OFFICE OF PUBLIC ACCOUNTABILITY
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Honorable Benjamin J.F. Cruz
Vice Speaker and Senator
Chairman, Committee on General Government Operations and Cultural Affairs
32nd Guam Legislature
155 Hesler Place
Hagatna, Guam 96910

Re: Bill No. 394-32 An Act to Create a New "Hybrid" Retirement System with Mandatory Participation by Government of Guam Employees Hired After December 31, 2014

Hafa Adai Vice Speaker and Senators:

OPA applauds the Retirement Fund Board of Trustees, Vice Speaker Cruz and the late Senator Ben Pangelinan for finally addressing the plight of the nearly 8,000 Government of Guam employees in the Defined Contribution (DC) Plan via Bill No. 394.

In our past two Citizens Centric Reports, OPA has stated that among the challenges this government faces is that DC employees' retirements are at risk. DC employees do not have a retirement safety net, as they are not members of Social Security and do not have some form of retirement annuity. DC employees only have their 5% contribution and the government's 5% match for their future retirement. According to Retirement Fund officials, the average DC retirement balance is $40,000, just over half the average retirement fund balances in the states or $77,000.

The hybrid plan for all intents and purposes is a Defined Benefit (DB) plan for DC employees with a 1% mandatory savings contribution; hence the term hybrid.

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However, because the plan is less generous than the current DB plan, another major component should be Social Security. GovGuam employees should have the opportunity to become members of the federal Social Security system.

Senator Mike San Nicolas via a legislatively passed resolution is working with our Congresswoman Madeleine Bordallo to have our government employees become eligible to join Social Security. The passage of Bill 394 should not be "an either/or" proposition of the hybrid plan **or** social security but rather **the hybrid plan plus Social Security.**

The federal government together with the majority of the states have supplemented their federal and state retirement systems with Social Security as a major component. One state that did not is Michigan. If you have been following the Detroit bankruptcy, two of the biggest questions are how much will pensions of retired city workers be cut and how much of the cut will be absorbed by current employees? Detroit City employees are not eligible for Social Security.

Another jurisdiction closer to home is the CNMI. Those retirees have had to absorb significant retirement adjustments and current employees only recently became members of Social Security.

The May 2014 Milliman Report states the following under Replacement Ratio (Page 12 of the report):

> "The Hybrid 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 main their standard of living in retirement. Therefore, retirees may need to supplement their income through additional savings, other retirement plans or working during retirement."

Social Security is the other retirement plan.

Today's millennial generation is mobile and not expected to work 30 to 40 plus years in any one area, much less 49 years. Not having Social Security during their working years will put them further at risk in retirement.

By joining Social Security, future GovGuam retirees will not be subject to the Windfall Elimination Provision should they choose to work in the private sector or other areas to supplement this new GovGuam retirement.

Social Security is intended to replace only a percentage of a worker's pre-retirement earnings. Lower paid workers get a higher return than highly paid workers. It is these lower paid workers that our government should ensure are not at risk in retirement.

There will be additional costs to join Social Security, as the FICA employer share is 6.5%. Presently the government's match is 5% to the DC plan. If the 5% match were diverted to social security there would be an additional 1.5% employer expense of eligible employees payroll.

Also, according to the Milliman report, if there is a 100% transfer of DC employees the unfunded liability would increase from $1.442 billion to $1.561 billion an increase of $118.6 million. Contrary to popular belief, the retirement contribution would decrease slightly to 29.3%. (Page 5 of the report)

Bill 394 is the first major bill to address the inequity in retirement for DC employees. I urged the Senators **not** to make Bill 394 the only retirement option but to enhance government retirement with Social Security and join the federal government together with the majority of states who have social security as part of the total retirement package.

Thank you, for giving me the opportunity to testify on this very important bill.

Senseramente

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