Government Employees' Retirement System of the Virgin Islands

Overview of Operations

FISCAL

2013

"Contributing today for a better tomorrow"

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GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
Annual Overview of Operations

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Good morning, Honorable Senator Clifford Graham, Chairman of the Committee on Finance, distinguished Committee members, other distinguished senators present in the chambers and good morning to all. I am, Austin L. Nibbs, Administrator of the Employees' Retirement System of the Government of the Virgin Islands (GERS). I am pleased to appear before you to present the System's Annual Overview of Operations. I would like to take this time to acknowledge members of my senior management team that are joining me today in the chambers.

INTRODUCTION

Enacted by the Third Legislature of the Virgin Islands on June 24, 1959 by Act 479, the GERS was created as a **defined benefit pension plan**. On October 1, 1959, the System started operations and contributions by employees and the plan sponsor began.

The statute that governs the operations of the GERS is Title 3, Chapter 27 and 28 of the Virgin Islands Code. Employees are enrolled into the System the first day of service, as a condition of their employment. The objective is to encourage employees who enter the System **to remain in the service of the Government by establishing an orderly means** whereby those members who became superannuated or incapacitated as a result of disability may retire without suffering economic hardship. Unfortunately, this has not been the case because of the nine (9) unfunded mandates passed by prior legislatures, the Virgin Islands Economic and Stability Act of 2011 and subsequent layoffs. For this System to continue to meet its statutory obligations to its members, the System **must be actuarially funded**, and this body must take the necessary steps to pass a comprehensive pension reform bill incorporating GERS

Board of Trustees' recommendations made in Bill No. 29-0099, and the Pension Taskforce Report.

MEMBERSHIP

We have attached *Exhibit* A which shows that the gap between the active members and the retirees and beneficiaries has decreased from a 1.14 to1 ratio in Fiscal Year 2012 to a 1.10 to1 ratio for Fiscal Year 2013.

This drastic decrease in actives and increase in retirees is due mainly to the implementation of Bill No. 29-0123 (Act No. 7261 - The Virgin Islands Economic Stability Act of 2011 - VIESA), and significant layoffs. The active members have decreased from 10,731 at September 30, 2011 to 9,240 at September 30, 2013, and the retirees and beneficiaries have increased from 7,868 at September 30, 2011 to 8,362 at September 30, 2013.

Based on the latest Certified Actuarial Valuation dated October 1, 2011:

Active Members

- The average age of active members was 45.7
- The average years of credited service was 13.9
- The projected average salary was $38,885
- Vested members were 6,073

Retired Members

- The average age of retired members was 69.3
- The average semi-monthly benefit was $1,117

Beneficiaries

- The average age of beneficiaries was 74.1
- The average semi-monthly benefit was $345

TOTAL CONTRIBUTIONS

We have attached *Exhibit B w*hich shows the total contributions received, the total deductions (benefits payments, refunds of contributions and administrative and operational expenses) and the total deficits in millions for the past 20 years through September 2013.

The comparison reveals that in Fiscal Year 2012, the total contributions received are approximately $144.9 million less than the total benefits and expenses paid, resulting in a negative cash flow. For the 12 months period ending September 30, 2013, the total contributions received are approximately $101.4 million less than the total benefits and expenses paid, again resulting in a negative cash flow. This presents a challenge to the System because withdrawals have to be made from the portfolio to meet the deficits. Thereby, decreasing the already shrinking investment base.

OUTSTANDING EMPLOYER CONTRIBUTIONS

In a report dated June 12, 2013, our Actuary The Segal Company estimated that the potential *missing* employer contributions due to the System is approximately $47 million as of October 1, 2011. This amount includes missing contributions from all employers including the autonomous agencies. The central government has disputed the amount. There are various reasons why the employer contributions were not remitted to the System. The major reasons for missing employer contributions are:

- In prior years, employees coming into the government had a twelve (12) month period where they were not required to be members of the System. Beginning with the thirteen (13^{th}) month, employee and employer contributions were required based on the law to be remitted to the System, and this did not occur. In some cases, this continued for several years.

- Based on collective bargaining agreement negotiations, members received NOPAs based on negotiated salaries going back 2 -3 years. Although, the member is brought up to step, no employer contributions were paid retroactive to the effective date of the NOPA.

The GERS has been trying to negotiate a Settlement Agreement with the Government of the Virgin Islands for the last ten (10) months regarding the missing employer contributions. To date, the GERS has been unsuccessful in doing so.

The outstanding *regular* employer's contributions (excluding delinquency fee and lost investment income) due to the GERS for Fiscal Year 2013 covering the period October 1, 2012 through September 30, 2013 are as follow:

Agency	Regular	3%	Total
Water and Power Authority	$0	$916,190	$916,190
Juan Luis Hospital	$2,501,443	0	$2,501,443
Total Contributions Due	**$2,501,443**	**$916,190**	**$3,417,633**

COSTOF LIVING ADJUSTMENTS AND ANNUAL BONUS

Title 3, Chapter 27, Section 730 (c) states that the annual increase in the case of a disability annuity shall be 1 percent per year, prior to the member's attainment of age 60 and 1.5 percent per year thereafter. On July 15, 2013, 247 annuitants on disability were paid their annual cost of living adjustment (COLA), 113 received a 1 percent increase and 134 received an increase of 1.5 percent. The gross annual amount that was paid to this class of annuitants is $167,320.

At the Board Retreat held in June 2012, the Board in accordance with Title 3, Chapter 27, Section 730, recommended in Bill No. 29-0099 to suspend the annual COLA *indefinitely* effective January 1, 2013 to *non-disability* annuitants. In the Pension Reform Taskforce Report on the Government Employees' Retirement System, the Board's recommendation was changed slightly to read; *the COLA should not be given for five years except for persons with disabilities as established by the Virgin Islands Code and approved by the Government Employees' Retirement System.* The Taskforce Report further stated that this provision should be revisited after five years.

Bill No. 28-0020 (Act No. 7080) provides for the Virgin Islands Lottery (VIL) to make an annual payment to the GERS by July 15th to be paid by September 30th.The bonus is given to annuitants and pensioners meeting the 60 years of age requirement, and having been receiving a service annuity for at least 1 year, and are eligible to receive a cost of living increase in the year in which the bonus payment is made. To date, we have received a total of $1,077,802.88 for the 1st, 2nd and 3rd quarters of Fiscal Year 2013 from the VIL. VIL has assured us that we will receive the 4th quarter payment by October 30, 2013. The payment will be paid before Thanksgiving to the annuitants and pensioners who are eligible to receive the bonus.

ASSETS

The assets of the GERS include the investment portfolios, cash and cash equivalents, real estate and the loans portfolio.

Investment Portfolio

The investment fund portfolio is managed with the specific goal to grow the assets to meet the System's pension liability and ensure a reliable cash flow that provides for the funding requirements of near-term pension obligations. To achieve these goals, the Board allocates the Fund's assets to a variety of asset types and strategies in consultation with our in-house Investment Unit and Investment Advisor Meketa Investment Group. Generally, equity investments are included for their long-term return and growth characteristics, and fixed income assets are added for their ability to control investments risk and provide for a reliable cash flow that meets the System's funding requirements. The Fund's successful long-term performance confirms the importance of asset diversification and controlling investment risk within each asset class. An integral part of the overall investment policy is the strategic asset allocation policy. The targeted strategic asset allocation is designed to provide appropriate diversification and balance expected total rate of return with the volatility of expected returns. Specifically, the fund is broadly diversified across and within asset classes to limit the volatility of the total fund investment returns and to limit the impact of large losses on individual investments. Both traditional and nontraditional assets are incorporated into the asset allocation mix.

Performance

As shown in *Exhibit C*, as of June 30, 2012 and June 30 2013, the market values of the portfolio were $1,007.6 billion and $960.9 million respectively, which represents a decrease of $46.7 million. To meet obligations, $150.7 million was withdrawn from the Fund. The Fund earned income of $24.4 million and had a gain in the portfolio of $79.5 million. The System's aggregate assets performance as of June 30, 2013 (Fiscal YTD) is 5.3 percent. The aggregate performance since inception of the portfolio on July 1, 1981 is 9.3 percent.

We note that the market value of the Fund at July 31, 2013 and September 30, 2013 was approximately $980 million and $976.2 million respectively.

Over the last year ending July 31, 2013, continued Middle East turmoil, European debt issues and uncertainty in the Emerging Markets had not slowed returns within the equity markets. Corporate earnings growth fueled positive returns. Conversely, rising interest rates yielded negative returns within the debt markets' which caused many to flee debt investments. The U.S. stock market, as represented by the S&P 500 index, returned 21.6 percent. Also, the international market, as represented by the MSCI EAFE index, returned 23.5 percent. As a result, the Fund's domestic and international allocations returned 27.9 percent and 24.6 percent respectively. The Fund's fixed income allocation declined 0.3 percent. The Fund in the aggregate earned a return of 13.6 percent.

Restructuring

The System will continue its commitment to a disciplined investment strategy that focuses on long-term results. Our mission is to promote long-term financial security for our membership while maintaining the stability of the Fund. The System's investment fund is presently managed by 11 investment managers. In August 2013, the Board added 1 new manager and terminated 7 investment managers (6 equity managers and 1 bond manager) for underperformance. Approximately, $416.4 million were transitioned from these managers and invested in index strategies. Indexing is a "passive" form of fund management that has been successful in outperforming most actively managed funds. The portfolio is constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index. The primary advantage of investing in these strategies is to provide broad market exposure, low operating expenses and low portfolio turnover.

One of the new index strategies comprise of Treasury Inflation Protected Securities (TIPS) are considered an extremely low risk investment since they are backed by the U.S. government. Their par value rises with inflation, as measured by the Consumer Price Index, while their interest rate remains fixed. TIPS are indexed to inflation in order to protect investors from the negative effects of inflation. The estimated savings in management fees due to the restructuring is expected to be $1.4 million.

Outlook

Corporate earnings growth, in which the developed markets have benefitted, may come under pressure in the short to medium-term. Fortunately, the GERS has recently allocated to the emerging markets. As corporate earnings slow in the developed markets, investors may look to the emerging markets as more of a value proposition. Our reallocation to emerging markets may have come at an opportune time.

There are a few upcoming events that may create turbulence within the financial markets going forward. The potential U.S. Fed taper, Fed Chairman change, debt ceiling debate, and an attack on Syria all contain potential destabilizing effects. Any one or combination of these events can cause a severe downdraft. We are confident that the recent changes made to the fund, including TIPS and Emerging Market Equities, will help the Fund navigate through these uncertain times.

Title 3, Section 12, Chapter 27 of the Virgin Islands Code gives the Board of Trustees the authorization to invest in an Alternative Investment Program. Alternative investments are private market (non-publicly traded) investments in domestic and international venture capital and special equity. The Alternative Investment Program is designed to enhance the total Fund performance by generating a long-term rate of return greater than the assumed actuarial rate of 7.5 percent. GERS seeks to support investing within the Virgin Islands community to influence job creation and/or retention, wage prosperity and economic expansion. To date, GERS has invested in three types of alternative investments, private equity, real estate and special situations (local investments).

Private Equity

Mesirow Financial Private Equity Fund

On July 31, 2008, the Board of Trustees approved Mesirow Financial Private Equity Fund as an alternative investment and committed a total of $25 million to the Fund ($15 million in Fund IV and $10 million in Fund V). As of September 30, 2013, investments made toward the commitment for Fund IV was $10.8 million with distributions of $1.7 million. Fund V investments made toward the commitment were $4.4 million with distributions of $452 thousand. The System has a limited partnership in both funds.

Real Estate

(A) **GERS Complexes**

The System owns:

- **The three story complex on St. Thomas which is the official headquarters of the GERS.** The tenants are the Division of Personnel, the

Department of Justice and ResCare (Job Corp).This property was appraised at $8.4 million on January 10, 2012.

- **The new complex on St. Croix which houses the St. Croix operations**. This property was appraised at $2.8 million on August 15, 2012.
- **The former GERS St. Croix office building and the adjacent building which is occupied by the Casino Control Commission.** Both properties were appraised on August 15, 2012 at $400,000.00 and $500,000.00 respectively.

Rents and utility payments received and outstanding Year-to-Date (September 2013) are shown in *Exhibit D* and summarized below:

Category	YTD Total Received	YTD Total Arrearage
Rents	$679,063	$195,498
Electricity	$477,377	$487,597

(B) **Land**

Estates Hoffman and Nullyberg

In 2006, the System purchased 120 acres of land at Estates Hoffman and Nullyberg on the east end of St. Thomas. The Development Committee has proposed a mixed use development consisting of a conference and entertainment center, hotel, 108 units for assisted living and 105 single family lots. A public hearing was held by the DPNR on July 12, 2011 on the proposed zoning map amendments from A-1 (Agricultural District) to R-3 (Residential

Medium Density) with a use variance for general and professional offices and from A-1 to R-2 (Residential Low Density-One and Two Family). A hearing was held on October 26, 2011 before the Committee of the Whole on the rezoning. At that hearing, a challenge was made by a member of the New Herrnhut Moravian Church as to rightful ownership to a portion of the property. On January 23, 2012, a meeting was held with officials of the church and their attorney. No evidence of ownership of the property was provided to the GERS. To date, we have not received a response from the church or their attorney.

The rezoning of the Estate Hoffman/Nullyberg property (Bill No. 29-0223) was approved during the final session of the Committee of the Whole of the 29th Legislature. However, the Governor vetoed the rezoning because of discrepancies between the DPNR report and the language in the Bill. This measure is still pending before the 30th Legislature.

The property was appraised at $3.5 million on October 15, 2012.

Estate Coakley Bay

In October 2010, the System purchased 170 acres of land at Estate Coakley Bay on the east end of St. Croix for $5 million. After more than two years of consultation with our architects/engineers, Jaredian Design Group, the GERS Development Committee which consists of Trustees of the Board, determined the best use of the property is to develop a Planned Area Development (PAD) consisting of a mixture of single family residential lots, independent living for the elderly and commercial space. The goal of the GERS is to develop this property in a way that will allow St. Croix to grow economically while preserving its environmental and cultural assets. A public hearing was held in St. Croix on December 11, 2012 and the rezoning hearing before the Committee of the Whole was held on July 24, 2013 in St. Croix. The Legislature passed Bill No. 30-183 on August 7, 2013, and it was approved by the Governor on August 23, 2013.

The property was appraised at $5.9 million on June 22, 2010. An updated appraisal of the property is pending.

(C) **Havensight Shopping Mall**

The Havensight Shopping Mall was purchased on June 30, 1993, for $32 million. Since 1993, this property has grossed in excess of $100 million in revenues and the System has earned a return on its investment in excess of $67 million. The Property was appraised at $66.6 million on January 27, 2010. An updated appraisal of the property will be done after the completion of the road construction in the surrounding areas.

The Board is currently in negotiations with the West Indian Company (WICO) to continue managing the Mall.

Special Situations

Seaborne Airlines

On December 4, 2009, a loan in the amount of $3,300,000 was closed with Seaborne Virgin Islands, Inc. The term of the loan is 5 years. On November 2, 2012, Seaborne refinanced its loans and received an additional $1,500,000 with an interest rate of 6.25 percent per annum. The original principal indebtedness on the Term Note was amended and restated to be $2,300,000 with an interest rate of 6.25 percent per annum on the unpaid balance. The original principal indebtedness on the Convertible Note was amended and restated to be $1,000,000 with an interest rate of 8.25 percent per annum.

At the end of July 2013, there were changes in Seaborne's leadership, management team and the Board of Directors. Its operations have expanded from primarily a seaplane and Twin Otter local operation to regional operation with a 34 seats Saab carrier. The GERS will have two seats on the newly constituted five members Board. Negotiations are still ongoing with the new management regarding the restructuring of the loans.

Renaissance Carambola Beach Resorts and Spa

On December 8, 2009, a loan in the amount of $15,000,000 was closed with Carambola Northwest, LLC at a term of 5 years.

On November 2, 2012 a final Disposition Agreement was executed with Carambola Northwest, LLC. By executing the Disposition Agreements, the Carambola property was immediately turned over to the GERS. This action was taken as a result of Carambola defaulting on its principal and interest payments. A Board and Bylaws have been established for Carambola Northwest, LLC. The Board meets monthly. The required financial audits and legal due diligence and completion of the renovation of the remaining rooms and repairs are ongoing. When the audits are completed, we will advise our members and the general public on the details and the future of this investment. The Marriott Flagship and Franchise Agreement continue to remain in place.

V.I. Property Tax Revenue Anticipation Note

On November 14, 2011, the GERS entered into a loan agreement with the Government of the Virgin Islands (GVI) in the amount of $13 million at an interest rate of 4.91 percent and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005, totaling approximately $36 million. The GVI is current on the note. As of September 23, 2013, the GERS has received $5,902,523 of which $4,956,964 is principal and $945,559 is interest. The balance on the note is $8,043,036.

We note that the GVI and the GERS are negotiating a Settlement Agreement to use any excess collection of property taxes to pay the missing employer contributions that are due to the GERS.

Life Settlements

The Attilanus Fund I, L.P.

On August 15, 2006, the System invested $50 million in a limited partnership (The Attilanus Fund which was formerly known as the Atticus Fund I, L.P.). The partnership purchases senior life insurance policies for individuals age 65 and older and have an expected life expectancy of 5 to 7 years. A senior life settlement provides cash payment in exchange for the assignment of an ownership interest in the life insurance policy insuring the life of an individual.

The partnership agreement is effective through December 31, 2017 and could be extended for an additional two years. In 2008 because of the restructuring of the portfolio, the System received a distribution in the form of a return of capital totaling $8.2

million. The estimated fair value of the limited partnership at September 30, 2011 was $43 million. Due diligence on the Fund and also an investment valuation is currently being done by an outside consulting firm to determine the fair value of the Fund at September 30, 2012.

Loans

The System provides personal, auto, land and mortgage loans to qualified members and retirees. During Fiscal Year 2013, the loan portfolio generated revenues (interest income) to the System in excess of $9 million.

At June 30, 2013, there were 8,598 units in the loans portfolio with a total value of $142.3 million as shown in *Exhibit E*.

On October 27, 2008, the Board of Trustees passed Resolution No.15-2008 which changed the down payment for mortgage and land loans from 10 percent to 5 percent.

On April 19, 2012, the Board of Trustees passed Resolution Nos.7-2012 and 8-2012 which changed the mortgage rates effective October 1, 2012. The rates were adjusted as follow:

- 30 year mortgage rate from 8.00 percent to 5.75 percent,
- 15 year mortgage rate from 8.00 percent to 5.00 percent, and
- Land purchase mortgage rate from 8.00 percent to 5.00 percent.

On September 23, 2013, we implemented the provision in Title 3, Chapter 27 Section 717(b) (14) which makes available the maximum personal loan of $50,000 to retirees who qualify. The application requirements are available in our offices and on our Website.

ACTUARIAL VALUATION INFORMATION

Title 3, Chapter 27, Section 718 (a) of the Virgin Islands Code mandates that the Employees' Retirement System of the Government of the Virgin Islands be financed on an "actuarial reserve basis". An **"actuarial reserve basis"** generally means that the retirement benefits are funded during employees active years of employment so that by the time they retire, the benefits would have been fully funded in advance of their retirement date. The actuarial valuation, which is conducted by the System's Actuary, determines the contribution rate necessary to meet the cost of benefits being accrued and a corresponding amount to pay down a portion of the unfunded liabilities. A schedule of the unfunded actuarial accrued liability and the funded ratios from fiscal years 1998 through 2012 is presented as *Exhibit F*.

An actuarial valuation is performed every two (2) years. The last valuation was completed as of October 1, 2011. The valuation for Fiscal Year 2013 is ongoing and will be completed in a few months.

We note that in June 2013, the Fund's assumed actuarial rate was reduced from 8 percent to 7.5 percent, retroactive to October 1, 2011.

PROPOSED LEGISLATION AND AMENDMENTS

New legislation and amendments were submitted to the 29th Legislature in 2011 and 2012 which resulted in Bill No. 29-0099. During the 29th Legislature, GERS testified four (4) times before the Committee on Government Operations, Energy and Veteran's

Affairs, and two (2) times before the Committee on Rules and Judiciary. However, the Bill was not voted out of the Rules Committee to the floor before the 29th Legislature ended. Subsequently, a Pension Reform Taskforce and Advisory Committee were created by the Governor and a report titled "The Road to Reform– Pension Reform Taskforce Report of the Government Employees Retirement System" was published on April 29, 2013. We note that 98 percent of the GERS Board of Trustees' recommendations that were included in Bill No. 29-0099 were included in the Taskforce Report.

We recommend incorporating the Taskforce's recommendations and the amendments and changes to the Reform Act of 2005 that were submitted by the GERS to the 29th Legislature as a comprehensive pension reform bill.

Any amendments or new legislation that will change Title 3, Chapters 27 and 28 may require changes to the V3 System, and will be a cost to the GERS. Therefore, we recommend that this body appropriate a minimum of $2 million for the GERS that should be made available until expended to defray the cost of changes to the software.

TECHNOLOGY UPDATE

On March 12, 2012, we rolled out the first phase of the new Benefits and Loans Integrated Software System (V3 application). Last year, we reported that we had experienced many challenges especially with the posting of the deduction files. We are happy to report that we have been receiving and posting the deduction files timely, with the exception of the Juan F. Luis Hospital and Medical Center. All functionalities of the new system are not operating at 100 percent. There are still many hurdles to complete with the reconciliation of the output and some reprogramming of the software.

The *first phase* of the Member Self Service (MSS) and Employee Self Service (ESS) modules went live on March 15, 2013. This function gives all members the ability to access the self-service portion of the software. Members now have the ability to view and make changes to their information to include demographics, update addresses and contacts, view and download their participant's (contributions) account, and retirees can view and down load their pay stubs.

The *second phase* of the self service is expected to be available during the 2nd quarter of fiscal year 2014, and will include the email functionality where members will be able to apply for ACH transactions online.

The *third phase* will incorporate e-form capability and is expected to become operational during the 3rd quarter of fiscal year 2014.

ANNUAL FINANCIAL AUDIT

The System's most recent certified financial statements are as of September 30, 2011. The fieldwork for the Fiscal Year 2012 financial audit is completed. The audit report is expected to be issued by the middle of November 2013.

ACCOMPLISHMENTS

Our **major** accomplishments for Fiscal Year 2013 were:

- The fieldwork for the Fiscal Year 2012 Annual Certified Financial Audit has been completed. The financial statements will be issued very shortly.
- We increased the retirees and beneficiaries direct deposit participation from 91 percent at June 30, 2012 to 94 percent at September 30, 2013.

- We held a Board Retreat on St. Croix, June 12th – 14th, 2013 which was extremely successful. The purpose of the retreat was to bring the trustees and staff together to engage in frank discussion about pressing issues affecting the System. Some of the topics discussed were: the Governor's Taskforce Recommendations and Impact to the Fund, Missing Employer Contributions, New GASB Rules and Impact on the Actuarial Valuation, Governance, Ethics and Compliance and Securities Litigation.
- We approved the System's formal Investment Policy Statement.
- We implemented performance reporting for our investment managers.
- We completed the evaluation of the Life Settlement (Alternative Investment).
- We completed the Certified Actuarial Valuation for the period ended September 30, 2011.
- We reduced the utility (electrical) cost at the GERS Complex in St. Croix.
- We completed major replacement of the air conditioning and elevator equipment at the GERS Complex in St. Thomas.
- We completed the Record Retention, Capital Assets, Customer Service, Personnel and Procurement policies for submission to the Policy Committee for review and approval by the Board.
- We cross-trained the Manager of Loan Processing in the St. Croix office to perform all functions as her counterpart in St. Thomas.
- We included the Managers of Loan Processing and the Mortgage Officers to present at the Pre-retirement Workshops.
- We closed seven (7) mortgage loans since the Board decreased the interest rates.

- We finalized the agreements and procedures with the insurance company and executed a MOU with the Division of Personnel – Health Insurance Fund to administer retiree loans in excess of $10,000.
- We successfully implemented on September 23, 2013, the newly increased maximum of $50,000 for the Retiree Personal Loan up from the previous $10,000.

GOALS FOR FISCAL YEAR 2014

- We will complete a comprehensive long range Strategic Plan for the System with the assistance of the University of the Virgin Islands.
- We will issue the Fiscal Year 2013 Annual Certified Financial Statements and Annual Report by April 15, 2014.
- We will complete the September 30, 2013 Certified Actuarial Valuation by the 2nd quarter of Fiscal Year 2014.
- We will reduce the backlog of prior service requests by 50 percent.
- We plan to achieve an overall 99 percent direct deposit participation for the annuitants and pensioners payroll.
- We will continue to provide system-wide customer service training in order to decrease the number of complaints reported by the members.
- We will complete the full implementation of the member and employer self-service modules.
- We will continue to provide the necessary education through workshops and social media to assist our members with planning for retirement and managing their retirement funds.

- We will continue to work to implement the Supplemental Contribution Program.
- We will continue to improve the technology infrastructure to support the internal and external operations of our new systems, and reduce the outstanding issues surrounding the new V3 benefits and loan system by 50 percent.
- We will continue to address energy saving measures in our older buildings, to include installation of solar systems.
- We will begin the due diligence and planning on final determination on the development of Estate Hoffman/Nullyberg on St. Thomas and Estate Coakley Bay on St. Croix.
- We will encourage members in the St. Croix district to apply for mortgages with the System.
- We will seek to obtain an IRS Determination Letter.

SUMMARY

Mr. Chairman, the purpose of the actuarial valuation which was completed for Fiscal Year 2011 and presently being updated for Fiscal Year 2013, was to determine whether the assets and contributions were sufficient to provide the prescribed benefits of the plan. The answer is a resounding "no". For Fiscal Year 2012, the plan has an estimated actuarial accrued liability of $2.9 billion, an estimated actuarial value of assets of $1.3 billion, resulting in an estimated unfunded actuarial accrued liability of approximately $1.6 billion, resulting in a funded ratio of 45.28%.

The GERS and Pension Reform Taskforce Report recommendations are designed to make changes to the plan benefits structure and contribution rates in some form or the other. If these recommendations are not implemented, the plan is projected based on actuarial assumptions to become insolvent by 2023.

The purpose of the Pension Reform Act of 2005 was to slow down the bleeding to the System. This was a novel thing that was done. However, because of various reasons the measures were not implemented until 3 – 4 years later. We now must move swiftly and make the necessary changes to the plan benefits structure and the contribution rates that represent shared sacrifices across the board from all stakeholders.

The GERS affirms its place in the territory's economy by providing a stable source of stimulus through the annuity payments to the retirees and beneficiaries and loans to its members. The GERS remains committed to ensure that our members experience a stress free retirement process and a secure retirement.

I would be remised if I did not commend the Member Services staff and the staff of the Payroll Servicing Unit for making sure that our annuitants and pensioners have access to their annuity payments on the 15th and the last day of each month. Also, I would like to extend a heartfelt thank you to *all* the employees of the GERS for the hard work that they have done over the past 5 years during the reorganization of the System and the implementation of the new technologies.

There are many who have accused me of spreading "doom and gloom" about the status of the System. I do not know how more persuasive I can be to sound the clarion call that the System is not healthy. The GERS is not unique. The majority of pension systems in the United States and other parts of the world are experiencing similar problems. Our recommendations are not made in a vacuum. We draw from the experiences of other pension systems and the recommendations from our experts.

Some see a billion dollars investment portfolio and feels that it will never be depleted in my lifetime. You may recall in 2008, the portfolio decreased from a high of approximately $1.3 billion to a low of approximately $800 million. Also, the System withdraws approximately $150 million annually from the portfolio to fund annuity payments and operations. In Fiscal Years 2010, 2011 and 2012, the System collected approximately $91.2 million, $99.2 million and $144.9 million less respectively in contributions. The contributing base has decreased from $120.3 million in Fiscal Year 2009 to $104.4 million in Fiscal Year 2012.

Bill No. 29-0099 which included the System's proposed legislation and amendments, died in the 29th Legislature because it was introduced in a political year, just sixty (60) days before the November 2012 elections. At the final meeting of the Rules Committee just two (2) weeks before the election, the sponsor of the Bill mentioned on the floor that the votes were not there to move Bill No. 29-0099 out of Committee to the full body. We ask that the 30th Legislature show the progressive leadership that is required at this time without fear of pressure from interest groups and political ramifications, and do the right thing. Pass a comprehensive pension reform bill that will ensure the sustainability of the System for the next thirty (30) years through 2043.

On October 29th, it will be six (6) years since I have been at the GERS. We met challenges which at that time seem to be insurmountable and we have overcome many. Our goal is to continue to work diligently and tirelessly, in accordance with the law and our fiduciary duty, to turn this System around by proposing the necessary recommendations to change the benefit structure of the plan and identifying sustainable revenue streams to fund the annual cash shortfall. The plan sponsor must be held accountable to live up to its responsibility to ensure that the Plan is financed on an "actuarial reserve basis". In actuality, the plan sponsor has diverted approximately $1.6 billion over the years in funding to the System to fund General Fund operations.

Mr. Chairman, this concludes our presentation. We are prepared to respond to any questions the Committee may have on the operations of the GERS.

MEMBERSHIP

UA = Unaudited

The overall membership in the System for FY 2013 at September 30, 2013 is shown in the table below:

Fiscal Year		Active Members	Retirees & Beneficiaries	Ratio of Actives to Retirees	Total Members
1982		**8,914**	**1,360**	**6.55 to 1**	**10,174**
1987		10,466	2,338	4.47 to 1	12,804
1991		11,766	2,901	4.05 to 1	14,677
1993		11,642	3,473	3.35 to 1	15,115
1994		12,116	3,751	3.23 to 1	15,867
1995		**11,493**	**4,438**	**2.58 to 1**	**15,931**
1997		11,572	4,682	2.47 to 1	16,254
1999		10,763	6,212	1.73 to 1	16,975
2001		**9,303**	**5,581**	**1.66 to 1**	**14,884**
2002		11,352	5,938	1.91 to 1	17,290
2003		10,555	6,052	1.74 to 1	16,607
2004		9,362	6,258	1.49 to 1	15,620
2005		**9,967**	**6,484**	**1.54 to 1**	**16,451**
2006		**9,841**	**6,731**	**1.46 to 1**	**16,572**
2007		11,207	6,811	1.65 to 1	18,018
2008		11,122	7,050	1.58 to 1	18,172
2009		11,085	7,134	1.55 to 1	18,219
2010		11,117	7,497	1.48 to 1	18,614
2011		10,731	7,868	1.36 to 1	18,599
2012	UA 9/30/12	9,366	8,151	1.14 to 1	17,517
2013	UA 9/30/13	9,240	8,362	1.10 to 1	17,602

Exhibit A

CONTRIBUTION VS. BENEFIT PAYMENTS & EXPENSES

Fiscal Year		Total Contributions	Benefits Payments & Expenses	Surplus/Deficit
1994		61.7	46.7	15.0
1995		74.9	64.6	10.3
1996		71.7	73.3	(1.6)
1997		74.3	80.0	(5.7)
1998		71.9	91.6	(19.7)
1999		71.7	95.4	(23.7)
2000		70.2	103.7	(33.5)
2001		69.1	121.2	(52.1)
2002		80.1	133.0	(52.9)
2003		82.1	138.0	(55.9)
2004		84.9	142.6	(57.7)
2005		81.9	153.0	(71.1)
2006		99.3	161.0	(61.7)
2007		96.6	170.5	(73.9)
2008		112.8	184.7	(71.9)
2009		120.3	193.9	(73.6)
2010		117.1	208.3	(91.2)
2011		123.8	223.0	(99.2)
2012	(Unaudited)	104.4	249.3	(144.9)
2013	(Unaudited)	95.4	196.8	(101.4)

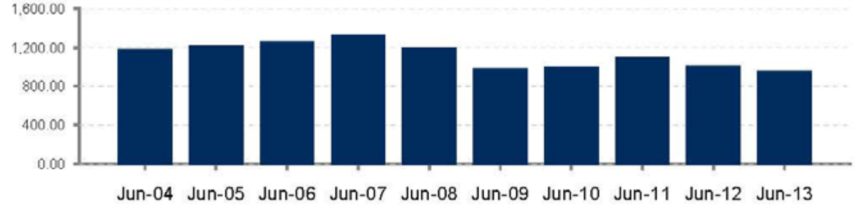
Exhibit B

GERS OF USVI
June 30, 2013

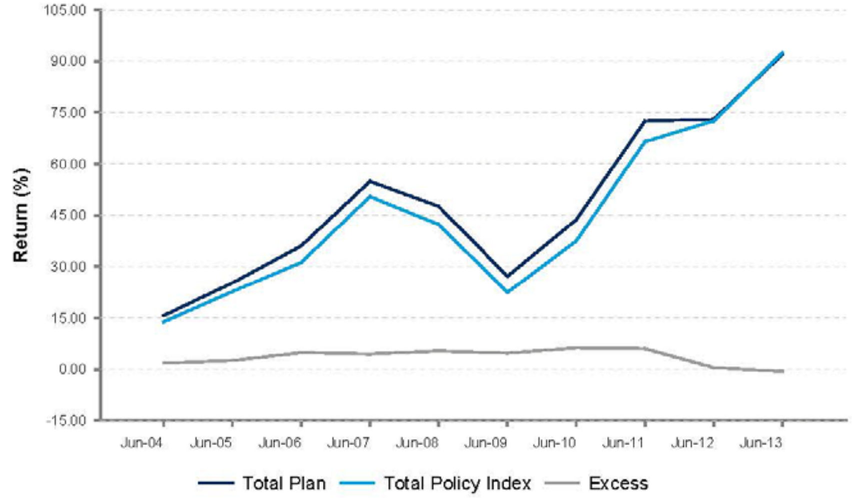
Record of Asset Growth

	One Year
Beginning Market Value	1,007,631,815
Net Cash Flow	-150,697,039
Income	24,392,433
Gain/Loss	79,539,287
Ending Market Value	960,866,496

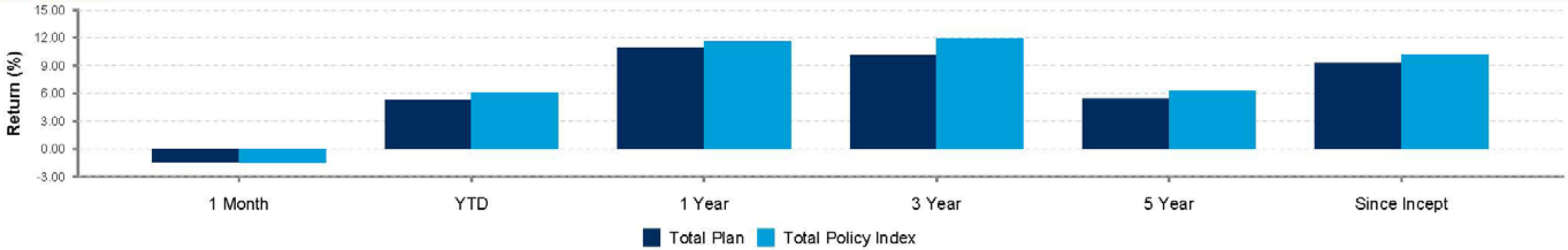
Net Asset Value over Time ($000)



Cumulative Return (%)



Rates of Return



	1 Month	YTD	1 Year	3 Year	5 Year	Since Incept	1 Year as of Dec 31 2012	1 Year as of Dec 31 2011	1 Year as of Dec 31 2010
Total Plan	-1.39	5.26	10.94	10.14	5.39	9.28	11.06	-0.93	13.36
Total Policy Index	-1.45	6.09	11.62	11.90	6.24	10.19	11.43	2.59	12.61
Excess	0.06	-0.83	-0.68	-1.75	-0.85	-0.91	-0.36	-3.53	0.75

Exhibit C

RENTAL ACTIVITY

Entity	September 2013 Rental Collection	September 2013 Electric Collection	Rental YTD	Electric YTD	Rental Arrearage	Electric Arreage
Dept of Justice	$ -	$ 28,180	$ 444,756	$ 324,580	$ 74,126	$ 474,108
Division of Personnel	$ -	$ -	$ 127,974	$ 143,048	$ 86,295	$ 13,489
Dividion of Personnel Library					$ 35,077	
First Bank	$ 258	$ 207	$ 3,094	$ 1,267	$ -	$ -
ResCare (Job Corps)	$ -	$ 679	$ 19,233	$ 8,482	$ -	
Casino Commission			$ 84,006			
Total	**$ 258**	**$ 29,066**	**$ 679,063**	**$ 477,377**	**$ 195,498**	**$ 487,597**

Exhibit D

LOAN PORTFOLIO

BALANCES AT JUNE 30, 2013

LOAN CATEGORY	CURRENT INTEREST RATE	UNITS	DOLLAR VALUE
Personal - Active	8.00	5,724	100,531,536.03
Personal - Retiree	8.00	2,653	35,117,538.53
Auto	8.50	14	104,521.40
Land	5.00	30	720,086.28
1st Priority Mortgage	5.00/5.75	176	5,829,152.99
2nd Priority Mortgage	6.00/6.75	1	7,976.00
TOTALS		**8,598**	**142,310,811.31**

Exhibit E

UNFUNDED LIABILITY

Year		(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	Actuarial accrued liability (a) + (b)	Funded Ratio (a)/(c)
1998		1,078,291,775	307,300,371	1,385,592,146	77.82%
1999		1,255,210,822	518,608,964	1,773,291,625	70.78%
2000		1,330,089,822	525,608,964	1,855,698,786	71.68%
2001		1,342,894,336	731,727,064	2,074,621,400	64.73%
2002		1,337,676,064	815,884,419	2,153,560,483	62.11%
2003		1,346,906,862	921,669,858	2,268,576,720	59.37%
2004		1,360,288,336	977,502,024	2,337,790,360	58.19%
2005		1,366,982,183	1,088,574,553	2,455,556,736	55.67%
2006		1,421,093,035	1,236,571,529	2,657,664,564	53.47%
2007		1,509,244,380	1,241,138,878	2,750,383,258	54.87%
2008		1,530,604,789	1,310,218,726	2,840,843,515	53.88%
2009		1,534,899,736	1,397,261,661	2,932,161,397	52.35%
2010		1,505,970,212	1,513,059,673	3,019,029,885	49.88%
2011		1,448,926,591	1,719,110,906	3,168,037,497	45.74%
2012	Estimated	1,327,038,907	1,603,758,454	2,930,797,361	45.28%

Exhibit F