THE GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

PRESENTATION
TO
THE COMMITTEE ON FINANCE
OF
THE THIRTY-FIRST LEGISLATURE
OF
THE VIRGIN ISLANDS OF THE UNITED STATES
BILL NO. 31-0244

Earle B. Ottley Legislative Hall
November 16, 2016
9:00 a.m.

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Administrator/CEO

Good morning, Honorable Clifford F. Graham, Chairman, Committee on Finance of the 31st Legislature, Committee members, and other distinguished Senators who are present in the chambers. Good morning to all. Presenting today with me is Ishmael Meyers, Jr. Deputy General Counsel.

Thank you for the invitation to give testimony on Bill No. 31-0244, An Act amending Title 3 Virgin Islands Code, chapter 27, section 733; chapter 28A, section 7701 and Title 4, chapter 8, section 122, regarding the retirement benefit program for members of the Judiciary and for other related purposes.

Mr. Chairman, we are extremely concerned that this piece of legislation which we term as "Special Interest Legislation" is being offered at a time when there is an ongoing appeal hearing related to the same issues before the Board with a sitting member of the Judiciary.

Title 3 Virgin Islands Code, chapter 27, section 718, 1(a) states that "From time to time, the Board may actuarially determine the rate of contribution 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 improvements on sound actuarial basis in the annual budget". We requested our actuary Segal Consulting to determine what effect this legislation if enacted will have on the unfunded liability.

Segal's conclusion reads as follows:

> ***"Section 5 of the proposed legislation indicates that the term for a Magistrate will be increased to six years which will place the service periods for Magistrates to match other members of the Judiciary. 2). Section 3 (c) (4) change, appears to provide Magistrates a 6-year benefit for 4 years of contributions. This is an unfunded mandate that is precluded by Section 767. This is especially troublesome given the projected 2023 date of insolvency for GERS."***

For the record:

1). **The current recommended contributions for GERS are 77.39% of pay.** (Exhibits 1 and 2). This amount is the sum of 11.0% - employee share and 66.39% - employer share).

2). **The expected contributions total about 30.73% of pay.** (Exhibits 1 and 2). This amount is the sum of 11.0% - employee share and 20.73% - employer share).

3). **The expected contributions are anticipated to fall short of the recommended contributions by approximately $171,713,316 (rounded $172 million) per year.**

Actuarially Determined Contribution -2016		$284,807,821
Less:		
Expected Contributions - Employer	$75,444,821	
Employee	37,649,684	113,094,505
Shortfall (Exhibits 1 and 2)		**$171,713,316**

4). **The Judiciary benefits are 374% more expensive than Tier 1 benefits.**

Tier I Judges rate of pay - 32.6% (11.8% - judges / employer – 20.8%)
Tier II Judges rate of pay -34.8% (14.0% - judges / employer – 20.8%)

Average Rate – 33.7% (a)

Regular Members
Tier I Rate of Pay - 8%
Tier II Rate of Pay – 10%
Average Rate – 9.0% (b)

(a) 33.7% divided by (b) 9.0% = 374%

On September 28, 2016, correspondence was submitted to the Government of the Virgin Islands for underfunding in its contributions from 1991 through 2015 in the amount of $1.4 billion (includes 6% lost investment of $77 million).

Mr. Chairman, until plan funding is increased to a level which is adequate to support benefits which have already been accrued and promised, it is actuarially imprudent to add additional benefit burden to GERS". GERS is in opposition to Bill No. 31-0244 because it creates an unfunded mandate.

We are available to respond to questions.

SECTION 1: Valuation Summary for the Government of the Virgin Islands Retirement System

Summary of Key Valuation Results

	2015		2014	
Contributions for fiscal year beginning October 1:		% of Payroll		% of Payroll
Actuarially determined contribution	$284,807,821	77.39%	$232,709,497	65.44%
Expected contributions:				
Employer	75,444,821	20.50%	70,231,718	19.75%
Employee	37,649,684	10.23%	32,619,706	9.17%
Shortfall	171,713,316	46.66%	$129,858,073	36.52%
Funding elements for plan year beginning October 1:				
Normal cost, including administrative expenses	$56,985,129		$52,619,530	
Market value of assets	991,041,251		1,152,791,325	
Actuarial value of assets	991,041,251		1,154,728,837	
Actuarial accrued liability	3,573,547,073		3,128,348,875	
Unfunded actuarial accrued liability	2,582,505,822		1,973,620,038	
Funded ratio	27.73%		36.91%	
Projected insolvency in plan year ending September 30	2023		2025	
Demographic data for plan year beginning October 1:				
Number of retired members and beneficiaries	8,465		8,465	
Number of active members	9,303		9,227	
Projected covered payroll	$368,023.518		$355,603,633	
Projected average payroll	$39,560		$38,539	
GASB 67 information as of September 30:				
Total pension liability	$5,062,702,088		$4,228,909,387	
Plan fiduciary net position	991,041,251		1,152,791,375	
Net pension liability	4,071,660,837		3,076,118,012	
Plan fiduciary net position as a percentage of the total pension liability	19.58%		27.26%	

D. ACTUARIALLY DETERMINED CONTRIBUTION

The actuarially determined contribution to fund the System is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected payroll for active members to determine the funding rate of 77.39% of payroll for the year beginning October 1, 2015, as compared to 65.44% of payroll as of October 1, 2014.

The actuarially determined contribution is based on a fixed 20-year amortization of the unfunded actuarial accrued liability as adopted by the Board. The actuarially determined contribution requirements as of October 1, 2015 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, actuarial gains and losses and changes in the actuarial assumptions.

The chart compares this valuation's actuarially determined contribution with the prior valuation.

CHART 12

Actuarially Determined Contribution

	Year Beginning October 1			
	2015		2014	
	Amount	% of Payroll	Amount	% of Payroll
1. Total normal cost	$41,075,869	11.16%	$36,619,530	10.30%
2. Administrative expenses (beginning of the year)	15,909,260	4.32%	16,000,000	4.50%
3. Employer normal cost: (1) + (2)	56,985,129	15.48%	52,619,530	14.80%
4. Actuarial accrued liability	3,573,547,077		3,128,348,875	
5. Actuarial value of assets	991,041,254		1,154,728,837	
6. Unfunded actuarial accrued liability: (4) – (5)	2,582,505,823		1,973,620,038	
7. Payment on unfunded actuarial accrued liability	227,822,692	61.90%	180,089,967	50.64%
8. Actuarially determined contribution*: (3) + (7)	$284,807,821	77.39%	$232,709,497	65.44%
9. Projected employer contributions	75,444,821	20.50%	70,231,718	19.75%
10. Projected members contributions	37,649,684	10.23%	32,619,706	9.17%
11. Total expected contributions (9) + (10)	$113,094,505	30.73%	$102,851,424	28.92%
12. Shortfall (8) – (11)	$171,713,316	46.66%	$129,858,073	36.52%
13. Projected payroll	$368,023,518		$355,603,633	

**The actuarially determined contributions are based on payment at the beginning of the year.*