GOVERNMENT EMPLOYEES RETIREMENT SYSTEM
OF
THE VIRGIN ISLANDS

PRESENTATION
TO
THE COMMITTEE ON GOVERNMENT OPERATIONS,
ENERGY AND VETERANS' AFFAIRS
OF
THE TWENTY-NINTH LEGISLATURE
OF
THE VIRGIN ISLANDS OF THE UNITED STATES

FRITS E. LAWAETZ CONFERENCE ROOM
ST. CROIX, U.S., VIRGIN ISLANDS
MAY 9, 2012
10:00 A.M.

Austin L. Nibbs, CPA
Administrator

Good morning Honorable Alicia "Chucky" Hansen, Chairperson of the Committee on Government Operations, Energy and Veterans' Affairs, members of the Committee, other distinguished Senators who are present in the chambers and the listening audience. My name is Austin L. Nibbs, Administrator of the Government Employees Retirement System of the Virgin Islands (GERS). General Counsel, Cathy M. Smith and the Director of Member Services, Shoran D. Sasso are appearing with me today.

Thank you Madame Chairman for your invitation to appear before this Committee to give testimony on the proposed Bill No. 29-0272 (An Act amending Title 3, Chapter 27, Section 705(c) of the Virgin Islands Code by providing for the automatic retirement of WAPA employees who fall under the Tier I Retirement Benefits Program at the age of fifty-five years or over after attaining a minimum of ten years of credited service).

We will address the Bill in two parts:

1). **Automatic Retirement at Age Fifty-Five or Over**.

Providing automatic retirement at the age of fifty-five years or over to WAPA employees although it may appear beneficial to the GERS, because over the years, we have seen hazardous duty employees retiring in their late 30s and early 40s. However, it should not be automatic because members are living longer, have healthier lives, and should be encouraged to work longer in order to ensure not only the viability of the pension plan but their own financial security. On a daily basis, the System consults with members who have retired too early and are unable to enjoy a financially stable retirement.

2). **Minimum of Ten Years of Credited Service.**

The change from a minimum of twenty years of credited service to a minimum of ten years will create a negative impact to the Plan because of the increase in annuity payments (outflows) and decrease in contributions (inflows).

Title 3, Chapter 27, section 718 (a) requires that: The various obligations of the System shall be financed in accordance with actuarial reserve requirements from contributions by members, contributions by the employer, interest income, and other income accruing to the System. From time to time, the Board may actuarially determine the rate of contributions for members and employers of the System. After October 1, 2005, the System may not provide any increases in benefits to members or beneficiaries, unless the administration has identified a specific funding source and concurrently makes a provision for the funding of all future benefit improvements on sound actuarial basis in the annual budget.

Also, Title 3, Chapter 27, Section 701 (g) reads: The Board shall provide the Legislature with an analysis of the assets and liability implications of each bill that would affect the investment strategy of the System, the funding of the System, or the benefit structure of this System. The analysis shall include an explanation of the methodology employed and the assumptions used in its preparation. The Legislature shall provide the necessary funding for the analysis of the System for bills proposed by the Legislature.

As required by statute, we requested and received an actuarial analysis of this Bill from our Actuary. The results are shown in Exhibit I. Based on the analysis of the

Bill, the annual cost which is the cost the plan incurs to fund the pension plan for these specific employees will increase by $477,542. The annual costs include the normal cost (service cost) of $121,014 which is the economic cost of the participant's pension benefits) and the annual contributions amortized over 20 years to fund the additional unfunded liability of $356,528. In addition, the actuarial accrued liability will increase $3.8 million from $69.8 million to $73.6 million. The Actuary based the cost analyses on 579 WAPA employees that were included in the last actuarial valuation with a total salary of $21.7 million. These employees had an average age of 43.5, average service of 13.9 years and average salary of $37,447.

We bring to your attention the following:

- The System as a whole has an unfunded liability of approximately $1.5 billion.
- The System has a monthly/annual negative cash flow of approximately $9 million and $100 million respectively.
- Membership as of April 30, 2012:
  Actives - 9,966

  Retirees/Beneficiaries – 8,091

  Ratio of Actives/Retirees – 1.23 to 1

  We note that there has been a dramatic decline in the active membership from 11,117 in FY 2010 to 9,966 in the 2nd quarter of FY 2012.

We provide a comparative analysis below for the six months period for Fiscal Years 2011/2012 which shows that there is a significant negative impact in contributions (decrease) and increase in annuity payments to retirees due mainly to the enactment of The Economic Stability Act (Act Nos. 7261/7281).

	YTD thru March 31, 2011	**YTD thru March 31, 2012**	**Difference**
Employer contributions	$42.8M	$31.9M	($10.9)M
Employee contributions	$21.9M	$18.4M	($3.5)M
Annuity payments	$98.8M	$109.5M	$10.7M

In the State of the Territory message, the Governor stated that up to 2,600 employees could be terminated in the coming months. We estimated using an average salary of $36,000 x 2,600 regular employees x 25.5% (combined employee rate – 8% and employer rate – 17.5%), the System stands to lose $23.9 million in contributions annually. Any loss of contributions increases the monthly deficit, thereby causing the System to withdraw from its portfolio to cover the shortfall. Over time, this increases the unfunded liability. If this trend continues and nothing is done, the System will become insolvent in 2025. The System's contribution levels are well below the 43% percent of payroll as recommended by our Actuary. This is necessary to maintain the operations of the retirement benefit structure on an actuarial reserve basis, as mandated by the provisions of the Virgin Islands Code. We are unable to determine at this time what additional contributions would be required to pay for the additional benefits in the proposed Bill.

Because of the historical data provided above, numerous factual presentations made before the Legislature, and Title 3, Chapter 27, Section 718 (a) requirement which mandates that the System be financed on an "actuarial reserve basis", the reasons why the System cannot support this amendment to Bill No. 29-0272.

The Board will be meeting at the end of June for a 3 day summit to address the immediate and long-term problems facing the System, and develop strategies and approve legislation to be recommended to the Legislature.

Madame Chairman, I do not know how more convincing or persuasive I can be to caution you and the Committee about the consequences of any more early retirement legislation.

This concludes my testimony on the proposed legislation. My team is available to respond to any questions the Committee may ask of us.

EXHIBIT I

Government Employees Retirement System

Bill No. 29-0272

Estimated Impact of mandatory retirement of Tier 1 WAPA employees upon attainment of age 55 with a minimum of 10 years of credited service

(Amounts Based on September 30, 2006 Actuarial Valuation)

	Current Provisions	Mandatory Retirement Provisions	Total Increase
1. Salary of the 579 WAPA employees	$21,681,823	$21,681,823	N/A
2. Normal cost			
- Dollar	$2,883,614	$3,004,628	$121,014
- Percent of salary	13.3%	13.9%	0.6%
3. Actuarial Accrued Liability (AAL)	$69,801,699	$73,582,178	$3,780,479
4. Annual contributions to amortize (20 years) the additional unfunded liability			
- Dollar	N/A	N/A	$356,528
- Percent of salary	N/A	N/A	1.6%
5. Increase in Annual Cost (2) + (4)			
- Dollar	N/A	N/A	$477,542
- Percent of salary	N/A	N/A	2.2%