



Questions Submitted by Members Attending the January Forums

Question: We have heard for many years that the GERS will run out of monies/collapse unless the plan is restructured or unless we receive a large infusion of cash. What can you tell us about where we stand today given the current economic crisis and myriad challenges that our territory is facing?

Nibbs: The Actuary has repeatedly stated that the required contribution should be at least 43% of payroll. The System is only receiving from regular members 8% and employers 17.5%, for a combined contribution rate of 25.5%. Title 3, Chapter 27, Section 718 (a) of the Virgin Islands Code mandates that the System be financed on an "actuarial reserve basis", which means that the retirement benefits are funded during the employee active years of employment so that by the time the employee retires, the benefit would have been fully funded in advance of their retirement date. Without a significant infusion of cash and increases in the contribution rates, the System will run out of cash by 2025.

Other than for the downturns in 2001 and 2008, the System's investment portfolio has done relatively well. Up until 2000, the investment income covered the shortfall between the benefits to retirees, beneficiaries and expenses and the contributions received from the employees and employers. This is no longer the case. By the end of 2012, the shortfall is projected to be in excess of \$100 million annually.

What is occurring today with the reduction in the workforce is eroding the System's liquidity and cash needs and will further increase the unfunded liability. New sources of revenues must be identified by the Legislature to replace the loss in contributions.

Question: How long have you been the Administrator of the GERS?

Nibbs: Since October 29, 2007.

Question: How long has the System been in existence?

Nibbs: The System started operations on October 1, 1959.

Question: How many years of solvency do we have if there is not a large infusion of cash?

Nibbs: Thirteen years.

Question: What is the percentage that the Government pays in?

Nibbs: 17.5% since November 2008.

Question: Is the government current on the payment of bi-weekly payroll contributions? If not, how many payrolls are outstanding?

Nibbs: Yes.

Question: What is the percentage that Regular members pay in?

Nibbs: Tier I - 8% of base salary (employed prior to October 1, 2005).

Tier II - 8.5% of base salary (employed on and after October 1, 2005).

Question: How many members have retired under the Economic Stability Act?

Nibbs: 363.

Question: Given the large number of individuals, did you have to make special provisions in your process?

Nibbs: We literally had to suspend our efforts with the implementation of the new pension and benefits administration system, go back to the old system and close down operations for a couple of months because of the significant burden that was placed on the System. There was a 300% increase in retirees when compared to the prior year. As of March 30, 2012, 357 of the 363 members were placed on the payroll.

Question: In the Sixth State of the Territory Address, Governor John P. deJongh implored GERS trustees to "stop waiting on the Legislature to act. You must act on your own to save the pensions of the thousands of retirees and those who will be retiring in coming years." What is your reaction to the Governor's statement?

Nibbs: The Governor may have read our minds. The System has submitted amendments to legislation since January 1, 2011. Also, I have submitted additional amendments to the Board of Trustees for approval.

Question: What are some of the recommendations you have made over the years to the Legislature?

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Nibbs:

- 1) Per diem basis and contractual employees who work exclusively for the Government at least 40 hours per week may be included as a member and receive service credits by paying the required contributions;
- 2) exclusion of the cost of living annuity, bonuses or adjustments for the specific purpose of the compensation ceiling of \$65,000;
- 3) increase the contribution rate from 11% to 15% for members of the Judiciary and the Legislature,
- 4) increase mortgage loans to \$350K;
- 5) increase new automobile loans to \$40K;
- 6) ability for retirees to refinance existing personal loans; and
- 7) allow vested members to purchase up to five years additional service credits (air time).

Other recommendations that I have submitted to the Board for consideration are:

- 1) Changing retirement eligibility for regular employee to 62 with 10 years of service, eliminating the any age with 30 years of service;
- 2) for class 3 employees: age 50 with 25 years of service or age 55 with 10 years of service, and eliminating the any age with 20 years of service;
- 3) changing the benefit multiplier for service earned in the future;
- 4) increasing the contribution rates for:
 - a. Tier I Regular from 8 percent to 11 percent,
 - b. Tier I Hazardous (Class 3) from 10 percent to 15 percent,
 - c. Tier II Regular from 8.5% to 11.5%,
 - d. Tier II Hazardous (Class 3) from 10.625% to 15.625%,
 - e. Judges and Legislators from 11 percent to 20 percent,
 - f. Employer from 17.5% to 20.5%,
- 5) using career average earnings instead of final 5-year average salary for non-vested members to determine the base salary to calculate the annuity;
- 6) reducing annuity payment based on social security benefits; and
- 7) reducing the percentage or delaying the COLA to retirees.

Question: How does the recent layoffs and 8% salary cuts affect the GERS?

Nibbs: A significant negative impact. (A snapshot of decreases in contributions and the increase in annuity payments below).

February 2012

<i>Employer contributions</i>	<i>\$5.3 million</i>
<i>Employee contributions</i>	<i>\$2.8 million</i>
<i>Annuity payments</i>	<i>\$19.3 million</i>

February 2011

<i>Employer contributions</i>	<i>\$6.7million</i>
<i>Employee contributions</i>	<i>\$3.2 million</i>
<i>Annuity payments</i>	<i>\$16.6 million</i>

The Actuary has estimated that with the 8% reduction in salary for employees paid from the general fund earning \$26,000 or more, the annual loss in contributions will be approximately \$5.4 million.

In his State of the Territory message, the Governor stated that up to 2,600 employees can be laid off in the coming months. 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.

Question: How has the System been informing members about what is going on?

Nibbs: Through our quarterly newsletter, town hall meetings and forums, radio and television programs, our website (www.usivgers.com) and workshops. I think that it is vital that our members and our community have some understanding of what we are faced with and what must be done in order to maintain the System's viability for future generations as well for this territory.



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