



***THE GOVERNMENT EMPLOYEES' RETIREMENT
SYSTEM OF THE VIRGIN ISLANDS***

**TESTIMONY
TO
THE COMMITTEE ON FINANCE
OF
THE THIRTY-SECOND LEGISLATURE
OF
THE VIRGIN ISLANDS OF THE UNITED STATES
ON
BILL NO. 32-0238**

**Virgin Islands Cardiac Center
St. Croix, Virgin Islands of the U.S.
December 19, 2018
10:00 a.m.**

**Austin L. Nibbs, CPA, CGMA
Administrator/CEO**

Honorable Kurt A. Vialet, Chairman, Committee on Finance of the 32nd Legislature, Committee Members, and other distinguished Senators who are present. Good day to all. Presenting today with me are Cathy M. Smith, General Counsel and Ishmael Meyers, Deputy General Counsel.

Thank you for the invitation to give testimony on Bill No. 32-0238, an Act amending title 3 Virgin Islands Code, chapter 27, section 715, subsection (b) paragraph (7) to require the Government Employees' Retirement System to seek the Legislature's approval before implementation of any policy that impacts the members' benefits.

Mr. Chairman, unless granted the authority through legislation, the Government Employees' Retirement System (GERS) has no authority to implement any policy that would impact the members' benefits. A couple years ago, the Actuary recommended to the GERS Board of Trustees (Board) a 30 percent reduction in Tier I retiree benefits and a contribution rate increase to Tier II rates to delay insolvency to the year ending September 30, 2042. The Board rejected the Actuary's recommendation because the Board does not have the statutory authority to adjust members' benefits, unless express authorized in the V.I. Code.

Additionally, the Board considers members' benefits to be a contract between the Government of the Virgin Islands and the member. Under the Organic Act, a contract cannot be impaired, and therefore, the GERS does not have the authority or will never seek authority to reduce the members' benefits.

In direct response to your request for information:

Support or Opposition to the Proposed Legislation

The GERS does not have any legal authority to reduce members' benefits and is not in support or in opposition of the proposed legislation.

Advantages and/or Disadvantages to Passing the Bill

The GERS does not see any advantages to passing the bill because the GERS has no legal authority to reduce members' benefits and will never seek that authority.

Economic Impact (Economic Analysis) of the Proposed Legislation

The GERS did not have its Actuary conduct an economic impact (economic analysis) of the proposed legislation because the GERS has no legal authority to reduce members' benefits, and in the past has rejected the Actuary's recommendations to do so.

Recommendation to the Bill

The GERS has no recommendations to the bill for the reasons stated above.

In addition, the GERS was granted the authority by the Legislature to increase both the employee and employer contribution rates. It has been the Board's position that the authority to increase contribution rates should be the responsibility of the Legislature. The GERS does not have access to the revenue projections and other financial information of the plan sponsors to determine their funding levels. The Board was only given limited authority to increase contributions three (3) percent every five (5) years, which is not currently enough to address the required Actuarily Determined Employer Contribution (ADEC) deficit, which is determined annually by the Actuary. As of January 1, 2018, the Actuary determined that the employer contribution rate should be 77 percent of payroll. The current employer contribution rate is 20.5 percent of payroll. Further, in the past there has never been any retroactive application of employee contribution rate increases or reduction in benefits. All increases have been prospectively. To do differently, would violate the impairment of a contract provision in the Organic Act.

Mr. Chairman, a new paragraph was added to my testimony after it was submitted on Friday. Before I conclude, I would like to ask a very profound question and make a few statements that we all need to ponder very seriously. What will happen come 2023 or sooner when all liquid assets of the GERS have been liquidated? Presently, the monthly retiree payroll is approximately \$20.5 million. GERS is collecting employee and employer contributions from the plan sponsors if paid timely, an average of \$10.1 million monthly. (\$7.5 million from the central government and \$2.6 million from the autonomous agencies). This is a 50 percent shortfall between the monthly amount that is currently paid in benefits and the amount that is collected in contributions.

In the past two years, the active employees have been reduced by over 1,000. This reduction was hastened by the two hurricanes the Virgin Islands experienced in 2017. For the period January 1, 2018 through November 30, 2018, there were 614 refund applications received from members who were not vested. Through November 30, 2018, 405 refunds were paid in the amount of \$6.5 million. This reduction in members results in less contributions to the System and increases the monthly deficit.

Looking forward, if there is no significant infusion of cash into the System prior to 2023, the plan sponsors (central government and autonomous agencies), will have to fund the System with additional contributions monthly to cover the benefit payments and administrative expenses. Without a significant infusion of cash into the System, come 2023, the monthly amount that would be necessary to adequately fund the shortfall would be approximately \$11.3 million. \$10 million for monthly shortfall in contributions and \$1.3 million for administrative expenses. Therefore, without considering any proposals to fund the GERS that are before the Legislature, come 2023 or sooner when the System's liquid assets are depleted, annually, the System would

require approximately \$135.6 million from the central government and the autonomous agencies to pay the retirees 100 percent of their benefits and to pay for the expenses to administer the System.

Mr. Chairman, this concludes our testimony. We are available to respond to any questions the Committee may have.