) of the total salaries of the members participating in the Fund. From July 1, 1976, the rate of contribution shall be eight and six hundred ninety-seven thousandths percent (8.697%) of the total salaries of the members participating in the Fund. From October 1, 1981, the rate of contribution shall be ten and six hundred ninety-nine thousandths percent (10.699%)

of the total base pay of the members participating in the Fund and ten and six hundred ninety-nine thousandths percent (10.699%) of the pay for which members opted to contribute eight and one-half percent (8.5%) as provided in item [(4)] (6) of Section 8136(a) of this Chapter. From October 1, 1992, the rate of contribution shall be six and ten-thousandths percent (6.010%) with respect to both pay and base pay for which members opted to contribute as provided in item (6) of Section 8136(a) of this Chapter. From October 1, 1993, the rate of contribution with respect to both base pay and the pay for which members opted to contribute as provided in item (6) of Section 8136(a) of this Chapter shall be equal to the Government Normal Cost rate percent determined in the latest completed actuarial valuation prepared for the Board of Trustees by the actuary appointed by the Board.

(b) Government Unfunded Liability Amortization Cost. An amount resulting from the application of a rate percent of total salaries of all members which will amortize the remaining liability for prior service over the remainder of a specified period, as determined by the Board upon recommendation of the actuary, but not to exceed a period of eighty (80) years following the operative date. From July 1, 1955 to August 30, 1972 the rate of contribution shall be not less than one and three hundred seventeen thousandths percent (1.317%) of the total salaries of the members participating in the Fund. From September 1, 1972 the rate of contributions shall be not less than one and four hundred and seven thousandths percent (1.407%) of the total salaries of the members participating in the Fund. From October 1, 1992, the rate of contribution shall be equal to thirteen and six hundred sixty-five thousandths percent (13.665%) of the total salaries of the members participating in the Fund. From October 1, 1993 the rate of contribution shall be equal to the Government Unfunded Liability Amortization Cost rate percent determined in the latest completed actuarial valuation prepared for the Board of Trustees by the actuary appointed by the Board.

The amount of contributions by the Government shall be determined by applying the applicable percentage rate of contributions as hereinabove prescribed to the total salaries paid to the members during each payroll period, and all such amounts shall be paid into the Fund following the close of each payroll period, concurrently with the contributions made to the Fund by the members.

(c) An amount resulting from the application of a rate equal to average rate of return on the investment of retirement funds in the preceding fiscal year of total delinquent payments during the period when such payments are delinquent. In addition an amount equal to one percent (1%) per year of delinquent payments shall be paid over the Fund as penalty for late payment. As used in this Section, delinquent payments means payments due the Fund pursuant to 4 GCA Section 8136 and Subsections (a) and (b) of this Section which are not paid over to the Fund within ten (10) working days after issuance of payroll checks.

(d) In addition to all other contributions made by the government to the Retirement Fund pursuant to this chapter, the government shall pay as a an additional contribution to the Fund one percent (1%) of the total salaries of all members, effective October 1, 1988 through September 30, 1992. These payments shall be first applied towards any unfunded liability of the Fund, if there be any.

(e) From October 1, 1992, the Government rate of contribution shall equal Seventy Percent (70%) of the sum of the contribution rates required under Section 8137(a) and Section 8137(b). From October 1, 1993, the Government rate of contribution shall equal eighty percent (80%) of the sum of the contribution rates required under Section 8137(a) and Section 8137(b). From October 1, 1994, the government rate of contribution shall equal Ninety Percent (90%) of the sum of the contribution rates required under Section 8137(a) and Section 8137(b). From October 1, 1995, the government rate of contribution shall equal One Hundred Percent (100%) of the sum of the contribution rates required under Section 8137(a) and Section 8137(b).

Section 8. Five Million Dollars ($5,000,000) are appropriated from the General Fund to the Department of Administration for the purpose of paying 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 Appropriation Act of 1992, for their operations, in order to implement the amendment to § 8137 of Title 4 of the Guam Code Annotated made in Section 9 of this Act. This appropriation shall be utilized for no other purpose than that stated in this Section, and funds authorized by this Section shall not be transferred, encumbered, or in any way earmarked for any other purpose than to implement § 8137 of Title 4 of the Guam Code Annotated as amended in Section 9 of this Act. Should the appropriation in this Section exceed that which is necessary in Fiscal Year 1993 for the stated purpose, the excess shall be utilized in Fiscal Year 1994. Should the appropriation in this Section exceed that which is necessary in Fiscal Year 1994 for the stated purpose, the excess shall be utilized in Fiscal Year 1995.

Corrected copy

GOVERNMENT OF GUAM RETIREMENT FUND
•SECURITY • STABILITY • REWARD•

GOVERNMENT OF GUAM RETIREMENT FUND
P.O. BOX 3-C
AGANA, GUAM 96910
Telephone No. 472-6626 or 8730
Facsimile No. 477-FUND

GUAM

February 2, 1993

Senator Carl T.C. Gutierrez
Chairman, Committee on Ways and Means
22nd Guam Legislature
155 Hessler Street
Agana, Guam 96910

Re: Bill No. 3, 22nd G.L.

Dear Senator Gutierrez:

Bill No. 3 is the culmination of several years of analysis, preparation, and continued efforts on the part of the Fund's Trustees, staff and consultants, the Governor's Office, and concerned legislators. Most recently, in October of last year, the Fund and our Actuarial Consultant, Mr. Jay Lingo of Deloitte & Touche of Minneapolis, presented public testimony on Bill No. 945. We are pleased to note today that all of the technical and policy concerns that were previously noted, have been overcome in Bill No. 3. Thus, at the outset I wish to acknowledge the assistance of Senator Gutierrez and his staff and to state our full support for the earliest possible passage of this proposal.

Bill No. 3 can be characterized as a crucial step in our desire to ensure the financial integrity of the Government of Guam Retirement Fund. It contains provisions that will directly impact on the three revenue sources available to the Fund, namely 1) the income derived from investment of available Fund assets, 2) contributions from active members of the Fund, and 3) the contributions from the government of Guam.

As mentioned, we have been on record numerous times on the several provisions contained in this measure. In summary of these positions, the Fund's investment law has not undergone major change since 1972. We need the increased latitude provided by Bill No. 3 to keep abreast of a global economy and to participate in the higher earnings that can occur in foreign and domestic market growth cycles. Moreover, the added diversification authorized by this measure will spread and therefore, reduce the risk exposure of the Fund's investment portfolio.

Also, as has been well documented, the funding status of our system of retirement benefits has been deteriorating since approximately 1971. This decline is in large part attributable to liberalizations in requirements and increases in the Fund's benefit levels that were not adequately offset by contribution rate increases. The last increase in contribution rates was a 1% increase that was designed to offset the education credit laws that were enacted in 1987 and 1988. Our "Security Ratio", which compares assets to liabilities, has declined from a high of 91% in 1968 to 46.2% as of September 30, 1991. According to recent projections, assuming current contributions rates, the Fund will have to begin divesting some of its investment portfolio within the next 10 years to meet our growing obligations. These circumstances dictate action in the form of rate increases. As noted in earlier testimony, the average state employee contributes 9.52% for retirement purposes. Even the current contribution rate for Social Security is less than our current member rate of 7.5%. Thus, we believe that a phased-in increase of the member rate to 9.5%, is fair and equitable. The government of Guam is accountable for the additional funding to secure our plan of benefits. To lessen the immediate impact of full implementation, the proposed 70%, 80%, 90%, 100% phase-in of the actuarially required contributions is suggested.

In closing, I wish the Committee to note the several displays of the impact of the contribution rate change proposal contained in Bill No. 3, that are attached to this testimony. I will be pleased to address your questions on these or other matters of concern.

Sincerely,

A.B. GUTIERREZ
Director

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

GOVERNMENT OF GUAM RETIREMENT FUND
P.O. BOX 3-C
AGANA, GUAM 96910
Telephone No. 472-6626 or 8730
Facsimile No. 477-FUND

February 2, 1993

Senator Carl T.C. Gutierrez
Chairman, Committee on Ways and Means
22nd Guam Legislature
155 Hessler Street
Agana, Guam 96910

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Bill No. 3 can be characterized as a crucial step in our desire to ensure the financial integrity of the Government of Guam Retirement Fund. It contains provisions that will directly impact on the three revenue sources available to the Fund, namely 1) the income derived from investment of available Fund assets, 2) contributions from active members of the Fund, and 3) the contributions from the government of Guam.

As mentioned, we have been on record numerous times on the several provisions contained in this measure. In summary of these positions, the Fund's investment law has not undergone major change since 1972. We need the increased latitude provided by Bill No. 3 to keep abreast of a global economy and to participate in the higher earnings that can occur in foreign and domestic market growth cycles. Moreover, the added diversification authorized by this measure will spread and therefore, reduce the risk exposure of the Fund's investment portfolio.

GOVERNMENT OF GUAM RETIREMENT FUND
Proposed Increase - Government Contribution Rate
Bill No. 3
Feb-3-1993

	Current Rates	Fully Funded Rates	Rate Increase Decrease	- Section 8137(e) Phase-In Proposal - FY 93-70%	FY 94-80%	FY 95-90%	FY 96-100%
Government Contributions:							
1. Section 8137:							
(a) Normal Cost	10.70%	6.01%		4.21%	4.81%	5.41%	6.01%
(b) Unfunded Liability Cost	1.41%	13.67%		9.57%	10.93%	12.30%	13.67%
(d) 1% Additional	1.00%	0.00%		0.00%	0.00%	0.00%	0.00%
Total:	13.11%	19.68%	6.57%	13.77%	15.74%	17.71%	19.68%
2. Proposed Annual Increase:			0.00%	0.67%	1.97%	1.97%	1.97%
3. % Increase:			50.10%	5.10%	14.30%	12.50%	11.10%