



EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE VIRGIN ISLANDS

November 20, 2017

The Honorable Myron D. Jackson, President
The Honorable Nereida Rivera-O'Reilly, Vice President
The Honorable Jean A. Forde, Secretary
The Honorable Neville James, Majority Leader
The Honorable Positive T.A. Nelson, Minority Leader
The Honorable Alicia "Chucky" Hansen
The Honorable Janette Millin Young
The Honorable Marvin A. Blyden
The Honorable Novelle E. Francis, Jr.
The Honorable Tregenza A. Roach, Esq.
The Honorable Sammuel Sanes
The Honorable Kurt A. Violet
The Honorable Dwayne M. DeGraff
The Honorable Brian A. Smith
The Honorable Senator Janelle K. Sarauw

Dear Senators of the 32nd Legislature of the Virgin Islands of the United States:

The purpose of this letter is to again bring to your attention, the plight of the Government Employees' Retirement System (GERS) as you meet in Special Session on Tuesday, November 21, 2017, to discuss and address a bill transmitted by the Governor of the Virgin Islands, that would authorize the Government of the Virgin Islands (GVI) to enter into one or more Federal Emergency Management Agency Community Disaster Loans.

For the past twenty-seven (27) years, the GVI - the Plan Sponsor of the GERS, has underfunded its contribution to the pension fund in the amount of \$1.6 billion. On September 30, 2016, the Total Pension Liability (total obligation to the members) was \$5.5 billion, and the Net Pension Liability (unfunded liability) was \$4.6 billion. On September 30, 2017, the System's assets are valued at \$670.1 million (excludes member loans-\$113 million and office buildings \$10.7 million). The Actuary has projected that a large infusion of cash is needed to shore up the Fund's dwindling portfolio. If this is not done, the Fund will become insolvent by 2023 or sooner depending on market conditions, and the GVI's ability and willingness to pay the statutory contributions.

For the twelve (12) month period (October 1, 2016 - September 30, 2017), \$144 million was withdrawn from the portfolio to pay benefits and expenses. For Fiscal Year 2018 to date, \$11 million was withdrawn for the same purpose. We note that during the same period, the Plan Sponsor has been delinquent in remitting to the GERS employee and employer contributions and employees' loan deductions. As of today, the Plan Sponsor has not remitted:

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GERS Complex - STE 1
St. Thomas, V.I. 00802-5750
(340) 776-7703
Fax: (340) 776-4499

3004 Orange Grove
Christiansted
St. Croix, V.I. 00820-4260
(340) 718-5480
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- Employee contributions from pay dates July 20, 2017, through November 9, 2017.
- Employer contributions from pay date June 22, 2017, through November 9, 2017.
- Employee's loan deductions from pay date July 20, 2017, through November 9, 2017.

Most of the autonomous agencies are also delinquent in remitting employee and employer contributions and loan deductions. Non-receipt of the contributions, which by law are to be paid to the GERS ten (10) days after the pay date, further exacerbates the cash position by forcing the GERS to withdraw large sums of cash from the portfolio to pay benefits and expenses which will greatly accelerate the insolvency date.

No one likes to hear the grim realities of what will occur when the Fund runs out of assets to make payment to the retirees and survivor beneficiaries. As of today, there are 8,545 retirees and survivor beneficiaries receiving \$20.5 million monthly in pension benefits, and the System is collecting fifty (50) percent or less in contributions. In October 2017, we collected \$6.3 million and paid pension benefits of \$20.1 million - a shortfall of \$13.8 million. In September 2017, we collected \$746,283.00 and paid pension benefits of \$20.1 million - a shortfall of \$19.8 million.

In January 2017, we conducted a study to determine the impact of reduction in benefits to retirees and survivor beneficiaries if the System becomes insolvent. The results are presented as Attachment. As you can see, losing 50% or more of the disposable income spending in the economy will be very devastating. Many of the retirees will relocate to the mainland to have access to affordable housing and health care, and where the cost of living is lower and they can qualify for SSI.

In our opinion, all reforms that could be made to the pension structure (Defined Benefit Plan – DB Plan) have been made. No changes can be made to Tier I because of potential legal ramifications. Many Tier II members have vested and are paying more into the System, and they will receive a lower benefit than Tier I members. There have been suggestions to create a Tier III or convert to a Defined Contribution Plan – DC Plan. Creating a Tier III in the current DB Plan if there is no infusion of cash into the System will not be attractive to any new hires, because they will have to contribute at a higher rate. Also creating a DC Plan would result in the GVI having to fund the monthly benefit payments to the retirees and survivor beneficiaries. This would cost the GVI upwards of \$250 million annually directly from the General Fund or another funding source would have to be identified. In our opinion, this is not achievable from the General Fund because of the GVI's structural deficits.

Over the past ten (10) years, the GERS has reached out to the Plan Sponsor on numerous occasions to start a dialogue on the status of the Fund, and to determine what strategies or plans were being considered to shore up the System, and to begin to fund the System on an actuarial reserve basis. The previous administration created a Pension Taskforce where ninety-eight (98) percent of the reforms recommended by the GERS Board were accepted and adopted.

During the past three (3) years, we have reached out to the present administration to start a working dialogue without any success. However, in the past few months, we have been invited and met with representatives of the U.S. Department of Interior and U.S. Department of Treasury, and had very in depth and serious discussions. We have also started discussions with Delegate Stacey Plaskett on the status of the GERS. We are monitoring the push in the U.S. Congress for funding of "private" pension systems. A discussion about the state of the "public" pension systems will eventually come to the forefront, because of the impact to millions of lives and economic implications to many communities, to include the territory.

As the first branch of government, the 8,545 retirees and over 9,200 active members are counting on you to play a pivotal role in the survival of the GERS. Over the coming months, billions of dollars will be circulating in the territory. **Some of these monies should be earmarked to fund the GERS.** This is the time to do the right thing for the GERS and the people of this territory. The GERS contributes more than \$250 million (multiplier effect of more than \$600 million) annually to the territory's economy. To let the GERS become insolvent will be devastating to the territory.

GERS vs. Valdamier Collens, Commissioner of Finance and the Government of the Virgin Islands. The GERS files a Motion to Enforce the Consent Judgment that was entered on December 10, 1984, and modified April 22, 1994, where the GVI agreed to make the actuarially recommended contributions to the GERS as required by Title 3, V.I.C. Section 718 and 719. The GVI's failure to make the Actuarially Determined Employer Contributions (ADEC) has resulted in the System facing insolvency by 2023.

Thank you, Senators, for permitting us to bring to the forefront the plight of the GERS and its financial impact to the territory. The Board of Trustees and management of the GERS are available to meet with the Legislature as a body, or with the committee of jurisdiction as we have done in the past, to turn an impending category 5 economic catastrophe around before it devastates the territory.

Sincerely,



Austin L. Nibbs, CPA, CGMA
Administrator/CEO

Attachment

cc: GERS Board of Trustees
Delegate to Congress, Stacey Plaskett
Nikolao I. Pula, Director, Office of Insular Affairs, U.S. Department of Interior
Melissa Moye, Ph.D., Senior Policy Advisor, U.S. Department of Treasury
Clifford Graham, Chairman, Economic Resilience Taskforce
Basil Ottley, Policy Director, Office of Insular Affairs, U.S. Department of Interior
Leon "Rocky" Joyner, Vice President and Actuary, Segal Consulting

ATTACHMENT

We conducted a study in January 2017 for two (2) pay dates in the month of December 2016 to project the level of contributions that will be collected in 2023, or sooner, if there were no assets available other than contributions collected from the active members.

The results revealed that for Pay Period No. 1 – only 51% of the contributions required were collected to pay the required benefits to retirees and survivor beneficiaries in the amount of \$10.2 million.

Therefore for 8,520 retirees and survivor beneficiaries:

- **Gross Annuity Less 49% - minus the retiree's GERS loan and health insurance premium deduction resulted in:**

361 retirees with negative net pay
730 retirees with less than \$100 net pay
2,106 retirees with less than \$300 net pay
1,864 retirees with less than \$500 net pay
2,670 retirees with less than \$1,000 net pay
786 retirees with less than \$2,000 net pay
3 retirees with less than \$2,000 net pay*

The results revealed that for Pay Period No. 2 – only 21% of the contributions required were collected to pay the required benefits to retirees and survivor beneficiaries in the amount of \$10.2 million.

Therefore for 8,523 retirees and survivor beneficiaries:

- **Gross Annuity Less 79% - minus GERS loan and health insurance premium deduction resulted in:**

2,880 retirees with negative net pay
2,193 retirees with less than \$100 net pay
2,600 retirees with less than \$300 net pay
795 retirees with less than \$500 net pay
54 retirees with less than \$1,000 net pay
1 retiree with less than \$2,000 net pay*

***Receiving a judicial annuity or a combined annuity.**