GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

OVERVIEW OF OPERATIONS

Presented to the
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of the
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Virgin Islands

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GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

Overview of Operations – Fiscal Year 2011

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Good morning, Honorable Senator Carlton “Ital” Dowe, members of the Committee on Finance, other distinguished senators who are present in the chambers and good morning to all. I am Austin L. Nibbs, Administrator of the Government Employees Retirement System of the Government of the Virgin Islands (GERS). I would like to take this time to acknowledge senior management that is in the chambers.

This report is a compilation of nine months of activity covering the period of fiscal year October 1, 2010 through June 30, 2011.

INTRODUCTION

The GERS was enacted by the Third Legislature of the Virgin Islands on June 24, 1959 by Act 479, which created the Employees Retirement System 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 28th of the Virgin Islands Code. The statutory mandate of the GERS is to enrolled employees into the System within thirty (30) days of service, as a condition of their employment. The GERS pension plan is a **defined benefits plan.** The objective of the GERS 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. The System has never missed an annuity payment to its retirees. However, for the System to continue to meet its statutory obligations to its members, the System **must be actuarially funded**.

HUMAN RESOURCES

For the past 40 months, all employees of the System has been involved whether directly or indirectly in the implementation of new technologies and systems in the areas of benefits, loans, records management and accounting and payroll. I commend and thank the employees who have been working days, nights and weekends assisting with the system upgrades.

As of June 30, 2011, there were 86 full time employees:

- 14 employees assigned to the St. Croix office; and
- 72 employees assigned to the St. Thomas office

For the same period, there were 13 temporary employees assisting with the migration of the new technologies in the areas of records management, benefits and loans.

ACCOMPLISHMENTS

Our **major** accomplishments to date during fiscal year 2011 are:

- Implemented Tier II section of the 2005 Reform Act.
- Conducted the election, orientation process and the seating of the new retiree trustees.
- Completed the user acceptance testing and training phases of the new pension and benefit (loans) administration software.
- Conducted the RFP process and selection of a vendor for the procurement of a new financial accounting system.

- Began the process to bring the annuity and administrative payrolls in-house in January 2012.
- Began the process to provide members with educational services in Financial Planning.
- Began the RFP process for implementation of the Supplemental Contribution Program.
- Developed a preventative maintenance program for the new St. Croix building.
- Installed an updated firewall which improved the network security from cyber-attacks.
- Implemented video conferencing to save on travel costs.

MEMBERSHIP

The overall membership in the System from fiscal year 1982 through June 30, 2011 is shown in the chart below:

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	**9 months**	**10,741**	**7,695**	**1.40 to 1**	**18,436**

The membership numbers show that the gap between the active members and the retirees and beneficiaries is tightly closing. There is a 1.40 to 1 ratio between the active members and the retirees and beneficiaries for the nine month period ending June 30, 2011. Fifteen (15) years ago, there was a 3 to 1 ratio between the active members and the retirees and beneficiaries.

With the implementation of Bill No. 29-0123 (Act No. 7261 - The Virgin Islands Economic Stability Act of 2011), the gap will tighten further. We are in the process of determining the precise impact on the System. However, based on preliminary indications from our Actuary, there will be a significant negative impact on the System due to the enactment of Bill No. 29-0123.

The Actuary has estimated that with a workforce reduction due to enforced mandated retirement of all employees with 30 or more years of service, without replacements, the System is expected to receive $11 million less annually in contributions and the unfunded actuarial accrued liability will increase approximately $26.4 million.

The Actuary also estimated with the 8 percent reduction in salary for employees paid from the general fund earning $26,000 or more, the loss in contributions annually will be approximately $5.4 million. We will not determine the true impact of Act No. 7261 to the System until after September 30, 2011.

The decrease in active membership also decreases the employee and employer contributions to the System. The System cannot afford to lose any contributions unless new revenues are identified to replace the shortfall.

CONTRIBUTIONS RECEIVED AND BENEFIT PAYMENTS

As presented in the chart on page 5, the number of retirees and beneficiaries continues to increase thereby increasing the benefit payments. For comparisons purposes, we attached Exhibit A which shows the total contributions, total benefits payments and expenses and total deficits in millions from 1994 thru June 30, 2011.

The comparison reveals that in 1996 the System received contributions of $71.7 million and paid benefits and expenses of $73.3 million for a deficit of $1.6 million. This trend has continued since 1996 where total contributions received are significantly lower than the benefits and expense payments. For the past four years total contributions on an average have been $77 million less than benefits and expense payments. The comparison also shows that in 2009, the deficit was $77.2 million, in 2010 (unaudited), the deficit was $81.6 million, and for the 9 months of 2011 (unaudited), the deficit is $83.8 million.

The GERS is receiving from its regular members 8 percent and employers 17.5 percent for a combined contribution rate of 25.5 percent. Our Actuary has repeatedly stated that the required contribution should be at least 43 percent of payroll. This is the amount necessary to maintain the operations of the retirement benefit structure on an **actuarial reserve basis**, as mandated by the provisions of the Virgin Islands Code. To meet the full actuarial costs, the contribution rate would have to be increased by 17.5%.

CONTRIBUTIONS OUTSTANDING

The outstanding employer’s contributions (excluding delinquency fee, interest and loss investment income) due to the GERS from the central government and other government agencies for fiscal year 2011 covering the period October 1, 2010 through June 30, 2011 are as follows:

Agency	Regular	3%	Total
Central Government	$ 0	$ 0	$ 0
Water and Power Authority	$2,340,000	$916,190	$3,256,190
Total Contributions Due	$2,340,000	$916,190	$3,256,190

Part of the outstanding balance is employee contributions that are due to the GERS. The contributions are for the pay periods ending February 5, 2011 through June 25, 2011. We have advised WAPA that based on the Virgin Islands Code, employee contribution deductions must be forwarded to the GERS within 10 days after the deductions are made. Not forwarding the employee's contribution deductions to the GERS is in violation of the law, and also reduces the employee's ability to apply for the maximum amount on loans, which is based on amount of contributions received. We are working with the Virgin Islands Water & Power Authority (WAPA) to resolve this outstanding balance with offsets from prior year's overpayments.

COST OF LIVING ADJUSTMENT/ANNUAL BONUS

On July 15, 2011, 245 annuitants on disability were paid their 1.5% annual cost of living adjustment (COLA). The gross annual amount that will be paid to these annuitants is $154,350.

On July 31, 2011, 6,042 retirees who are age 60 and older and have been receiving a service annuity for at least 1 year were paid their COLA. The gross annual amount that will be paid to this class of retirees is $6,577,553.

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 of not less than $2,270,000.00 to be paid by September 15th. The bonus is given to annuitants and pensioners who are 60 years of age, and have been receiving a service annuity for at least 1 year, and is eligible to receive a cost of living increase by July 15 of the year in which the bonus payment is made. We have received from the VIL through August 2, 2011 a total of $860,846.64. We have advised the VIL management that in order for GERS to pay the annual bonus by the date and amount prescribed in the law, the VIL will have to remit $1,409,153.54 to GERS by August 31, 2011.

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.

We are presently accumulating the data to complete the actuarial valuation for the year ended September 30, 2010.

Our Actuary has estimated that the System's unfunded actuarial accrued liability at September 30, 2009 to be $1.4 billion. A schedule of the unfunded actuarial accrued liability and the funded ratios from fiscal years 1998 through 2009 is presented below.

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%

We note that in 1998 (13 years ago), the unfunded accrued liability was $307.3 million, the actuarial accrued obligations were $1.4 billion and the funded ratio was 77.82 percent. 11 years later in 2009, the unfunded accrued liability increased from $307.3 million to $1.4 billion (more than 4 times), the actuarial accrued obligations increased from $1.4 billion to $2.9 billion (100 percent increase) and there was a significantly decrease in the funded ratio from 77.82 percent to 52.4 percent.

The unfunded accrued liability at September 30, 2010 and June 30, 2011 is estimated to be $1.5 billion.

UNFUNDED LEGISLATIVE MANDATES

One of the major reasons for the significant unfunded liability is the unfunded legislative mandates going back to the 15th Legislature. Presented below are the nine (9) unfunded legislative mandates enacted by the 15th, 20th, 21st, 23rd and 24th Legislatures for which the System has distributed benefits which have negatively impacted the Fund.

UNFUNDED MANDATES		ACT NO.	YEAR
Legislative Mandates			
Omnibus Authorization Act of 1984	**15th**	4877	10/25/1983
To Provide for Early Retirement of Dept. of Education Personnel	**15th**	4896	2/21/1984
Early Retirement Incentive Training & Promotion Act of 1994	**20th**	6007	8/16/1994
To Extend Act 6007	**21st**	6088	12/5/1995
To Fund Salary Increases for Retirees & Eligible Employees	**24th**	6415	6/18/2001
To Place Employees on Step	**24th**	6427	6/19/2001
Expansion of Eligible Members of Early Retirement Program	**24th**	6429	9/24/2001
To Provide Early Retirement Benefits Options & To Reduce Expenditures	**23rd**	6361	10/19/2000
To Increase Retirement Benefits for Superior Court Judges	**23rd**	6391	2/1/2001

A recent review conducted by the U.S. Inspector General revealed that because of the enactment of the Early Retirement Incentive, Training and Promotion Act of 1994 (Act No. 6007) which was passed by the 20th Legislature, the GERS lost $121 million in contributions. The Legislature appropriated and GERS was paid a total of $31 million resulting in a loss of $90 million in contributions. This $90 million in loss contributions is the impact to the System that was calculated for only one of nine unfunded mandates.

In accordance with Title 3, Chapter 27, Section (j), the employer shall, in addition to any other contributions and payments to the System required by law, contribute to the System such sums as may be required to compensate the System for the costs of any special early retirement program.

In accordance with Title 3, Chapter 27, Section (k), the employer shall pay to the System the total costs of any special, early retirement program in advance of the commencement of the early retirement program. If the employer is in default of payment for any prior special, early retirement program, the System may not distribute any special early retirement benefits from any additional special, early retirement program until full payment of the previous special early retirement program is made.

In accordance with Title 3, Chapter 27, Section (l), the System shall not pay benefits to an employee unless his and the employer's contributions adequately finance benefits and related costs provided under this chapter. We note that the System was ordered by the Court before to make payments, although, the employer's contributions did not adequately finance benefits and related costs.

The sections of the law were read into the record to point out that there are laws to protect the System; however, the laws were overlooked and circumvented to the detriment of the System.

Other unfunded measures were the crediting of excess annual and sick leave benefits credit to retiree's years of service up until December 31, 2009 and the past due administrative expenses totaling approximately $37 million for Fiscal Years 1987 through 1998.

Since the enactment of Act No. 6223 in 1998, the GERS has financed its own operations. This legislation removed the provision that required the Government of the Virgin Islands to pay the administrative costs associated with the operations of the GERS.

This is the fourth year that I have appeared before this body to present the annual overview of operations for the System. For the past 3 years, I have reported that without a significant cash infusion and or increases in the contribution rates, our Actuary has predicted that the System will run out of assets if nothing is done. Although, we are sensitive to the budget deficit of the Government of the Virgin Islands, what is occurring today with the reduction in the workforce and the 8 percent reduction in wages for the next 2 years, will hurt the System's liquidity and cash needs and further increase the unfunded liability if other revenues sources are not identified to replace the loss contributions.

INVESTMENTS

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 the Investment Consultant. 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.

As of June 30, 2011 and March 30, 2011, the market value of the portfolio was $1,100,752,836 and $1,113,879,986 respectively. (See Exhibit B). The market value of the portfolio at July 31, 2011 was $1,072,068,727. A decrease in value of $28,684,109 from June 30, 2011 market value. Since the U.S. debt ceiling has been raised and Standards and Poor's (S&P) has downgraded the U.S. credit rating from AAA to AA+, the portfolio market value has decreased to $1,015,731,550 at August 19, 2011. A decrease in market value of $56,337,177.

As you know, the global stock markets reacted the first trading day after S&P downgraded the long-term U.S. debt. The market value of the System's equity portfolio declined because of the uncertainty in the market. Our investment consultant and investment managers have assured us that there will not be any significant negative impact to our investments. We are monitoring our portfolio performance on a daily basis.

The System will continue its commitment to a disciplined investment strategy that focuses on long-term results. The System's investment fund is presently managed by 17 investment managers.

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 8%. GERS seeks to support investing within the Virgin Islands community that will 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.

In December 2009 the System invested in two local companies (Seaborne Airlines and Carambola Beach Resorts), which are categorize as Alternative Investments – Other Situations.

Seaborne Virgin Islands, Inc.

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. The transaction consisted of two tranches, 1). a first lien term loan for $1,300,000 of which the proceeds were used to replace Seaborne's existing credit facility. The interest rate shall not be less than 8.25 percent per annum or exceed 12.25 percent per annum. The initial coupon for this loan was 8.25 percent. and 2). a senior secured convertible mezzanine loan for $2,000,000 which was used by Seaborne to conduct the needed overhaul and maintenance of the airplanes. The interest rate is 14.5 percent. The collateral for the loans includes all of the real and personal property of Seaborne Virgin Islands, Inc. and the unconditional guarantee of Coastal Airways, Inc. the parent company of Seaborne, secured by all of the issued and outstanding common capital stock of Seaborne Virgin Islands, Inc. All of the proceeds of the loans were disbursed. To date, the GERS has received $600,360 in interest on the loan.

Renaissance Carambola Beach Resorts and Spa

On December 8, 2009, a loan in the amount of $15,000,000 was closed with Carambola. The term of the loan is 5 years. The interest rate is 10.5 percent. The initial funding was $8,242,592 which was used to purchase existing bank loan documents and judgments, payment of bonafide priority liens against the property and closing costs. To date, a total of $14,925,281 was disbursed. Last year, Carambola obtained the Marriott Renaissance flagship. The collateral for the loan includes the primary collateral consisting of all land and buildings of Carambola Beach Resort. To date, the GERS has received $2,147,091 in principal and interest.

REAL ESTATE

(A) GERS Complexes

The System owns the GERS 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).

GERS also owns an additional 2.9 acres located at Estate Orange Grove Parcel No. 5 which is the former offices of the St Croix operations and Parcel No. 6 which is rented to the Casino Control Commission.

Rents received for the 9 months of fiscal year 2011 are as follows:

Rents Received		
Tenant	Fiscal Year 2010	9 Months of Fiscal Year 20ll
Department of Personnel	$294,340	$81,438
First Bank	$117,671	$2,321
Department of Justice	$630,071	$333,567
Rescare	$19,233	$11,219
Casino Commission	$84,006	$77,006
Total Received	**$1,145,321**	**$505,551**

The outstanding rents and utilities from tenants at June 30, 2011are as follows:

Receivable From Tenants As of June 30, 2011		
Agency	Outstanding Rents	Outstanding Utilities
Department of Justice	$94,261	$270,641
Department of Personnel	$91,009	$44,022
Total	$185,270	$314,663

We have received many inquiries; however, we have been unable to rent the first floor of the new Executive Office Complex on St. Croix which comprises of 5,381 square feet. When fully rented, the annual rent expected is approximately $134,525.00.

(B) Land

Estates Hoffman and Nullyberg

In late 2006, the System purchased 120 acres of land at Estates Hoffman and Nullyberg on the east end of St. Thomas. The Development Committee proposed a mixed use development consisting of a conference and entertainment center, hotel, assisted living (108 units) 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). There will be another public hearing before the legislative hearing is held. The property is appraised at $4.3 million.

Estate Coakley Bay

In October 2010, the System purchased 170 acres of land at Estate Coakley Bay on the east end of St. Croix. The Development Committee has not determined the best use of the property. The purchase price of the land was $5 million.

(C) Havensight Shopping Mall

The Havensight Shopping Mall, a premier tourist destination commercial shopping center in St. Thomas is the gem of the Caribbean and has been one of the best investments for the System. This property was purchased on June 30, 1993, for $32 million. In December 2009, the property was appraised at $66.6 million.

The Board is still negotiating a management agreement with the West Indian Company.

The net dividend payments received from WICO for mall operations for fiscal year 2010, the 9 months of fiscal year 2011 and the dividends outstanding are as follows:

Havensight Mall	
WICO Dividends Received – 2010	$2,709,662
WICO Dividends Received as of June 30, 2011	$1,564,256
WICO Dividends Outstanding at June 30, 2011 (1)	$ 797,584

(1) We note on August 15, 2011, we received $350,000 of the dividends outstanding.

LOANS

In addition to providing regular retirement benefits, the System also provides personal, auto, land and mortgage loans to qualified members and retirees. During fiscal 2010, the loan portfolio generated revenues (interest income) of $10,920,823. We are proud to provide this service to our members some who would not be able to obtain credit to better their standard of living if this service was not available to them. There are 8,736 loans in the portfolio as shown below:

Loan Category	Interest Rate	Units	Dollar Value
Personal Loans	8%	6,281	$105,567,039
Auto Loans	8.75%	21	142,997
Land	8%	32	800,677
1st Priority Mortgage	8%	265	7,800,536
2nd Priority Mortgage	9%	3	18,210
Retiree Loans	8%	2,134	26,762,106

The total loan portfolio as of June 30, 2011 is $ 141,091,565.

<u>TECHNOLOGY UPGRADE</u>

Comprehensive Retirement Software Solution – V3

The System currently operates three independent systems (benefits, loans and accounting). We are in the 40th month of the implementation of a comprehensive pension and benefits system software solution known as V3. The objective of this software implementation is to merge the legacy benefits and loan administration systems into a state-of-the-art, web-based, business solution, and upgrade and integrate the legacy financial accounting system with the V3. The V3 technology provides the foundation to enable and sustain the business agility of the GERS, in addition, to being fully integrated with the central government and the other government instrumentalities that interface with the GERS.

The project consists of three rollouts (phases):

Rollout 1: Digital Conversion of GERS' member files. Completed.

Over 2 million pieces of paper (contents of member files) were scanned and converted to electronic files.

Rollout 2: V3 Imaging and Line of Business Implementation. In training and clean up phase. Go Live Date – September 29, 2011.

Employees no will longer have to leave their desks and walk to the records room to request a member's file. With a few clicks of a mouse, an employee can pull up a member's file at the work station. The member's information will be on one system and visible to the employee.

Rollout 3: V3 Self-Service Implementation. Go Live Date – January 1, 2012.

This is the interactive portion of the software. Members will have access to their information and request services with a personalized user name and password.

When the software is fully implemented, customer service to our members will be greatly enhanced through the ability of V3 to facilitate electronic web-based transactions and communications.

Other expected results of the upgrading of the systems are:

- Online loan applications and payments
- Ability for members to estimate benefit calculations
- Ability of GERS to produce member statements as required by law
- Improved data quality and security
- Digitized member data for improved access, retrieval and protection
- Greatly reduced processing time for requested services
- Improved identification of receivables from government agencies
- Improved work flow tracking and processes

Website

Our website has received excellent reviews by our members and other users. A few weeks ago, I was in a meeting in Boston with our custodian bank representatives. They complimented the System on the impressive website and mentioned that they were able to obtain all of the information needed from the website to prepare for the meeting. The purpose of our website is to keep our members and other users informed of the major financial as well as non-financial information and other developments that affects the System. I would like to publicly thank Lorraine Gumbs-Morton, Public Information Officer for the upkeep and maintenance of the website. Our website address is www.usvigers.com.

IN-HOUSE PROCESSING OF PAYROLLS

Effective January 1, 2012, the System will process the retiree and administrative payrolls in-house instead of outsourcing to a contractor. Since 2000, ADP has been contracted to process the retiree and administrative payrolls. The initial cost to the System to outsource the payroll in 2000 was $250,000. The cost ballooned to $370,732 in fiscal year 2010. We determined the System will save approximately $270,000 annually if the payrolls are processed in-house. The System has the capability, expertise and equipment to handle the processing of the payrolls. The system will be backed up each pay period at a hot site in New Jersey and with ADP as part of our disaster recovery plan.

Commencing October 1, 2011, all members retiring and residing in the 50 states, territories and possessions will be required to receive their annuity payment by direct deposit.

In January 2012, the System will discontinue mailing check stubs. These two measures will save the System approximately $96,000 annually in supplies and mailing costs.

81 percent of our retirees use direct deposit to receive their annuity payments. In a few weeks, we will contact each retiree who receives a check to inform them of the benefits and convenience of converting to direct deposit.

We note that as of May 1, 2011, the Social Security Administration required that all new benefit applicants receive their monthly payments electronically, and all current beneficiaries who receive a paper check must switch to electronic payments by March 1, 2013. Therefore, we encourage the remaining 19 percent of our retirees who receive a paper check from GERS and a social security check, to convert to direct deposit this year.

ANNUAL FINANCIAL AUDIT

The System's most recent certified audited financial statements by Bert Smith & Company are as of September 30, 2009. The audited financial report was issued August 13, 2010. The Fiscal Year 2010 financial audit is in progress and is expected to be completed by September 2011.

PROJECTED GOALS AND OUTCOMES FOR FISCAL YEAR 2012

- Have all systems interacting with each other by upgrading the financial accounting system from MAS 90 to MAS 500 and fully integrating it with the new pension and benefits (loans) system (V3) and the administrative payroll system.

  This integration will eliminate all external manual processes and reconciliations. It will also result in timely and accurate reporting and the elimination of internal control weaknesses cited in the annual audit report.
- Successful implementation of the in-house processing of the annuity and administrative payrolls.
- Complete and implement the Strategic Plan.
- Conduct educational seminars in Financial Planning for members.
- Implement the Supplemental Contribution Program in accordance with Title 3 Chapter 28B of the Virgin Islands Code.

  This will provide the Tier II members with an alternate vehicle to save for retirement.
- Complete the job classification and wage study.

  With the introduction of new systems, there will be a need to cross train employees, revise job descriptions and review compensation levels.

- Complete and issue the Fiscal Years 2010 and 2011 certified financial audits.

  This will provide timely access to audited financial information and compliance with the governing statute and the requirements of the Government of the Virgin Islands.

- Complete and issue the certified actuarial valuation and report for the 2 year cycle ending September 30, 2010.

RECOMMENDED AMENDMENTS TO LEGISLATION

On August 12, 2011, I appeared before the Committee on Government Operations, Energy and Veteran's Affairs to give testimony on the proposed Bill No. 29-0099, an Act amending Title 3, Virgin Islands Code, Chapters 27 and 28A as they pertain to the retirement of personnel. As indicated in my testimony, in 2009, the GERS selected an in-house Committee comprising of Board members and staff and embarked on a project to revise the language and ambiguities in the law and to make recommendations for amendments to the Reform Act. As required by law, on January 29, 2010, we submitted the implementation plan for the Reform Act of 2005 (Act No. 6794, Bill No. 26-0071) to the President of the 28th Legislature.

On May 18, 2010, we were invited and appeared before the Committee of the Whole to give testimony on the implementation plan. There were subsequent informal meetings with the Senators and the in-house Committee, to explain the recommended amendment and changes line by line. In December 2010, we submitted the final version of the plan to the Legislature. The major amendments recommended to the Legislature in 2010 and endorsed by the Actuary as follows:

- Per diem basis and contractual employees who work exclusively for the Government at least 40 hours per week may be included as a member and receive service credits by paying the required contributions.

- Exclusion of the cost of living annuity, bonuses or adjustments for the specific purpose of the compensation ceiling of $65,000.

- Increase the contribution rate from 11 percent to 15 percent for members of the Judiciary and the Legislature.

- Increase mortgage loans to $350K.

- Increase new automobile loans to $40K.

- Ability for retirees to refinance existing personal loans.

- Allow members to purchase additional service credits (air time).

Last week, we requested our Actuary to consider and complete an analysis of the following to determine the impact to the System and the unfunded liability:

- Changing retirement eligibility.

  Regular employee: Age 62 with 10 years of service, eliminating the any age with 30 years of service.

  Class 3 employee: Age 50 with 25 years of service or age 55 with 10 years of service, eliminating the any age with 20 years of service.

- Changing the benefit multiplier for service earned in the future.

- Increasing the contribution rates:

  1) Tier I Regular from 8 percent to 11 percent

     Tier I Hazardous (Class 3) from 10 percent to 15 percent

  2) Tier II Regular from 8.5 percent to 11.5 percent

     Tier II Hazardous (Class 3) from 10.625 percent to 15.625 percent

  3) Judges and Legislators from 11 percent to 20 percent

  4) Employer – from 17.5 percent to 20.5 percent

- Add TIER III:

  Use career average earnings instead of final 5–year average salary for non-vested members to determine the base salary to calculate the annuity.

  Reduce annuity payment based on social security benefits.

- Reducing the percentage or delaying the COLA.

SUMMARY

Mr. Chairman, I do not know how more convincing or persuasive I can be to caution this body not to tinker with the provisions already included in the present Reform Act of 2005. The purpose of the Reform Act of 2005 was to slow down the bleeding of the System. The numbers that were presented today were not fabricated. The System is hemorrhaging and because of the passage of Act No. 7261, and without a significant infusion of cash, increase in the contribution rates and radical changes in the benefits structure, the bleeding will continue. The System was established 52 years ago and must continue for another 52 years. There cannot be any more unfunded legislative mandates or self-interest or special interest group legislation. We are all in this boat together. This System will not survive another 10 years if we tinker with the Reform Act of 2005. We must look at ways to amend existing legislation and add legislation to slow down the years of deficits that the Fund has experienced.

A great part of the future of the GERS will depend on the Government of the Virgin Islands (Plan Sponsor) commitment to fund their contributions to the System based on an **actuarial reserve basis**. By not funding the Plan on an actuarial reserve basis creates the annual deficit and increases the unfunded actuarial liability.

On August 31st, and September 1st and 2nd, the Board of Trustees will meet at the GERS Complex on St. Thomas to hear presentations from all of our investment managers on their performance. We invite the members of this Committee and the general public to attend.

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

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM
CONTIBUTIONS AND BENEFIT PAYMENTS AND EXPENSES

Fiscal Year	Total Contributions	Benefit Payments and 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	116.8	194.0	(77.2)
2010 (Unaudited)	117.1	198.7	(81.6)
2011 (9 mos. Unaudited)	88.9	172.6	(83.8)

EXHIBIT A

Investment Fund Portfolio
Quarter Ending June 30, 2011

Investment Manager	Invesment Asset Class		June 30, 2011 Portfolio Value		March 31, 2011 Portfolio Value		Change in Portfolio Value
Employees Retirement System Fund - All Segments							
AllianceBernstein	Fixed Income Core	$	97,052,213	$	95,049,143	$	2,003,070
Attilanus Fund	Alternative Investment		58,364,860		58,364,860		-
Brandywine Global Investment Management, LLC	Fixed Income International		84,319,467		82,730,675		1,588,792
Global Currents Investment Management, LLC	International Value Equity		53,356,728		52,938,136		418,592
Fisher Investments Institutional Group	Small Cap Value Equity		60,309,194		62,440,116		(2,130,922)
LSV Asset Management	Large Cap Value Equity		96,276,199		105,272,013		(8,995,814)
Mesirow Financial Partnership LP FD IV	Private Equity		7,475,493		6,143,715		1,331,778
Mesirow Financial Partnership LP FD V	Private Equity		1,335,747		1,229,930		105,817
NWQ Investment Management Company, LLC	Large Cap Growth Equity		83,652,222		93,859,817		(10,207,595)
Oberweis Asset Management, Inc.	Micro Cap Equity		75,288,829		76,331,027		(1,042,198)
Oechsle International Advisors	International Growth Equity		47,149,046		46,716,852		432,194
Pacific Investment Management Co., LLC	Fixed Income Intermediate		89,855,883		88,192,423		1,663,460
Pugh Capital Management, Inc.	Fixed Income Core		51,081,774		50,000,000		1,081,774
Sate Street Global Advisors	Large Cap Core Equity		16,152,360		16,303,929		(151,569)
Silvant Capital Management	Large Cap Growth Equity		93,824,514		94,767,146		(942,632)
Smith, Graham and Co. Investment Advisors, L.P.	Fixed Income Core		50,979,204		50,000,000		979,204
Turner Investment Partners, Inc.	Large Cap Growth Equity		74,946,366		75,997,395		(1,051,029)
Union Heritage Capital Management	Large Cap Core Equity		59,332,739		57,542,809		1,789,930
Total Fund		**$**	**1,100,752,836**	**$**	**1,113,879,986**	**$**	**(13,127,150)**

Investment Manager Asset Allocation
as of
June 30, 2011

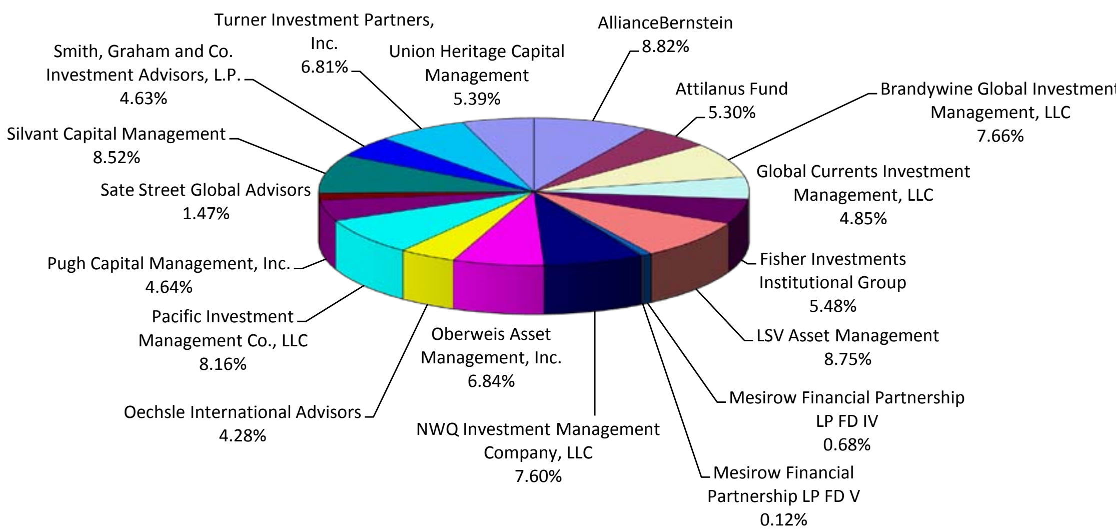

EXHIBIT B

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

Statement of Cash Flows

Month Ending June 30, 2011

	June-11	June-10	YTD Fiscal 2011	YTD Fiscal 2010
Beginning Balance			**(55,445,813)**	**(62,183,741)**
Receipts from collections				
Loan Repayment	2,999,155	2,930,682	27,823,129	26,131,220
Rent from Tenants/Utilities	1,412	401,327	677,660	1,666,568
WICO Dividends	-	-	2,229,590	2,698,359
Employer Retirement Contributions	5,988,089	6,311,785	60,584,203	53,963,501
Employee Retirement Contributions	3,040,856	3,212,163	31,014,338	27,157,431
Parking Facility	2,485	2,724	25,184	24,933
Commission Recapture	-	-	-	25,603
Miscellaneous	308,861	23,905	897,364	673,517
Total Cash Available	12,340,858	12,882,586	123,251,467	112,341,131
Disbursements				
Annuity Payments	16,844,419	15,897,487	149,695,764	139,602,044
Administrative Expenses	1,359,264	1,493,406	10,830,164	16,075,238
Personal Loans	2,846,841	2,182,641	22,702,511	20,819,972
Mortgage Loans	102,387	110,339	654,359	952,334
Retiree Loans	198,403	211,420	2,088,190	2,196,345
Auto Loans	13,987	412.16	81,247	54,825
Land Loans	723	-	723	657
Refund of Contributions	597,223	258,170	2,266,710	2,094,745
Total Disbursements	21,963,248	20,153,875	188,319,669	181,796,161
Net Receipts	(9,622,389)	(7,271,289)	(65,068,203)	(69,455,029)
Cash Surplus/(Deficit)	**(9,622,389)**	**(7,271,289)**	**(65,068,203)**	**(69,455,029)**

EXHIBIT C

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM
Schedule of Budget vs Actual
(By Account)
Fiscal Year 2011

Description	Approved Budget FY 2010	Proposed Budget FY 2011	Actual YTD 10/01/10-06/30/11	Budget Variance
Personnel Services	6,712,476	7,172,084	3,995,909	3,176,175
Fringe Benefits	2,012,290	2,151,739	1,243,777	907,962
Payroll Cost (Subtotal)	8,724,766	9,323,823	5,239,686	4,084,137
Material, Supplies & Parts	224,194	253,275	54,432	169,762
Equipment	461,238	115,210	5,628	109,582
Repair & Maintenance	228,759	377,853	225,169	152,684
Utilities	720,000	817,300	292,781	524,519
Communication	235,220	192,850	181,183	11,667
Travel	459,651	546,227	345,390	200,837
Training	263,142	289,282	57,608	231,674
Professional Services	1,622,508	1,917,482	1,585,874	331,608
Insurance	845,607	845,607	125,401	720,206
Other Services & Charges	598,539	343,625	353,670	(10,045)
Total Operating Expenses	14,383,624	15,022,534	8,466,822	6,555,712
Capital Expenditures				
Capital Outlay	4,763,738	5,707,765	5,319,007	388,758
Team GERS Technology Plan	2,282,520	1,263,723	457,998	805,725
Total Capital Expenditures	7,046,258	6,971,488	5,777,005	1,194,483
Total Expenses	21,429,882	21,994,022	14,243,827	7,750,195

EXHIBIT D

GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

ADMINISTRATIVE EXPENSES
October 1, 2010 - June 30, 2011

Description		10/01/10 - 6/30/11
Salaries & Wages		$ 3,995,909
Fringe Benefits		1,243,777
Professional Services		1,998,022
Actuarial Services - Segal	50,000	
Investment Advisory Services - Segal	120,000	
Legal Fees	172,745	
Bert Smith and Company	88,600	
ADP - Payroll Processing	244,245	
Miscellaneous Personnel & Consulting Services	603,915	
Accounting Services	5,400	
Medical Service/Consulting	8,136	
Stenographic Services	14,223	
Security Services	232,760	
Team GERS	457,998	
	$ 1,998,022	
Maintenance and Repairs		225,169
Supplies		54,432
Insurance		125,401
Property and Casualty/General Liability	15,990	
Directors and Officers/General Liability	99,562	
Vehicles	9,849	
	$ 125,401.00	
Utilities		292,781
Other Operating Expenses		989,329
Advertising	47,996	
Board Stipend	12,789	
Catering	20,406	
Communication	181,183	
Miscellaneous Services	323,957	
Training	57,608	
Travel	345,390	
	$ 989,329	
Capital Expenditures		5,319,007
Total		**$ 14,243,827**

EXHIBIT E