EMPLOYEES RETIREMENT SYSTEM
OF
THE GOVERNMENT OF THE VIRGIN ISLANDS

PRESENTATION
TO
THE COMMITTEE OF THE WHOLE
OF
THE THIRTY-FIRST LEGISLATURE
OF
THE VIRGIN ISLANDS OF THE UNITED STATES

September 1, 2015, St. John Legislative Hall
September 2, 2015, Earle B. Ottley Legislative Hall
September 3, 2015, Frits E. Lawaetz Legislative Conference Room

4:00 p.m.

Austin L. Nibbs, CPA, CGMA
Administrator/CEO

Good afternoon, Honorable Neville James, President and Chairman, Committee of the Whole of the 31st Legislature, and other distinguished Senators who are present in the chambers. Good afternoon to all, my name is Austin L. Nibbs, Administrator of the Employees' Retirement System of the Government of the Virgin Islands (GERS). Appearing with me today are members of the Board of Trustees of the GERS, Cathy M. Smith, General Counsel, Shoran D. Sasso, Director of Member Services, Bruce Thomas, Investment Officer, and other senior staff. Also, our Actuary, Segal Consulting represented by Leon "Rocky" Joyner and our Investment Consultant, Meketa Investment Group represented by Leandro Festino.

Thank you Mr. President for the invitation to appear before this august body to offer testimony on Bill No. 31-0146, An Act amending Title 3 Virgin Islands Code, Chapters 27 and 28A pertaining to the retirement of government employees, and for us to offer insight about the health of the GERS.

To give some background**,** the GERS was enacted by the Third Legislature of the Virgin Islands on June 24, 1959 by Act 479, as a **defined benefit (DB) pension plan**. 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. However, the System has experienced a liquidity position over the past twenty (20) years because of a few reasons:

- The Plan Sponsor's failure over the years to fund the Plan on an "actuarial reserve basis".

- The nine (9) unfunded mandates by prior legislatures. One (1) impacting the System $90 million ($120 million less $30 million appropriated by the Legislature).
- The Virgin Islands Economic and Stability Act No. 7261.
- Numerous withdrawals and terminations.
- The rippling effects of the global financial and economic crisis in 2008.

In order for the System to continue to meet its statutory obligations to its members, the System **must be actuarially funded.** To achieve this, the Plan Sponsor (Government of the Virgin Islands) has a fiduciary responsibility for the survivability of the System and must fund the System on an "actuarial reserved 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. We note that from Plan Year Ended September 30, 1999, through Plan Year Ended September 30, 2014, the actual employer contributions paid were $979.6 million versus the actuarially determined contributions of $2.1 billion; a shortfall of $1.1 billion. This means that the Plan Sponsor did not fund the Plan to the tune of $1.1 billion between 1999 and 2014. During the same period, the System's benefit payments to retirees and expenses totaled $2.8 billion.

During the 29th Legislature, the GERS submitted pension reform legislation and amendments which resulted in Bill No. 29-0099. This Bill was not voted out of the Rules Committee to the floor for consideration. Subsequently, a Pension Reform Taskforce was created by former Governor John P. deJongh, Jr., and a report was published on April 29, 2013. On March 11, 2014, the former Governor submitted a Pension Reform Bill to the 30th Legislature. The GERS Board of Trustees and staff have met as a group with the members of the 30th and 31st Legislatures in February 2013 and March 2015 respectively, to brief them on the problems affecting the GERS, and the recommendations that were submitted by the GERS since the 29th Legislature. We are pleased to see that the 31st Legislature has taken the bold steps to address the comprehensive pension reform measures that are before us today.

On January 1, 2015, the GERS Board of Trustees increased the contribution rates for Tier I members by 3% over a three year period, and increased the employer rate by 3% from 17.5% to 20.5%. Thereafter, the Board requested an amendment which was approved by this body to increase the contribution rates for Tier II members by 3% over a three year period. Based on the Actuary's assumptions, increasing the rates increased the life of the Fund another three (3) years to ten (10) years from (from 2022 to 2025), if the Pension Reform measures were not passed or there was not an infusion of cash to the System. We note that our Actuary has informed the Board that the Plan Sponsor's actuarially determined contribution (ADC) is in the range of 45.5% instead of the current 20.5% of payroll in order to fund the System' unfunded liabilities over the next 20 years.

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 valuation is conducted by our Actuary Segal Consulting which 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. The actuarial valuation report for October 1, 2014, was issued on August 24, 2015 and a copy was forwarded to all senators.

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 Investment Consultant, Meketa Investment Group and our in-house Investment Unit. The Fund's successful long-term performance confirms the importance of asset diversification and controlling investment risk within each asset class. 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.

At this point in our presentation, Mr. Chairman, we ask that our Actuary, Leon "Rocky" Joyner of Segal Consulting be allowed to make his presentation on the most recent actuarial valuation, and what overall impact the recommended pension reforms would have on the System. After Segal has completed their presentation, we ask that our Investment Consultant, Leandro Festino of Meketa Investment Group be allowed to make their presentation on the historical performance of the investment portfolio over the past thirty-four (34) years, and what impact investing a large infusion of cash will have on the Fund.

Mr. Chairman, this concludes our testimony. We will be available to answer questions after the presentations.