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

May 13, 2020

Hon. Albert Bryan Jr.
Governor of the U.S. Virgin Islands
Government House
St. Thomas, Virgin Islands 00801

Hon. Novelle E. Francis Jr.
President
33rd Legislature of the U.S. Virgin Islands
Capitol Building
St. Thomas, Virgin Islands 00801

RE: Recommendation on Adjustment in Benefits for Annuitants and Pensioners

Dear Governor Bryan and Senate President Francis:

Pursuant to 3 VIC § 715 (b)(8), the Board of Trustees of the Government Employees' Retirement System (GERS) hereby submits its recommendation for an adjustment in retiree benefits. 3 VIC § 715 (b)(8) authorizes the GERS Board to "recommend to the Governor and the Legislature not less than biennially an adjustment in benefits for all annuitants and pensioners based on a review of cost-of-living and related economic factors and consistent with actuarial projections on the solvency of the System."

As you are aware, based on the GERS' actuarial reports, and the MERCER report commissioned by former Governor Mapp, the System is projected to become insolvent by 2024, or sooner. For years, the GERS Board has been sounding the alarm relative to the impending insolvency without an adequate response from the Plan Sponsor. We believe the time has run out since there has been no substantial infusion of funds into the System to avert insolvency, and there does not appear that there will be any substantial infusion in the near future.

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In fulfilling its statutory responsibilities, the Board makes its recommendation, in part, on the following facts:

1. Employer contributions paid by the Government of the Virgin Islands, are not in compliance with the Virgin Islands Code *(3VIC§ 718(a)),* and do not adequately fund the full cost of the defined pension benefits. As such, the Plan Sponsor has underfunded the system by at least $1.7 billion dollars between 2000 and 2018.
2. The funding inadequacy has resulted in twenty consecutive years of cashflow deficits, totaling approximately $1.69 billion. In order to pay full benefits, the System has made up for those deficits by liquidating its financial assets. Approximately $1.69 billion worth of assets were liquidated between 2000 and 2019. Annual deficits are predicted to continue and to grow unsustainably.
3. At the forecast levels and growth of cashflow deficits, the System is predicted to exhaust its investment assets and be insolvent by the year 2024. This predicted insolvency date could be shortened by the harmful effects of COVID-19 on the local and national economies. Of particular concern is the potential negative impact of the pandemic on the System's investment returns and value, and on the GVI's ability to pay contributions timely.
4. Upon insolvency, contributions may only be enough to pay forty-five cents per dollar of benefits; in effect, a 55% reduction in benefit payments to approximately 8,700 retirees (assuming employee contributions continue at current rates). The average annual benefit payment for retirees will drop to $13,200 – well below the Virgin Islands minimum wage. Even this does not tell the true story: over 90% of retirees receive less than average benefit, and there are approximately 6,700 retirees (77%) whose full benefit payments are already below minimum wage. Approximately 25% are 80 years and older.
5. Insolvency will inflict painful personal and financial hardship upon retirees, their dependents and their beneficiaries, in direct contradiction to the promises made to the many thousands of qualified personnel who entered and remained in the service of the Government. This will discourage qualified personnel from entering Government service and encourage current employees to opt out or retire sooner, thereby exacerbating the fiscal imbalance and further imperiling the Plan.

6. If the Government is unwilling or unable to fund the full cost of the currently defined annuitant benefits, then it must redefine those benefits to reduce their cost to sustainable levels.

Accordingly, consistent with its statutory duty, obligation and responsibility, the GERS Board recommends the following:

1. That the Plan Sponsor immediately fund the System to comply with the Actuarially Determined Employer Contribution (ADEC) and continue to do so in future years. As such we require an immediate additional contribution of $ 195,000,000 in order to satisfy the ADEC requirement for the fiscal year ended September 30, 2019. The Plan Sponsor will be notified every year for additional contributions required to comply with the ADEC requirement for future years once the GERS Board receives the updated actuarial valuation report every year.
2. In the absence of your compliance with recommendation #1 above, the GERS Board recommends a 42% reduction in all benefit payments beginning January 1, 2021.

We have enclosed the April 20, 2020 Segal report that is the basis for the Board's recommendations consistent with its legal requirements. The report contains various options that the Plan Sponsor may consider in lieu of an across the board 42% reduction such as an exemption for the "vulnerable population."

Again, we strongly recommend that the Plan Sponsor move post haste to adopt and implement one of our recommendations to avert the insolvency of the System and avoid the tremendous negative economic and human impact on our community.

The Board, System, Actuary, and Staff are available at your disposal for further discussions in an attempt to implement the chosen recommendation.

Sincerely,

Wilbur K. Callender

Wilbur K. Callender, M.D
Chairman

Enclosure

cc: All Senators of the 33rd Legislature of the VI
GERS Board of Trustees
Pedro K. Williams, GERS Board Counsel
Austin L. Nibbs, Administrator
Cathy M. Smith, GERS General Counsel
Leon Joyner, Segal Co.
Aldwin Frias, Segal Co.