



GOVERNMENT OF GUAM
RETIREMENT FUND
 STABILITY · SECURITY · REWARDS

Lourdes A. Leon Guerrero
 Governor

Joshua F. Tenorio
 Lieutenant Governor

Paula M. Blas
 Director

Trustees:

Wilfred P. Leon Guerrero, Ed.D.
 Chairman

Antolina S. Leon Guerrero
 Vice Chair

Katherine T.E. Taitano
 Secretary
 Chair, Members and Benefits Committee

Artemio R.A. Hernandez, Ph.D.
 Treasurer
 Chair, Investment Committee

Thomas H. San Agustin
 Trustee

David N. Sanford
 Trustee

George A. Santos
 Trustee

BOARD OF TRUSTEES
Regular Meeting
 Friday, April 22, 2022, 12:30 P.M.
 Retirement Fund Conference Room

MINUTES

DEFINED BENEFIT

I. ATTENDANCE, QUORUM, AND CALL TO ORDER

After determining a quorum was present, the Retirement Fund Board of Trustees Regular Meeting for the Defined Benefit Plan was called to order at 12:47 p.m. Friday, April 22, 2022, in the Retirement Fund Conference Room. Chairman Wilfred P. Leon Guerrero officiated.

Board of Trustees Present:

- Wilfred P. Leon Guerrero, Chairman
- Antolina S. Leon Guerrero, Vice Chair
- Katherine T.E. Taitano, Secretary
- Artemio R.A. Hernandez, Treasurer
- Thomas H. San Agustin, Trustee
- David N. Sanford, Trustee (*Via Zoom*)
- George A. Santos, Trustee

Staff Present:

- Paula Blas, Director
- Diana Bernardo, Controller
- Jackie Blas, Recording Secretary

Actuarial Consultant Present:

- Richard Wright, Milliman, Inc. (*Via Zoom*)

II. NEW BUSINESS

A. Actuarial Experience Study as of October 1, 2015 to September 30, 2020

Director Paula Blas stated that Milliman, Inc. performed an actuarial experience study of the Retirement Fund for the period October 1, 2015 through September 30, 2020.

Richard Wright of Milliman, Inc. stated that the experience study is performed once every five (5) years. The purpose of the study is to:

- Compare the actual experience of the Retirement Fund during the study period with the experience predicted by the actuarial assumptions.
- Review the current set of actuarial assumptions and methods and propose changes where appropriate. In this report, Milliman estimated the impact of the actuarial valuation as of September 30, 2021, if the assumption and method changes are adopted for that valuation. The estimates are based upon the results of the actuarial valuation as of September 30, 2020, projected forward to September 30, 2021. The actual impact will depend upon the census data and audited plan assets as of September 30, 2021.

Mr. Wright provided the following Key Findings:

- The current amortization period requiring 100% funding of the unfunded liability by May 1, 2033 results in a large drop in the employer contribution rate at that time and may result in substantial contribution rate volatility in the years leading up to 2033. Milliman recommends that the Retirement Fund propose legislation to change the amortization period to multiple layers of bases, which will provide more stability to the employer contribution rate and phase-in the projected employer contribution rate decrease as the plan approaches full funding.
- The Retirement Fund's expectations regarding long term investment returns have decreased since the last experience study. This is due to recent increases in equity markets and historically low interest rates. Milliman proposes to lower the investment return assumption from 7.00% to 6.70%.
- Salary increases have been lower than expected during the study period. Milliman proposes to lower assumed salary increases.
- Payroll growth has been lower than expected during the 5 years ending September 30, 2020, and also lower than expected over the last 20 years. Milliman proposes to lower the assumed payroll growth assumption to 2.5%.
- Milliman proposes to remove the separate additional load for DB 1.75 administrative expenses since the administration of the DB 1.75 Plan is now fully reflected in budgeted expenses.
- Mortality rates for healthy retirees have been lower than expected during the study period. Milliman proposes to update the mortality to the Society of Actuaries latest mortality tables for public pension systems: PUB-2010 tables, using 130% of the rates prior to age 80, along with various age set forwards.
- Milliman proposes to increase the rate of future mortality improvement to 50% of the Society of Actuaries mortality improvement scale MP-2020.
- Disability incidence during the study period has been lower than expected. Milliman proposes to lower the disability assumption for both males and females.
- The number of withdrawals from active service prior to retirement were less than expected. Milliman proposes to decrease the assumed rates of withdrawal.

- The number of retirements during the experience period were less than expected. Milliman proposes to reduce the assumed retirement rates when first eligible for unreduced retirement from 50% of those eligible to 40% of those eligible.
- Earnings increases due to the conversion of Sick and Annual Leave balances have been lower than expected. Milliman proposes to lower the assumed earnings increase.

Mr. Wright stated that the estimates of the effect of these proposed assumption and method changes if they are adopted for the actuarial valuation as of September 30, 2021 are based upon the actuarial valuation as of September 30, 2020, projected forward to September 30, 2021 using the following assumptions:

- Investment return of 18.5% for the Fiscal Year Ending September 30, 2021.
- Payroll growth of 2.75% for the Fiscal Year Ending September 30, 2021.

Mr. Wright stated that the actual impact of the assumption and method changes will depend upon the census data, total payroll and audited plan assets for the Fiscal Year Ending September 30, 2021. Mr. Wright stated that the contribution rate for Fiscal Year 2022 was determined to be 28.32% and Milliman is projecting that to decline to 28.07%. Lowering the investment return assumption will add 1.79% to the employer contribution rate. Decreasing the member salary increase assumption will lower the rate by 1.51%. Lowering the payroll growth assumption increases the employer contribution rate by 0.28%. Updating the mortality table increases the employer contribution rate by 0.89%. The total with all the assumption changes will add 1.25% to the employer contribution rate; will add \$84 Million to the actuarial accrued liability; and the total costs on an annual basis to the employer contribution rate would be \$6.84 Million.

Treasurer Artemio Hernandez inquired about the change in amortization period having the 5 year phase-down period start at 10/1/2031; the 7 year phase-down start 10/1/2030; and the 10 year phase-down start 10/1/2029. Is this something that could be shifted back and forth. Mr. Wright stated that the dates could be shifted. The dates were selected so that the phase-down period kind of straddles.

Controller Diana Bernardo stated that there was an 18% increase in uniformed personnel salaries that became effective in January 2022 and, if the assumptions and the changes in the contribution rate are going to impact future contributions, is there any reason that Milliman may need to consider that 18% salary increase. Mr. Wright replied, "Probably not since these are long term assumptions and what Milliman is looking for are averages for the next 30 years and beyond and, looking at past averages, the 18% will get smoothed out.

Vice Chair Antolina Leon Guerrero stated that the phasing of the amortization period smoothes it out, but what happens after September 30, 2036, 2037 and 2039. Will there be another cliff. Mr. Wright stated that it's not a cliff, but if there's a big investment loss or gain in those years, rather than to have to fund that loss or gain just immediately, that would be spread over 15 years from that point. Over time within any 15 year period, you would have some years that are gains and some that are losses and would expect it to offset each other. Treasurer Hernandez inquired about the concept of how the unfunded liability is calculated into 10 different years. Mr. Wright stated that they're 15 different layers with different expiration dates. For the first 5 years, you're paying each of the 5 layers, but at some point the first layer will expire. You will then still be paying the 4 layers plus any newly created layer and the other layers will decline as it gets paid off. Overtime you will have staggered expiration dates of those layers. Trustee David Sanford asked whether you would have to allocate more of the

contribution rate towards the first bucket in the event that it's not paid off before the expiration date. Mr. Wright stated that the amortization periods are different for each of the buckets, so they'll have different payments for each of those amortizations. The first layer which expires first will be higher than the other layers. The payment amounts are fixed. For any new unfunded liability or gains, a new base will be established and that layer will be amortized over 15 years.

Vice Chair Leon Guerrero asked when will the phasing of the amortization period occur. Director Blas stated that legislation is needed to make the changes, which Management will work on in order to implement the changes of the amortization period. Treasurer Hernandez asked whether legislation will be presented to the Board. Director Blas stated that she'll have legislation drafted then it will be presented to the Board for review.

Treasurer Artemio Hernandez, seconded by Trustee Thomas San Agustin, moved to accept Milliman Inc.'s recommended changes on the assumptions, based on the Actuarial Experience Study from Items 1 through 14 to become effective October 1, 2023 of Fiscal Year 2024. Without objection, the motion passed.

III. REVIEW AND APPROVAL OF BOARD MINUTES

A. March 25, 2022 Regular Meeting

Treasurer Artemio Hernandez, seconded by Vice Chair Antolina Leon Guerrero, moved to approve the Minutes of the March 25, 2022 Regular Meeting, subject to technical corrections. Without objection, the motion passed.

IV. CORRESPONDENCE

None

V. DIRECTOR'S REPORT - EXECUTIVE SUMMARY

1. *Candelaria Rios, et al. vs. Joseph Ada, et al. (Special Proceeding Case No. SP206-93)* - The Retirement Fund maintains a list of deceased COLA Awardees who did not name a beneficiary, or whose beneficiary may be deceased. COLA award disbursements for these individuals will be made to their respective estates.

2. *Bernstein Litowitz Berger and Grossmann (BLBG)* - BLBG's Litigation Status Report dated April 15, 2022 on the following lawsuits is provided for the Board's information. These cases are highly confidential and BLBG asked that the cases not be discussed in a public forum.

- **Apollo Education Group**
- **EQT Corporation**

Financial Report

1. *Contributions* - Director Paula Blas stated that as of April 19, 2022, all agencies are current with their Fiscal Year 2022 employee and employer contributions.

2. *Financial Statements* - Director Blas stated that the books for the month ended March 31, 2022 are scheduled to close by April 30, 2022.

3. **Fiscal Year 2022 Retirees' Supplemental Benefits** - Director Blas stated that supplemental benefits for retirees and survivors for the month of April 2022 will be paid by the end of the month.

4. **Fiscal Year 2022 Medicare Reimbursements** - Director Blas stated that the Retirement Fund received the April 2022 allotment from the General Fund and reimbursements were processed accordingly.

VI. LEGAL COUNSEL'S REPORT

No report was made at this time.

VII. TREASURER'S REPORT OF FINANCIAL STATUS

A. Fiscal Year 2021 Audit for the 457 Deferred Compensation Plan

Treasurer Hernandez stated that the 457 Deferred Compensation Plan Audited Financial Statements for the Year Ended December 31, 2021 is provided. It was a clean audit. The 457 Plan audit is a little later than the regular audit because it's reported with a year ending December 31, 2021. Controller Bernardo stated that Dave Burger of Burger & Comer issued his opinion and it is an unqualified opinion. There are no material weaknesses or issues of non-compliance. Mr. Burger will be issuing a Management Letter. Mr. Burger's comments are similar to the comments that were provided in the DB Plan audit relative to the organization of the documents in the 457 Plan Members' Files. Management will be working with the Third Party Administrator to address this issue. Chairman Leon Guerrero asked why this audit was not included at the last Board Meeting. Controller Bernardo stated that audit presented at the last Board Meeting was the Financial Audit for the Fiscal Year ended September 30, 2021 for the DB and DC Plan and this audit is for the 457 Plan, which is a December year-end audit so a separate report was issued. Controller Bernardo stated that all members in the DB 1.75 Plan have a required mandatory minimum contribution of 1%. There are members of the DC and DB Plan who also contribute to the 457 Plan.

The audit report included the following highlights:

- The Plan ended Calendar Year 2021 on a strong note, with investments totaling \$135.9 Million, compared to the December 31, 2020 balance of \$114.0 Million, an increase of \$21.9 Million.
- According to Mercer, the Retirement Fund's DC Plan Investment Consultant, this increase was due primarily to strong financial market returns, which were led by U.S. stocks. U.S. stock returns were supported by the approval and mass rollout of COVID-19 vaccines resulting in a gradual normalization of economic activity across most parts of the world. This normalization of activity, combined with strong pandemic income support policies in the U.S. and a number of major economies led to robust consumer spending and a rapid recovery in labor markets. The strong recovery in economic activity also supported corporate earnings.
- The COVID-19 global pandemic caused unprecedented volatilities in the financial markets. While periods of extreme market volatility can be alarming, the Retirement Fund Board of Trustees stayed focused on the long-term investment horizon and prudently managed investments in the Plan. These efforts contributed to strong recoveries after the first quarter of the fiscal year.

Treasurer Artemio Hernandez, seconded by Trustee Thomas San Agustin, moved to accept the 457 Deferred Compensation Plan Audit Report for the Year Ended December 31, 2021. Without objection, the motion passed.

B. Drawdown Authority

Treasurer Hernandez turned the floor to Controller Bernardo.

Controller Bernardo stated that Management is requesting an increase in the current monthly drawdown authority of \$6 Million to up to \$7 Million. The request is to ensure there is sufficient drawdown authority to meet monthly retirees' payroll which has increased from approximately \$20.14 Million at the beginning of the fiscal year to approximately \$20.8 Million for March 2022. The increase is necessary due to the continual increase in the number of members retiring, the processing of finalizations, and the timing of receipt of contributions. In addition, historically during summer months, contributions decrease due to the timing of when teachers get paid.

Treasurer Hernandez stated that the request for an increase of up to \$7 Million monthly is to avoid having to not pay retirees because the drawdown is not enough. Director Blas mentioned that cash flow is impacted by the timing of contributions.

Treasurer Artemio Hernandez, seconded by Vice Chair Antolina Leon Guerrero, moved to approve Management's request to increase the principal drawdown up to \$7 Million monthly through September 2022. Without objection, the motion passed.

A copy of the Cash Flow Statement was provided for the Board's review.

VIII. STANDING COMMITTEE REPORTS

A. Investment Committee

Treasurer Hernandez reported that the Investment Committee Meeting was held on April 14, 2022. The Committee reviewed and approved the Investment Committee Meeting Minutes of March 24, 2022. Treasurer Hernandez stated that as of April 11, 2022, the size of the Retirement Fund's portfolio is \$2,151,618,112, and as an update as of April 20, 2022, the portfolio is \$2.163 Billion.

International Equity Request for Proposal (RFP) - Treasurer Hernandez stated that the RFP for the International Equity search closed on April 19, 2022. The proposals will go through the review and evaluation process.

Next Quarterly Performance Meeting – Treasurer Hernandez informed the Board that the next Quarterly Performance Meeting is scheduled for May 18 and 19, 2022. Director Blas stated that annual reviews will be conducted for the following Fixed Income and High Yield managers:

- Garcia Hamilton
- Income Research & Management
- Hotchkis & Wiley
- Nomura Research
- Aegon USA

B. Members and Benefits Committee

Secretary Katherine Taitano presented the Committee's April 2022 report to the Board of Trustees.

Secretary Katherine Taitano, seconded by Vice Chair Antolina Leon Guerrero, moved to approve the recommendation of the Members and Benefits Committee contained on Pages 4 through 17, based on the Committee's review and findings during their meeting of April 15, 2022. Without objection, the motion passed.

1. Disability Case No. 21-007

Vice Chair Leon Guerrero stated that the applicant is a 51 year old Mobile Equipment Dispatcher with the Port Authority of Guam with 26+ years of service. The date of application for disability is December 29, 2021. The reason for application is Diabetes, Diabetic Neuropathy, End State Renal Disease, and Cervical Lumbar Surgery. The applicant was examined by two Independent Medical Examiners (IMEs): Dr. Vincent Duenas on January 26, 2022 and Dr. E. Fred Schroeder on February 25, 2022. Dr. Duenas gave a rating of 83% whole-person impairment and indicated that the impairment is permanent and precludes the applicant from gainful work. Dr. Schroeder gave a rating of 96% whole-person impairment and also indicated that the impairment is permanent and precludes the applicant from gainful work.

At this time Chairman Leon Guerrero asked whether the applicant is present, noting that if the applicant would like to address the Board, he/she would have to waive his/her right to the privacy of his/her medical records and he/she must state his/her name for the record. Chairman Leon Guerrero indicated that no one came forward.

Vice Chair Antolina Leon Guerrero, seconded by Secretary Katherine Taitano, moved to approve a full disability pension for Disability Case No. 21-007, based on the findings of the two (2) Independent Medical Examiners (IMEs), and the review of records. Votes as follows: Yes Votes - Vice Chair Antolina Leon Guerrero, Trustee George Santos, Trustee David Sanford, Secretary Katherine Taitano, Trustee Thomas San Agustin, Treasurer Artemio Hernandez, and Chairman Wilfred Leon Guerrero. With seven (7) "Yes" votes, the motion unanimously passed.

IX. OLD BUSINESS

None

X. OPEN DISCUSSION / GENERAL PUBLIC INPUT

None

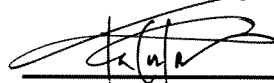
XI. ANNOUNCEMENTS

None

XII. ADJOURNMENT

There being no further business before the Board for the Defined Benefit Plan, on motion of Trustee George Santos, seconded by Treasurer Artemio Hernandez, and without objection, the meeting was adjourned at 1:51 p.m. Motion passed.

I hereby certify that the foregoing is a full, true and correct copy of the Minutes of April 22, 2022 Regular Meeting duly adopted and approved by the Government of Guam Retirement Fund Board of Trustees on May 20, 2022.



KATHERINE T.E. TAITANO, Board Secretary

RECORDING SECRETARY:



Jackie Blas