GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OF THE VIRGIN ISLANDS
"Contributing today for a better tomorrow"

January 16, 2018

The Honorable Stacey E. Plaskett
Delegate to Congress
U.S. House of Representatives
331 Cannon House Building
Washington, D.C. 20515

Dear Delegate Plaskett:

Thank you for taking time out of your busy schedule on January 17, 2018, to meet with the Government Employees' Retirement System (GERS). Presenting with me are Wilbur Callender, M.D., Chairman of the GERS Board of Trustees, Cathy M. Smith, General Counsel, Bruce Thomas, Investment Officer, and our Actuaries Leon "Rocky" Joyner and Aldwin Frias of Segal Consulting.

Since our meeting on November 8, 2017, there have been significant developments. The two natural disasters Irma and Maria, as you are aware, caused major devastation to the Virgin Islands' economy and the liquidity of the GERS. The plan sponsors, which include the central government and autonomous agencies, have been unable to make timely employer contributions payments and remit employee contributions and loan deductions since the end of May 2017. This has hastened our forecasted insolvency.

In the first segment of our presentation, we will briefly present an overview of the GERS and update you on the ramifications of the effects of Hurricanes Irma and Maria. The untimely payments of contributions results in a monthly shortfall of $10 million representing the difference between the contributions collected and the benefits payments and administrative expenses.

As discussed in our last meeting, if there is not a significant infusion of cash to the GERS, the Fund will run out of liquid assets sooner than the projected date of February 2023, because of the ongoing situations stated in the paragraphs above. Over the past 12 years, we have proposed, and the legislature has passed major reforms. However, at the same time, since 1991, the plan sponsor and the legislature have shown an unwillingness to fund the System on an actuarial reserve basis in the amount of $1.6 billion.

We are aware of the Butch-Lewis Act introduced in November 2017 by Senator Sherrod Brown, D-Ohio, and Congressman Richard Neal, D-Mass., that would allow struggling multiemployer pension plans to borrow money at low interest rates to remain solvent. Also, during our stay in Washington, D.C, we will visit with Hank H. Kim, Esq., Executive Director and Counsel, National Conference on Public Employee Retirement Systems (NCPERS), and Diane Oakley, Executive Director, National Institute on Retirement Security. Although we understand the national political climate, and the level of discussions a precedent-setting loan program for critical and declining *public* pension plans especially to the territory will bring to the table, without a significant infusion of cash to the GERS, the Fund will become insolvent. Annuity payments will decline to 50% or less. The GERS represents approximately 25% of the GDP of the Virgin Islands. To allow the system to become insolvent will have a devastating economic effect on the retirees and the overall economy of the territory.

In conclusion, H.R. 1– "Tax Cuts and Job Act" will contribute significantly to the decrease in revenues to the Virgin Islands Treasury because of the "mirror theory" of taxation. The Virgin Islands tax structure mirrors the IRS Code. With the substantial changes to the taxation of businesses and individuals in the "Tax Cuts and Jobs Act", there will be a decrease in collection of general fund revenues, thereby, affecting the ability of the central government to meet its obligations to the GERS.

Sincerely,

Austin L. Nibbs, CPA, CGMA
Administrator/CEO

cc: GERS Board of Trustees
Wilbur K. Callender, M.D., Chairman
Cathy M. Smith, Esq., General Counsel
Bruce Thomas, CFA, CAIA, CIPM, Investment Officer
Leon "Rocky" Joyner, ASA, FCA, MAAA, EA, Vice President and Actuary, Segal Consulting
Aldwin Frias, FSA, FCA, MAAA, EA, Senior Vice President and Actuary, Segal Consulting

Government Employees' Retirement System

of the Virgin Islands of the United States

Presentation to

Congresswoman Stacey E. Plaskett

Washington, D.C.

January 17, 2018

About the GERS

- The Government Employees’ Retirement System (GERS) was enacted by the Third Legislature of the Virgin Islands on June 24, 1959, by Act 479, which created the Employees’ Retirement System as a ***defined benefit pension plan***. On October 1, 1959, the System started operations and contributions by employees and the plan sponsor began.

- The statute that governs the operations of the GERS is Title 3, Chapter 27 and 28 of the Virgin Islands Code. The statutory mandate of the GERS is to enroll employees into the System within thirty (30) days of service, as a condition of their employment.

Purpose of the GERS

The GERS pension plan is a ***defined benefits plan*****.** The objective of the GERS is to encourage employees who enter the System ***to remain in the service of the Government by establishing an orderly means*** whereby those members who became superannuated or incapacitated as a result of disability may retire without suffering economic hardship.

Composition of the GERS Board of Trustees

- Seven (7) members serve on the GERS Board of Trustees
  - Two (2) Retirees (elected, one each district*).
  - Two (2) Central Labor Council Representatives (one from each district*).
  - Two (2) Active Members or Private Sector (one from each district*).
  - One (1) Active Member or Private Sector (from St. John).
- Tenure – Five (5) year term, no more than two (2) terms.

*Districts: St. Thomas/St. John
St. Croix

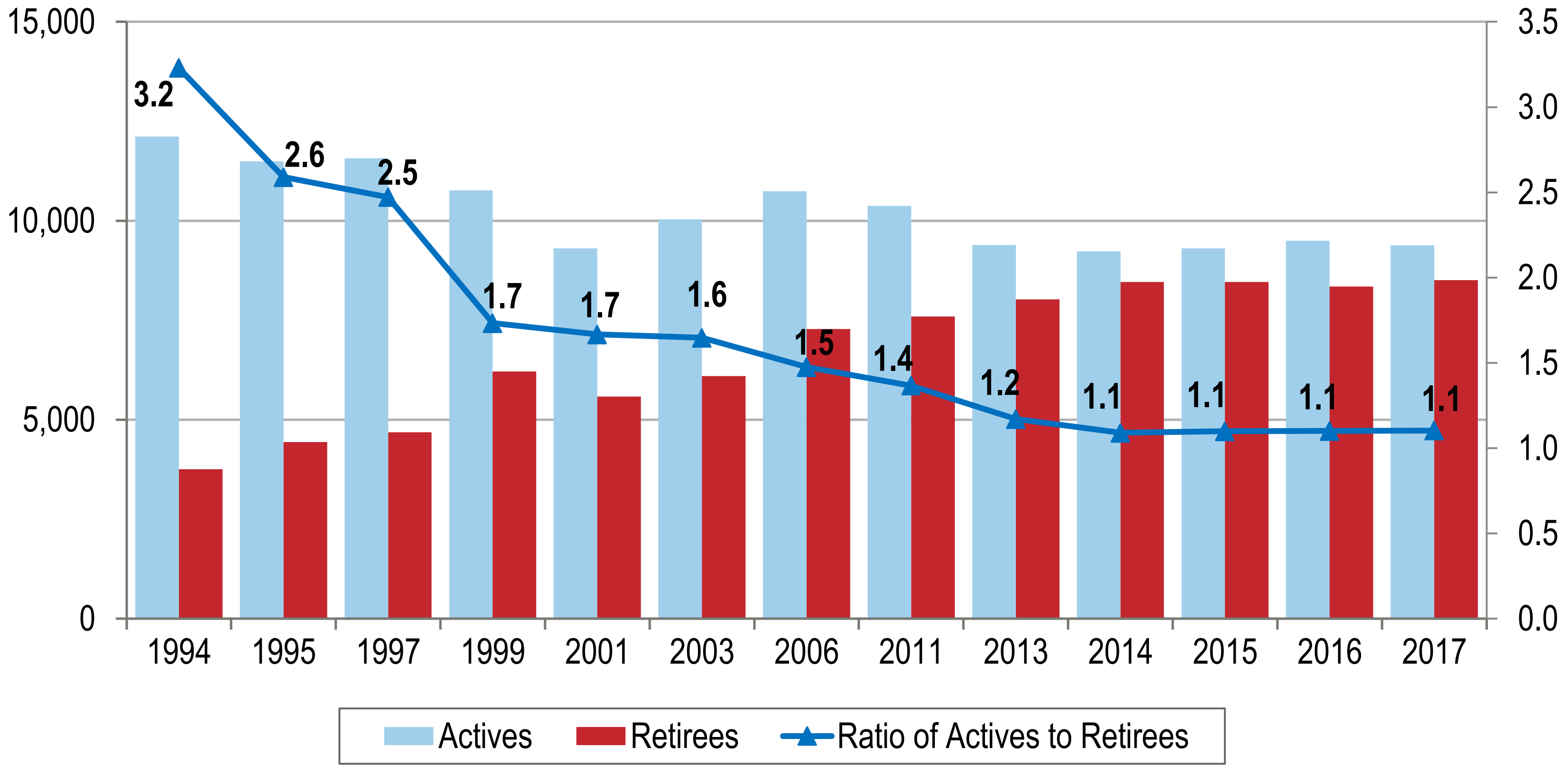
Qualifications to serve as a member of the GERS Board of Trustees

Five (5) years experience and a Bachelor's Degree in any of the following:

- Investment Banking
- Economics
- Finance
- Insurance
- Law
- Medicine
- Accounting
- Actuarial Science
- Taxation
- Real Estate Appraisal
- Brokerage and Securities Trading

GERS' Membership

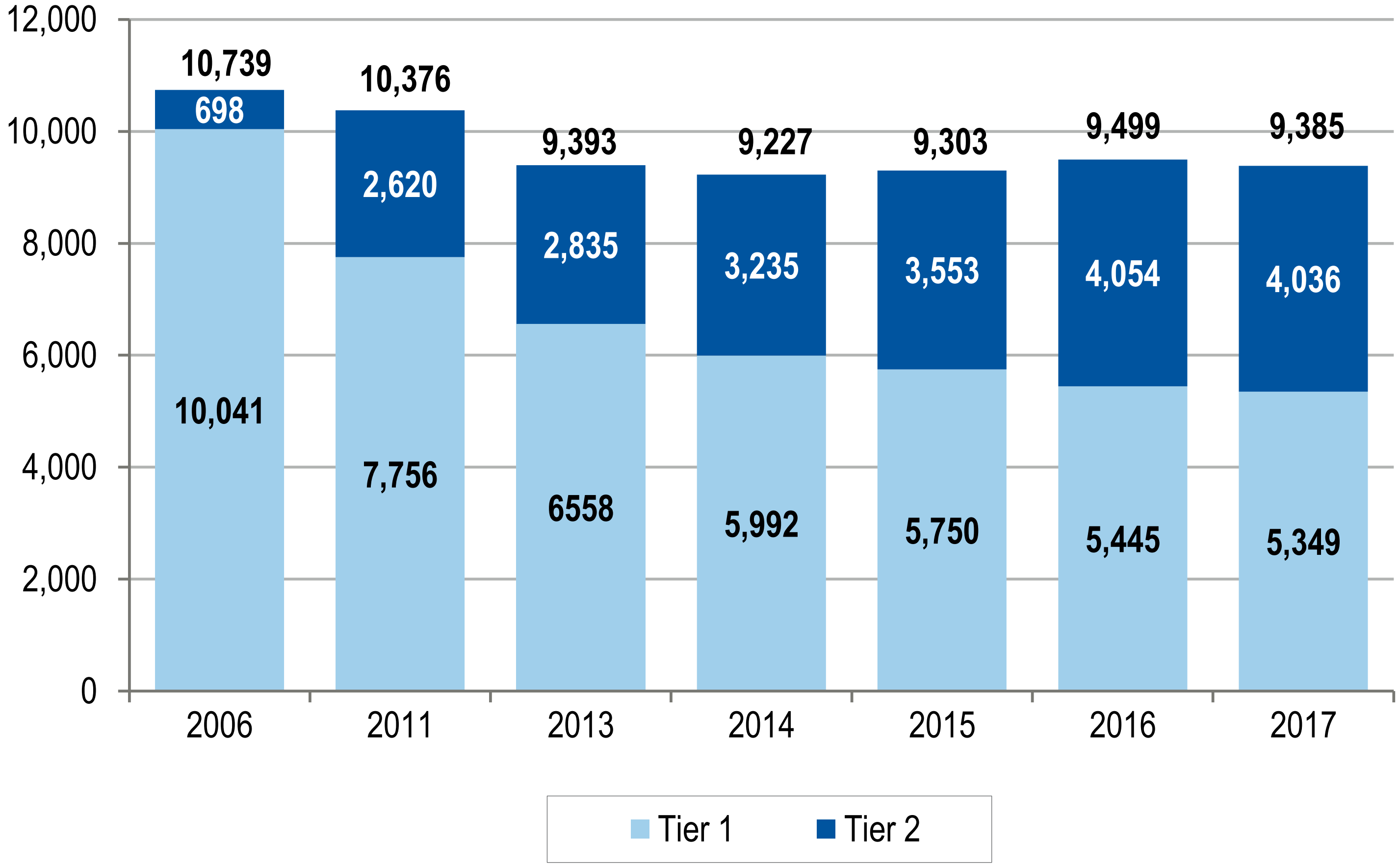
Membership Data
Active Employees and Retirees



The significant decline in the ratio of actives to retirees since 1994 indicates a smaller contribution base supporting the payment of benefits and expenses.

GERS' Membership

Active Membership: 2006 - 2017



The Tier 2 provisions are applicable for those employees hired on or after October 1, 2005.

Statutory Contributions

<u>TIER I</u>

Regular Employee – 11%.
Maximum compensation used for contributions is $65,000.00 (3 VIC 702(n)).

Early Retirement Program Employee (*Hazardous/Class 3)*–13%.
Maximum compensation used for contributions is $65.000.00 (3 VIC 702(n)).

Legislators-12% (Percentage of annual salary).

Judiciary-14% (Percentage of annual salary).

Statutory Contributions cont'd

TIER I – Virgin Islands Economic Stability Act (VIESA) - Act No. 7261

Act No. 7261, Section 7(k), required the contribution rate for Tier I employees who had 30 years or more of credited service and elected not to retire, to increase an additional 3% of their salary effective October 1, 2011. The increase included all classes of Tier I members. Further, in accordance with the November 20, 2014 Board of Trustees meeting, the Board increased the employee contributions for all members who elected not to retire under Act No. 7261 by 1% each year effective January 1, 2015.

Regular Employee - 14%

Early Retirement Program Employee (*Hazardous/Class 3*)–16%.
Maximum compensation used for contributions is $65.000.00 (3 VIC 702(n)).

Legislators - 15% (Percentage of annual salary)

Judiciary - 17% (Percentage of annual salary)

Statutory Contributions

<u>TIER II</u>

Regular Employee – 11.5%.
Maximum compensation used for contributions is $65,000.00
(3 VIC 751(a) (10)).

Early Retirement Program Employee (*Hazardous/Class 3)*–13%.
Maximum compensation used for contributions is $65,000.00
(3 VIC 751(a) (10)).

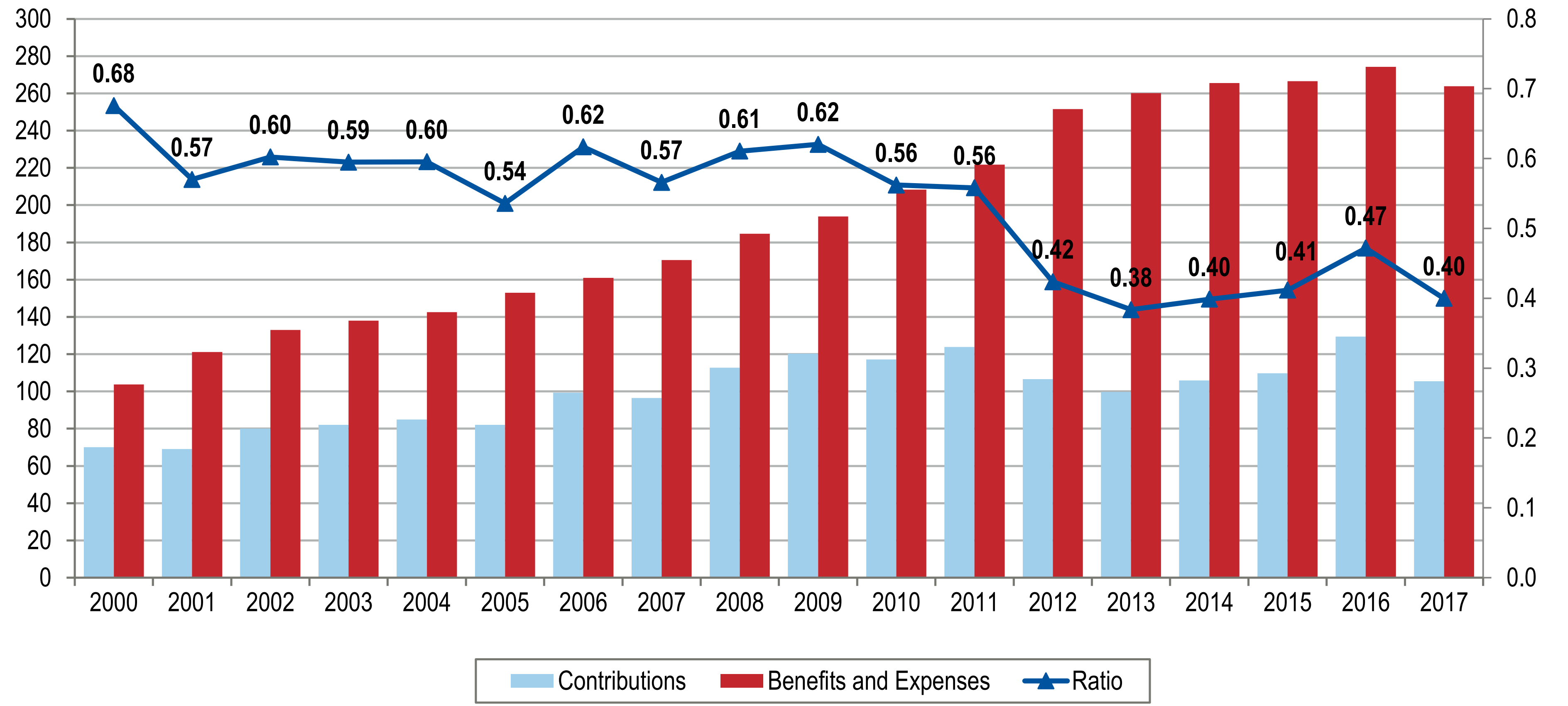
Legislators-14% (Percentage of annual salary).

Judiciary-15% (Percentage of annual salary). Rate established effective October 26, 2015 pursuant to Title 3 VIC Chapter 28A **§**770(1).

Employer Contributions – 20.5% effective February 5, 2015.
Increase to 23.5% in 2020.

Contribution Levels and Funding Ratio

Contributions and Benefit Payments
(in $Millions)



For the past 18 years, the System has had negative cash flows.

Main causes of the Unfunded Liability

- Nine (9) Unfunded Mandates
- Shortfall in the Actuarily Determined Employer Contributions (ADEC)

UNFUNDED LEGISLATIVE MANDATES

UNFUNDED MANDATES		ACT NO.	YEAR
Legislative Mandates			
Omnibus Authorization Act of 1984	15th	4877	10/25/1983
To Provide for Early Retirement of Dept. of Education Personnel	15th	4896	2/21/1984
Early Retirement Incentive Training & Promotion Act of 1994*	20th	6007	8/16/1994
To Extend Act 6007	21st	6088	12/5/1995
To Provide Early Retirement Benefits Options & To Reduce Expenditures	23rd	6361	10/19/2000
To Increase Retirement Benefits for Superior Court Judges	23rd	6391	2/1/2001
To Fund Salary Increases for Retirees & Eligible Employees	24th	6415	6/18/2001
To Place Employees on Step	24th	6427	6/19/2001
Expansion of Eligible Members of Early Retirement Program	24th	6429	9/24/2001

*Based on review conducted by the U.S. Inspector General, the GERS lost $121 million in contributions because of this legislation. The Legislature appropriated and GERS was paid a total of $31 million resulting in a loss of $90 million in contributions.

Actuarially Determined Employer Contributions (ADEC)

Audited Plan Year Ended September 30,	Actuarially Determined Contributions	Contributions Received		Contributions Due	% Contributed
1991	48,659,324	38,169,889		10,489,435	78.44%
1992	48,123,177	34,850,312		13,272,865	72.42%
1993	47,181,730	38,632,619		8,549,111	81.88%
1994	46,856,812	39,353,600		7,503,212	83.99%
1995	55,089,820	50,944,748		4,145,072	92.48%
1996	58,128,608	46,075,378		12,053,230	79.26%
1997	58,251,171	47,703,717		10,547,454	81.89%
1998	62,578,121	45,984,661		16,593,460	73.48%
1999	62,237,129	45,148,387		17,088,742	72.54%
2000	64,992,493	44,078,554		20,913,939	67.82%
2001	64,179,332	43,387,158		20,792,174	67.60%
2002	95,186,021	50,594,531		44,591,490	53.15%
2003	117,124,599	51,588,235		65,536,364	44.05%
2004	108,358,399	54,084,454		54,273,945	49.91%
2005	120,184,848	51,542,030		68,642,818	42.89%
2006	131,059,471	65,061,430		65,998,041	49.64%
2007	137,797,268	60,778,382		77,018,886	44.11%
2008	138,488,871	75,871,146		62,617,725	54.79%
2009	147,490,851	80,177,004		67,313,847	54.36%
2010	157,817,709	77,004,630		80,813,079	48.79%
2011	162,841,336	80,849,762		81,991,574	49.65%
2012	178,644,349	66,677,155		111,967,194	37.32%
2013	172,439,842	64,431,322		108,008,520	37.36%
2014	189,715,251	68,298,617		121,416,634	36.00%
2015	200,089,791	72,287,934		127,801,857	36.13%
2016	247,158,137	86,346,838		160,811,299	34.94%
2017	250,574,023	80,723,102	*	169,850,921	32.22%
Totals	$ 3,171,248,483	$ 1,560,645,595		$ 1,610,602,888	

* = Projected

6% Lost Investments	$ 96,636,173
Balance Due	$ 1,707,239,061

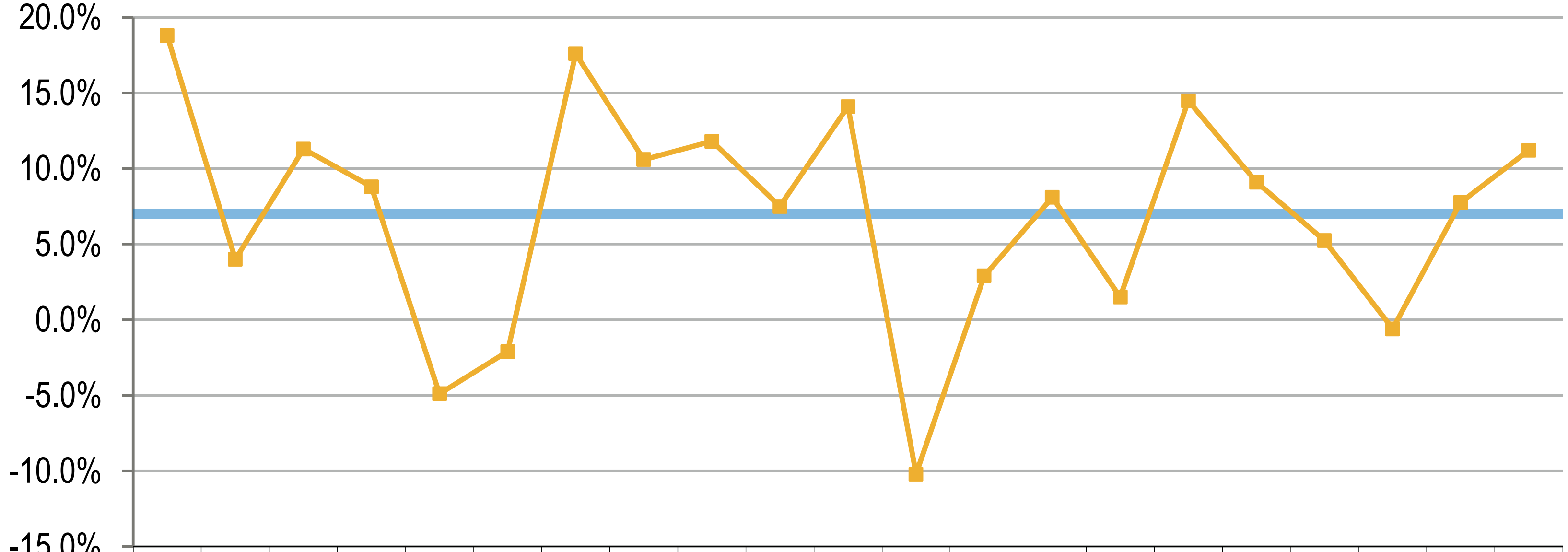
Unfunded Liability

Long Term Funding vs. Accounting Liabilities as of October 1, 2016

	7.00% Discount Rate	GASB Blended Rate of 3.20%
Actuarial Accrued Liability	$3.62 Billion	$5.54 Billion
Actuarial Value of Assets (AVA)	$0.92 Billion	$0.92 Billion
Unfunded Accrued Liability (based on AVA)	$2.70 Billion	$4.63 Billion
Funded Percentage	25.3%	16.5%

Investments

Market Rates of Return

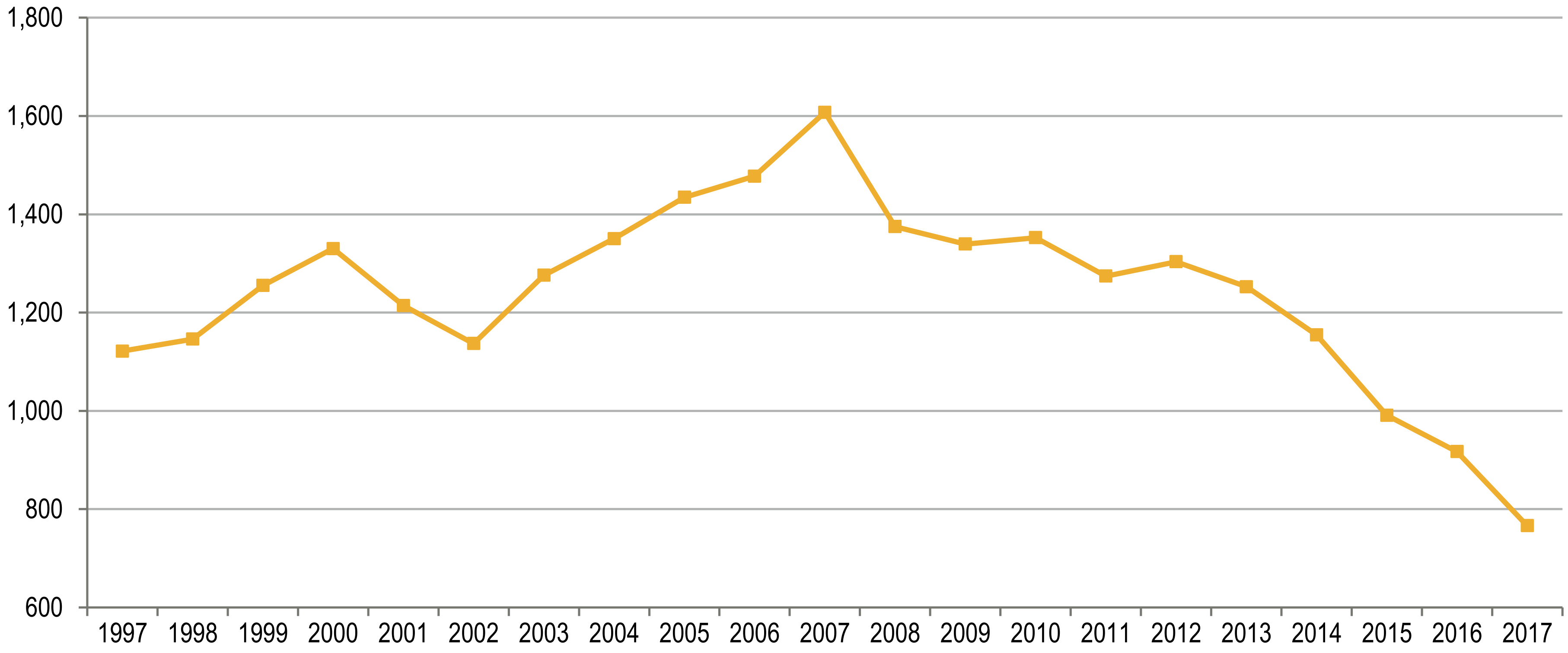


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Market	18.8	4.0%	11.3	8.8%	-4.9%	-2.1%	17.6	10.6	11.8	7.5%	14.1	-10.2	2.9%	8.1%	1.5%	14.5	9.1%	5.2%	-0.6%	7.8%	11.2

Average Market Rate of Return		
Period	**Time-Weighted**	**Dollar-Weighted**
Current Assumption	7.0%	7.0%
1997-2016	6.8%	6.4%
1997-2006	8.3%	8.0%
2007-2016	5.2%	4.9%

Investments

Market Value of Assets
(in $Millions)



The Market Value of Assets has declined more than 50% since 2007

Major Reforms passed since October 2005

- Indefinite suspension of the retiree COLA. Savings about $3M annually.
- Tier II – Increased contributions/Reduced benefits.
- All employee and employer contributions must be paid before an annuity can be issued.
- Limits redeposit of withdrawn refunds plus interest and lost investments to 5 years if on an installment basis.
- Limit the amount of service retirement annuity to 600 hours and a period of time not to exceed two (2) years.
- Increased retirement age to 65 years.
- Members not eligible for refunds if vested.
- Increased credited service from 20 years to 25 years, and not eligible for annuity until age 58, or 60 years and at least 10 years of service for hazardous employees.
- Increased Tier I and Tier II employee’s contributions 1% each year for 3 years.
- Increased the employer contribution in 2008 from 14.5% to 17.5% and in 2015 from 17.5% to 20.5%.
- Increased in Judges and Legislators contributions.
- Career Compensation Averaging – Tier II.

Reforms Pending

- Changing Annuity Payments from Semi-monthly to Monthly
- Eliminating Retirees Returning to Work

Conclusion

- Future of the GERS
  - If the Plan Sponsor does not infuse a significant amount of cash into the System by February 2023, the System will run out of liquid assets. (Insolvency)

Considerations in the Event of Plan Insolvency

> Once the System runs out of liquid assets to pay benefits, benefits would have to be reduced to the level of contribution income coming in less operating expenses required to administer the System. Different ways to restructure benefits:

- Across-the-board reduction in benefits (e.g., 50% cut to all benefits)
- Reduce Tier 1 benefits to Tier 2 benefit levels first then across-the-board reduction in benefits (e.g., 30% cut to Tier 1 first then additional 25% cut to all including Tier 1)
- Design a uniform % of salary formula (e.g., 1.5% of final average salary per year of service)
- Design a uniform % of contributions formula (e.g., 2% of total employee contributions made to the System)
- Any of the above designs could also consider providing a benefit floor for retirees already receiving low benefits and/or provide protections to certain vulnerable population (e.g., disabled retirees, retirees who are older than a certain age

Future of the GERS

Considerations in the Event of Plan Insolvency

Benefit Examples

- A Tier 1 Regular member who started with $30k at hire, works for 30 years and received 3.25% increases in salary per year will have a Regular benefit of $48,750 per year – 2.5% x 30 years x $65,000 (final 5-year average)
- A Tier 2 Regular member who started with $30k at hire, works for 30 years and received 3.25% increases in salary per year will have a Regular benefit of $25,469 per year – 1.75% x 30 years x $48,513 (career average)
- Based on current plan provisions, Tier 2 Regular members are already getting benefits that are 30% to 60% lower than a similarly situated Tier 1 Regular member due to the lower accrual and salary formula used for calculating benefits.

Future of the GERS

Considerations in the Event of Plan Insolvency

Impact of Reducing the Benefits 50% Across-the-Board

	Current Annual Benefit	50% Reduced Annual Benefit
• Regular Tier 1	$48,750	$24,375
• Regular Tier 2	$25,469	$12,735
• **Total**	**$74,219**	**$37,110**

Questions