

Government Employees' Retirement System of the Virgin Islands  
Annual Overview of Operations

FISCAL YEARS

2022/2023



"Contributing today for a better tomorrow"

Presented to  
Committee on Finance  
34<sup>th</sup> Legislature of the Virgin Islands of the United States

Earl B. Ottley Legislative Hall  
Tuesday, August 16, 2022  
St. Thomas, U.S. Virgin Islands

**GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM  
OVERVIEW OF OPERATIONS**

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## **INTRODUCTION**

Good afternoon Honorable Senator Kurt A. Vialet, Chairman, Committee on Finance, distinguished Committee members, other distinguished senators present in the chambers, and good afternoon to the listening and viewing audience. I am, Austin L. Nibbs, Administrator/CEO of the Government Employees' Retirement System of the Virgin Islands (GERS). I am pleased to appear before this Committee to present the System's Annual Overview of Operations. At this time, I will pause for the executive staff present to introduce themselves.

As you know, the System is not required to submit a budget to the Legislature for approval. The Board of Trustees is responsible for the approval of the annual budget of the GERS. Therefore, our presentation is an overview of the operations of GERS. We will, however, respond to any questions posed by the committee relating to budgetary information submitted to the Post Audit Division. A schedule of our budget was submitted to the Post Audit; we would like to place on record that the GERS fiscal year 2023 budget has not yet been approved by the Board of Trustees.

Before we begin, I would like to thank the employees of the GERS for their dedicated service that they have provided to our members during the uncertain times of looming insolvency and the Covid-19 pandemic period. Although, our offices were closed, and we did not offer in-person services to our members and the public for about two years, I can report that productivity and the delivery of services remained high.

We also thank the 34<sup>th</sup> Legislature and the Administration for their commitment to the finding a mechanism to fund the GERS and curtailed insolvency. Prior to the installment amounts expected from the Funding Note, the System was projected to run out of money in the fiscal year ending September 30, 2025, which would have

resulted in retiree benefits being reduced to the level of the contributions received. This does not mean that all of the problems that existed because of many years of neglect to fund the System on an actuarial reserve basis have gone away; to the contrary. Later in our presentation, we will highlight the problems that continue to exist and our recommendations.

### **MAJOR ACCOMPLISHMENTS FOR FISCAL YEAR 2022**

Our major accomplishments are presented below based on our strategic plan five areas of focus. Organizational Development, Stakeholder Engagement, Technological and Infrastructure Advancement, Financial/Fiscal Sustainability and Growth, and Operational Efficiency and Excellence.

- ✓ Paid negotiated adjustments to staff.
- ✓ Completed negotiations with bargaining units for subsequent years.
- ✓ Active members allowed to participate in regular board meetings.
- ✓ Circulated newsletters via constant contact.
- ✓ Partnership with AARP on Financial Wellness seminars.
- ✓ Continue to stream all board meetings live on our YouTube Channel.
- ✓ Migrated 95% to cloud-based solutions.
- ✓ Implemented Avaya Soft Phone and the Customer Service Cal Center for efficient internal/external communication.
- ✓ Supported and provided resources and tools to the staff to operate remotely during COVID-19 and beyond.
- ✓ Created and implemented the telework policy.
- ✓ Applied and received funding from FEMA for storm damage at the GERS and Havensight Mall.
- ✓ Reduced retirees receiving paper checks to 2%.
- ✓ Reduced the time to process the initial retirement annuity payment to an average of 90 days.
- ✓ Negotiated a long-term lease with Port of Sale.
- ✓ Negotiated a term sheet for the hotel development at the Havensight Mall.

### **MAJOR GOALS FOR FISCAL YEAR 2023**

- ✓ Further reduce the time to process the initial retirement annuity payment.
- ✓ Issue the Tier II Annual Benefits Statement.
- ✓ Begin the migration of the V3 from Version 8 to Version 10.
- ✓ Complete the roofing and air conditioning capital projects at complex on St. Thomas.
- ✓ Begin the demolition of the warehouses at the Havensight Mall for the green space and lease space for the development of a branded hotel.
- ✓ Complete the procurement process for replacement of underground piping at the Havensight Mall.

- ✓ Finalize the partnership arrangement with the Historic Trust to operate a museum on the Havensight Mall property (White House).
- ✓ Finalize the procurement of power generation equipment at the Havensight Mall and the GERS Complex.
- ✓ Complete the search and select a successor Administrator/CEO by the end of 2022.
- ✓ Correct the imbalance in board members.

## **MEMBERSHIP AND ANNUITY PAYMENTS**

As of the July 29, 2022, payroll, the GERS paid benefits to 8,734 retirees and beneficiaries. The number of retirees added to the payroll from October 1, 2021 – July 29, 2022, was 320. During that same period, 266 deceased retirees were removed from the payroll.

The total amount paid in benefits from October 1, 2021 – July 29, 2022, was \$217,753,268.19. The average monthly amount that is paid in benefits to the retirees and beneficiaries is approximately \$22 million.

The active membership as of July 30, 2022, was 8,928 (central government 6,341 and semi-autonomous agencies 2,587). There is a 1.02 ratio between the actives and the retirees.

## **REFUND OF CONTRIBUTIONS**

The refunding of contributions continues to negatively affects our cash flow.

Fiscal Year	Amount (\$M)
2018	\$11.4
2019	12.4
2020	8.3
2021 (Unaudited)	8.8
2022 (July 31 <sup>st</sup> - Unaudited)	6.4

We expect this trend to decrease due to the additional funding that will be infused in the system in future years. It is our hope that the funding should increase the confidence of the non-vested member to continue employment with the

government and not withdraw their contributions which will further reduce the cash flow and investment opportunities.

**EMPLOYER CONTRIBUTIONS DUE FROM AUTONOMOUS AGENCIES**

As of August 5, 2022, the outstanding employee deductions, and employer contributions due from the Water and Power Authority (WAPA), the Roy L. Schneider Hospital (RLSH), and the Juan F. Luis Hospital (JFLH).

	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Other Deductions</u>	<u>Interest &amp; Penalties</u>	<u>Total Due</u>
WAPA	\$5.9M	\$2.0M	\$268K	\$874K	\$8.9M
RLSH	\$997.1K	\$482.2K	\$20.1K	\$ 1K	\$1.5M
JFLH	\$1.6M	\$763K	\$ -	\$ -	\$2.3M*

\* FYs 2012, 2013, and 2014.

**ACTUARIAL VALUATION/UNFUNDED LIABILITY – OCTOBER1, 2021**

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. An actuarial valuation is performed to calculate the ADC (or ADEC) and is based on the assumptions and methods adopted by the Board. For many years, the actual amounts contributed by the plan sponsors have not been based on the required ADC amounts. The amounts that were contributed by the Plan Sponsor have been significantly less than the required ADC. The October 1, 2021, actuarial valuation was presented in the board retreat held in July. The valuation will come before the board in the August 25<sup>th</sup> board meeting for approval. The full report will be provided to all senators and made public after approval by the board.

	<u>October 1, 2020</u>	<u>October 1, 2021</u>
<b>Actuarial Accrued Liability (AAL)</b>	\$5.11B	<b>\$5.12B</b>
Actuarial Value of Assets	\$0.58B	\$0.48B
<b>Unfunded Actuarial Accrued Liability</b>	\$4.53B	<b>\$4.65B</b>
<b>Funded Percentage</b>	11.4%	<b>9.3%</b>
Total Actuarially Determined		
Employer Contribution (ADEC)	\$373.7M	\$381.3M
<b>ADEC as a Percentage of Pay</b>	90.8%	<b>89.3%</b>

The information that is presented above and in Exhibit A represents the results of the Actuarial Valuation as of October 1, 2021. For this period, GERS had a Total Actuarial Accrued Liability of \$5.12 billion. Plan Assets totalled \$480 million, and the Unfunded Liability was \$4.65 billion. This resulted in a funded ratio of 9.3 percent on an ongoing actuarial basis. The ADEC as a percentage of payroll is 89.3 percent. We note that the current ADEC paid by the plan sponsors as a percentage of payroll is 23.5 percent.

### **PORTFOLIO PERFORMANCE – EXHIBIT B**

As of June 30, 2022, the market value of the portfolio was \$334.7 million which includes:

Domestic Fixed Income Assets - \$210.3 million  
Alternative Investment Assets (Private Equity-Limited Partnership) - \$10.8 million  
Cash - \$113.6 million

Other alternative investments (real estate, local investments, and member loans) - \$77.2 million.

Note that the total retirement system aggregate performance for the 1-year period was -6.9 percent and Fiscal YTD was -7.5 percent.

During the recent board retreat and investment committee meeting, our investment advisor (Meketa Investment Group) made recommendations to the board regarding changes to the asset allocation policy targets and investment strategies beginning September 1, 2022. These recommendations will come before the board in the August 25<sup>th</sup> board meeting for approval.

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## **WITHDRAWALS FROM PORTFOLIO – FISCAL YEAR TO DATE**

For fiscal year to date, \$120 million were withdrawn from the portfolio to cover benefit payments and expenses. We note that the initial installment contributions of \$89.2 million received from the GERS Funding Note was deposited in the cash account which restored the cash account to the level at the beginning of the fiscal year, which resulted in a net withdrawal for the fiscal year of \$30.8 million.

## **MEMBER LOAN PROGRAM**

As of July 31, 2022, the member loans portfolio consists of 1,333 personal loans (active-747/retiree-586) - \$11.6 million and 75 mortgages - \$3.9 million. A loan portfolio at July 31, 2022, of \$15.5 million.

On December 31, 2022, 596 of the 1,333 personal loans will mature and by the end of December 2026, all personal loans would have matured. The majority of the mortgages will mature by December 31, 2030.

During the board retreat, management recommended the reinstatement of the member loan program in accordance with Act No. 7880, for personal loans effective October 1, 2024 (Fiscal Year 2025), and for mortgages effective October 1, 2025 (Fiscal Year 2026). Historically, the member loan program provided diversification in the investment portfolio, provided financial assistance to the members, and earned a substantial investment income for the System. However, reinstatement of the program *internally* will be considered in conjunction with securing of GERS' long-term financial stability.

The System will be exploring the feasibility of partnership opportunities with third party financial institutions to provide credit as opposed to the use of the System's limited cash flows.

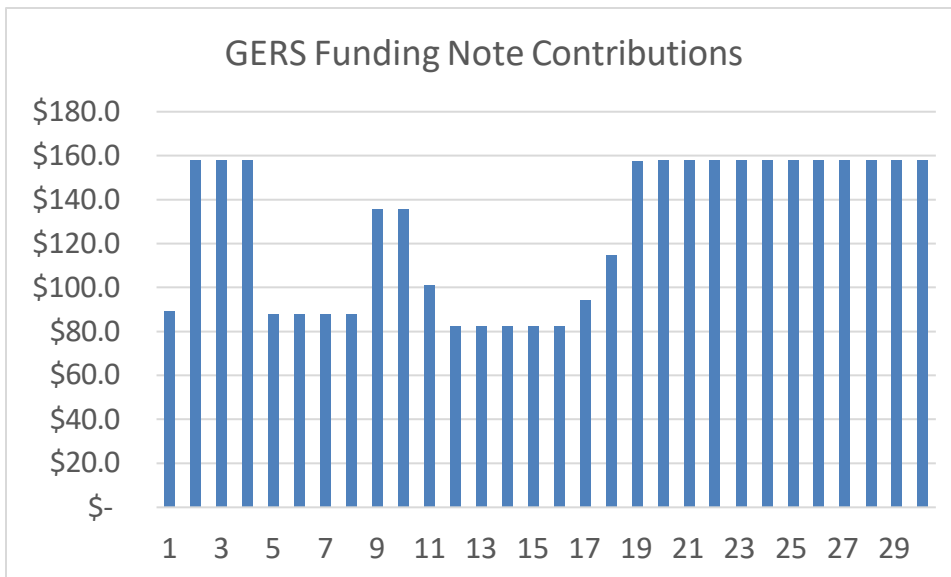


## ANNUAL FINANCIAL AUDIT

The System's fiscal year ending September 30, 2021, annual certified financial audit is delayed due to the mandatory rotation of auditors. The report is expected to be issued by the end of September 2022. All senators will receive a copy of the report.

## GERS FUNDING NOTE CASH FLOW ACTIVITY AND CHALLENGES – EXHIBITS C

The \$3.8 billion in cash contributions made available to the GERS by the Funding Note provide significant support for the long-term solvency of the System. On behalf of the 17,000 plus members of the System, we would like to thank the 34<sup>th</sup> Legislature again for its critical role in making it happen. However, we must bring to your attention that the unevenness of the annual cashflows, over the thirty-year term of the Note, presents a challenge that has to be carefully managed and overcome.



As the chart above illustrates and Exhibit C-1 shows, the annual contributions from the Note are heavily backloaded; with half of the total contributions being funded in the last twelve years -- mostly at the expense of the middle years (fiscal years 2033

-2038). The challenge is to bridge the gap in the middle years, in order to get to the \$1.9 billion on the back end. At the direction of the Board, work has begun on such a plan, which will likely involve further assistance from the Legislature.

As part of the plan, the Board is requesting two initiatives to be funded in the Government of the Virgin Islands' (GVI) FY2023 budget. Firstly, is to amend Title 3, Chapter 27, Section 718 (b) to advance to the GERS in FY2023 the increase in the **employer** contributions, from the current 23.5 percent to 26.5 percent of covered payroll, which the board is authorized to increase on January 1, 2025. This increase will add approximately \$13 million annually in employer contributions. Secondly, the Board requests that the Legislature rescinds Act No. 6233 which was passed by the 22<sup>nd</sup> Legislature in 1998 and include in the FY2023 General Fund Budget, funding the \$15 million annual administrative expenses of the System. This was the policy and practice until it was discontinued in 1998. Together, these two actions will constitute a miniscule 0.03 percent of the GVI's \$850 million General Fund budget for FY2023; but it can be meaningful in our planning, including the change in our asset allocation policy targets from fixed income (bonds) to equity exposure and the timing and scale of reinstating the member loan program.

## **CONCLUSION**

The Board looks forward to working with the 34<sup>th</sup> and 35<sup>th</sup> Legislatures to secure additional funding to offset the gaps in the annual cash flow deficits beginning with FY 2026 through FY 2039. Exhibits C-1.

Based on the current portfolio (excluding the local assets) assuming a 6 percent or 7 percent market rate of return would result in approximately \$18 million in annual gains, which would not be enough to offset the gap in the annual deficits. Therefore, the GERS cannot rely solely on its investments. Without additional funding, within ten years, this would result in the Fund being left with just its local investments in 2035 and

2036, respectively. Exhibits C-2 and C-3. Another means of additional funding would be to fill the vacant budgeted general fund positions.

Mr. Chairman, this concludes our presentation. We are available to respond to questions that the committee may have.

# Preliminary Valuation Results as of October 1, 2021

## EXHIBIT A

	October 1, 2020	October 1, 2021
<b>Actuarial Accrued Liability (AAL)</b>	\$5.11 Billion	\$5.12 Billion
<b>Actuarial Value of Assets</b>	\$0.58 Billion	\$0.48 Billion
<b>Unfunded Actuarial Accrued Liability</b>	\$4.53 Billion	\$4.65 Billion
<b>Funded Percentage</b>	11.4%	9.3%
<b>Total Actuarially Determined Employer Contribution (ADEC)</b>	\$373.7 Million	\$381.3 Million
<b>ADEC as a % of Pay</b>	90.8%	89.3%

The actuarial value of assets is the same as the market value of assets.

## Government Employees' Retirement System of the Virgin Islands

Total Retirement System Aggregate | As of June 30, 2022

### Asset Class Performance Summary

	Market Value (\$)	% of Portfolio	QTD (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	YTD (%)	Inception Date
Total Retirement System Aggregate	334,718,980	100.0	-3.3	-7.7	-7.5	-6.9	1.5	3.7	5.8	8.3	Jul-81
Domestic Fixed Income Assets	210,334,374	62.8	-4.7	-10.4	-10.5	-10.4	-0.7	1.1	1.5	6.6	Jul-81
<i>Bloomberg US Aggregate TR</i>			-4.7	-10.3	-10.3	-10.3	-0.9	0.9	1.5	7.1	Jul-BI
Alternative Investment Assets	10,829,628	3.2									
Cash	113,554,978	33.9									

Throughout this report, SI stands for 'Since Inception'.

On April 12, Meketa was notified of a plan to fund additional assets to GERS. The updated projected cash flows are below.

#### Estimated Cash Flow Activity

Fiscal Year End	Employee Contributions	Employer Contributions	Dedicated Funding Note	Estimated Cash In-Flow	Benefit Payments	Expenses	Estimated Cash Out-Flow	Estimated Total Cash Flow
2022	\$48.7	\$99.2	\$89.2	<b>\$237.1</b>	\$288.8	\$15.3	<b>\$304.1</b>	<b>-\$67.0</b>
2023	50.0	101.7	158.0	<b>309.7</b>	292.5	15.6	<b>308.1</b>	1.6
2024	51.3	104.2	158.0	<b>313.5</b>	296.6	15.9	<b>312.5</b>	1.0
2025	52.6	106.8	158.0	<b>317.4</b>	299.4	16.2	<b>315.6</b>	1.8
2026	54.0	109.5	81.5	<b>245.0</b>	302.8	16.6	<b>319.4</b>	<b>-74.4</b>
2027	55.4	112.2	73.6	<b>241.2</b>	310.9	16.9	<b>327.8</b>	<b>-86.6</b>
2028	56.9	115.0	82.4	<b>254.3</b>	313.9	17.2	<b>331.1</b>	<b>-76.8</b>
2029	58.3	117.9	82.4	<b>258.6</b>	316.5	17.6	<b>334.1</b>	<b>-75.5</b>
2030	59.8	120.8	82.4	<b>263.0</b>	318.3	17.9	<b>336.2</b>	<b>-73.2</b>
2031	61.4	123.9	82.4	<b>267.7</b>	319.6	18.3	<b>337.9</b>	<b>-70.2</b>
2032	62.9	127.0	82.4	<b>272.3</b>	320.3	18.7	<b>339.0</b>	<b>-66.7</b>
2033	64.6	130.1	82.4	<b>277.1</b>	320.6	19.0	<b>339.6</b>	<b>-62.5</b>
2034	66.2	133.4	82.4	<b>282.0</b>	320.2	19.4	<b>339.6</b>	<b>-57.6</b>
2035	66.8	134.5	82.4	<b>283.7</b>	319.0	19.8	<b>338.8</b>	<b>-55.1</b>
2036	66.8	134.5	82.4	<b>283.7</b>	316.8	20.2	<b>337.0</b>	<b>-53.3</b>

<sup>1</sup> Provided by GERS Staff and the Actuary.

## MEKETA

### Government Employees' Retirement System of the Virgin Islands

#### Funding Note and Asset Allocation Implications

#### Estimated Cash Flow Activity (continued)

Fiscal Year End	Employee Contributions	Employer Contributions	Dedicated Funding Note	Estimated Cash In-Flow	Benefit Payments	Expenses	Estimated Cash Out-Flow	Estimated Total Cash Flow
2037	66.8	134.5	82.4	<b>283.7</b>	313.8	20.6	<b>334.4</b>	<b>-50.7</b>
2038	66.8	134.5	94.5	<b>295.8</b>	310.4	21.0	<b>331.4</b>	<b>-35.6</b>
2039	66.8	134.5	114.6	<b>315.9</b>	305.8	21.4	<b>327.2</b>	<b>-11.3</b>
2040	66.9	134.5	157.6	<b>359.0</b>	301.0	21.9	<b>322.9</b>	<b>36.1</b>
2041	66.9	134.5	158.0	<b>359.4</b>	295.9	22.3	<b>318.2</b>	<b>41.2</b>
2042	66.9	134.5	158.0	<b>359.4</b>	290.5	22.7	<b>313.2</b>	<b>46.2</b>
2043	66.9	134.5	158.0	<b>359.4</b>	285.0	23.2	<b>308.2</b>	<b>51.2</b>
2044	66.9	134.5	158.0	<b>359.4</b>	279.7	23.7	<b>303.4</b>	<b>56.0</b>
2045	66.9	134.5	158.0	<b>359.4</b>	273.9	24.1	<b>298.0</b>	<b>61.4</b>
2046	66.9	134.5	158.0	<b>359.4</b>	268.6	24.6	<b>293.2</b>	<b>66.2</b>
2047	66.9	134.5	158.0	<b>359.4</b>	263.3	25.1	<b>288.4</b>	<b>71.0</b>
2048	66.9	134.5	158.0	<b>359.4</b>	258.4	25.6	<b>284.0</b>	<b>75.4</b>
2049	66.9	134.5	158.0	<b>359.4</b>	253.4	26.1	<b>279.5</b>	<b>79.9</b>
2050	66.9	134.5	158.0	<b>359.4</b>	248.4	26.6	<b>275.0</b>	<b>84.4</b>
2051	66.9	134.5	158.0	359.4	243.9	27.2	271.1	88.3
2052	66.9	134.5	158.0	359.4	239.6	27.7	267.3	92.1

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<sup>1</sup> Provided by GERS Staff and the Actuary.

# Impact of GERS Funding Note

*Assuming 6% market rate of return*

Projected Assets as of September 30 (in \$millions)



Excluding Funding Note

Including Final Terms of GERS Funding Note

Including Initial Estimates of GERS Funding Note



# Impact of Updated Capital Market Assumptions

*Assuming market rate of return of 7% vs. 6%* · **EXHIBIT C-3**

