



GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OF THE VIRGIN ISLANDS

"Contributing today for a better tomorrow"

December 6, 2020

The Honorable Novelle E. Francis
President
33rd Legislature of the Virgin Islands
Capitol Building
Charlotte Amalie
St. Thomas, Virgin Islands 00802

RE: Bill No. 33-0446

Dear Senator Francis:

I am requesting to be excused to attend the Committee of the Whole meeting on December 8, 2020 due to health reasons, and request that this letter is read into the record.

Thank you for the invitation to give testimony on Bill No. 33-0446, an Act repealing and replacing Act Nos. 8329 and 8330; amending title 29 Virgin Islands Code, by repealing chapter 24 in its entirety and replacing it with a new chapter 24; terminating the existence of the " Matching Fund Securitization Corporation"; creating, as of the date hereof, a new entity named the "Matching Fund Securitization Corporation" to: (1) acquire all of the Virgin Islands Government's right, title, and interest in the Matching Fund Receipts to be paid to or for the account of the Government by the United States Treasury during the Transfer Period and the Related Rights, (2) issue Matching Fund Securitization Bonds and the Residual Certificate in order to pay the purchase price therefore and as otherwise authorized under the act, and (3) direct the Secretary and the United States Department of Interior to pay the Matching Fund Receipts directly into the Deposit Account; to approve and ratify all actions taken pursuant to Act Nos 8329 and 8330 prior to the date hereof; to ratify the amendments to the rum company agreements; and for other related purposes.

Since my first appearance before the Committee on Finance in 2008, I have always highlighted the deteriorating condition of the System. Based on the current funding of the System, it will become insolvent by 2024 or sooner depending on market conditions or if nothing is done to fund the System on an actuarial reserve basis. The market value of the portfolio, as of October 31, 2020, was \$448 million. Note that the market value of \$448 million excludes the member loans program - \$39.5 million, a local Alternative Investment outstanding loan- \$3 million (West Bay), the office complexes - \$7 million, the land on St. Croix and St. Thomas - \$7 million, and Havensight Mall - \$41 million. To meet obligations to the retirees for benefit payments, \$120 million was withdrawn from the fund in fiscal year 2020 and \$15 million so far for fiscal year 2021.

The System's aggregate assets performance as of October 31, 2020, fiscal year-to-date was 5.3 percent, which exceeded the performance of many of its peers during this period. The plan returned was 7.3 percent for fiscal year 2020. Since investing in the market in 1981, the plan has returned an average of 8.8 percent. Over the past 20 years, the market rates of return have been positive 16 out of 20 years. In many of the years, the returns were well above the assumed rate of return of 7 percent or 8 percent, and as high as:

2003 - 17.6 percent
2004 - 10.6 percent
2005 - 11.8 percent
2007 - 14.1 percent
2012 - 14.5 percent
2013 - 9.1 percent
2017 - 11.2 percent

The negative returns were a result of market conditions in 2001 and 2002, 2008, 2009, and 2015. When compared to its peers of the same size, to include the value of its assets and its portfolio, GERS's performance is in line with or above that of its peers.

We must emphasize again, if the Plan Sponsor and the Legislature do not identify additional funding sources, based on the current withdrawals from the portfolio, the liquid assets will be depleted in the next 3 – 4 years. At which time, the System will become insolvent and will not be able to provide the benefits promised to retirees and active members.

As of the November 30, 2020 payroll, the GERS paid benefits to 8,691 retirees and beneficiaries. The gross retiree payroll for pay date November 30, 2020 was \$10.7 million. For fiscal year 2020, \$263.5 million was paid to retirees and pensioners.

The active membership as of October 31, 2020 was 8,377 (central government 5,917 and semi-autonomous agencies 2,460). There is less than a 1 to 1 ratio between the actives and the retirees. Active members continue to leave the service of the Government before vesting. From October 1, 2019 to September 2020, the GERS refunded employee contributions of \$6.7 million.

The October 1, 2019 Actuarial Valuation Report has been completed and a copy was submitted to the Governor and the Legislature of the Virgin Islands. For the GASB required disclosures for accounting purposes, the discount rate was changed to 4.0 percent (not the 7.0 percent assumed rate that was used to develop long-term funding), because the plan is projected to become insolvent soon. This measure results in a Total Actuarial Accrued Liability of \$5.9 billion and a net Pension Liability (Unfunded Liability) of \$4.4 billion. This results in a funded ratio of 13.3 percent. **See Summary as Exhibit 1.**

The ADEC now referred to as ADC (Actuarially Determined Contribution) is \$365.8 million or 91.6 percent of pay for the October 1, 2019 actuarial valuation period. At the employer rate at that time of 23.5 percent of pay, there is a projected deficit of 68.1 percent of pay between the ADC and the projected employer contributions. From 1991 to 2019, the Plan Sponsors owe the System approximately \$1.98 billion (net of 6 percent loss investment).

The GERS is in full support of any legislation that will provide desperately needed funds to extend the life of the system for the membership, both retired and active. While this legislation is a start, it will not solve the GERS' funding issue, it is a great start. I am aware that there is other legislation in the pipeline to provide additional funding to the GERS. I would be remiss if I did not make another plea to the 33rd Legislature on behalf of the retirees and active members of the GERS, and the Territory to make funding the GERS the No.1 priority.

Sincerely,

Austin L. Nibbs, CPA, CGMA
Administrator/CEO

cc: GERS Board of Trustees
Cathy M. Smith, Esq., General Counsel