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Honorable Benjamin J. Cruz
Vice Speaker
31st Guam Legislature
155 Hesler Place
Hagatna, Guam 96910

Dear Mr. Vice Speaker,

Thank you for meeting with me yesterday morning to discuss the alternative proposals provided by the Retirement Fund (GGRF). Unfortunately, we did not receive a copy of the Actuary's analysis to GGRF's Alternatives to further our review. As you have already heard, Governor Calvo opposes the 'Furlough Fridays' suggestion.

I brought the compromise you and I discussed yesterday before the Governor for his clearance. He has agreed with you on the implementation of a smaller early retirement program. He also agreed to the 10-year temporary extension of the amortization period. This essentially will move the pension fund deadline from 2031 to 2036.

The administration is interested in components of the alternative plans GGRF Director Paula Blas provided to you on October 5. While *Optional Retirement Alternatives 1 & 2* are not early retirement programs and will not help the situation, we do appreciate and wish to pursue the *ERIP Alternative*, found on Page 2 of Ms. Blas' letter (see attached). This alternative proposal states:

Implement an Early Retirement Incentive Program to members who are within five (5) years of reaching full retirement service. Members will only be allowed to purchase years of creditable service that would bring them to full retirement service. For instance, if a pre-1981 member had 22 years of service, the member would only be allowed to purchase an additional three (3) years of creditable service to retire at 25 years without penalty.

To be eligible for the ERIP, members must have at least 20 years of service as of October 1, 2012. No promissory notes will be issued for payment of service credit and the government's share must also be paid. All contributions must be paid no later than September 30, 2013 for an effective retirement date of October 1, 2013. While this proposal reduces the number of eligible members to about 600, this proposal would cost the government an additional $4.2 million in employer contributions annually.

This reduction in population of eligibles was based on the change from having all qualified members with 20 years of creditable service to the same members but only to those who are within 5 years of full retirement (without penalty). This Alternative also removed the liability associated with qualified members who could retire and not be penalized. Based on prior calculation by the Department of Administration and adjusting for the ERIP Alternative, the estimated total annual payroll savings after backfilling is at $18.9 million.

To blunt the effect of an increased contribution rate due to the mandatory pay-off period, we must also extend the amortization period. This is why we also support a small component of *Alternative I*, which starts in Ms. Blas' letter on Page 2 and continues on Page 3.

The *portion* of this alternative proposal we agree with is contained within section *B.* of this alternative. Section *B.* advocates for the passage of Bill No. 453-31, which extends the amortization period of the remaining liability for the pension fund by five years. It also will create a hybrid retirement system. At this point, we have preliminary reservations about the creation of a hybrid system, but we do agree with the GGRF about the extension of the amortization period but at a 10-year temporary extension period, which essentially is a five-year extension to 2036.

GGRF's actuarial (Milliman) analysis of September 18, 2012 (Exhibit 1) provides a comparison on the contribution rate between the "5 year extension" and "10 year temporary extension." Both provide a fully-funded plan by 2036. The 10-year extension provides a temporary relief to the General Fund for the first 5 years and then catches up in the next 19 years. The FY2013 savings should be placed in reserve to pay for employer contributions on GGRF's *ERIP Alternative*. This is how we will pay for the full package. These proposals must be authorized together however the implementation period would be different. The ERIP will be effective in FY2014 and the amortization extension should be effective upon enactment. While we realize this curtails maximum savings in Fiscal Year 2013, we can look forward to full savings by FY2014, on top of the substantial savings we still will realize this fiscal year.

We appreciate this opportunity to discuss this administration's proposal to address the fiscal realities of our government. While this compromise, if accepted by the full legislature, represents only a fraction of the spending cuts the Governor needed from the legislature, this is a step in the right direction. We ask for senators to continue finding ways to cut spending that must be authorized by law. The Governor and his fiscal team are committed to finding solutions to the fiscal challenges we are facing.

Thank you for your time and cooperation.

Sincerely,

JOHN RIOS

Attachments

cc: Governor
Lt. Governor
Chief Fiscal Advisor
Director of Administration
All senators
Director, GGRF