GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

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March 30, 2017

Via Hand Delivery and
Email [senatorbiscoelee@guamlegislature.org]

Senator Régine Biscoe Lee
Legislative Secretary
Guam Congress Building
163 Chalan Santo Papa
Hagåtña, Guam 96910

RE: **THIS IS A TRANSMITTAL TO I LIHESLATURAN GUÅHAN OF PROPOSED RULES AND REGULATIONS (PLAN DOCUMENT) PURSUANT TO THE ADMINISTRATIVE ADJUDICATION LAW**

Dear Madam Secretary,

The Board of Trustees of the Government of Guam Retirement Fund hereby submits the enclosed proposed **Plan Document** for the **Guam Retirement Security Plan** pursuant to the recently-enacted Public Law No. 33-186:5. Section 5 of Public Law No. 33-186 requires the Board of Trustees of the Government of Guam Retirement Fund to "create, approve, and adopt a Cash Balance Plan to be known as the Guam Retirement Security Plan (GRSP), plan documents, rules, regulations, administrative procedures and forms that it may deem necessary and appropriate to implement the GRSP" no later than March 31, 2017. (Emphasis added.)

The Board of Trustees of the Government of Guam Retirement Fund hereby encloses one (1) printed original approval copy and one (1) printed duplicate copy of the proposed Plan Document, along with the entire record of the public hearing held on the proposed Plan Document, to I Mina' Trentai Kuattro Na Liheslaturan Guåhan, for adoption in accordance with the Administrative Adjudication Law, Section 9303, Chapter 9, Title 5 of the Guam Code Annotated. Identical electronic versions (MSWord and PDF) also are provided to you at your email address listed above.

The proposed Plan Document was approved by the Board of Trustees on February 27, 2017 in the form substantially as enclosed hereto as Appendix A and approved by legal counsel to the Government of Guam Retirement Fund in accordance with the process set forth in Section 9301, Chapter 9, Title 5 of the Guam Code Annotated. The record of the public hearing on the proposed Plan Document is enclosed thereto as Appendix B.

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On Friday, March 3, 2017, at least ten (10) days in advance of the public hearing scheduled on Tuesday, March 14, 2017, the Retirement Fund published notice of public hearing in the GUAM DAILY POST, a newspaper of general circulation in Guam, relative to the proposed Plan Document for the Guam Retirement Security Plan. A copy of the published notice of public hearing is enclosed as Appendix C.

The proposed Plan Document was posted on the Retirement Fund website and at least five (5) copies of the proposed Plan Document were made available at the Retirement Fund offices. On the date of the public hearing, all interested parties and authorized representatives were afforded an adequate opportunity to participate in the formulation of the proposed Plan Document through presentation of facts or argument or the submission of written data or views. All relevant matter presented was given full consideration by the Retirement Fund, and minor changes in the proposed Plan Document because of facts, arguments, written data or views were made without the setting of a new hearing.

An economic impact statement, in the form of the cost estimates prepared by the Consulting Actuary retained by the Retirement Fund and enclosed as Appendix D, was available before and at the public hearing, and is an update to comparable cost estimates previously submitted to Na Liheslaturan Guåhan as part of written testimony in connection with public hearings on Bill 2-33(COR), subsequently enacted as Public Law No. 33-186.

To implement the Guam Retirement Security Plan created under Public Law No. 33-186:5, through the proposed Plan Document, the Board of Trustees of the Government of Guam Retirement Fund has interpreted and shall interpret the applicable provisions of Section 5 of Public Law No. 33-186, not codified in the Guam Code Annotated, in a manner necessary to ensure tax favorable treatment of the plans administered by the Board of Trustees, and to comply with applicable provisions of the Internal Revenue Code ("Code"), applicable to Guam under the Guam Territorial Income Tax Code, and the Code's regulations involving tax favorable treatment of plans such as those administered by the Board of Trustees. The Board of Trustees also has interpreted and shall interpret the provisions of Section 5 of Public Law No. 33-186 in a manner necessary to comply with the Decision and Order in *Bautista vs. Perez, et al.*, Civil Case No. CV 1848-01 filed on February 18, 2003.

Sincerely,

Paula M. Blas,
Director

Enclosures (1 original and 1 duplicate copy of Appendices A - D)
Appendix A: Plan Document
Appendix B: Record of Public Hearing
Appendix C: Notice of Public Hearing
Appendix D: Cost Estimates (Economic Impact Statement)

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# APPENDIX A

# GUAM RETIREMENT SECURITY PLAN AND TRUST AGREEMENT

**(EFFECTIVE JANUARY 1, 2018)**

GUAM RETIREMENT SECURITY PLAN AND TRUST AGREEMENT

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APPENDIX A: CURRENT MEMBER AND EMPLOYER CONTRIBUTION RATES

# GUAM RETIREMENT SECURITY PLAN AND TRUST AGREEMENT

## PREAMBLE

On September 14, 2016, the Legislature of the Government of Guam enacted Public Law No. 33-186 which establishes the "Guam Retirement Security System" or "GRSP", specifically described in Section 5 of the Public Law No. 33-186 (and not codified in the Guam Code Annotated ("GCA")) ("GRSP Plan"). The Government of Guan delegated authority for the establishment of the GRSP Plan to the Board of Trustees (the "Board"), and the Board hereby adopts the GRSP Plan document effective as of January 1, 2018, to administer the GRSP Plan.

This GRSP Plan constitutes a cash balance defined benefit pension plan that is a "governmental plan" as defined in Section 414(d) of the United States Internal Revenue Code of 1986 ("Code"). It is intended that the GRSP Plan and trust qualify under Code Sections 401(a) and 501(a), respectively and the "mirror" provisions under the Guam Territorial Income Tax Code, as such provisions apply to retirement plans sponsored by the Government of Guam.

## ARTICLE I

## PARTICIPATION

### 1.1 New Members in Defined Contribution System

Election by Certain New Employees in 2017. An Employee whose employment commences with the Government of Guam between April 1, 2017, and December 31, 2017, inclusive, and who otherwise satisfies the eligibility requirements for membership in the GRSP Plan, may during the "New Employee Election Window" commencing on the Employee's employment commencement date and ending on December 31, 2017 (or January 31, 2018, for Employees who employment commencement date is during the month of December 2017) elect ("New Employee Election") on a voluntary basis to participate in the GRSP Plan. In the case of a Member who so elects, the Member's entry date into the GRSP Plan shall be January 1, 2018, and notwithstanding the otherwise applicable eligibility provisions of GCA Article 2, Chapter 8, under the Defined Contribution System, the Member shall terminate participation in the Defined Contribution System as of January 1, 2018. The New Employee Election shall be made by submitting a prescribed election form in the form and manner as determined by the Board.

A Member's New Employee Election that is made and delivered to the GRSP Plan prior to the close of the New Employee Election Window may be revoked and modified prior to the close of the New Employee Election Window. However, the Member's New Employee Election shall be irrevocable as of the close of the New Employee Election Window (i.e., December 31, 2017, or January 31, 2018, for an Employee whose employment commencement date is during the month of December 2017) and the Member shall not be allowed to modify the New Employee Election after the close of the New Employee Election Window. Thus, following the submission of a New Employee Election and the close of the New Employee Election Window, the Member shall not be allowed to withdraw from participation in the GRSP Plan or commence active participation in the Defined Contribution System. The failure to make a New Employee Election shall mean that by default under the otherwise applicable requirements the Member shall become an active member under the Defined Contribution System and not commence participation under the GRSP Plan. The New Employee Election shall be made by submitting a prescribed election form in the form and manner as determined by the Board.

As described in Article III, the New Employee Election shall include the requirement to transfer the Member's Account that would otherwise be established and maintained under the Defined Contribution Retirement System to the GRSP Fund effective as of January 1, 2018 (or January 31, 2018, if such date is the applicable close of the New Employee Election Window).

The New Employee Election Window closes on December 31, 2017 (or January 31, 2018, for an Employee whose employment commencement date is during the month of December 2017) and the transfer of the Member's Account to the GRSP Fund shall occur at such time. As such, the New Employee Election shall only apply to an Employee who is employed by the Government of Guam as of January 1, 2018 (or January 31, 2018, for an Employee whose New Employee Election Window closes at such time). Specifically, the New Employee Election shall apply only to an Employee who is in continuous employment with the Government of Guam through January 1, 2018 (or January 31, 2018, for an Employee whose New Employee

Election Window closes at such time). Thus, the New Employee Election shall not apply to an Employee who has retired or otherwise terminated employment from the Government of Guam during the course of the New Employee Election Window, or as of January 1, 2018 (or January 31, 2018, for an Employee whose New Employee Election Window closes at such time). In this case, the Employee shall participate under the Defined Contribution System in accordance with the terms and conditions of the Defined Contribution System.

### 1.2 Active Members in Defined Contribution System

Election by Active Members. An Employee who is an active member in the Defined Contribution System on March 31, 2017, and who otherwise satisfies the eligibility requirements for membership in the GRSP Plan, may during the "Active Member Election Window" commencing April 1, 2017, and ending on September 30, 2017, elect ("Active Member Election") on a voluntary basis to participate in the GRSP Plan. In the case of a member who so elects, the member's entry date into the GRSP Plan shall be January 1, 2018, and the member shall terminate participation in the Defined Contribution System as of January 1, 2018.

A member's Active Member Election that is made and delivered to the GRSP Plan prior to the close of the Active Member Election Window may be revoked and modified prior to the close of the Active Member Election Window. However, the member's Active Member Election shall be irrevocable as of the close of the Active Member Election Window (i.e., September 30, 2017) and the member shall not be allowed to modify the Active Member Election after the close of the Active Member Election Window. Thus, following the submission of an Active Member Election and the close of the Active Member Election Window, the member shall not be allowed to withdraw from participation in the GRSP Plan or recommence active participation in the Defined Contribution System. The failure to make an Active Member Election shall mean that by default under the otherwise applicable requirements the Member shall remain as an active member under the Defined Contribution System and not commence participation under the GRSP Plan. The Active Member Election shall be made by submitting a prescribed election form in the form and manner as determined by the Board.

As described in Article III, the Active Member Election shall include the requirement to transfer the required portion of the Member's Account under the Defined Contribution Retirement System to the GRSP Fund effective as of January 1, 2018.

Inasmuch as the Active Member Election is for participation in the GRSP Plan effective as of January 1, 2018, the Active Member Election shall only apply to Participants who are employed by the Government of Guam as of January 1, 2018. Specifically, the Active Member Election shall apply only to a Member who is in continuous employment with the Government of Guam as of March 31, 2017 (i.e., immediately prior to the Active Member Election Window), and through January 1, 2018. Thus, the Active Member Election shall not apply to a Member who has retired or otherwise terminated employment from the Government of Guam as of the March 31, 2017, or during the course of the Active Member Election Window, or as of January 1, 2018. In this case, the Member of the Defined Contribution System shall continue participation in the Defined Contribution System in accordance with its terms and conditions.

## 1.3 Reemployment of Defined Contribution System Member

### (a) Reinstated Membership in Defined Contribution System

In accordance with GCA Section 8502(4), any Employee who is a member in the Defined Contribution System, who terminates employment from the Government of Guam and who later is reemployed prior to September 30, 2017, by the Government of Guam, shall become an active member in the Defined Contribution System upon reemployment if such Employee otherwise meets the eligibility requirement under the Defined Contribution System.

### (b) Reemployed Member Election to GRSP Plan

(1) Reemployment Between April 1, 2017, and September 30, 2017. However, if such a member described above in Section 1.3(a) is reemployed by the Government of Guam during the period commencing on April 1, 2017, and ending on September 30, 2017, and otherwise satisfies the eligibility requirements for membership in the GRSP Plan, the member may during the "Reemployed Member Election Window" commencing April 1, 2017, and ending on September 30, 2017 (or October 31, 2017 for a member reemployed during the month of September 2017), elect ("Reemployed Member Election") on a voluntary basis to participate in the GRSP Plan. In the case of a member who so elects, the member's entry date into the GRSP Plan shall be January 1, 2018, and the Member shall terminate participation in the Defined Contribution System as of January 1, 2018.

A member's Reemployed Member Election that is made and delivered to the GRSP Plan prior to the close of the Reemployed Member Election Window may be revoked and modified prior to the close of the Reemployed Member Election Window. However, the member's Reemployed Member Election shall be irrevocable as of the close of the Reemployed Member Election Window (i.e., September 30, 2017, or October 31, 2017 for a member reemployed during the month of September 2017) and the member shall not be allowed to modify the Reemployed Member Election after the close of the Reemployed Member Election Window. Thus, following the submission of a Reemployed Member Election and the close of the Reemployed Member Election Window, the Member shall not be allowed to withdraw from participation in the GRSP Plan or recommence active participation in the Defined Contribution System. The failure to make a Reemployed Member Election shall mean that by default under the otherwise applicable requirements the Member shall recommence as an active member under the Defined Contribution System and not commence participation under the GRSP Plan. The Reemployed Member Election shall be made by submitting a prescribed election form in the form and manner as determined by the Board.

As described in Article III, the Reemployed Member Election shall include the requirement to transfer the required portion of the Participant's Account under the Defined Contribution Retirement System to the GRSP Fund effective as of January 1, 2018.

Inasmuch as the Reemployed Member Election is for participation in the GRSP Plan effective as of January 1, 2018, the Reemployed Member Election shall only apply to Members who are employed by the Government of Guam as of January 1, 2018.

Specifically, the Reemployed Member Election shall apply only to a Member who is in continuous employment with the Government of Guam from the date of reemployment through January 1, 2018. Thus, the Reemployed Member Election shall not apply to a Member who has retired or otherwise terminated employment from the Government of Guam during the course of the Reemployed Member Election Window, or as of January 1, 2018. In this case, the Member of the Defined Contribution System shall continue participation in the Defined Contribution System in accordance with its terms and conditions.

(2) Reemployment Between October 1, 2017 and December 31, 2017. Further, if such a member described above in Section 1.3(a) is reemployed by the Government of Guam during the period commencing on October 1, 2017, and ending on December 31, 2017, and satisfies the eligibility requirements for membership in the GRSP Plan, the member may on elect ("Late Reemployed Member Election") on a voluntary basis during the 30 day period commencing on the date of reemployment ("Late Reemployed Member Election Window") to participate in the GRSP Plan. In the case of a member who so elects, the member's entry date into the GRSP Plan shall be January 1, 2018.

As described in Article III, the Late Reemployed Member Election shall not include the requirement to transfer any portion of the Participant's Account under the Defined Contribution Retirement System to the GRSP Fund.

**(c) Reemployment of Defined Contribution System Member on Disability**

(1) No Eligibility for GRSP Plan Generally. Notwithstanding the provisions of this Article I allowing a Defined Contribution System member to elect to participate in the GRSP Plan following reemployment, a member of the Defined Contribution System who had incurred a disability and at any time been eligible to receive any benefits provided under any long-term disability insurance policy issued pursuant to GCA Section 8213 shall not be eligible for membership under the GRSP Plan upon reemployment, but such member who satisfies the eligibility requirements for membership under GCA Section 8206 and 8207 at such time shall participate in the Defined Contribution System in accordance with such eligibility requirements.

(2) Election by Member on Disability Prior to October 1, 2017. Notwithstanding the preceding portion of the Section 1.3(c), if a member of the Defined Contribution system receives disability benefits under GCA Section 8213 or GCA Article 4, Chapter 8, on or before September 30, 2017, and if such member is reemployed by or retires from the Government of Guam on or after January 1, 2018, the member may on elect ("Reemployed Disability Member Election") on a voluntary basis during the period commencing April 1, 2017, and ending on September 30, 2017 (or October 31, 2017, for a member who commences receiving disability benefits during the month of September 2017) ("Reemployed Disability Member Election Window") to participate in the GRSP Plan. In the case of a member who so elects, the member's entry date into the GRSP Plan shall be the later of: (i) January 1, 2018, or (ii) as of the date of the Member's reemployment or the Member's retirement or other termination of employment.

As described in Article III, the Reemployed Disability Member Election shall include the requirement to transfer the required portion of the Participant's Account under the Defined Contribution Retirement System to the GRSP Fund as of the date of the Member's participation in the GRSP Plan (i.e., the later of (i) January 1, 2018, or (ii) as of the date of the Member's reemployment or the Member's retirement or other termination of employment.)

### 1.4 Reemployment of Existing Retirement System Member

In accordance with GCA Section 8502(b)(3), any Employee who is a member in the Existing Retirement System, who terminates employment from the Government of Guam and who is later reemployed after December 31, 2017, by the Government of Guam, shall become an active member in the Existing Retirement System upon reemployment if such Employee has not received a refund of contributions resulting in ineligibility for membership under GCA Section 8130(b), and if such Employee otherwise meets the requirements under the Existing Retirement System. If such Employee has received a refund of contributions resulting in ineligibility for membership under GCA Section 8130(b), or if such Employee otherwise fails to meet the requirements under the Existing Retirement System, then such Employee shall be eligible for participation under GRSP Plan in accordance with the terms and conditions of such plan.

### 1.5 Reemployment of Retiree

Any Employee who retired under the Existing Retirement System, the Defined Contribution System, or the Defined Benefit 1.75 Retirement System shall participate in the Defined Contribution System upon reemployment in accordance with GCA Article 2, Chapter 8.

### 1.6 Membership in Welfare Benefit Plans

Any member in the GRSP Plan shall not be eligible to participate in the welfare benefit plans established and maintained under GCA Article 4, Chapter 8. Thus, a member of the Defined Contribution System who elects to participate in the GRSP Plan under this Article I shall not commence participation, and shall terminate participation, in such welfare benefits plans effective as of the date on which the member commences participation in the GRSP Plan.

### 1.7 Ineligibility Due to Social Security Option

If the Government is authorized to extend Social Security coverage to Employees of a Contributing Employer on a prospective basis, then all such Employees hired on or after the effective date from which such coverage is extended shall be enrolled into Social Security and shall not be eligible to participate in the GRSP Plan

### 1.8 Determination by Board

If a question arises as to eligibility, the Board shall make a determination and render a decision, and such determination and decision shall be final and conclusive.

## 1.9 Summary of GRSP Participation Elections

| Election | Election Period | Effective Date in GRSP | Effective Date of Termination from DC System | Transfer of DC System Account |
|---|---|---|---|---|
| New Employee Election [Employee's employment commencement date is 4/1/2017-12/31/2017] | 4/1-12/31/2017 [4/1-1/31/2018 if commencement of employment in 12/2017] | 1/1/2018 | 1/1/2018 | Yes (effective 1/1/2018 or 1/31/2018 if later close of election period) |
| Active Member Election [active member in DC System as of 3/31/2017] | 4/1-9/30/2017 | 1/1/2018 | 1/1/2018 | Yes (effective 1/1/2018) |
| Reemployed Member Election [inactive member in DC System reemployed 4/1/2017-9/30/2017] | 4/1-9/30/2017 [4/1-10/31/2017 if commencement of employment in 9/2017] | 1/1/2018 | 1/1/2018 | Yes (effective 1/1/2018) |
| Late Reemployed Member Election [inactive member in DC System reemployed 10/1/2017-12/31/2017] | 30-day period commencing on date of reemployment | 1/1/2018 | N/A [continue as inactive member in DC System] | No |
| Reemployed Disability Member Election [inactive member in DC System reemployed or retirement/termination of employment on or after 1/1/2018] | 4/1-9/30/2017 [4/1-10/31/2017 if commencement of disability benefits in 9/2017] | Later of 1/1/2018 or date of reemployment or retirement/ termination of employment | Later of 1/1/2018 or date of reemployment or retirement/ termination of employment | Yes (effective applicable date of reemployment or retirement/ termination of employment) |

## 1.10 Employees Hired After December 31, 2017

### (a) Participation

Except as otherwise provided in this Article I, every Employee hired after December 31, 2017, is required to participate in the GRSP Plan. An Employee's entry date into the GRSP Plan is the date on which the Employee commences employment with a Contributing Employer.

### (b) Defined Contribution System Election

Notwithstanding the above Section 1.10(a), an Employee hired after December 31, 2017, and who otherwise satisfies the eligibility requirements for membership in the Defined Contribution System, may within 60 days from the Employee's date of hire ("DC System

Election Window") elect ("DC System Election") on a voluntary basis to participate in the Defined Contribution System. In the case of a Member who so elects, the Member's entry date into the Defined Contribution System shall be the Employee's employment commencement date, and the Member shall not commence participation in this GRSP Plan. The DC System Election shall be made by submitting a prescribed election form in the form and manner as determined by the Board.

## ARTICLE II

## CONTRIBUTIONS

### 2.1 Member Contributions

Members are required to make Member Contributions at the rate specified in Appendix A. Member Contributions are made by mandatory payroll deduction from a Participant's Compensation. Although designated as "Member Contributions," the Contributing Employers are required to "pick up" these contributions, so that the contributions are treated as "employer contributions" for income tax purposes under Code Section 414(h)(2). Such Member Contributions shall be paid from the same funds that are used in paying salaries to the Members and shall paid in lieu of contributions to the GRSP Plan by the Members. The Contributing Employer shall pay these Member Contributions directly to the GRSP Fund, instead of paying such amounts to the Members. Members may not elect to choose to receive such Member Contributions directly instead of having them paid by the Contributing Employer to the GRSP Plan.

Member Contributions shall be credited to a Member's Hypothetical Pre-Tax Account Balance as described in Section 3.2 as of the last day of the payroll period for which the Base Pay used to determine the Employer Contribution for such payroll period relates.

### 2.2 Employer Contributions

A Member's Contributing Employer shall match the Member Contributions by making Employer Contributions at the rate specified in Appendix A.

Employer Contributions shall be credited to a Member's Hypothetical Employer Account Balance as described in Section 3.2 as of the last day of the payroll period for which the Base Pay used to determine the Employer Contribution for such payroll period relates.

### 2.3 Payment of Member and Employer Contributions

The Contributing Employers shall pay the Member Contributions and Employer Contributions in cash to the GRSP Fund within five working days of the payroll issuance date for the salary relating to such Contributions.

### 2.4 Erroneous Contributions

A payroll deduction of Member Contributions made in error from the Base Pay of an Member shall be returned to the Member's Contributing Employer for payment to the Member as wages as soon as practicable after the error is discovered. A payment of Employer Contributions made in error shall be returned to the operating account of the Contributing Employer from whom the contribution originated as soon as practicable after the error is discovered.

## 2.5 Omissions

In the event a payroll deduction is not made from the salary of a Member when such deduction should have been made or if other omissions or errors occur, the Contributing Employer shall make or require such adjustments or make-up contributions as may be necessary to correct the mistake, as permitted or required by applicable law and as authorized by the Board of Trustees. Any make-up Member Contributions which are required to be made under this Section 2.5 shall be accomplished by means of payroll deduction.

## 2.6 Supplemental Employer Contributions

In addition to the Employer Contributions described in Section 2.2, and as may be authorized by and provided under action of the Legislature of the Government of Guam or under other applicable administrative or regulatory action, Contributing Employers shall make "Supplemental Employer Contributions" as may be determined to be appropriate in order to fund the benefit liabilities under the Plan in accordance with accepted actuarial methods and assumptions. Unless specifically otherwise provided under this Plan, such Supplemental Employer Contributions shall not constitute Pay Credits or Interest Credits that are credited to a Member's Hypothetical Account Balance under Article III.

## 2.7 USERRA

The Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA"), as amended, provides certain pension benefit rights to employees who return to employment with their employer following a leave of absence for Qualified Military Service. GCA Section 8209.2 also provides certain rights to Employees who are on leave without pay and on active duty with the Guam National Guard or the reserve components of any of the Armed Services of the United States. Any Member who returns to employment with a Contributing Employer following Qualified Military Service shall be entitled to the greater of the rights the Member is entitled to under GCA Section 8209.2 or the reemployment pension rights in Code Section 414(u). Qualified Military Service shall not be treated as a break in service, and upon reemployment following a Qualified Military Service, the Participant shall be entitled to vesting credit for the period of Qualified Military Service.

## 2.8 HEART

(a) Death Benefits

The Heroes Earnings Assistance and Relief Tax Act of 2008, as amended ("HEART"), provides for rights to any additional benefits with respect to a Member who dies while performing Qualified Military Service. Specifically, in the case of a Member who dies while performing Qualified Military Service, the Beneficiary of the Member shall be entitled to any additional benefits (other than benefit accruals relating to the period of Qualified Military Service) that would be provided under the GRSP Plan had the Member resumed and then terminated employment on account of death, in accordance with Code Section

401(a)(37). Thus, in accordance with Code Section 401(a)(37), in the event of death during Qualified Military Service, full vesting applies to the Member's Hypothetical Employer Account Balance under Section 4.2(a)(2).

(b) Differential Wage Payments

An individual receiving a differential wage payment (within the meaning of Code Section 3401(h)(2)) shall be treated as an Employee of the Contributing Employer making the payment, the differential wage payment shall be treated as Base Pay, and the GRSP Plan shall not be treated as failing to meet the requirements of any provision described in Code Section 414(u)(1)(C) by reason of any contribution or benefit which is based on the differential wage payment. However, a differential wage payment shall not be treated as Base Pay for purposes of determining contributions and benefits under the GRSP Plan. Thus, no Member Contributions or Employer Contributions shall be determined or made on behalf of a Member based on the differential wage payment.

## ARTICLE III

## RETIREMENT BENEFITS

### 3.1 In General

The amount of a Member's Retirement Benefit is based on the Member's Hypothetical Account Balance taking into account applicable Pay Credits and Interest Credits, as described in this Article III.

### 3.2 Hypothetical Account Balance

A Hypothetical Account Balance shall be established and maintained for each Member. A Member's initial Hypothetical Account Balance shall be zero, except as otherwise provided under Section 3.6. Adjustments to the Hypothetical Account Balance shall be made thereafter in accordance with the provisions set forth below in this Article III for Pay Credits and Interest Credits.

The Hypothetical Account Balance shall be a hypothetical account for bookkeeping purposes only and neither the maintenance nor the adding of credits thereto shall be construed as an allocation of assets of the GRSP Plan to, or a segregation of such assets in, any such Hypothetical Account Balance, or otherwise creating a right for any individual to receive specific assets of the GRSP Plan. As of the date of any determination, a Member's Hypothetical Account Balance ("Account", in the aggregate or each separate underlying account, as appropriate in the context) shall be equal to the sum of the following Account Balances as of such date: (a) Hypothetical Pre-Tax Employee Account Balance; plus (b) Hypothetical After-Tax Employee Account Balance; (c) plus Hypothetical Employer Contribution Account Balance.

Benefits provided under the GRSP Plan shall be paid from the general assets of the GRSP Fund in the amounts, in the forms, and at the times provided, under the terms of the GRSP Plan. When applying any statutory or GRSP Plan limitation or minimum benefit requirement that is expressed in terms of an annuity for the benefit derived from the Hypothetical Account Balance, the limitation or requirement shall be applied to the annuity derived from the Hypothetical Account Balance that is payable at the time and in the form corresponding to the limitation or requirement as determined under the terms of the GRSP Plan.

### 3.3 Pay Credits

For any period, Pay Credits shall mean the sum of the Member Contributions described under Section 2.1, and the Employer Contributions described under Section 2.2, that are credited to a Member's Hypothetical Account Balance for such period.

### 3.4 Interest Credits

At the end of each Interest Credit Period, an Interest Credit shall be credited separately to each account comprising the Member's Hypothetical Account Balance (whether or not the Member is an Employee). The Interest Credit shall be calculated by multiplying

(a) each of the Member's Hypothetical Account Balances at the beginning of the Interest Credit Period, (b) by the Interest Crediting Rate, and (c) dividing such product by the number of Interest Credit Periods within the Plan Year. No Interest Credits shall accrue to any portion of the Hypothetical Account Balance after the Annuity Starting Date that applies to that portion of the Hypothetical Account Balance.

**(a) Interest Credit Period**

For purposes of this Section 3.4, "Interest Credit Period" shall mean each calendar month.

If a Member's Annuity Starting Date occurs before the end of an Interest Credit Period, the Interest Credit for the partial Interest Credit Period shall be determined on a pro rata basis, reflecting the portion of the Interest Credit Period before the Member's Annuity Starting Date.

**(b) Interest Crediting Rate**

The annual Interest Crediting Rate applicable for the Plan Year containing the Interest Credit Period shall be the annual fixed rate of 4% interest.

**(c) Preservation of Capital**

The Interest Crediting Rate shall not result in a Member's Hypothetical Account Balance as of an Annuity Starting Date that is less than the sum of the Pay Credits that were credited to the Member's Hypothetical Account Balance, reduced by the value of any earlier distributions. This provision shall apply only as of the Annuity Starting Date as of which a distribution of the Member's entire remaining vested Retirement Benefit under the GRSP Plan commences.

**(d) Interest Credit after Plan Termination**

For Interest Credit Periods after the termination of the GRSP Plan, the Interest Crediting Rate used to determine a Member's Retirement Benefit shall be equal to the average of the Interest Crediting Rates used under the GRSP Plan during the 5-year period ending on the date of GRSP Plan termination.

## 3.5 Normal Retirement Benefit

A Member's "Normal Retirement Benefit" shall be the annual Retirement Benefit payable to the Member commencing upon attainment of Normal Retirement Age under the normal form of payment, which is a single life annuity for the life of the Member. The annual amount of the Member's Normal Retirement Benefit shall be equal to the Actuarial Equivalent of the Member's Hypothetical Account Balance as of the Member's Normal Retirement Age.

## 3.6 Transfers to the Plan

Transfer of Member Account in Defined Contribution System. As described in Article I, certain members in the Defined Contribution System (or who would otherwise participate as members in the Defined Contribution System) may elect to participate in the GRSP Plan. If the Member so elects, the Member shall participate in the GRSP Plan effective as of January 1, 2018 (and the Member's participation in the Defined Contribution System shall cease as of January 1, 2018), and an amount of the Member's account under the Defined Contribution Systems shall be transferred to the GRSP Fund as of January 1, 2018. However, as described in Article I, if the Member so elects and the Member is receiving disability benefits, the Member's participation in the GRSP Plan (and cessation of participation in the Defined Contribution System and transfer of account from the Defined Contribution System) shall be the later of: (a) January 1, 2018, or (b) the date of the member's reemployment or termination of employment.

Transfer of Member Contributions. In this case, the portion of the Member's Account in the Defined Contribution System that shall be transferred to the GRSP Fund is the amount equal to: (a) the Member's Account balance as described in GCA Section 8209 (Employer Contribution Account); plus (b) the Member's Account balances as described in GCA Sections 8208 (i.e., Member Pick Up Contribution Account) and 8209.1(a) (i.e., Rollover Account of Member Contribution Reserve from Existing Retirement System).

The transfer of the Member's GCA Section 8209 Account (i.e., Employer Contribution Account) shall be applied to the Member's Hypothetical Employer Account Balance under the GRSP Fund. The transfer of the Member's GCA Section 8208 Account (i.e., Member Pre-Tax Pick Up Contribution Account) shall be applied to the Member's Hypothetical Pre-Tax Employee Account Balance under the GRSP Fund. The transfer of the Member's GCA Section 8209.1(a) Account (i.e., Rollover After-Tax Account of Member Contribution Reserve from Existing Retirement System) shall be applied to the Member's Hypothetical After-Tax Employee Account Balance under the GRSP Fund.

An amount equal to the Member's GCA Section 8209.1(b) Account (i.e., Rollover Pre-Tax Employer Contribution Account, also referred to as the Transfer Incentive Reserve, originating from the GCA Section 8164(b) Employer Contribution Reserve used to fund transfer incentive benefits under the Existing Retirement System in accordance with GCA Section 8164(b)) may be applied to the Member's Hypothetical Pre-Tax Employee Account Balance as approved by the Board.

## 3.7 Maximum Benefit Limitations

A Member's annual benefit for the Limitation Year shall not exceed a dollar amount established in Code Section 415(b)(1)(A) ("415(b) Limit"), which is adjusted for inflation based on Section 215(i)(2)(A) of the Social Security Act. Subject to Code Section 415(b)(4), if a Member's total annual benefit is not in excess of $10,000, this Section will not apply.

Furthermore, if the Member retires before age 62 and if the Member is not a qualified Member as defined by Code Section 415(b)(2)(H), the 415(b) Limit shall be actuarially reduced in accordance with Code Section 415(b)(2)(C). If a Member has less than

ten years of participation in the GRSP Plan, the 415(b) Limit (as may be adjusted) shall be the amount multiplied by a fraction, the numerator of which is the Member's years of participation in the GRSP Plan and the denominator of which is ten.

The 415(b) Limit with respect to any Member who at any time has been a Member in any other defined benefit plan as defined in Code Section 414(j) maintained by the Member's employer in this plan shall apply as if the total benefits payable under all such defined benefit plans in which the Member has been a Member were payable from one plan.

For purposes of Code Section 415(b), the "annual benefit" means a benefit payable annually in the form of a straight life annuity (with no ancillary benefits) without regard to the benefit attributable to after-tax employee contributions (except pursuant to Code Section 415(n)) and to rollover contributions (as defined in Code Section 415(b)(2)(A)). If the benefit under in consideration is other than a straight life annuity then the benefit shall be adjusted so that it is the equivalent of the annual benefit, using factors prescribed in Treasury Regulations.

In addition to the above provisions in this Section 3.7, the requirements of Code Section 415 that are applicable to a governmental plan as described in Code Section 414(d) shall be incorporated herein by reference. The limitations, adjustments, and other requirements described in this Section 3.7 shall at all times comply with the provisions of Code Section 415 and underlying Treasury Regulations.

## ARTICLE IV

## VESTING

### 4.1 Hypothetical Pre-Tax Employee Account Balance and Hypothetical After-tax Employee Account Balance

A Participant's interest in his or her Hypothetical Pre-Tax Employee Account Balance and Hypothetical After-Tax Employee Account Balance, as applicable, is fully vested and nonforfeitable at all times.

### 4.2 Hypothetical Employer Account Balance

A Participant's interest in the balance of his or her Hypothetical Employer Contribution Account Balance shall be fully vested and nonforfeitable upon the Participant's completion of five Years of Service.

### 4.3 Forfeitures

Notwithstanding the above Section 4.2, any Member receiving a refund of his or her Hypothetical Pre-Tax Employee Account Balance and Hypothetical After-Tax Employee Account Balance pursuant to Section 5.2(a) shall forfeit, waive, and relinquish all accrued rights and benefits in the GRSP Plan. The Board may, in its discretion regardless of cause, withhold payment of a refund for a period not to exceed three months after receipt of an application from a Member.

Any portion of a Member's Retirement Benefit that is not vested under the provisions of this Article IV upon his or her termination from service shall be forfeited as of the date of his or her termination from service.

## ARTICLE V

## PAYMENT OF BENEFITS

### 5.1 Commencement of Benefits

A Member or Beneficiary may apply for and receive a distribution of the Member's Retirement Benefit following separation from service. Commencement of the distribution of the Member's Retirement Benefit shall be conditioned upon the application and approval of the distribution in accordance with the applicable rules and procedures under the GRSP Plan. The amount and available forms of the distribution shall vary depending on the reason for termination and the timing of the distributions. Adverse tax consequences may apply to any distribution made on account of termination of employment prior to retirement. Members and Beneficiaries are urged to seek the advice of qualified financial planners and tax advisors prior to requesting a distribution from the GRSP Plan.

### 5.2 Timing of Distribution

#### (a) Termination of Service before Five Years of Service

Any Member who terminates service before he or she has completed at least five Years of Service may elect to receive a refund of his or her Hypothetical Pre-Tax Employee Account Balance and Hypothetical Post-tax Employee Account Balance, including Interest Credits.

#### (b) Termination of Service after Five Years of Service

Any Member who terminates service after he or she has completed at least five Years of Service may elect to receive a distribution of his or her Retirement Benefit in accordance with the below Section 5.3.

### 5.3 Form of Distribution

#### (a) Distribution Before Normal Retirement Age

If a Member has not attained his or her Normal Retirement Age and has less than 25 Years of Service, he or she may elect to receive a refund of his or her Hypothetical Pre-Tax Employee Account Balance and Hypothetical Post-tax Employee Account Balance, including Interest Credits, in the form of a lump sum distribution in lieu of a deferred Service Retirement Annuity commencing at Normal Retirement Date.

If a Member has not attained his or her Normal Retirement Age and has at least 25 Years of Service, the Member shall on a mandatory basis receive his or her Accrued Benefit as a deferred Service Retirement Annuity commencing at Normal Retirement Date.

**(b) Distribution On or After Normal Retirement Age**

If the Member has attained his or her Normal Retirement Age, the Member shall receive his or her Retirement Benefit as a Service Retirement Annuity.

## 5.4 Death Benefits

**(a) Death prior to Annuity Starting Date**

If a Member dies prior to his Annuity Starting Date, then the Member's Beneficiary shall be entitled to a death benefit in an amount equal to a refund of the Member's Hypothetical Pre-Tax Employee Account Balance and Hypothetical Post-tax Employee Account Balance, including Interest Credits, in the form of a lump sum distribution.

**(b) Death on or after Annuity Starting Date**

If a Member dies on or after his Annuity Starting Date, then the Member's Retirement Benefit shall end on the Member's death. Under the form of the Normal Retirement Benefit, there is no death benefit.

## 5.5 Direct Rollovers

A "Distributee" who is entitled to a distribution may elect, at the time and in the manner determined by the Board, to have any portion of an "Eligible Rollover Distribution" that is equal to at least $500 (or such other minimum amount required under the Code or Treasury Regulations) paid directly in a "Direct Rollover" to an "Eligible Retirement Plan". For purposes of these rules, the following definitions apply.

**(a) Eligible Rollover Distribution**

"Eligible Rollover Distribution" shall mean any distribution of all or any portion of a Member's vested Retirement Benefit, except that an Eligible Rollover Distribution shall not include:

(1) any distribution that is one of a series of substantially equal periodic payments made no less frequently than annually for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten years or more;

(2) any distribution to the extent such distribution is required under Code Section 401(a)(9);

(3) any distribution on account of hardship; and

(4) the portion of any distribution that is not includible in gross income.

Notwithstanding the foregoing, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax Member Contributions that are not includible in gross income. However, such portion may be transferred only to an individual retirement account described in Code Section 408(a) or an individual retirement annuity described in Code Section 408(b) (other than an endowment contract), or to a qualified retirement plan (defined contribution or defined benefit) described in Code Section 401(a) or an annuity contract described in Code Section 403(b), provided that the qualified trust or annuity contract agrees to separately account for amounts so transferred (and the earnings thereon), including separately accounting for the portion of such distribution which is includible in gross income and the portion which is not so includible.

**(b) Eligible Retirement Plan**

"Eligible Retirement Plan" shall mean any of the following accounts or plans to the extent it accepts the Distributee's Eligible Rollover Distribution:

(1) A qualified retirement plan described in Code Section 401(a);

(2) An individual retirement account described in Code Section 408(a) (but not a Roth IRA described in Code Section 408A);

(3) An individual retirement annuity described in Code Section 408(b) (other than an endowment contract);

(4) An annuity plan described in Code Section 403(a);

(5) An annuity contract described in Code Section 403(b), or

(6) An eligible deferred compensation plan described in Code Section 457(b) that is maintained by an eligible governmental employer described in Code Section 457(e)(1)(A) and that agrees to separately account for amounts transferred into such plan from this GRSP Plan.

(7) Effective for distributions on or after January 1, 2008, a Distributee may make a Direct Rollover to a Roth IRA if the Distributee meets the requirements that apply to rollovers from a traditional IRA to a Roth IRA (i.e., for tax years prior to January 1, 2010, the Distributee's modified adjusted gross income cannot exceed $100,000, and the Distributee must not be married filing a separate return).

**(c) Distributee**

"Distributee" includes a Member, the Surviving Spouse of a deceased Member, and the current or former spouse of a Member who is an alternate payee under a qualified domestic relations order that has been approved by the Board.

Effective for distributions on or after October 1, 2010, a non-spouse Beneficiary may make a Direct Rollover to an individual retirement account or individual retirement annuity described in Section 5.5(b)(2) or (3) established for the purpose of receiving the distribution on behalf of the non-spouse Beneficiary.

**(d) Direct Rollover**

"Direct Rollover" shall mean a direct payment by this GRSP Plan to the Eligible Retirement Plan specified by the Distributee.

In prescribing the manner of making elections with respect to Eligible Rollover Distributions, as described above, the Board may provide for the uniform application of any restrictions permitted under applicable sections of the Code and related rules and regulations, including a requirement that a Distributee may not elect to make a direct rollover from a single eligible rollover distribution to more than one eligible retirement plan. The Board may require a recipient plan to provide a written statement that it will accept the rollover and separately account for the amount rolled over, where appropriate.

Prior to making an Eligible Rollover Distribution, the Board shall provide the Distributee a notice describing the Distributee's right to make a Direct Rollover to an Eligible Retirement Plan and describing the tax consequences that will follow if a Direct Rollover is not made (the "402(f) Notice"). The Board shall issue the 402(f) Notice at least 30 days but no more than 180 days prior to the date a distribution is made. However, such Eligible Rollover Distribution may commence less than 30 days after the notice is given provided that the 402(f) Notice clearly informs the Distributee that the Distributee has the right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a Direct Rollover and the Distributee, after receiving the notice, affirmatively elects a distribution.

Any otherwise taxable amount that can be directly rolled over but that the Distributee chooses not to have directly rolled over is subject to 20% income tax withholding. This includes distributions to the Distributee that the Distributee intends to roll over in a traditional 60-day rollover transaction.

## 5.6 Minimum Distribution Rules

All benefit distributions shall be administered in accordance with a reasonable good-faith interpretation of Code Section 401(a)(9). The following describes the statutory requirements of Code Section 401(a)(9):

(a) The Member's entire interest shall be distributed to the Member no later than the Member's required beginning date, or the Member's entire interest must begin to be distributed to the Member no later than the Member's "required beginning date" and must be paid over the life of the Member or the lives of the Member and a designated Beneficiary (or over a period that does not extend beyond the life expectancy of the Member or the life expectancy of the Member and a designated Beneficiary). The "required beginning date" is April 1 of the calendar year following the later of (1) the calendar year in which the Member attains age 70½ or (2) the calendar year in which the Member retires.

(b) If the distribution of the Member's interest has begun in accordance with Section 5.4(a) and the Member dies before the Member's entire interest has been distributed, the remaining portion must be distributed at least as rapidly as under the method of distribution being used to satisfy Section 5.4(a) at the time of the Member's death.

(c) If the Member dies before distribution of the Member's interest has begun under Section 5.4(a), the Member's entire interest shall be distributed, or begin to be distributed, no later than as follows:

(1) If the Member's Surviving Spouse is the Member's sole designated Beneficiary, distributions to the Surviving Spouse shall begin by December 31 of the calendar year immediately following the calendar year in which the Member died, or by December 31 of the calendar year in which the Member would have attained age 70½, if later;

(2) If the Member's Surviving Spouse is not the Member's sole designated Beneficiary, distributions to the designated Beneficiary shall begin by December 31 of the calendar year immediately following the calendar year in which the Member died, and shall be paid over the life of such designated Beneficiary (or over a period not extending beyond the life expectancy of such Beneficiary); or

(3) If there is no designated Beneficiary, the Member's entire interest shall be distributed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

(d) All death benefits shall be administered to comply with the incidental death benefit requirement in Code Section 401(a)(9)(G).

## 5.7 Payment of Annuities

Any Service Retirement Annuity, or any other annuity provided herein shall be payable in equal semi-monthly installments as life annuities, or as temporary annuities, as the case may be, and shall not be increased, decreased, revoked or repealed, except for error or except where specifically otherwise provided.

Semi-monthly annuity payments to an eligible Member shall commence on the first regular payment date immediately following the effective date of the Member's retirement. Said payments shall commence notwithstanding the fact that the Board shall not have passed the application or authorized the expenditure therefor, in which event the payments shall be made for an amount estimated to be payable by the Plan. The Board shall adopt rules and regulations to provide for the reimbursement of the GRSP Fund or the annuitant for estimated payments made in excess of or less than the annuity as finally determined by the Board.

The first semi-monthly payment of annuities shall be prorated to provide benefits only for the portion of the preceding period during which the annuitant was eligible for such annuity.

The last semi-monthly payment of annuities, whether occurring by reason of death, ineligibility, or otherwise, shall be prorated to provide benefits only for the portion of the preceding period during which the annuitant was eligible for such annuity.

## 5.8 Administration of Distributions

### (a) Facility of Payment

If any Member or Beneficiary eligible to receive payments under this GRSP Plan is, in the opinion of the Board, legally, physically, or mentally incapable of personally receiving and receipting for any payment under this GRSP Plan and if the Board determines that no guardian or other legal representative has been appointed for such person, the Board, in its discretion, may direct that such payments, or any portion thereof, be made to any person, persons, or institutions who have custody of such person, or are providing necessities of life (including, without limitation, food, shelter, clothing, and medical or custodial care) to such person. Such payments shall constitute a full discharge of the liability of the GRSP Plan to the extent thereof. The Board, in its discretion, may withhold part or all of the benefits due to such Member or Beneficiary until a claim for such benefits is made by a duly appointed guardian or other legal representative of such payee.

### (b) Benefits Payable from GRSP Fund

All benefits payable under the GRSP Plan shall be paid solely from the GRSP Fund, and the Contributing Employers assume no liability or responsibility therefore beyond their responsibilities to make contributions to the GRSP Fund.

## ARTICLE VI

## LOANS; HARDSHIP WITHDRAWALS

### 6.1 No Loans

Loans to Members shall are not permitted under the GRSP Plan.

### 6.2 Hardship Withdrawals

Hardship withdrawals to Members shall not be permitted under the GRSP Plan.

## ARTICLE VII

## ADMINISTRATION AND INVESTMENTS

### 7.1 Trust Assets

All contributions to the GRSP Plan, all investments made therewith, the proceeds thereof, and all earnings and profits thereon shall constitute the GRSP Fund and shall be held in Trust by the Board under this GRSP Plan and Trust Agreement for the exclusive benefit of the Members and their Beneficiaries.

### 7.2 Authority of Board to Administer the GRSP Plan

In addition to the Board's authority stated in other provisions of the GRSP Plan, the Board has the following discretionary authority in the administration of the GRSP Plan:

(a) Subject to its compliance with all statutory requirements and as may be allowable under Section 9.1, to amend the GRSP Plan and Trust Agreement;

(b) To designate agents and representatives, including, but not limited to, the Director of the GRSP Fund, and to delegate authority for management and administration of the GRSP Plan;

(c) To contract with one or more third-party administrators;

(d) To adopt, amend, and rescind such rules and regulations as it deems advisable for the administration of the GRSP Plan, to construe and interpret the GRSP Plan and its provisions, to resolve any ambiguities in the GRSP Plan's provisions, and to make all determinations under the GRSP Plan, including determining the rights of Employees, Participants, and Beneficiaries and eligibility for and the amount of any benefits payable hereunder. All such decisions, determinations, and interpretations of the Board shall be final and conclusive upon all persons;

(e) To employ auditors, actuaries, legal counsel, and other advisers, and to pay their reasonable compensation and expenses from the GRSP Fund;

(f) To direct the payment of benefits in accordance with the GRSP Plan to Participants and their Beneficiaries;

(g) To maintain or cause to be maintained records of receipts and disbursements to and from the GRSP Fund; and

(h) To exercise any and all other powers as the Board in its discretion determines to be necessary or appropriate to the administration of the GRSP Plan.

### 7.3 Investments

The Board of Trustees has the discretionary authority to appoint, monitor, and remove investment managers, as the Board deems appropriate.

## 7.4 General Trustee Powers

The Board of Trustees, in addition to all powers and authority under common law, statutory authority, and other provisions of the GRSP Plan, shall have the following powers and authority, to be exercised in the Board's sole discretion:

(a) To purchase any securities or other property, real or personal, by private contract or at public auction, for cash or on credit, at such prices and in such manner as the Board may direct;

(b) To sell, exchange, convey, transfer, grant options to purchase, or otherwise dispose of any securities or other property held by the Board by private contract or at public auction. No person dealing with the Board shall be bound to see to the application of the purchase money or to inquire into the validity, expediency, or propriety of any such sale or other disposition;

(c) To vote upon any stocks, bonds, or other securities; to give general or special proxies or powers of attorney with or without power of substitution; to sell or exercise any conversion privileges, subscription rights, warrants, or other options, and to make any payments incidental thereto; to oppose, consent to, or otherwise participate in corporate reorganizations, mergers, consolidations, or other changes affecting corporate securities, and to delegate discretionary powers, and to pay any assessments or charges in connection therewith; and generally to exercise any of the powers of an owner with respect to stocks, bonds, securities, or other property;

(d) To hold property of the GRSP Fund in the Board's own name or in the name of a nominee, including the nominee of any central depository, clearing corporation, or custodian with which securities of the GRSP Fund may be deposited, and to hold any investment in bearer form, but the books and records of the Board shall at all times show that all such investments are part of the GRSP Fund;

(e) To keep such portion of the GRSP Fund in cash or cash balances as the Board may from time to time deem to be in the best interests of the GRSP Plan, without liability for interest thereon;

(f) To accept and retain for such time as the Board may deem advisable any securities or other property received or acquired as an investment hereunder, whether or not such securities or other property would normally be purchased as an investment hereunder;

(g) To make, execute, acknowledge, and deliver any and all documents of transfer and conveyance and any and all other instruments that may be necessary or appropriate to carry out the powers granted herein;

(h) To settle, compromise, or submit to arbitration any claims, debts, or damages due or owing to or from the GRSP Plan, to commence or defend suits or legal or administrative proceedings, and to represent the GRSP Plan in all suits and legal and administrative proceedings;

(i) To apply for and procure as an investment of the GRSP Fund such annuity or other insurance contracts (on the life of any Participant) as the Board deems appropriate; to exercise, at any time or from time to time, whatever rights and privileges may be granted under such annuity or other insurance contracts; to collect, receive, and settle for the proceeds of all such annuity or other insurance contracts as and when entitled to do so under the provisions thereof;

(j) To invest funds of the GRSP Fund in time deposits or savings accounts bearing a reasonable rate of interest;

(k) To invest in United States Treasury Bills and other forms of United States government obligations;

(l) To invest in shares of investment companies registered under the United States Investment Company Act of 1940;

(m) To sell, purchase, and acquire put or call options, giving the Board an option to buy or sell stock to the maker or endorser thereof at a certain price and on or before a certain date, if the options are traded on and purchased through a national securities exchange registered under the Security Exchange Act of 1934, as amended, or, if the options are not traded on a national securities exchange, are guaranteed by a member firm of the New York Stock Exchange;

(n) To deposit monies in federally insured savings accounts or certificates of deposit in banks or savings and loan associations;

(o) To exercise any and all other powers as the Board in its discretion determines to be necessary or appropriate with respect to GRSP Plan investments.

**7.5 Audit**

The Board may engage an independent certified public accountant to audit the GRSP Plan's records for any Plan Year. After an audit of the books and records of the GRSP Plan in accordance with generally accepted auditing standards, such accountant shall, within a reasonable period after the close of the Plan Year, furnish to the Board a report of the audit setting forth an opinion as to whether the financial statements, schedules, or lists are presented fairly and in conformity with generally accepted accounting principles applied consistently. All auditing and accounting fees shall be an expense of and may be paid from the GRSP Fund.

**7.6 Expenses**

The Board may pay administrative expenses, including start-up costs, from the GRSP Fund.

## ARTICLE VIII

## CLAIMS PROCEDURES

### 8.1 Filing a Claim for Benefits

A Member or Beneficiary may make a claim for benefits by filing a written claim with the Board or its designated representative.

### 8.2 Notification to Claimant of Decision

Within 90 days following receipt of a claim, the Board or its designated representative will notify the claimant of the decision on the benefit claim. If the claim is denied in whole or in part, the claimant will be given written notice of the denial and of the claimant's right to an appeal. If special circumstances require an extension of time for processing the claim, the claimant will be notified of the need for an extension of time within the initial 90-day period, and the determination period may be extended for up to an additional 90 days. Commencement of benefit payments shall constitute notice of approval of a claim to the extent of the amount of the approved benefit. If the claimant does not receive notice of the decision regarding a claim within the claim determination period, the claimant may consider the claim denied, and the claimant may then proceed with the appeal procedure provided in Section 8.3.

### 8.3 Appeal

Within 60 days after receiving notice that a claim has been denied (or within 60 days after the claim is deemed denied), the claimant may file a written appeal with the Board. The claimant shall be given the opportunity to review pertinent GRSP Plan documents upon request and may provide written testimony and written documentation in support of its appeal. The Board may require the claimant to provide additional information or testimony as the Board, in its sole discretion, deems useful or appropriate to the Board's consideration of the claim.

### 8.4 Decision on Appeal

The Board will render its final decision within 60 days of receipt of the appeal unless special circumstances require an extension of time. If such an extension is required, the Board will notify the claimant of the need for an extension of time within the initial 60-day period, and may extend the determination period for up to an additional 60 days. If the Board's decision on appeal is a denial of the claim, the Board will provide written notice of the denial, which notice shall set forth, in a manner calculated to be understood by the claimant, the reason for the denial and may refer to specific provisions of the GRSP Plan or GCA on which it is based. The decision of the Board shall be final and conclusive on all persons. If the Board does not furnish the claimant with notice of its decision on appeal within the prescribed time, the claim shall be deemed denied on appeal.

### 8.5 Action by Authorized Representative of Claimant

All actions set forth in this Article to be taken by the claimant may likewise be taken by a representative of the claimant duly authorized by the claimant to act on the claimant's behalf. The Board of Trustees may require such evidence of a representative's authority to represent the claimant as the Board deems necessary or appropriate.

### 8.6 Other Remedies

A claimant must comply with these procedures and exhaust all possibilities contained herein before seeking relief in any other forum.

## ARTICLE IX

## AMENDMENT AND TERMINATION

### 9.1 Amendment

The Board of Trustees reserves the right to amend the GRSP Plan at any time and for any reason. No amendment may divert the GRSP Fund or any portion of it to purposes other than for the exclusive benefit of the Members and their Beneficiaries.

### 9.2 Termination

The Legislature of the Government of Guam may terminate the GRSP Plan and direct the Board with respect to the disposition of the GRSP Fund.

## ARTICLE X

## ASSIGNMENTS

### 10.1 No Assignment

Except as provided in Section 9.2, no Member, Beneficiary, or any other person having or claiming to have any right or interest of any kind in the GRSP Plan shall have any right to sell, assign, transfer, convey, hypothecate, anticipate, or otherwise dispose of such interest, and any attempt to do so shall be null and void. Furthermore, neither the GRSP Fund nor any interest in the GRSP Plan or GRSP Fund shall be subject to any liabilities or obligations of, or any bankruptcy or insolvency proceedings, claims of creditors, attachment, garnishment, execution, levy, or other legal or equitable process against a Member, Beneficiary, or any other person.

### 10.2 Qualified Domestic Relations Order Permitted

Qualified domestic relations orders shall be administered accordance with the regulations provided under Article 3 of Chapter 3 of Title 2 of the Guam Administrative Rules and Regulations.

## ARTICLE XI

## CONTRIBUTING EMPLOYERS

### 11.1 Requirements of Contributing Employers

Contributing Employers shall be subject to the following rules:

(a) The Board of Trustees may, but shall not be required to, commingle, hold, and invest as one fund all contributions made by the Contributing Employers.

(b) With respect to its relation with the Board of Trustees, each Contributing Employer shall be deemed to have designated irrevocably the Board of Trustees as its agent.

(c) Each Contributing Employer shall comply with the provisions of the GRSP Plan, as the same may be amended from time to time.

### 11.2 Payment of Contributions

Each Contributing Employer shall make the Employer Contributions to the GRSP Fund required under Article II with respect to Members employed by such Contributing Employer.

### 11.3 Accounting for Employees

If an Employee is transferred between Contributing Employers, such Employee shall carry with him or her all amounts credited to his or her Hypothetical Account Balance and his or her accumulated Years of Service and eligibility to participate in the GRSP Plan. No such transfer shall constitute a termination of employment for purposes of the GRSP Plan, and the Contributing Employer to whom the Employee is transferred shall assume the employer's obligations with respect to the transferred Employee.

### 11.4 Separate Records

The Board of Trustees shall keep separate records concerning each Contributing Employer and the accounts of Members employed by each Contributing Employer. The transferee Contributing Employer shall immediately notify the Board of Trustees if an Employee transfers from one Contributing Employer to another.

### 11.5 Authority of Board of Trustees

The Board of Trustees shall have authority to make any and all necessary rules or regulations binding upon all Contributing Employers to effectuate the purposes of this Article and the GRSP Plan.

## ARTICLE XII

## MISCELLANEOUS

### 12.1 Applicable Law

This GRSP Plan shall be regulated, construed, and administered in accordance with the GCA, the applicable requirements of the Code, and any other applicable laws of the Government of Guam or the United States.

### 12.2 No Right to Employment

Nothing contained in the GRSP Plan gives any Employee the right to be retained in the service of a Contributing Employer or interferes with the right of a Contributing Employer to discharge any Employee at any time or to deal with an Employee without regard to the effect under the GRSP Plan.

### 12.3 Construction of Plan

#### (a) Headings

The headings of Articles and Sections are included herein solely for the convenience of reference, and if there is any conflict between such headings and the text of this GRSP Plan, the text shall control.

#### (b) Severability

The invalidity, illegality, or unenforceability of any provision of this document shall in no way affect the validity, legality, or enforceability of any other provision.

### 12.4 Statutory References

All statutory references include any subsequent amendments to such statutes and any successor or replacement statutes.

## ARTICLE XIII

## DEFINITIONS

The following words and phrases have the meanings set forth below, unless clearly required otherwise by the context.

### 13.1 Accrued Benefit

Accrued Benefit, as of any determination date (on or prior to the Normal Retirement Age), shall mean a lifetime annuity in the normal form of benefits as described in section 6.2 of the GRSP Plan commencing at a Member's Normal Retirement Age, calculated by projecting the Member's Hypothetical Account Balance to Normal Retirement Age with interest at the Interest Crediting Rate in effect at the date of determination, and converting the projected account to an Actuarial Equivalent benefit payable in the normal form at Normal Retirement Age.

### 13.2 Actuarial Equivalent

In the case of a lump sum distribution, the Actuarial Equivalent present value of the Participant's vested interest in his or her Retirement Benefit shall be equal to the Participant's Hypothetical Account Balance as of the Participant's Annuity Starting Date. For other forms of benefit payment subject to Code Section 417(e)(3), the Actuarial Equivalent present value of the Participant's vested interest in his or her Retirement Benefit shall not be less than such present value determined based on the Applicable Interest Rate and the Applicable Mortality Table that apply under Code Section 417(e)(3) as of the Participant's Annuity Starting Date.

The "applicable interest rate" is defined as the adjusted first, second and third segment rates described in Code Section 417(e)(3), as specified by the Internal Revenue Service for the "lookback month" for the "stability period" (as defined in this Section 13.2). For this purpose, the segment rates are the spot segment rates that would be determined for the applicable month under Code Section 430(h)(2)(C) without the 24-month averaging under Code Section 430(h)(2)(D), and determined without regard to the adjustment for the 25-year average segment rates provided in Code Section 430(h)(2)(C)(iv).

The "lookback month" applicable to the stability period is the first calendar month preceding the first day of the stability period. The "stability period" is the successive period of one Plan Year that contains the Annuity Starting Date for the distribution and for which the applicable interest rate remains constant.

A GRSP Plan amendment that changes the date for determining the applicable interest rate (including an indirect change as a result of a change in Plan Year), shall not be given effect with respect to any distribution during the period ending one year after the later of the amendment's effective date or adoption date, if, during such period and as a result of such amendment, the Member's distribution would be reduced.

The "applicable mortality table" is the applicable mortality table specified for the calendar year in which the stability period begins. The applicable mortality tables are set forth in Treasury Regulations Section 1.430(h)(3)-1 and related guidance.

For purposes of determining a form of benefit differing in time, period, or manner of payment having the same value as the Normal Retirement Benefit as described in Section 3.5, other than a lump sum distribution and other forms of payment subject to Code Section 417(e)(3), the Actuarial Equivalent shall be determined based on general interest rate and mortality assumptions as may be approved by the Board of Trustees.

### 13.3 Annuity Starting Date

The first day of the first period for which an amount is payable as an annuity or, in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Member to such benefit.

### 13.4 Beneficiary

A married Member's spouse shall be the Member's Beneficiary unless the spouse consents to an alternate Beneficiary. Such spousal consent must be on a form approved by the Board. The spouse's signature on the consent form must be notarized or witnessed by an authorized GRSP Plan representative. If a spouse consents to an alternate Beneficiary, such alternate Beneficiary may not be changed without the spouse's further consent. However, married Members may name contingent Beneficiaries in the event the spouse predeceases the Member. Unmarried Members may name a primary and a secondary Beneficiary for their death benefits. Spousal consent is not required to designate a Beneficiary if it is established to the satisfaction of the Board of Trustees that there is no spouse or that the spouse cannot be located.

If a Member has a Beneficiary designation in place as an unmarried Member and marries, the Member's spouse will become the Member's Beneficiary. If a married Member obtains spousal consent to name an alternate Beneficiary, divorces, and remarries, the first spouse's consent will not be effective as to the new spouse.

Subject to the rights of the Member's spouse, a Member may revoke or change Beneficiaries at any time on forms approved by the Board. Whenever a new Beneficiary form is filed, all former Beneficiary designations by such Member shall automatically be revoked. If, upon the death of a Member, there is no valid Beneficiary designation on file with the Board or the designated Beneficiary has predeceased the Member, the Beneficiary shall be, in order of priority:

- the Member's Surviving Spouse;
- the Member's surviving children (including adopted children) in equal shares;
- the Member's surviving parents in equal shares;
- the Member's surviving brothers and sisters in equal shares;
- the Member's estate.

Facts as shown by the records of the Board at the time of the Member's death shall be conclusive as to the identity of the proper Beneficiary.

**13.5 Board of Trustees or Board**

The Board of Trustees of the Government of Guam Retirement Fund. References to the Board include references to the Board's designated representatives.

**13.6 Code**

The United States Internal Revenue Code of 1986, as amended, and mirror provisions of the Guam Territorial Income Tax Code.

**13.7 Base Pay**

The Employee's stated rate of base pay which is authorized by the Employer's personnel action. Base Pay specifically includes Member Contributions picked up by the Employee's Contributing Employer under Section 2.1. Base Pay specifically excludes any amounts exceeding the Employee's stated rate of base pay, whether or not such amounts are paid in cash.

In addition to other applicable limitations set forth in the GRSP Plan, and notwithstanding any other provision of the GRSP Plan to the contrary, the annual Base Pay of each Employee taken into account for purposes of determining allocations for a Plan Year shall not exceed the limit in effect under Code Section 401(a)(17). For the Plan Year commencing January 1, 2017, the limit is $270,000. The limit shall be adjusted for increases in the cost-of-living in accordance with Code Sections 401(a)(17)(B) and 415(d).

**13.8 Code**

The Internal Revenue Code of 1986, as amended from time to time.

**13.9 Contributing Employer**

The following Government of Guam entities, organizations, and departments that are organized and operated in the Territory of Guam and that employ a Member: (a) each and every line department or agency of the Executive Branch, (b) every autonomous and semi-autonomous agency or instrumentality, (c) every public corporation, (d) every educational institution (whether secondary or post-secondary), (e) the Legislative Branch, (f) the Judicial Branch, (g) the Public Defender Corporation, and (h) every other public entity created by Guam law. For purposes of accounting for contributions, the term "Contributing Employer" refers to the various payroll centers used within the Government of Guam from which contributions are made to the GRSP Plan.

### 13.10 Defined Contribution System

The Government of Guam Defined Contribution Retirement System established and operated in accordance with Article 2 of Chapter 8 of Title 4 of the GCA and inclusive of modifications in the terms and conditions of the Defined Contribution Retirement System applicable to members of the Defined Benefit 1.75 Retirement System of Article 5 of Chapter 8 of Title 4 of the GCA.

### 13.11 Effective Date

The effective date of the GRSP Plan is January 1, 2018.

### 13.12 Employee

An individual who is employed by a Contributing Employer and treated as an "employee" on the payroll of the Contributing Employer. "Employee" specifically does not include the following:

(a) Persons whose services are compensated on a fee basis;

(b) Independent contractors;

(c) Persons whose employment is engaged for a specific project; or

(d) Persons who are employed in the Senior Citizens Community Employment Program.

### 13.13 Employer Contributions

The contributions made to the GRSP Plan by each Contributing Employer, as described in Section 2.2.

### 13.14 Existing Retirement System

The Government of Guam Retirement Fund established and operated in accordance with Article 1 of Chapter 8 of Title 4 of the GCA and exclusive of modifications in the terms and conditions of the Existing Retirement System applicable to members of the Defined Benefit 1.75 Retirement System of Article 5 of Chapter 8 of Title 4 of the GCA.

### 13.15 GCA

The Guam Code Annotated. Unless otherwise specifically provided, references to the GCA shall mean references to Title 4 of the GCA.

### 13.16 Government

The Government of Guam.

### 13.17 GRSP Fund

All property and income held by the Board of Trustees under this GRSP Plan and Trust Agreement.

### 13.18 GRSP Plan

The Guam Retirement Savings Plan specifically described in Section 5 of the Public Law No. 33-186 (and not codified in the GCA).

### 13.19 Hour of Service

Each hour for which an Employee is directly or indirectly provided Base Pay or entitled to Base Pay by a Contributing Employer for the performance of duties for the Contributing Employer during the Plan Year.

### 13.20 Hypothetical Account Balance

The value of a Member's Retirement Benefit as described in Section 3.2.

### 13.21 Hypothetical Employer Account Balance

The portion of a Member's Hypothetical Account Balance attributable to Employer Contributions (as described under Section 2.2) and the Interest Credits thereon.

### 13.22 Hypothetical Pre-Tax Employee Account Balance

The portion of a Member's Hypothetical Account Balance attributable to Member Contributions (as described under Section 2.1), and any pre-tax transfers credited to a Member (as described under Article III), and the Interest Credits thereon.

### 13.23 Hypothetical After-Tax Employee Account Balance

The portion of a Member's Hypothetical Account Balance attributable to after-tax transfers credited to a Member (as described under Article III) and the Interest Credits thereon.

### 13.24 Interest Credits

Interest credited to a Member's Hypothetical Account Balance pursuant to Section 3.4.

### 13.25 Limitation Year

The Plan Year.

### 13.26 Member Contributions

The contributions made to the GRSP Plan by the Member and "picked up" by the Member's Contributing Employer, as described in Section 2.1.

**13.27 Normal Retirement Age**

The later of: (a) the date the Member attains age 62; or (b) the fifth anniversary of the date on which the Member commenced participation in the GRSP Plan.

**13.28 Normal Retirement Date**

The first day of the month coinciding with or next following the Member's attainment of Normal Retirement Age.

**13.29 Member**

Any Employee or former Employee who maintains a Hypothetical Account Balance in the GRSP Plan. An Employee who is currently contributing to the GRSP Plan is considered an "active" Member. A Member who is no longer making contributions is an "inactive" Member.

**13.30 Pay Credits**

Amounts credited to a Member pursuant to Section 3.3 of the Plan.

**13.31 Plan Year**

Each 12-month period ending December 31.

**13.32 Qualified Military Service**

Any service in the Armed Forces (Army, Air Force, Navy, Marines, or Coast Guard), the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty, the commissioned corps of the Public Health Service, and any other category of persons designated by the President in time of war or national emergency.

**13.33 Retirement Benefit**

The benefit to which a Member is entitled pursuant to Article III.

**13.34 Retirement Fund**

The Government of Guam Retirement Fund established and maintained under Article 1, Chapter 8, Title 4 of the GCA.

**13.35 Service Retirement Annuity**

Periodic payments paid from the GRSP Fund or a nontransferable annuity contract purchased from an insurance company in the form of the Normal Retirement Benefit as described in Section 3.5.

### 13.36 Spouse

A person who is legally and formally married to a Member at the time such status is determined.

### 13.37 Surviving Spouse

A living Spouse of a deceased Member. A domestic relations order may provide that a former Spouse shall be treated as the current surviving Spouse of a deceased Member for purposes of Death Benefits described under Section 5.4.

### 13.38 Transfer Incentive Reserve

The bookkeeping subaccount maintained for a Member representing the balance of transfer incentive benefits transferred to this GRSP Plan from the Employer's Contribution Reserve in the Retirement Fund in accordance with GCA Section 8164(b).

### 13.39 Year of Service

An Employee shall be credited with one "Year of Service" for each Plan Year during which the Employee has completed at least 1,000 Hours of Service. For purposes of determining Hours of Service, each calendar month during which an Employee has completed at least one Hour of Service shall be equivalent to 175 Hours of Service.

*[Remained of page intentionally left blank]*

IN WITNESS WHEREOF, the Board of Trustees has caused this GRSP Plan to be executed this _____ day of _____, _____.

**BOARD OF TRUSTEES OF THE GOVERNMENT OF GUAM RETIREMENT FUND**

_____
JOE T. SAN AGUSTIN
Chairman

_____
WILFRED P. LEON GUERRERO, Ed.D.
Vice Chairman

_____
ANTOLINA S. LEON GUERRERO
Secretary

_____
GERARD A. CRUZ
Treasurer

_____
DAVID M. O'BRIEN
Trustee

_____
ALBERT H. SANTOS
Trustee

_____
KATHERINE T. E. TAITANO
Trustee

## GUAM RETIREMENT SECURITY PLAN

## APPENDIX A
## CURRENT MEMBER AND EMPLOYER CONTRIBUTION RATES

| **Member Contribution Rate** (As a percentage of Base Pay) | **Employer Contribution Rate** (As a percentage of Base Pay) |
|---|---|
| 6.2% | 6.2% |

# APPENDIX B

GOVERNMENT OF GUAM
RETIREMENT FUND
STABILITY · SECURITY · REWARDS

Eddie Baza Calvo
*Governor*

Ray Tenorio
*Lieutenant Governor*

Paula M. Blas
*Director*

*Trustees:*

**Joe T. San Agustin**
*Chairman*

**Wilfred P. Leon Guerrero,Ed.D.**
*Vice-Chairman*
*Investment Committee, Chairman*

**Antolina S. Leon Guerrero**
*Secretary*

**Gerard A. Cruz**
*Treasurer*
*Audit & Operations Committee, Chairman*

**Katherine T.E. Taitano**
*Trustee*

**David M. O'Brien**
*Trustee*

**Albert H. Santos**
*Trustee*

# GOVERNMENT OF GUAM RETIREMENT FUND
# PUBLIC HEARING
# PURSUANT TO PUBLIC LAW NO. 33-186
# RELATIVE TO THE PROPOSED
# PLAN DOCUMENTS

Tuesday, March 14, 2017, 2:30 to 5:00 P.M.
Retirement Fund Conference Room

Government of Guam Retirement Fund Board of Trustees Secretary, Antolina Leon Guerrero, opened the Public Hearing at 2:30 p.m. on Tuesday, March 14, 2017, in the Retirement Fund Conference Room.

**Board of Trustees Present:**
Antolina S. Leon Guerrero, Secretary
Gerard A. Cruz, Treasurer
Albert H. Santos, Trustee

**Staff Present:**
Paula Blas, Director
Diana Bernardo, Controller
Vivian Mantanona, Management Analyst IV
Melissa Quinata, Special Projects Coordinator
Jackie Blas, Recording Secretary
Alice Taijeron, Director, Client Relations & Plan Counseling, Empower Retirement

**Legal Counsel Present:**
Vince Camacho

**Public Present:**
Michael Carlson/Dorothy Carlson, 34th Guam Legislature/UOG
Robby Manalo, Student



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## 1) DEFINED CONTRIBUTION RETIREMENT SYSTEM(2:30-3:00 p.m.)

Secretary Antolina Leon Guerrero introduced the Board of Trustees, Management, and Legal Counsel present at today's Public Hearing. Secretary Leon Guerrero pointed out that the Plan Documents have been available on the Retirement Fund's Website since March 3, 2017. Secretary Leon Guerrero opened the hearing at 2:37 p.m. for any questions or comments.

Robby Manalo asked what the hearing is about. Secretary Leon Guerrero explained that the Retirement Fund has looked for options on how to improve the plan to provide income security for its members for life. Mr. Manalo asked whether there was a notice of the hearing advertised. Director Paula Blas replied, "Yes, a 10-day notice was published." Alice Taijeron of Empower Retirement asked whether this is an amendment to the current Plan Document. Secretary Leon Guerrero replied, "Yes."

Secretary Leon Guerrero stated that since there are no other questions or comments, she'll adjourn the hearing at this time unless someone comes in before 3:00 p.m. Hearing was closed at 2:47 p.m.

## 2) 457 DEFERRED COMPENSATION PLAN (3:00-3:30 p.m.)

Secretary Leon Guerrero opened the hearing at 3:00 p.m. for any questions or comments. Michael Carlson asked for a clarification on the second sentence of Article III, Section 3.01 - "Each Participant may make an election ("Deferral Election") to have the Employee employing him reduce his Compensation by an amount in whole percentage points." Mr. Carlson asked what does "by an amount in whole percentage points" mean. What will be the amount reduced in percentages? Treasurer Gerard Cruz stated that the intent was a percent of salary. Treasurer Cruz stated that there is a cap. Director Blas stated that the cap is $18,000. Treasurer Cruz stated that the intent was to be a percent of your salary and the employee elects that percentage. Treasurer Cruz suggested removing the word "points" and leaving in "whole percentage." Legal Counsel Vince Camacho stated that removal of the word "points" will be considered. Ms. Taijeron stated that the word "points" should be removed wherever it's mentioned in the document. Mr. Carlson stated that he wouldn't have a problem if it says "to reduce his compensation by an amount not to exceed statutory amount. Mr. Carlson stated that it is easier for the employees if it shows a dollar amount. Legal Counsel Camacho stated that the suggestions would be considered.

Secretary Leon Guerrero stated that since there are no other questions or comments, she'll adjourn the hearing at this time unless someone comes in before 3:30 p.m. Hearing was closed at 3:10 p.m.

## 3) DEFINED BENEFIT 1.75 RETIREMENT SYSTEM (3:30-4:30 p.m.)

Secretary Leon Guerrero opened the hearing at 3:30 p.m. for any questions or comments. Mr. Carlson inquired about Article II, Section 2.1 - "The Basic Retirement Annuity shall be an

annual retirement annuity commencing at age 62 under the normal form of payment which is a single life annuity for the life of the Member in the amount equal to 1.75% of Average Annual Compensation for each Year of Credited Service." Director Blas stated that it should read "Average Annual Salary." Mr. Carlson asked whether a review of the members' service jacket will be looked when a calculation of creditable service is done to determine percentage and that the gross will be used to determine what they will be entitled to. Director Blas stated that it won't be based on just the personnel actions, it will be based on the salary that the individual made for that year. What may be on the personnel action may not be your annual salary. Director Blas stated that we get copies of the individual's personnel actions. Director Blas stated that it will be based on the gross salary. Mr. Carlson stated that in doing the calculation for the three highest salaries, what is it based on? Director Blas stated that it is base pay. Mr. Carlson inquired about the creditable years of creditable service. Will that be determined in-house? Director Blas replied, "Yes." Mr. Carlson asked whether there is a mandatory retirement age in this plan? Director Blas replied, "No." Mr. Carlson asked if beyond age 62, it becomes at the discretion of the employee to decide when to retire? Director Blas replied, "Yes."

Mr. Carlson asked what is the processing time of applications submitted to be acted on. Is it the same process as the former DB Plan? Director Blas replied, "Yes." Mr. Carlson asked if there are there penalties if an individual elects to take out their 457 at age 65. Director Blas replied, "No." Legal Counsel Camacho stated that the trigger for the 457 Plan is your retirement date. Mr. Carlson asked if that would be added to the individual's annuity. Legal Counsel stated that it won't be added to the annuity. Treasurer Cruz stated that you will have access to it in a lump sum or purchase annuity. Mr. Carlson asked if he was to buy an annuity, is there is a cut-off date to purchase. Legal Counsel Camacho stated that it depends on the annuity you purchase. Mr. Carlson asked about using the lump sum to purchase annuity. Legal Counsel Camacho stated that it depends on the frequency and the length. The longer you receive the annuity, the price will be different. Mr. Carlson asked "What is the processing time for disbursement on the 457 Plan?" Ms. Taijeron stated that you could receive it at any time as long as you have the personnel action that indicates you've retired. Ms. Taijeron stated that there is a 30-day waiting period to purchase an annuity. Ms. Taijeron stated that the options on the 457 are flexible. Mr. Carlson asked whether the educational process will be made available. Ms. Taijeron replied, "Yes." Mr. Carlson inquired about the different tables in the plans. Ms. Taijeron stated that charts are being developed for the educational process.

Mr. Carlson inquired about annual and sick leave at the time of retirement. Director Blas stated that sick leave balances could be converted to service. Director Blas stated that annual leave is paid in a lump sum. Ms. Taijeron stated that DC members have an option to defer 50% of sick leave balances into the 457 Plan upon retirement status or 50% will be paid in a lump sum. Mr. Carlson asked if one retires on the DB 1.75 and is reemployed, is it an automatic enrollment into DC Plan? Director Blas replied, "Yes." Legal Counsel Camacho stated that any retirees go back into the DC Plan when reemployed. Mr. Carlson inquired about Mayors and Senators being in the DC Plan and elected to move to the DB 1.75 during the selection window, what happens if they are not retired and decide to leave their contributions in until they turn 62 years old, are they eligible for retirement? Ms. Taijeron stated that as long as they elected to move during the

selection window. Mr. Carlson asked whether there is a hardship distribution in the DB 1.75. Director Blas replied, "No." Mr. Carlson inquired about the educational process. Director Blas stated that it will be at the end of the month or early April 2017 to be out to the departments. Mr. Carlson asked whether it will be available from 8:00 a.m. to 5:00 p.m. Director Blas replied, "Yes."

Secretary Leon Guerrero stated that since there are no other questions or comments, she'll adjourn the hearing at this time unless someone comes in before 4:30 p.m. Hearing was closed at 3:55 p.m.

**4) GUAM RETIREMENT SECURITY PLAN (4:30 – 5:00 p.m.)**

Secretary Leon Guerrero opened the hearing at 4:30 p.m. for any questions or comments. Mr. Carlson inquired about the excess above the guaranteed rate. Is it a statutory issue? Treasurer Cruz stated that it is a statutory issue. Treasurer Cruz stated that the maximum credit rate is 4%. Director Blas stated that anything after that is to assist for covering shortfalls and the overall cost of this plan. Mr. Carlson asked whether the account is credited 4%. Secretary Leon Guerrero replied, "Yes." Mr. Carlson asked if in the future and Guam is allowed to join Social Security, would we be able to take excess earnings and use the earnings or will it be dumped into the excess black hole. Legal Counsel Camacho stated that the way the statute was intended once Social Security came in, there would be no new participants in the Guam Retirement Security Plan. Mr. Carlson asked whether transfers from the Guam Retirement Security Plan to Social Security is not the subject of this plan document. Secretary Leon Guerrero replied, "No." Legal Counsel Camacho stated that transfers would be negotiated with Washington. Legal Counsel Camacho stated that it's all up in the air at this point. Mr. Carlson stated that if a member from this plan goes elsewhere, are their contributions portable. Legal Counsel Camacho replied, "Yes." Director Blas stated that it is just the employee share and it is pre-tax. Director Blas stated that there is a rollover provision. Mr. Carlson asked if one does a rollover and moves to an employer where Social Security is available, what is the procedure? Treasurer Cruz replied, "IRA." Treasurer Cruz stated that Social Security was never meant to be a sole source of a retirement plan.

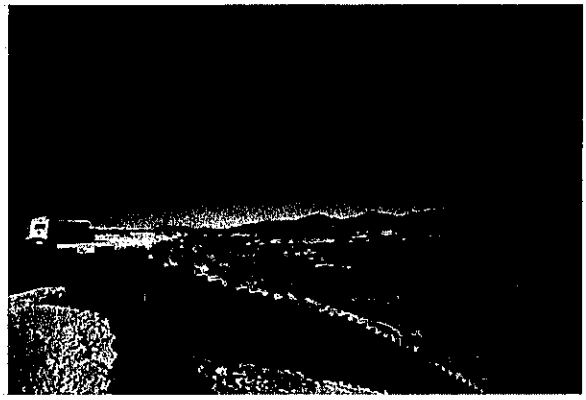
Legal Counsel Camacho stated that Election Forms are being developed.

Secretary Leon Guerrero stated that since there are no other questions or comments, she'll close the hearing at this time unless someone comes in by 5:00 p.m. Hearing was closed at 5:00 p.m.

Paula M. Blas
Director
Government of Guam Retirement Fund

# APPENDIX C

# Document: Trump administration has found only $20M in existing funds for wall



**NEWLY BUILT:** *A general view shows a newly built section of the U.S.-Mexico border fence at Sunland Park, U.S., opposite the Mexican border city of Ciudad Juarez, Mexico, on Jan. 16. Reuters*

(Reuters) - President Donald Trump's promise to use existing funds to begin immediate construction of a wall on the U.S.-Mexico border has hit a financial roadblock, according to a document seen by Reuters.

The rapid start of construction, promised throughout Trump's campaign and in an executive order issued in January on border security, was to be financed, according to the White House, with "existing funds and resources" of the Department of Homeland Security.

But so far, the DHS has identified only $20 million that can be re-directed to the multi-billion-dollar project, according to a document prepared by the agency and distributed to congressional budget staff last week.

The document said the funds would be enough to cover a handful of contracts for wall prototypes, but not enough to begin construction of an actual barrier. This means that for the wall to move forward, the White House will need to convince Congress to appropriate funds.

An internal report, previously reported by Reuters, estimated that fully walling off or fencing the entire southern border would cost $21.6 billion - $9.3 million per mile of fence and $17.8 million per mile of wall.

# Sessions spoke with Russian envoy during Trump's 2016 campaign

**By Chris Strohm**
Bloomberg News

WASHINGTON - U.S. Attorney General Jeff Sessions had conversations with Russia's ambassador to the U.S. while he was a prominent surrogate for President Donald Trump's election campaign, even though he said during his confirmation hearing that no contacts had occurred, the Justice Department confirmed late Wednesday.

Justice Department spokeswoman Sarah Isgur Flores portrayed the contacts that Sessions had with Ambassador Sergey Kislyak as part of his work as a senator rather than a surrogate for Trump's campaign.

"Last year, the senator had over 25 conversations with foreign ambassadors as a senior member of the Armed Services Committee, including the British, Korean, Japanese, Polish, Indian, Chinese, Canadian, Australian, German and Russian ambassadors," she said. "He was asked during the hearing about communications between Russia and the Trump campaign - not about meetings he took as a senator and a member of the Armed Services Committee."

## Oregon house fire kills four children

(Reuters) - An early morning house fire in western Oregon on Wednesday killed four children and left three other members of their family who were present at the time hospitalized with severe injuries, authorities said. The blaze was reported shortly after 2 a.m. in the town of Riddle, Oregon, about 200 miles south of Portland. The cause of the fire was under investigation but did not immediately appear to be suspicious in nature, according to a spokesman for the Douglas County Sheriff's Office, Dwes Hutson.

## Judge approves release of Florida nightclub shooter's widow

(Reuters) - A judge cleared the way on Wednesday for the widow of the gunman who killed 49 people at a gay nightclub in Orlando, Florida, to be released from jail and also appeared to throw doubt on the strength of the government's case against her. Noor Salman, 30, was arrested in California in January on federal charges she knew before the June 2016 shootings that her husband, Omar Mateen, was planning the attack and concocted a cover story for him.


## Guam Facilities Foundation, Inc.

**Statement of Financial Position**
As of December 31, 2016

| Assets | 2016 |
|---|---|
| Cash | $ 78,457 |
| Receivables | 258,155 |
| Fixed Assets | 7,534 |
| Total Assets | 344,145 |
| **Liabilities & Fund Balance** | |
| Payables | $ 216,975 |
| Fund Balance | 127,170 |
| Total Net Assets | 344,145 |

**Statement of Revenues / Expenditures and Change in Fund Balance**
For the year ended December 31, 2016

| | |
|---|---|
| Contributions | 135,000 |
| Deductions / Expenditures | 2 2,082 |
| Net change in fund balance | $ 112,918 |

Submitted by Nenita Baldovino, *Director*
111 Chalan Pipitas, Summer Town Estates
Dededo, Guam, 96929



GOVERNMENT OF GUAM
RETIREMENT FUND
424 Route 8 • Malte, Guam 96910
T: 671.475.8900/01 • F: 671.475.8922

## NOTICE OF PUBLIC HEARING

The Government of Guam Retirement Fund (GGRF) has scheduled a Public Hearing on **Tuesday, March 14, 2017,** in the GGRF Conference Room, relative to the proposed plan documents for the following changes to Chapter 8, Title 4 Guam Code Annotated:

| | Time | Subject Matter |
|---|---|---|
| 1) | 2:30 p.m. | **Defined Contribution Retirement System** |
| 2) | 3:00 p.m. | **457 Deferred Compensation Plan** |
| 3) | 3:30 p.m. | **Defined Benefit 1.75 Retirement System** |
| 4) | 4:30 p.m. | **Guam Retirement Security Plan** |

A copy of the proposed plan documents is available for review on the GGRF website at www.ggrf.com. Copies are also available for review at the Director's Office located on the first floor of the GGRF Building, 424 Route 8, Maite, during normal business hours.

During the public hearing, any interested party in person or his authorized representative shall be afforded an adequate opportunity to participate in the formulation of the proposed plan documents.

For individuals requiring special accommodations, please contact 671.475.8900/01.

**/s/PAULA M. BLAS, Director**

*This ad is paid with government funds by Government of Guam Retirement Fund.*


Doc. No. 34GL-17-0338

# APPENDIX D

Milliman

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February 23, 2017

Ms. Paula M. Blas
Director
Government of Guam Retirement Fund
424 Route 8
Maite, Guam 96910

**Cost Estimates for P.L 33-186 (aka Bill 2-33 DB 1.75) -**
**As of September 30, 2016**

Dear Ms. Blas:

As requested, I have estimated the actuarial accrued liability and change in employer contribution rates associated with Public Law 33-186, which was Bill 2-33 (LS) as passed by the Legislature. The actuarial accrued liability and the estimated contribution rates have been calculated as of September 30, 2016, based upon the actuarial valuation for the current GGRF Defined Benefit Plan as of September 30, 2015 rolled forward one year and reflecting actual 2015-16 payroll and investment return, and defined contribution census data provided as of September 2016.

The estimated costs as of September 30, 2016, are for informational purposes only. The actual impact of P.L. 33-186 will not be known until after the end of the election period for transfers from the DC Plan to the DB 1.75 Plan. The first actuarial valuation to reflect the actual results may not be until September 30, 2018. P.L 33-186 does the following:

1. Modifies contribution rates to the existing Defined Contribution Retirement System ("DC Plan") effective January 1, 2018.

2. Establishes a new Defined Benefit 1.75 Retirement System ("DB 1.75 Plan", formerly known as the "Hybrid Plan") and provides an opportunity for current employees in the DC Plan to transfer to the DB 1.75 Plan or the Government of Guam Retirement Security Plan (see item 3) effective January 1, 2018. The DB 1.75 Plan will be closed to new employees on and after January 1, 2018.

3. Establishes a new cash balance retirement plan known as the Government of Guam Retirement Security Plan (GRSP) which will be the default retirement plan for new employees hired on and after January 1, 2018. Current employees in the DC Plan may transfer to the GRSP effective January 1, 2018.

4. Extends the period used to amortize the unfunded actuarial accrued liability (UAAL) of the Government of Guam Retirement Fund by two years from an end date of May 1, 2031 to an end date of May 1, 2033, effective January 1, 2018.

5. Provides that if the Government of Guam is authorized to extend Social Security coverage to government of Guam employees on a prospective basis, then all employees hired on or after the effective date shall be enrolled into Social Security and will not be eligible for the DB 1.75 Plan or the GRSP.

These estimated costs update and replace the previous estimates provided as of June 16, 2015, and March 20, 2016. The changes from the estimates provided as of March 20, 2016, include the following:

- Defined contribution plan census data is updated from December 2014 to September 2016.
- Estimated actuarial valuation results for the Old DB Plan as of September 30, 2016, based on the actuarial valuation as of September 2015 rolled forward to September 2016.
- Actual FY 2016 payroll of $506 million and an investment return for FY 2016 of 9.53%.
- Revised transfer rates for the "Declining Percentages by Age" scenario.
- Amortization period for funding the DB Plan UAAL is increased by 2 years.

## Defined Benefit 1.75 Retirement System (DB 1.75 Plan)

The key provisions of the DB 1.75 Plan are listed below. Appendix A compares the provisions of the current GGRF Defined Benefit Plan ("Old DB Plan") with the DB 1.75 Plan.

1. Covers DC Plan employees who elect to transfer to the DB 1.75 Plan effective January 1, 2018. For current DC Plan employees, the election window will commence on April 1, 2017 and end on September 30, 2017, although new employees hired between April 1, 2017 and December 31, 2017, have an extended window until December 31, 2017 during which they may elect into the DB 1.75 Plan. The DB 1.75 Plan is closed to new employees hired on or after January 1, 2018.

2. Provides a retirement annuity of 1.75% of a member's average annual salary (the average of the highest three annual base salaries, excluding non-base compensation) for each year of credited service at retirement age 62.

3. The minimum benefit is $1,200 per year, and the maximum is 85% of average annual salary.

4. A member shall be eligible to receive a reduced retirement annuity at age 55 and a minimum of 25 years of credited service, subject to a reduction of 0.5% per month for each month retirement precedes age 62.

5. The employee contribution rate is 9.5% of base salary. In addition, employees are required to make a pre-tax salary reduction contribution to the Deferred Compensation Program (457 Plan) equal to 1% of base salary.

6. A calculation is made of the full actuarial cost in order to credit all prior service during which employees participated in the DC Plan to the DB 1.75 Plan. The cost is converted to a percentage of past earnings, assuming 0% interest, which is shown in the chart below for each transfer scenario. Within each transfer scenario, the same percentage would apply to all members. To receive credit for prior service, an employee must pay 50% of the full actuarial cost from their DC Plan account balance derived from employee contributions (or the total employee balance if less than 50% of the cost). The employee will also remit 100% of their DC Plan account balance derived from employer contributions.

   As can be seen in the chart that follows, the full actuarial cost is dependent upon the assumption for who chooses to transfer. Who actually chooses to transfer will be dependent upon the full actuarial cost rate. In practice, a full actuarial cost rate will need to be chosen based on an assumption for transfer decisions.

The actuarial cost rates shown below have been calculated based on estimates of participant earnings histories derived from years of service and current earnings. We expect that the full actuarial cost for transferring members will be calculated by applying the actuarial cost rate selected by the Board to each member's actual earnings history. The amount of assets actually transferred to the DB Plan will differ from the expected amount to the extent that members' actual past earnings histories differ from the estimated past earnings.

Any DC Plan employee account balance remaining after the prior service buy-in is maintained in a qualified plan. Employees with DC Plan account balances that are less than the actuarial cost will receive credit for all prior service if the total DC Plan account balance is remitted, with the shortfall reflected as an increase to the UAAL of the employer. The UAAL represents the Actuarial Accrued Liability in excess of the total account balances transferred from the DC Plan. As is the case for the Old DB Plan, the DB 1.75 Plan UAAL is to be completely funded by May 1, 2033, and is amortized as a constant percentage of total payroll.

| | Actuarial Cost of Credited Service[1] | | | | | |
|---|---|---|---|---|---|---|
| ($ in millions) | 100% Transfer | 100% over Age 40 Transfer | 100% over Age 50 Transfer | Declining %'s by Age Transfer | DC less than Actuarial Cost[2] | 0% Transfer |
| Estimated full actuarial cost for past service as % of historical DC Plan compensation | 13.60% | 15.39% | 17.76% | 14.96% | 14.96% | n/a |
| Employee share of actuarial cost | 6.80% | 7.70% | 8.88% | 7.48% | 7.48% | n/a |
| Estimate of DC members with excess DC Plan employee account balances | | | | | | |
| Count | 2,588 | 1,556 | 716 | 1,783 | 1,783 | n/a |
| Excess DC assets | $30.3 | $19.4 | $11.5 | $21.6 | $21.6 | n/a |
| Estimate of DC members whose DC Plan employee account balance is less than 50% of actuarial cost | | | | | | |
| Count | 5,874 | 6,906 | 7,746 | 6,679 | 6,679 | n/a |
| Shortfall | $14.9 | $27.9 | $51.4 | $24.3 | $24.3 | n/a |
| Number assumed to transfer | 8,462 | 4,775 | 2,371 | 4,573 | 6,679 | 0 |
| Excess DC assets | $30.3 | $18.4 | $7.4 | $15.6 | $0.0 | $0.0 |

[1] *Results are based upon DC census data as of September 30, 2016, and may change based upon the census and account balance information at the time of implementation.*

[2] *Assumed to be equivalent to "Declining %'s by Age Transfer" for this purpose*

## Defined Contribution Retirement System (DC Plan)

Effective January 1, 2018, member contributions and employer contributions to the DC Plan shall each be increased from 5% to 6.2%. New employees on or after January 1, 2018 will automatically be enrolled in the GRSP but will have sixty (60) days from the date of hire to elect to participate in the DC Plan.

## Guam Retirement Security Plan (GRSP)

P.L 33-186 provides for the establishment of a cash balance plan to be known as the Guam Retirement Security Plan (GRSP).

1. Effective January 1, 2018, all new employees shall be automatically enrolled into the GRSP but will have sixty (60) days from the date of hire to elect to participate in the Defined Contribution Retirement System. Current DC Plan employees may elect to transfer to the GRSP effective January 1, 2018. The election window will commence on April 1, 2017 and end on September, 2017, although new employees hired between April 1, 2017 and December 31, 2017, will have an extended window until December 31, 2017.

2. The GRSP will provide pay credits of 6.2% by both the government and the employee.

3. The GRSP will provide a fixed annual interest credit of 4%, subject to Internal Revenue Service regulations for tax-exempt, qualified retirement Cash Balance Plans. Investment gains in excess of the 4% interest credit will be employer-owned and will be used to offset losses generated during years in which investment returns are less than the 4% interest credit.

## Contribution Comparisons

The table below compares the employer and employee costs for the various plans. The costs shown are expressed as a percentage of payroll for the members within the applicable Plans. Actual plan contribution rates are calculated as a blended percentage of total (DB Plan and DC Plan member) payroll.

| Contribution Type | Costs as a % of Plan Payroll | | | |
|---|---|---|---|---|
| | Old DB Plan | DC Plan | DB 1.75 Plan | GRSP |
| Old DB Unfunded Actuarial Accrued Liability [1] | 20.30% | n/a | n/a | n/a |
| **Employer Costs (excluding Old DB UAAL)** | | | | |
| Employer DB Normal Cost [2] | 6.81% | n/a | 2.07% | n/a |
| DC Plan | n/a | 6.20% | n/a | n/a |
| DB 1.75 UAAL [2] | n/a | n/a | 4.15% | n/a |
| GRSP [3] | n/a | n/a | n/a | 6.20% |
| Total Employer (excluding old DB UAAL) [3] | 6.81% | 6.20% | 6.22% | 6.20% |
| **Employee Costs** | | | | |
| DB Employee Contributions | 9.50% | n/a | 9.50% | n/a |
| DC Employee Contributions | n/a | 6.20% | n/a | n/a |
| 457 Deferred Compensation Plan | n/a | n/a | 1.00% | n/a |
| GRSP | n/a | n/a | n/a | 6.20% |
| Total Employee Costs | 9.50% | 6.20% | 10.50% | 6.20% |

[1] *With 2-year amortization extension. Rate is expressed as a percentage of DB 1.75 payroll.*
[2] *DB 1.75 Plan employer costs are estimated assuming 100% of DC members transfer to DB 1.75 Plan. See Exhibit 1 for other transfer scenarios.*
[3] *Old DB Plan and DB 1.75 Plan assume 7% investment return. GRSP rate shown is pay credit rate. If investment returns exceed 4%, the employer contribution rate will be lower if excess investment returns are used to reduce the contribution rate. If investment returns are less than 4%, the employer contribution rate will be higher.*

## Annual Payroll

The total defined benefit and defined contribution payroll for the 2015-16 fiscal year was $506.3 million. We have estimated that total payroll for the 2016-17 fiscal year will be $521.5 million, an increase of 3.0%, and assumed a 3.0% per year increase thereafter. Note that if actual payroll increases are less than 3.0%, contribution rates will be higher than the rates shown in this estimate.

## Exhibits and Appendices

Exhibit 1 shows the estimated cost of P.L 33-186 based upon the actuarial valuation results as of September 30, 2015 (projected to September 30, 2016), and DC Plan member census and account balances as of September 2016. It includes 6 transfer scenarios that illustrate the effect on costs and liabilities of various transfer populations. Costs and liabilities for future years will likely differ due to population changes, investment results, and actual experience that differs from the assumptions. Costs and liabilities will also vary depending upon the number of current defined contribution (DC) members who elect to transfer to the new DB 1.75 Plan or GRSP, as well as their age, service, DC Plan account balances, and the investment experience of the DC Plan accounts up to the time of transfer.

Exhibit 1 – Cost Comparison with Current Plan

Appendix A – Summary of Benefit Provisions
Appendix B – Implementation Provisions
Appendix C – Assumptions, Notes and Data Limitations
Appendix D – Glossary of Key Terms

## Caveats

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the Fund's staff. This information includes, but is not limited to, financial information, member census data, and plan provisions, and enacted legislation. We found this information to be reasonably consistent and comparable with information used for other purposes. The results of this analysis depend on the integrity of this information. If any of this information is inaccurate or incomplete the results may be different and the calculations may need to be revised.

This report is only an estimate of the Fund's financial condition as of a single date. It can neither predict the Fund's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Fund benefits, only the timing of Fund contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Except where otherwise noted in this report, this analysis is based on the September 30, 2015 actuarial valuation methods and assumptions, projected forward one year to September 30, 2016. Census data and account balances for DC Plan participants were provided as of September 2016. The results of our study depend on future experience conforming to those actuarial assumptions discussed earlier in this report.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these



Doc. No. 34GL-17-0338.

measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Fund's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and actuarial cost methods.

Milliman's work is prepared solely for the use and benefit of the Government of Guam Retirement Fund. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

(a) GGRF may provide a copy of Milliman's work, in its entirety, to its professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit GGRF.

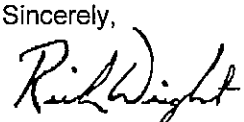
(b) GGRF may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs. The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuary is independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,



Richard A. Wright, FSA, MAAA
Consulting Actuary

RAW:jh
enc.
pl 33-186 cost estimates 2016 (final).doc

## Estimated Cost Impact of P.L. 33-186 Associated with Various Transfer Scenarios
## As of September 30, 2016
## ($$'s in millions)

| | | P.L. 33-186, including 2 year Amortization Extension | | | | | |
|---|---|---|---|---|---|---|---|
| | Current Plan | 100% Transfer | 100% over Age 40 Transfer | 100% over Age 50 Transfer | Declining %'s by Age Transfer[1] | DC less than Actuarial Cost[2] | 0% Transfer |
| **DC Participants** | | | | | | | |
| Assumed to Transfer | 0 | 8,462 | 4,775 | 2,371 | 4,573 | 6,679 | 0 |
| Not Assumed to Transfer | 8,462 | 0 | 3,687 | 6,091 | 3,889 | 1,783 | 8,462 |
| Total | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 | 8,462 |
| DC Assets Transferred to DB | n/a | $355.72 | $288.43 | $155.14 | $231.56 | $192.63 | $0.00 |
| Excess DC Assets | n/a | $30.34 | $18.36 | $7.38 | $15.61 | $0.00 | $0.00 |
| **DB 1.75 Plan (Excludes Old DB)** | | | | | | | |
| Actuarial Accrued Liability | n/a | $548.26 | $459.78 | $267.16 | $368.23 | $311.79 | n/a |
| Plan Assets | n/a | $355.72 | $288.43 | $155.14 | $231.56 | $192.63 | n/a |
| Unfunded Liability (UAAL) | n/a | $192.54 | $171.35 | $112.02 | $136.67 | $119.16 | n/a |
| **Total UAAL (Including Old DB)** | | | | | | | |
| Old DB UAAL | $1,281.96 | $1,281.96 | $1,281.96 | $1,281.96 | $1,281.96 | $1,281.96 | $1,281.96 |
| DB 1.75 Plan UAAL | n/a | $192.54 | $171.35 | $112.02 | $136.67 | $119.16 | 0.00 |
| Total UAAL | $1,281.96 | $1,474.50 | $1,453.31 | $1,393.98 | $1,418.63 | $1,401.12 | $1,281.96 |
| Total Assets (Old DB+DB 1.75) | $1,654.27 | $2,009.99 | $1,942.70 | $1,809.41 | $1,885.83 | $1,846.90 | $1,654.27 |
| Security Ratio | 56.34% | 57.68% | 57.21% | 56.48% | 57.07% | 56.86% | 56.34% |
| **Employer Contribution Rate Excluding Old DB** | | | | | | | |
| DC / GRSP Plan | 5.00% | n/a | 2.29% | 4.16% | 2.67% | 1.63% | 6.20% |
| DB 1.75 Normal Cost[3] | n/a | 2.07% | 2.03% | 1.56% | 1.65% | 1.57% | n/a |
| DB 1.75 UAAL | n/a | 4.15% | 3.69% | 2.41% | 2.95% | 2.57% | n/a |
| Blended Rate (DC + DB 1.75) | 5.00% | 6.22% | 8.01% | 8.13% | 7.27% | 5.77% | 6.20% |
| **Employer Contributions Including Old DB (prior to Amortization Extension)[4]** | | | | | | | |
| Contribution Rate | 28.11% | 29.31% | 30.59% | 30.59% | 29.99% | 28.86% | 28.99% |
| Estimated Contribution Amount | $146.60 | $152.86 | $159.55 | $159.52 | $156.40 | $150.49 | $151.20 |
| Change in Amount | n/a | $6.25 | $12.94 | $12.92 | $9.80 | $3.89 | $4.60 |
| **Employer Contributions Including Old DB (after 2-Year Amortization Extension)[4]** | | | | | | | |
| Contribution Rate | | 27.00% | 28.32% | 28.41% | 27.77% | 26.67% | 26.99% |
| Estimated Contribution Amount | | $140.83 | $147.70 | $148.15 | $144.83 | $139.07 | $140.75 |
| Total Change in Amount | | $(5.77) | $1.09 | $1.55 | $(1.77) | $(7.54) | $(5.86) |

*This work product was prepared solely for the Government of Guam Retirement Fund for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties hire their own actuary or other qualified professional when reviewing this Milliman work product.*

**Footnotes:**

1 Assumes the following transfer percentage by age: 90% of DC members age 55 and up, 80% for ages 50-54, 60% for ages 45-49, 50% for ages 40-44, 40% for ages 35-39, and 30% for ages 34 and below. Within each age group, those who transfer from the DC plan to the DB 1.75 plan are assumed to have the same average DC account balances and actuarial cost as those who don't transfer from the DC Plan to the DB 1.75 Plan.

2 Assumes that 100% of the members whose DC account balances are less than or equal to the actuarial cost of their past service attributed to DC service will transfer from the DC plan to the DB 1.75 plan. Members whose DC account balances are greater than the actuarial cost of their past service are assumed to stay in the DC plan and not transfer to the DB 1.75 Plan.

3 Normal cost rates shown here reflect the blended normal cost of the DB 1.75 Plan and the DC plan spread over the payroll of all DB 1.75 and DC plan members. This differs from the normal cost rate of the DB 1.75 plan expressed as a percentage of the payroll of DB 1.75 plan members. With everything else equal, the normal cost rate of the DB 1.75 Plan expressed as a percentage of the payroll of members who transfer to that plan will increase as the average entry age of the transferring population increases.

4 Assumes annual payroll of $521.5 million for the 2016-17 fiscal year.

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## Appendix A. Summary of Benefit Provisions

Below is a comparison of the plan provisions of the Old DB Plan and the DB 1.75 Plan. The provisions shown for the Old DB Plan are those provisions applicable to employees who became members on or after August 22, 1984. In the DB 1.75 Plan, there is no distinction between Uniformed and Non-Uniformed Personnel.

| | OLD DB PLAN | DB 1.75 PLAN |
|---|---|---|
| **Eligibility** | Employees hired on or before 9/30/95, who haven't previously transferred to the DC Plan | Employees currently in the DC Plan and hired prior to January 1, 2018 have the option of transferring to the DB 1.75 Plan |
| **Benefit Formula** | 2.0% of Average Annual Salary for each year of service up to 10 years, plus<br>2.5% of Average Annual Salary for each year of service over 10 years, plus<br>$20 multiplied by years of service, reduced by 0.01% of Average Annual Salary in excess of $6,000<br>Minimum: $1,200 per year<br>Maximum: 85% of Average Annual Salary<br>Unused sick leave is added to years of service upon retirement. | 1.75% of Average Annual Salary for each year of service<br>Minimum: $1,200 per year<br>Maximum: 85% of Average Annual Salary<br>Unused sick leave is added to years of service upon retirement. |
| **Average Annual Salary** | Highest 3 year average<br>Minimum: $6,000 per year | Highest 3 year average<br>Non-base compensation is excluded. |
| **Unreduced Retirement** | Age 65 or 30 years of service, or age 60 and 15 years of service, if uniformed personnel | Age 62<br>Maximum benefit of 85% is achieved with 49 years of service |
| **Reduced Retirement** | 25 Years of Service<br>Reduction: 3% per year early | Age 55 and 25 Years of Service<br>Reduction: 6% per year early |
| **Survivor Benefits** | | |
| **Spouse** | 60% of member's benefit<br>Minimum: $1,200 per year | Same as Old DB Plan |
| **Child** | $2,880 per year per surviving child | |
| **Add'l lump sum** | $1,000 | |

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| | OLD DB PLAN | DB 1.75 PLAN |
|---|---|---|
| **Disability Benefit** | 66-2/3% of the average of the highest three years of salary | 50% of the average of the highest three years of salary |
| **Vesting** | 5 years of service | Same as Old DB Plan |
| **Automatic Increases** | | |
| **Retirees/Survivors** | Annual Amount / Annual Increase<br>$ 0-3,500 / $600<br>3,500- 6,300 / 400<br>6,300-10,100 / 300<br>Over 10,100 / 200 | Same as Old DB Plan |
| **Disabled** | $ 0-3,000 / $300<br>3,000-6,000 / 250<br>6,000-10,000 / 200<br>Over 10,000 / 100 | |
| **Employee Contribution** | 9.5% of compensation | 9.5% of compensation |
| **DC Plan Contribution** | Employee: None<br>Employer: None | Employee: None<br>Employer: None |
| **457 Plan** | Employee: Voluntary<br>Employer: None | Employee: Mandatory 1%<br>Employer: None |
| **DC Plan Transfer** | n/a | Employee account<br>Lesser of:<br>100% of account balance, or a percentage of historical DC Plan compensation determined by the actuarial cost of credited service<br><br>Employer account<br>100% of account balance excluding Transfer Incentive amounts |

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## Appendix B. Implementation Provisions

1. **Participants in the Old DB Plan** will remain in the DB plan with no change in benefits.

2. Current **DC Plan Participants will have the option to transfer** to the DB 1.75 Plan or the GRSP and receive benefits with respect to past and future service.

    a. Current DC Plan participants who transfer to the DB 1.75 Plan or the GRSP must transfer their DC account balance to the new plan. For transfers to the GRSP, the entire DC account balance will be transferred and will become the balance in the new plan.. For transfers to the DB 1.75 Plan, a calculation is made of the full actuarial cost in order to credit prior service to the DB 1.75 Plan. If the DC Plan employee contribution account balance is greater than 50% of the calculated actuarial cost, the excess will be maintained in a qualified plan. If the DC Plan employee contribution account balance is less than or equal to 50% of the calculated actuarial cost, the entire employee contribution account balance will be transferred to the DB 1.75 Plan, and any shortfall will be amortized as part of the DB 1.75 Pan Unfunded Actuarial Liability. The entire DC Plan employer contribution account balance will be transferred to the DB 1.75 Plan, with the exception of any Transfer Incentive balance under GCA 8209.1(b).

    b. DC Plan participants who had previously withdrawn a portion of their DC Plan account balance will have the option to elect to repay amounts previously withdrawn, including the government's contribution paid to them, with interest.

    c. The decision to transfer to the DB 1.75 Plan and the decision to repay amounts previously withdrawn must be made concurrently.

3. **DC Plan participants who elect to transfer** their DC account balance to the DB 1.75 Plan will be credited with the appropriate years of service for DB 1.75 Plan benefits.

    a. Participants who have not withdrawn any of their DC Plan account balance will be credited with all of their years of DC service in the DB 1.75 Plan.

    b. Participants who have withdrawn a portion of their DC Plan account balance, and have not repaid the amount, will only receive partial credit for DC plan service.

        i. The reduced DC plan service will be in proportion to the amount of the withdrawal.
        ii. If the amounts withdrawn are repaid, the Participant will be credited with all years of DC plan service.

4. **DC Plan participants who do not elect to transfer** to the DB 1.75 Plan or the GRSP will retain their DC Accounts and continue participation in the DC Plan. The Employee and Employer contribution rate will each be increased to 6.2% effective January 1, 2018.

5. For the DB 1.75 Plan, there is a **1% mandatory contribution** to the 457 Plan in addition to the 9.5% mandatory contribution to the DB 1.75 Plan.

6. **New Employees** hired on or after January 1, 2018, will be automatically enrolled in the GRSP, but may elect within 60 days of hire to be in the DC Plan.

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## Appendix C. Assumptions, Notes and Data Limitations

In estimating costs we made the following assumptions:

1. The actuarial cost method and assumptions were those reflected in the actuarial valuation of the DB plan as of September 30, 2015, as documented in Appendix B of the actuarial valuation report, with the exception of the return of contributions assumption. Participants in the DB 1.75 Plan who terminate employment with less than 20 years of service are assumed to retire at age 60 rather than elect a return of contributions. Liabilities have been valued as of September 30, 2016, with DB 1.75 Plan provisions applied effective as of that date. Variability of DC account balances due to actual investment returns different from the assumed return could impact the actual UAAL upon implementation.

2. The estimated costs assume future investment returns of 7% per year after September 30, 2016. If investment returns don't meet the actuarial interest rate assumption, the estimated costs will rise.

3. The estimated costs assume that the total GovGuam payroll for DB and DC will increase 3.0% per year. If the overall payroll increases are less than 3.0%, the estimated contribution rates will rise.

4. The cost and liability estimates reflect the updated DC census population provided to us as of September 2016. This data included 8,462 active members. Earnings were inferred from the annual contribution amounts.

5. Administrative expenses for the DB 1.75 Plan were assumed to be 5% of total normal cost (including expenses).

6. The actuarial cost for past service for each transfer scenario was calculated as the difference between the present value of future benefits payable under the DB 1.75 Plan taking into account GovGuam service prior to the valuation date and the present value of future benefits reflecting only future service for participants assumed to transfer, divided by estimated historical DC plan compensation for those participants.

7. For participants with DC employee contribution account balances that exceeded their DC employer contribution account balances, with a DB after-tax contribution account balance of zero, a rollover was assumed to have been made from another plan, and the rollover amount (i.e., the excess of the employee account over the employer account) was excluded from the amount assumed to be transferred to the DB 1.75 Plan. The total amount excluded was $0.8M.

8. Members were assumed to have commenced DC plan participation on the later of the member's hire date and October 1, 1995.

9. Missing or unreasonable hire dates/birth dates were estimated assuming that the member was hired at age 30.

10. Members for whom gender was not provided were assumed to be male.

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## Replacement Ratio

The DB 1.75 formula provides a maximum benefit of 85% of Average Annual Salary for members with 49 years of service. Members with less than 49 years of service will have a lower benefit rate. For most retirees, replacement ratios of 80% to 100% are required for a retiree to maintain their standard of living in retirement. Therefore, retirees may need to supplement their income through additional savings, other retirement plans, or working during retirement.

## Data Limitations

This report is based upon DC census data we received on 8,462 active members of the current DC plan. This data did not include information relating to withdrawals from member accounts. To account for a portion of the impact of withdrawals, for members whose employee contribution account balances were less than their employer contribution account balances (excluding Transfer Incentive amounts), we prorated the service credited under the DB 1.75 Plan by the ratio of the employee balance to the employer balance.

For members who transferred to the DC Plan from the Old DB Plan whose employee account balance was less than the employer account balance (excluding Transfer Incentive amounts), indicating a withdrawal of Old DB Plan employee contributions, we credited service under the DB 1.75 Plan only from the assumed DC Plan participation date.

Transfer incentive balances were not included in the 9/30/16 census data. To estimate these balances, we accumulated the balances provided in the 9/30/15 census data with a 7% assumed investment return.

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## Appendix D. Glossary of Key Terms

**Actuarial Accrued Liability.** The Present Value of Future Benefits allocated to past service in accordance with the actuarial cost method.

**Actuarial Cost Method.** A method of allocating the present value of benefits to past and future periods. Actuarial cost methods take into consideration the effect of wage inflation.

**Actuarial Gains and Losses.** Changes to the Actuarial Accrued Liability due to deviations from the actuarial assumptions. These can include gains and losses from investments, employee turnover, disability, retirement, mortality, and administrative expenses.

**Actuarial Value of Assets.** A method of valuing Fund assets that recognizes gains and losses that occur in the market value of assets over a period of years rather than immediately.

**Normal Cost.** The value of benefits earned for one year of service. The normal cost is calculated in accordance with the actuarial cost method. The accumulation of all normal costs assigned to past service equals the Actuarial Accrued Liability.

**Present Value of Benefits.** The sum of all benefits expected to be paid in the future by the retirement system, with the payments discounted to the present using the valuation interest rate. This includes benefits to be earned in the future for current employees.

**Present Value of Future Normal Cost.** The sum of all future normal costs expected for current employees, with the costs discounted back to the present using the valuation interest rate.

**Security Ratio.** The percentage of the Actuarial Accrued Liability that is funded by the Fund assets. A plan with assets equal to the Actuarial Accrued Liability will have a security ratio of 100%.

**Unfunded Actuarial Accrued Liability.** The dollar value of the Actuarial Accrued Liability that exceeds the Actuarial Value of Assets. A fully funded plan will have no unfunded actuarial accrued liability.

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