Government Employees' Retirement System of the Virgin Islands

Overview of Operations

FISCAL YEAR 2012

"Contributing today for a better tomorrow"

Presented to
Committee on Finance
29th Legislature of the United States Virgin Islands

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Earle B. Ottley Legislative Hall
Friday, August 31, 2012
3:00 p.m.
St. Thomas, U.S. Virgin Islands

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
Overview of Operations – Fiscal Year 2012

TABLE OF CONTENTS

Introduction....................2
Accomplishments....................3
Membership....................5
Contributions Received/Benefit Payments/Outstanding....................6
Cost of Living Adjustment and Annual Bonus....................7
Assets....................8
Technology Update....................16
Annual Financial Audit....................17
Goals for Fiscal Year 2013....................17
Board Actions and Proposed Legislation (New and Amendments)....................19
Actuary Presentation – Preliminary September 30, 2011....................21
Summary....................22

<u>Appendices</u>
Contributions vs. Benefit Payments and Expenses…………………….. Exhibit A
Actuarial Unfunded Accrued Liability and Funded Ratio……………….... Exhibit B
Investment Fund ………………………………………………………. Exhibit C
Actuarial Valuation – Preliminary September 30, 2011……………………. Exhibit D

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OVERVIEW OF OPERATIONS

Good afternoon, Honorable Senator Carlton "Ital" Dowe, members of the Committee on Finance, other distinguished senators who are present in the chambers and good afternoon 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.

We are pleased to have Leon F. "Rocky" Joyner, Jr., Vice President and Actuary from The Segal Company appearing with us. Segal will make a presentation as part of our Annual Overview.

For the past 54 months, employees of the GERS have been dedicated and committed to the implementation of new technologies and systems in the areas of benefits, loans, records management and accounting and payroll. I would like to take this opportunity to thank the employees of the GERS publicly for their hard work during the implementation phases of the new systems. We would also like to apologize to our members for any inconvenience caused by the office closings and untimely responses to their inquiries which occurred because of the challenges experienced with the installation and implementation of our new systems, and the unexpected retirements as a result of the Virgin Islands Economic and Stability Act and the layoffs.

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 28 of the Virgin Islands Code. The statutory mandate of the GERS is to enroll employees into the System within thirty (30) days 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. The member services payroll processing staff and the staff of our newly created Payroll Servicing Unit are committed to making sure that our retired members have access to their annuity payments on the 15th and 30th of each month. It is a pleasure to report that the System has never missed an annuity payment to its retirees and beneficiaries. However, for the System to continue to meet its statutory obligations to its members, the System **must be actuarially funded**.

ACCOMPLISHMENTS

Our **major** accomplishments to date during Fiscal Year 2012 are:

- We have completed the implementation of the new Member Services and Loans Integrated Software (V3) which will improve the delivery of services to the members.
- We have installed new communication equipment which has improved the technological infrastructure of our network.
- We have completed the implementation of the new financial reporting system software (MAS 500).

- We have installed and implemented the administrative payroll and human resources software (ABRA), and brought the processing of the administrative payroll in house which will save the System approximately $50,000 annually.
- We have completed the implementation for in-house processing of the annuity payroll which is in the parallel testing phase. The first in-house processing of the Annuity Payroll will be October 15th. This will save the System approximately $250,000 in fees and approximately $80,000 in postage annually.
- We have completed the installation of the first phase of the Member Self Service (MSS) and Employer Self-Service (ESS) which will go live in September 2012.
- We have established an in-house Investment Office which gives the System daily oversight of the investment portfolio activity and the investment manager's performance.
- We have completed the interview process for the three (3) firms who responded to the RFP for the establishment of the Supplemental Contribution Program in accordance with Act No. 6905.
- We have begun the planning for the Financial Planning Workshops.
- The fieldwork for the Fiscal Year 2011 Annual Certified Financial Audit has been completed. The financial statements will be issued by the end of September 2012.
- We have selected a new Investment Consultant – Meketa Investment Group.
- We have increased the retirees and beneficiaries direct deposit participation from 87 percent (6,750 participants/7,720 retirees) at September 30, 2011 to 91 percent (7,373 participants/8,141 retirees) at June 30, 2012.

- Of the 365 employees who retired under the Virgin Islands Economic and Stability Act of 2011, 362 have received their first annuity payment.
- We held Town Hall meetings with the members in both districts.
- We held a Board Retreat on St. John from June 28th – 30th which was successful. The purpose of the retreat was to discuss strategies to address the unfunded liability and other problems facing the sustainability of the GERS.
- The Board of Trustees endorsed and approved our recommended changes and amendments to pending legislation (Bill No. 29-0099).

MEMBERSHIP

The overall membership in the System at June 30, 2012 is shown in the table 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	**unaudited**	**10,713**	**7,720**	**1.39 to 1**	**18,433**
2012	**9 months**	**9,935**	**8,141**	**1.22 to 1**	**18,076**

The membership numbers show that the gap between the active members and the retirees and beneficiaries has decreased from a 1.39 to1 ratio in Fiscal Year 2011 to a 1.22 to1 ratio for the 9 month period ending June 30, 2012.

Because of the implementation of Bill No. 29-0123 (Act No. 7261 - The Virgin Islands Economic Stability Act of 2011 - VIESA), and the layoffs through June 30, 2012, the active members have decreased from 10,713 at September 30, 2011 to 9,935 at June 30, 2012. Additionally, the retirees and beneficiaries have increased from 7,720 at September 30, 2011 to 8,141 at June 30, 2012.

RETIREMENT FUNDING

At the most basic level in the long run, a retirement plan must balance the monies coming in (inflows) through investment earnings and contributions against the monies going out (outflows) through benefit and expense payments. The basic equation:

I + C = B + E

Where:	**I**	**is investment income (inflows)**
	C	**is contributions (inflows)**
	B	**is benefit payments (outflows)**
	E	**is expenses (outflows)**

During any year in the life of the plan, one side of the equation will be greater than the other with the goal that both sides will balance in the long run. As we will see later in our presentation, this fund has not been in balance for many years.

CONTRIBUTIONS

We have attached *Exhibit A 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 18 years through June 30, 2012.

The comparison reveals that in Fiscal Year 2011 the total contributions received are approximately $88 million less (negative cash flow) than the total payouts. For the 9 months period ending June 30, 2012, the total contributions received are approximately $99.2 million less (negative cash flow) than the total payouts.

The outstanding employer's contributions (including delinquency fee, interest and loss investment income) due to the GERS for Fiscal Year 2012 covering the period October 1, 2011 through August 10, 2012 are as follows:

Agency	Regular	3%	Total
Water and Power Authority	$4,646,173	$2,001,980	$6,648,153
Juan Luis Hospital	1,441,322	0	1,441,322
Total Contributions Due	**$6,087,495**	**$2,001,980**	**$8,089,475**

COSTOF LIVING ADJUSTMENTS ANDANNUAL BONUS

On July 15, 2012, 246 annuitants on disability were paid their 1.5 percent annual cost of living adjustment (COLA). The gross annual amount that will be paid to these annuitants is $41,077.92.

On August 15th, there were 6,180 regular annuitants meeting the age 60 and older requirement and receiving a service annuity for at least 1 year that were paid a COLA. The gross annual amount that will be paid to this class of retirees is $1,471,353.60.

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 September15th.The bonus is given to annuitants and pensioners meeting the 60 years of age requirement, and have 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 $824,090.03 from the VIL. The bonus will be paid when the last payment is received from the VIL and will be based on the total amount received.

ASSETS

The assets of the GERS include the investment portfolio, 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 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, 2012 and March 30, 2012, the market value of the portfolio was $981,552,995 and $1,057,467,624 respectively. A decrease of $75,914,629. (*See Exhibit C*).The decline in the second quarter was the result of $30.1 million negative investment performance, $40.8 million of cash outflow (draw downs), and $7.7 million of a reduced valuation of our senior life settlement investment. The System returned gross of fees -2.9 percent in the second quarter, 5.3 percent calendar-year-to-date and 12.0 percent fiscal-year-to-date. The System's asset classes produced mixed returns in the second quarter. The domestic equity portfolio posted the biggest decline, returning -6.5 percent. The international equity portfolio posted a -6.2 percent. The domestic and international investment grade bond portfolio advanced in the second quarter, returning 2.3 percent and 1.5 percent respectively. The portfolio on a whole earned a return of 10.8 percent over the 3-year period.

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 17 investment managers. Despite the Middle East turmoil, the European debt issues, natural disasters and the volatile energy prices; the global financial markets were resilient over the last three years.

Going forward, expanding into the emerging and frontier markets may increase the chances of the Fund earning the actuarial rate of 8 percent. The expansion of free markets, labor force growth, and improvements in education and healthcare are all positive growth aspects for the emerging markets. During the 3 years ended March 2012, Emerging stocks returned 21.3 percent while Frontier stocks represented by the MSCI Frontier markets returned 13.2 percent. Additional opportunities for investment may come from Private Equity and Real Estate. These two segments have historically earned higher returns while adding diversification and may be the only avenues for the Fund to access the local market.

Title 3, Section 12, Chapter 27of 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 percent. 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.

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. All of the proceeds of the loans were disbursed. To date, the GERS has received $340,000.01 in principal and $913,372.64 in interest on the loan, for a total of $1,253,372.65. Seaborne Airlines has requested a modification to the loan agreement which is pending approval by the Board.

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. The term of the loan is 5 years. To date, a total of $14,925,281 was disbursed on the loan and we have received $2,147,091 in principal and interest.

On May 11, 2012, as the Administrator of the GERS, I exercised GERS's rights under the Loan Agreement and executed an initial Disposition Agreement with Carambola Northwest, LLC. By executing the Disposition Agreement, 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. The required financial and legal due diligence and completion of the renovation of the remaining rooms and repairs are ongoing. We will advise our members and the general public on the details and the future of this investment when the due diligence, renovation, and repairs are completed. The Marriott Flagship and Franchise Agreement will continue.

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 July 23, 2012, the GERS has received $2,795,272 of which $2,385,954 is principal and $409,318 is interest.

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 $5.7 million on February 24, 2010.
- The former GERS St. Croix office building and the building which is occupied by the Casino Control Commission. Both properties were appraised on February 24, 2010 at $400,000.00 and $450,000.00 respectively.

Rents received for Fiscal Year 2011 and for the 10 months of Fiscal Year 2012 are as follow:

Rents Received		
Tenant	**Fiscal Year 2011**	**10 Months of Fiscal Year 20l2**
Department of Personnel	$139,608	$116,340
Department of Justice	$518,882	$333,567
Rescare (Job Corp)	$ 20,835	$ 16,027
Casino Control Commission	$63,004	$63,004
First Bank	$ 3,094	$2,836
Total Received	**$745,423**	**$531,774**

The outstanding rents and utilities from tenants at July 31, 2012 are shown in the table below:

Receivable From Tenants As of July 31, 2012		
Agency	**Outstanding Rents**	**Outstanding Utilities**
Department of Justice	$37,063	$ 423,110
Department of Personnel	$87,962*	$ 10,847
Total	**$ 125,025**	**$ 433,957**

*Includes $35,077 for rental of the Law Library during the Retroactive Wage Commission Project.

(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, there was a challenge to the rightful owner to a portion of the property by a member of the New Herrnhut Moravian Church. On January 23, 2012, a meeting was held with the officials of the New Herrnhut Moravian Church and their attorney. No evidence of ownership of the property was provided to the GERS. The attorney representing the Church requested 30-45 days from January 23, 2012 to respond. To date, we have not received a response.

On April 10, 2012, a letter was sent to the President of the Legislature and Chairman of the Committee of the Whole with copies to all senators requesting a reconsideration of the rezoning. It is our position that the GERS had conducted the proper due diligence at the time of purchase and secured the appropriate title insurance. Moreover, the purchase has been in the media and disclosed to the general public for the past 6 years and DPNR has performed their due diligence and made their recommendations. The fact that the New Herrnhut Moravian Church has not provided the GERS with a basis for their claim, we respectfully request that the Committee of the Whole move forward with GERS's request for rezoning of the subject property during the 29th Legislative session.

The property was appraised at $4.6 million on August 1, 2009. A current appraisal of the property is pending.

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. The Development Committee has determined the best use of the property is a mixture of 103 single family residential lots, and multi-family residential and commercial areas. We have applied to DPNR for a Planned Area Development (PAD) Zoning designation and scheduling of a public hearing.

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

(C) **Havensight Shopping Mall**

The Havensight Shopping Mall is the best investment the System has made. This property 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. A current appraisal of the property is pending.

The Board has agreed to have the West Indian Company (WICO) continue the management of the Mall and is in the process of negotiating a management agreement.

Loans

The System provides personal, auto, land and mortgage loans to qualified members and retirees. During Fiscal Year 2011, the loan portfolio generated revenues (interest income) to the System in the amount of $11,149,868.00. We are proud to provide this service to our members.

At June 30, 2012, there were 8,105 units in the loans portfolio with a total value of $133,189,760.14.

Loan Category	Interest Rate	Units	Dollar Value
Personal Loans	8%	5,420	$92,245,408.74
Auto Loans	8.75%	21	168,520.01
Land	8%	30	757,313.32
1st Priority Mortgage	8%	206	6,436,359.92
2nd Priority Mortgage	9%	1	11,420.61
Retiree Personal Loans	8%	2,427	33,570,737.54

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 will be 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 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.

TECHNOLOGY UPDATE

On March 12, 2012, we rolled out the first phase of the new benefits and loans integrated software system. The first phase of the project includes improved efficiency and effectiveness of all benefits requests made by members. This is a newer, more robust application that stores all member information. The information which will be available for viewing is the result of an ongoing data cleansing and information gathering project which allows the System to provide members with accurate up-to-date information that is maintained as part of each member's profile. The new software also reduces the processing time a member must wait while applying for a loan, because the database allows the sharing of such information by both the benefits and loans integrated systems. As stated in the beginning of my presentation, we have experienced many challenges especially with the posting of the deduction files from the central government which has slowed down the processing of loans to members that are employed with the central government. This has caused extraordinary hardships to many. These challenges are not insurmountable. We reached out to the Department of Finance (DOF) and they are working with us to resolve the e-file problems. I would like to thank the GERS team and the DOF team to include Val Collens, Executive Assistant Commissioner, Alvin Williams, Director of MIS, and Grace Fahie, Director of Payroll for working with us, as a team, to resolve this issue.

On May 2, 2012, we launched our new Financial Reporting System (MAS 500).This system expands the ability for us to record transactions on a real-time basis along with the ability to electronically accept and approve transactions created within the new benefits and loans integrated software system for processing. In addition, the new system improves the processing time of the business and accounting operations of the agency.

In September 2012, we will begin the beta testing of the *first phase* of the Member Self Service (MSS) and Employer Self Service (ESS) modules of the new benefits and loans integrated software. This phase will give members (active and retiree/beneficiary) the ability to access the self-service portion of the software, and will be accessible to our members around the latter part of September 2012. In this release, the member will be able to view and make changes to their information to include demographics, update addresses and contact, view their participant's (contributions) account and request for a loan online. The *second phase* of the self service will roll out in October 2012 and will include the email functionality and members will be able to apply for ACH transactions online. The *third phase* will incorporate e-form capability and is expected to become operational at the end of December 2012 or the 2nd quarter of Fiscal Year 2013.

ANNUAL FINANCIAL AUDIT

The System's most recent certified financial statements audited by Bert Smith & Company are as of September 30, 2010. The fieldwork for the Fiscal Year 2011 financial audit is completed. The audit report is expected to be issued by the end of September 2012.

GOALS FOR FISCAL YEAR 2013

- We will develop 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 2012 Annual Certified Financial Statements and Annual Reports by March 15, 2013.
- We will complete all backlogged prior service requests.
- We will promote direct deposit participation for international retirees and continue to encourage retirees who receive a check to convert to direct deposit by March 13, 2013.
- 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 to assist our members with planning for retirement and managing their retirement funds.
- We will select a service provider to administer the Supplemental Contribution Program.
- We will continue to improve the technology infrastructure to support the internal and external operations.
- We will continue to address energy saving measures in our older buildings.
- We will increase in-house oversight of the investment portfolio and the investment manager's performance.
- We will implement the in-house processing of annuity payroll on October 15, 2012.
- We will begin the Financial Planning Workshops.

BOARD ACTIONS AND PROPOSED LEGISLATION (NEW/AMENDMENTS)

From June 28th through June 30th, the Board held a retreat at the Westin Resort on St. John. The purpose of the retreat was to discuss strategies to address the unfunded liability and other problems facing the System. Before I ask our Actuary to present the preliminary actuarial results at September 30, 2011, I will outline the actions taken by the Board and legislation proposed.

The Board has taken action on the following:

Contribution Rates

Effective October 1, 2013

- **TIER 1-REGULAR EMPLOYEE**
  Increase the contribution rate 1% each year for 3 years (cumulative)

- **TIER I - CLASS 3 EMPLOYEE**
  Increase the contribution rate 1% each year for 3 years (cumulative)

Cost of Living Allowance (COLA)

Effective Beginning with year 2013
Suspend the COLA indefinitely for all retirees

The Board has proposed and we have submitted legislation to the 29th

Legislature for consideration of the following:

Contribution Rates

Effective October 1, 2013

- **TIER II – REGULAR EMPLOYEE**
  Increase the contribution rate 1% each year for 3 years (cumulative)

- **TIER II – CLASS 3 EMPLOYEE**
  Increase the contribution rate 1% each year for 3 years (cumulative)

Effective October 1, 2013

- **LEGISLATORS**
  Increase the contribution rate to 15%

- **JUDGES**
  Increase the contribution rate for new judges to 17%

  Increase the contribution rate for sitting judges to 15% at beginning of next term

  Increase the contribution rate for sitting judges to 16% at beginning of second year of new term

Increase the contribution rate for sitting judges to 17% at beginning of third year of new term and thereafter

Effective October 1, 2013

- **EMPLOYER**
  Increase contribution rate 3% each year for next 6 years (cumulative) to an ultimate rate of 38.5% of pay

Changing Retirement Age

Effective October 1, 2013

- **TIER II – REGULAR EMPLOYEE**
  Age 60 to 65 with 10 years of service, eliminating the any age with30 years of service

- **TIER II – 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

Increasing Salary Cap

Effective October 1, 2013

- **TIER I &TIERII**
  Eliminate the salary cap. Increase to social security cap

Average Career Earnings Incremental Percentage

Effective October 1, 2013

- **TIERII**
  10 years - 1%
  20 years – 2%
  30 years Plus – 3%

Includes increasing the retirement age to 65 years

Personal Loans

Effective October 1, 2013

Active Members
Increase from $50,000 to $75,000

Refund of Contributions

Effective October 1, 2013

- **TIER I &TIER II**
  Allow refunds to non-vested members only

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 2011 is presented as *Exhibit B*.

At this time, the Segal Company will make a presentation of the preliminary actuarial results at September 30, 2011, and explain the impact the Board's actions and legislation proposed will have on the sustainability of the System.

THE SEGAL COMPANY PRESENTATION (*SEE EXHIBIT D*)

SUMMARY

Mr. Chairman, the purpose of the Reform Act of 2005 was to slow down the bleeding of the System. We now must go further and make changes to the plan benefits structure and contribution rates that came out of the Board retreat as outlined in this testimony. These bold recommendations and legislative changes represent shared sacrifices 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 have a secure retirement.

Mr. Chairman, this concludes our presentation. We are prepared to respond to any questions the Committee may have on the operations of the GERS and the preliminary actuarial results presented by Segal.

CONTRIBUTIONS 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	(Unaudited)	119.6	204.8	(87.7)
2012	(9 months)	70.0	169.2	(99.2)

Exhibit A

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		1,255,210,585	518,608,040	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	2,840,823,515	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	(Unaudited)	1,400,000,000	1,700,000,000	3,100,000,000	45.2%

Exhibit B

Investment Manager Asset Allocation (unaudited)

As of June 30, 2012

Investment Manager	Invesment Asset Class	June 30, 2012 Portfolio Value	March 31, 2012 Portfolio Value	Change in Portfolio Value	Percent Change
Government Employees Retirement System Fund - All Segments					
AllianceBernstein	Fixed Income Core	$ 79,323,701	$ 88,742,915	$ (9,419,214)	-10.61%
The Attilanus Fund I - LP	Senior Life Settlement	53,693,950	53,693,950	-	0.00%
Brandywine Global Investment Management, LLC	Fixed Income International	89,461,626	91,648,799	(2,187,173)	-2.39%
Global Currents Investment Management, LLC	International Value Equity	45,146,959	47,926,823	(2,779,864)	-5.80%
Fisher Investments Institutional Group	Small Cap Value Equity	57,959,812	62,665,830	(4,706,018)	-7.51%
LSV Asset Management	Large Cap Value Equity	62,685,569	87,929,277	(25,243,708)	-28.71%
Mesirow Financial	Private Equity	12,466,239	11,202,298	1,263,941	11.28%
NWQ Investment Management Company, LLC	Large Cap Value Equity	63,577,133	79,970,616	(16,393,483)	-20.50%
Oberweis Asset Management, Inc.	Micro Cap Equity	69,528,083	73,986,591	(4,458,509)	-6.03%
SSgA EAFE	Core International	41,516,636	44,607,852	(3,091,216)	-6.93%
Pacific Investment Management Co., LLC (PIMCO)	Fixed Income Intermediate	86,210,494	83,979,588	2,230,906	2.66%
Pugh Capital Management, Inc.	Fixed Income Core	54,988,222	53,913,426	1,074,796	1.99%
State Street Global Advisors (SSgA)	Large Cap Core Equity	10,389,008	10,683,236	(294,228)	-2.75%
Silvant Capital Management	Large Cap Growth Equity	70,710,839	74,747,230	(4,036,391)	-5.40%
Smith, Graham and Company	Fixed Income Core	54,609,181	53,439,200	1,169,980	2.19%
Turner Investment Partners, Inc.	Large Cap Growth Equity	68,232,083	74,450,894	(6,218,811)	-8.35%
Union Heritage Capital Management, Inc.	Large Cap Core Equity	61,053,462	63,879,097	(2,825,635)	-4.42%
Total Fund		**$ 981,552,995**	**$ 1,057,467,624**	**$ (75,914,629)**	**-7.18%**

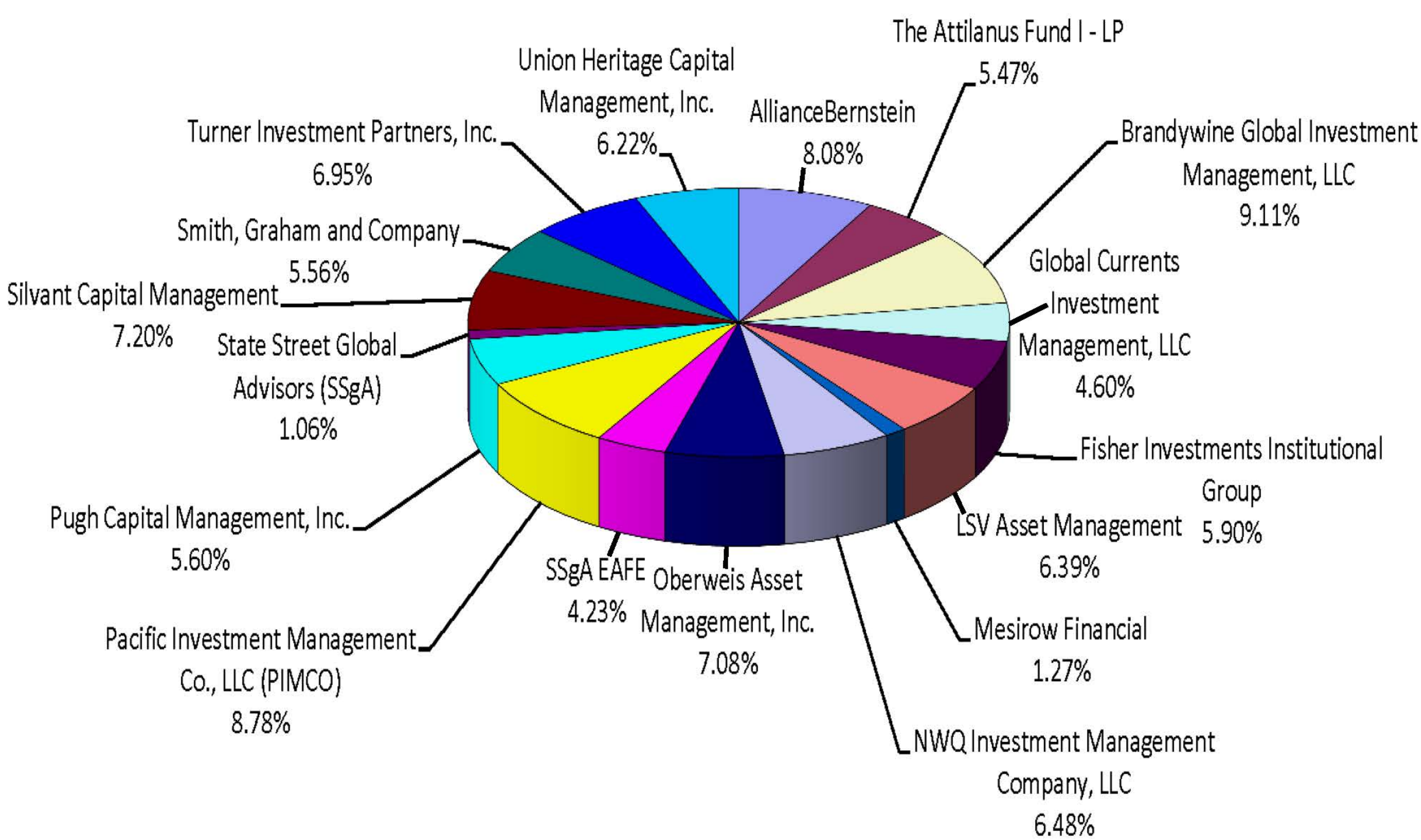

Exhibit C

Government of the Virgin Islands

Retirement System

Slide	Narrative
Preliminary October 1, 2011 Valuation Results	
3	Presents changes in the plan census since 2006. This represents a 13% decrease in active employees while the annuitants increased 9%. This change puts additional pressure on the contribution rate.
4	Since 2006, contribution rates rose from 22.8% to 26%. However, the required contribution increased from 43.3% to 52.7%. The Economic Stability Act of 2011 further increased the required contribution to 58.4%, due to the lowered salary base.
5	Since 1999, the funding ratio has declined from 70.8% to about 40% due to contributions less than required, investment return less than assumed and Plan improvements/incentives that were not paid for with additional contributions (i.e. unfunded mandates).
Projections of Valuation Results	
6	To provide the Board and Legislature with a measure of the magnitude of the funding issue facing the System, Segal updated previous projections for presentation to the Board. The assumptions for these projections are shown on Slide 6.
7	If the current assumptions are met with no further reductions to covered payroll, the System is expected to run out of money in 2023.
8	Slide 8 provides the detailed numbers supporting the Slide 7 graph. Please note in year one (2012), the total expected income is less than expected benefits and expenses by about $55 million. Each year, this is expected to increase resulting in drawing the assets down to $-0- about 2023. At that time, continued payment of benefits will require significant allocation of funds from General Government reserves, or significant reductions in benefits paid to annuitants. As projected, in 2024, contributions are expected to total only 41% of the System's outgo, necessitating an additional $183.1 million of government fund allocation to pay benefits.
9	Slide 9 reflects the impact of investment returns on these results. If the System were to return 10% per year hereafter (rather than the 7.5% assumed) insolvency would be delayed by about two years. Likewise, a one-year return of 20% in 2012 would also defer insolvency two years. Returning 5% per year would hasten insolvency by two years. **The main point is that investment return is not expected to move the insolvency date by more than a few years.**
10, 11, 12	Provide numeric detail for the graph on Slide 9.
13, 14	The graph on Slide 13 and the table on Slide 14 present the estimated number of years

Pre -Exhibit D

	with a 3% increase in the employer contribution rate each year until stability to the System is achieved. This results in nine years of 3% increase to an ultimate rate of 44.5% (from the current 17.5%).
15, 16	Slides 15 and 16 include an increase in the employee rate of 1% per year for three years to a total of 11.5%. This reduces the ultimate projected employer rate to 38.5% with seven years of 3% a year increases.
17, 18	Slides 17 and 18 include the impact of suspending the COLA, resulting in five years of 3% increase to the employer rate for an ultimate rate of 32.5%.
19, 20, 21	Slides 19, 20 and 21 change the annual employer increase to 2.5% per year and 2% per year. This results in seven years at 2.5% for a 35% ultimate rate or nine years at 2.0% for a 35.5% ultimate rate.
Benefit Analysis for Salary Over $65,000	
23, 24	These slides include a description of removing the $65,000 salary cap. The description includes a special career average benefit formula for the additional salary.
25, 26	These slides show the impact to average salary and the recommended contribution rates.
27, 28, 29	These slides show the impact of this change to the System's insolvency projection. Essentially, this change is expected to forestall insolvency in about two years.
Summary	
	The System is projected to deplete its assets in 2023, without changes in contributions or benefits. The information shown above indicates that additional employee contributions of 3%, suspension of the post-retirement COLA, expanding the benefit structure (and contributions) to include limited benefit accruals for salary over $65,000 will lessen the government contributions needed to place the System on the road to more stable financial footing. Additional changes in benefits for new hires will also help the long-term funding outlook but will not materially affect the projected ins. **But, significant increases in contributions and/or reductions in benefits are needed to forestall insolvency.**

GOVERNMENT OF THE VIRGIN ISLANDS RETIREMENT SYSTEM

August 31, 2012

Leon F. (Rocky) Joyner, Jr. FCA, ASA, MAAA, EA
Vice President & Actuary




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Exhibit D

Table of Contents

Preliminary October 1, 2011 Valuation Results:

- Summary of valuation data and results
- Projections of valuation results including
  - Investment return sensitivity
  - Contribution rate changes
  - Benefit changes

Benefit Analysis for Salary over $65,000:

- Description of possible benefit change
- Projection of study results

Exhibit D

Preliminary October 1, 2011 Valuation Results

Exhibit D

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Membership Summary

PRELIMINARY DATA AS OF SEPTEMBER 30, 2011

	Year Ended September 30		
Category	**2006**	***2011***	***2011 after layoff***
Active participants in valuation:			
Number	10,739	*10,376*	*9,376*
Average age	45.1	*45.7*	*45.3*
Average years of service	14.0	*13.9*	*13.3*
Average salary	$36,744	*$38,885*	*$38,693*
Retired members and beneficiaries:			
Number in pay status	7,282	*7,592*	*7,918*
Average age	68.8	*69.4*	*68.9*
Average semi-monthly benefit	$928	*$1,104*	*$1,124*

Exhibit D

Actuarial, Employer and Employee Contribution Rates

PRELIMINARY RESULTS FOR YEAR BEGINNING OCTOBER 1, 2011

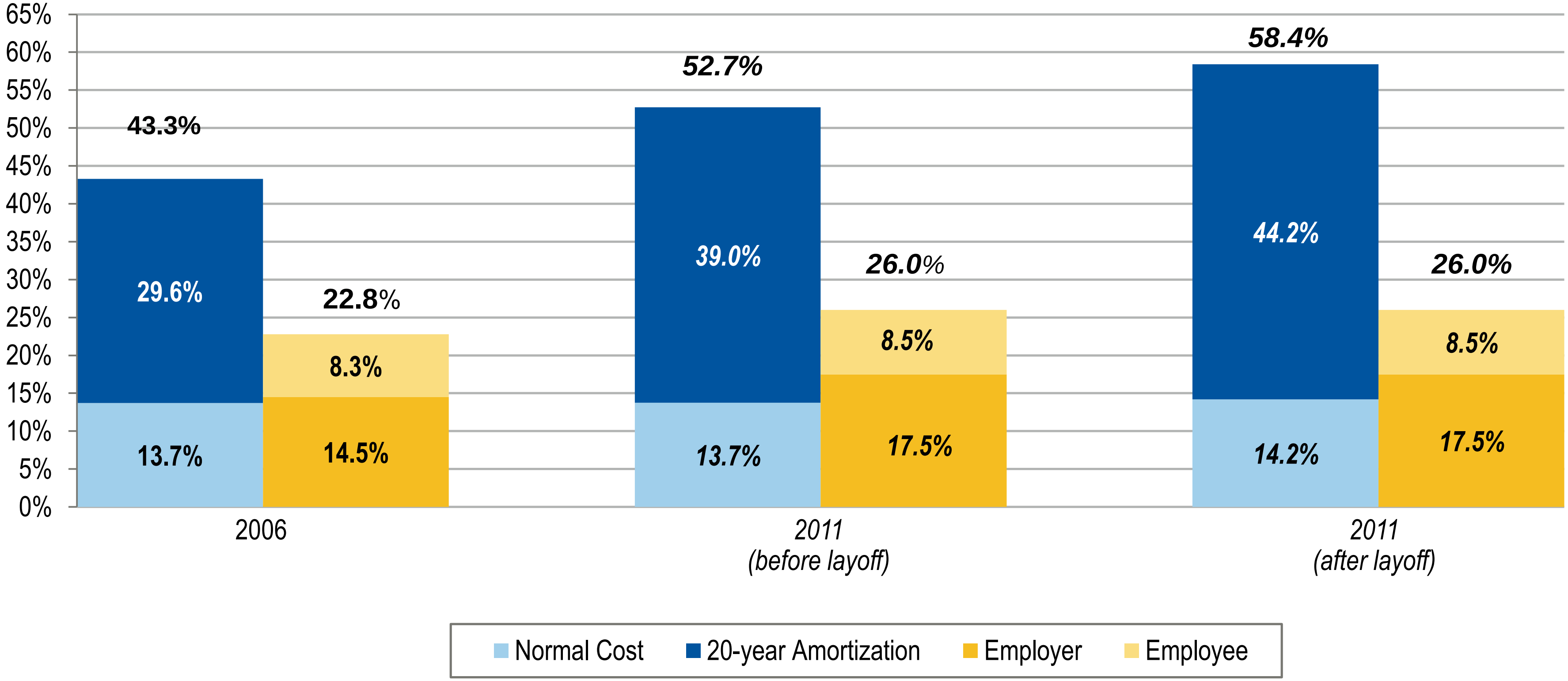
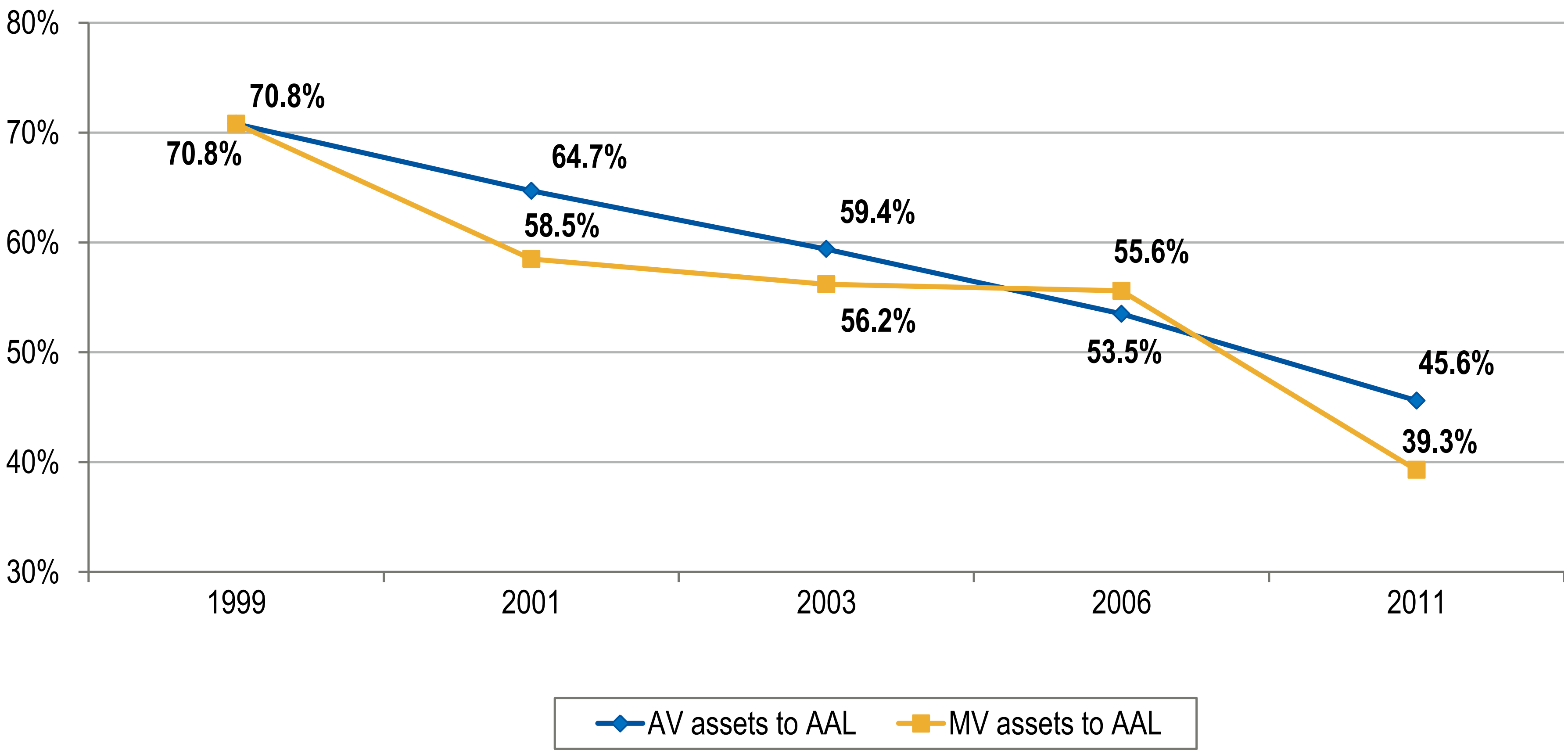


Exhibit D

Funded Ratios

PRELIMINARY RESULTS AS OF SEPTEMBER 30, 2011



The funded percentage continues to decline.

Exhibit D

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Projection Parameters

Projection Assumptions:

- After the decline in the active population due to the Economic Stability Act of 2011, the active population is assumed to remain level at 9,376 employees.
- Total payroll of $362.8 million is assumed to increase 2.5% per year.
- Administrative expenses are assumed to increase 3% per year.
- Benefit payments for the first 15 years are projected based on the preliminary 2011 valuation results. Benefit payments after 15 years are assumed to increase 2% per year to account for retirements from new entrants after 2011.
- Assets are assumed to earn a 7.5% return each year, unless otherwise noted.

Caveats:

- The closer the plan gets to insolvency, asset illiquidity may become an issue and earning the assumed return may become more difficult.
- Projections, by their nature, are not a guarantee of future results. The projections are intended to serve as estimates of future outcomes, based on the information available to us and the assumptions described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions.

Exhibit D

Projection of Market Value of Assets - Baseline

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll
Employee Contribution Rate: 8.5% of payroll

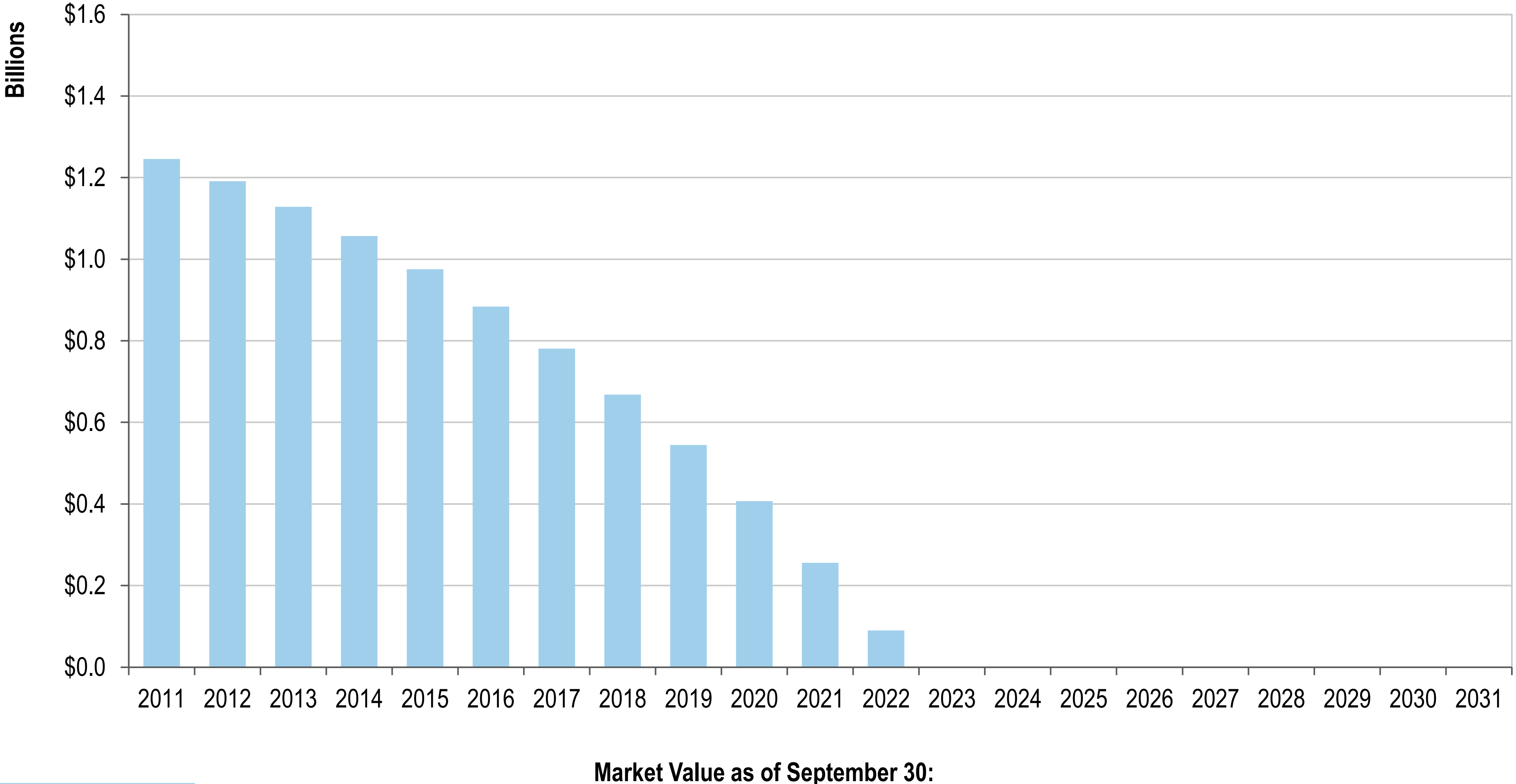

Exhibit D

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Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll
Employee Contribution Rate: 8.5% of payroll

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	40%
2013	31.6	65.1	-	228.1	15.3	83.8	1,128.3	36%
2014	32.4	66.7	-	234.0	15.8	79.0	1,056.6	33%
2015	33.2	68.4	-	240.0	16.3	73.4	975.3	29%
2016	34.0	70.1	-	246.2	16.7	67.2	883.7	26%
2017	34.9	71.8	-	252.6	17.2	60.2	780.8	22%
2018	35.8	73.6	-	256.4	17.8	52.4	668.4	19%
2019	36.7	75.5	-	261.4	18.3	43.8	544.7	15%
2020	37.6	77.4	-	268.4	18.8	34.4	406.8	11%
2021	38.5	79.3	-	273.3	19.4	23.9	255.8	7%
2022	39.5	81.3	-	279.2	20.0	12.5	89.9	2%
2023	40.5	83.3	$91.4	284.5	20.6	-	-	0%
2024	41.5	85.4	183.1	288.7	21.2	-	-	0%
2025	42.5	87.5	186.2	294.3	21.8	-	-	0%
2026	43.6	89.7	187.7	298.5	22.5	-	-	0%
2027	44.7	91.9	191.1	304.5	23.2	-	-	0%
2028	45.8	94.2	194.4	310.6	23.9	-	-	0%
2029	46.9	96.6	197.9	316.8	24.6	-	-	0%
2030	48.1	99.0	201.3	323.1	25.3	-	-	0%
2031	49.3	101.5	204.9	329.6	26.1	-	-	0%

Exhibit D

Projection of Market Value of Assets

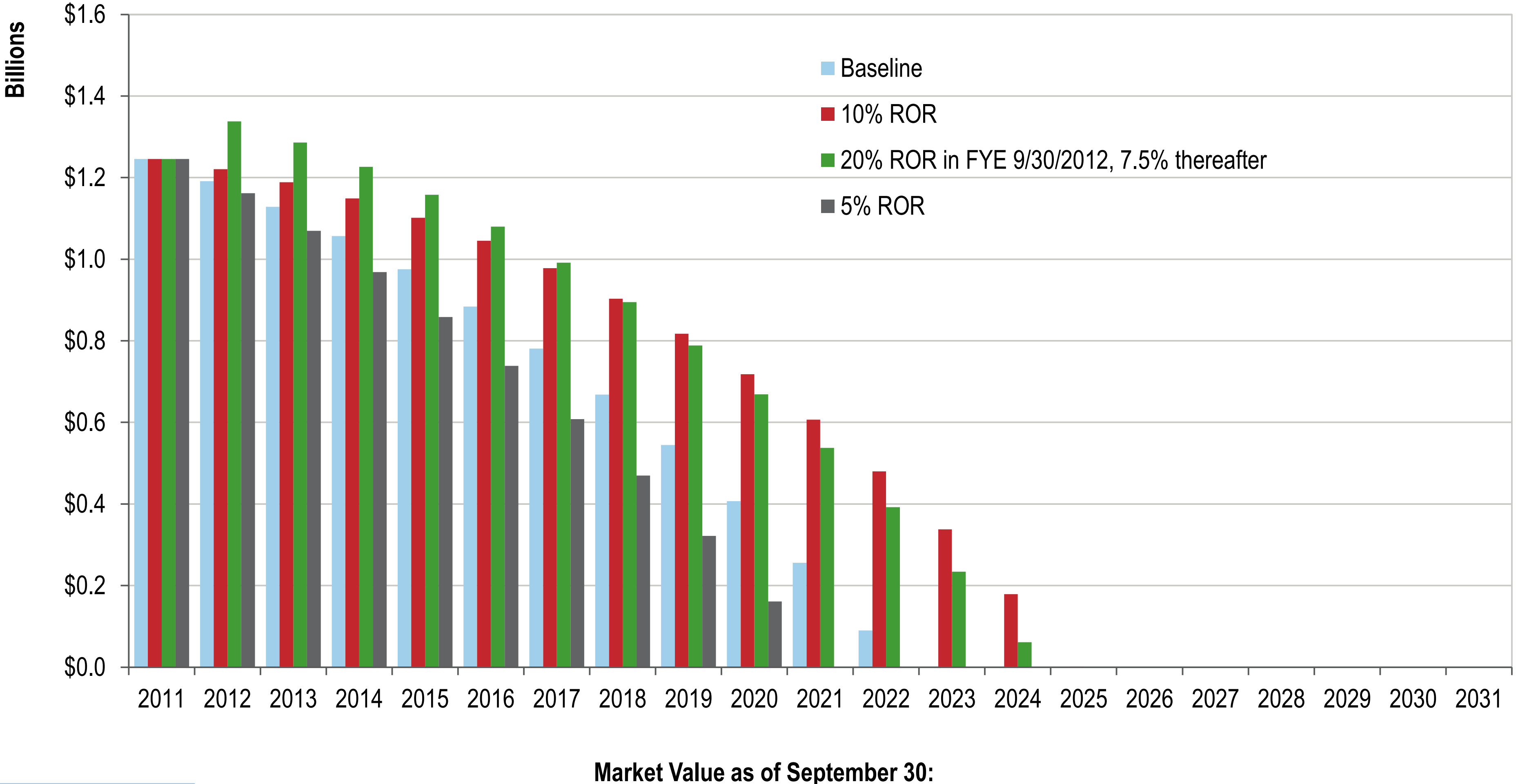

Exhibit D

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 10%
Employer Contribution Rate: 17.5% of payroll
Employee Contribution Rate: 8.5% of payroll

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$117.5	1,220.6	40%
2013	31.6	65.1	-	228.1	15.3	114.7	1,188.5	37%
2014	32.4	66.7	-	234.0	15.8	111.3	1,149.2	34%
2015	33.2	68.4	-	240.0	16.3	107.2	1,101.7	31%
2016	34.0	70.1	-	246.2	16.7	102.2	1,045.1	29%
2017	34.9	71.8	-	252.6	17.2	96.4	978.3	26%
2018	35.8	73.6	-	256.4	17.8	89.6	903.2	24%
2019	36.7	75.5	-	261.4	18.3	81.9	817.5	21%
2020	37.6	77.4	-	268.4	18.8	73.1	718.4	18%
2021	38.5	79.3	-	273.3	19.4	63.1	606.6	15%
2022	39.5	81.3	-	279.2	20.0	51.7	479.9	12%
2023	40.5	83.3	-	284.5	20.6	38.9	337.5	8%
2024	41.5	85.4	-	288.7	21.2	24.6	179.0	4%
2025	42.5	87.5	-	294.3	21.8	8.6	1.5	0%
2026	43.6	89.7	$186.3	298.5	22.5	-	-	0%
2027	44.7	91.9	191.1	304.5	23.2	-	-	0%
2028	45.8	94.2	194.4	310.6	23.9	-	-	0%
2029	46.9	96.6	197.9	316.8	24.6	-	-	0%
2030	48.1	99.0	201.3	323.1	25.3	-	-	0%
2031	49.3	101.5	204.9	329.6	26.1	-	-	0%

Exhibit D

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 20% in year ending September 30, 2012, 7.5% thereafter
Employer Contribution Rate: 17.5% of payroll
Employee Contribution Rate: 8.5% of payroll

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$234.9	1,338.0	41%
2013	31.6	65.1	-	228.1	15.3	94.8	1,286.1	38%
2014	32.4	66.7	-	234.0	15.8	90.8	1,226.3	36%
2015	33.2	68.4	-	240.0	16.3	86.2	1,157.7	33%
2016	34.0	70.1	-	246.2	16.7	80.9	1,079.8	31%
2017	34.9	71.8	-	252.6	17.2	74.9	991.5	28%
2018	35.8	73.6	-	256.4	17.8	68.2	895.0	25%
2019	36.7	75.5	-	261.4	18.3	60.8	788.3	22%
2020	37.6	77.4	-	268.4	18.8	52.7	668.6	18%
2021	38.5	79.3	-	273.3	19.4	43.6	537.3	15%
2022	39.5	81.3	-	279.2	20.0	33.6	392.5	11%
2023	40.5	83.3	-	284.5	20.6	22.6	233.8	6%
2024	41.5	85.4	-	288.7	21.2	10.7	61.4	2%
2025	42.5	87.5	$124.7	294.3	21.8	-	-	0%
2026	43.6	89.7	187.7	298.5	22.5	-	-	0%
2027	44.7	91.9	191.1	304.5	23.2	-	-	0%
2028	45.8	94.2	194.4	310.6	23.9	-	-	0%
2029	46.9	96.6	197.9	316.8	24.6	-	-	0%
2030	48.1	99.0	201.3	323.1	25.3	-	-	0%
2031	49.3	101.5	204.9	329.6	26.1	-	-	0%

Exhibit D

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 5%
Employer Contribution Rate: 17.5% of payroll
Employee Contribution Rate: 8.5% of payroll

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$58.7	1,161.8	40%
2013	31.6	65.1	-	228.1	15.3	54.4	1,069.5	36%
2014	32.4	66.7	-	234.0	15.8	49.7	968.6	32%
2015	33.2	68.4	-	240.0	16.3	44.6	858.4	27%
2016	34.0	70.1	-	246.2	16.7	38.9	738.5	23%
2017	34.9	71.8	-	252.6	17.2	32.8	608.3	19%
2018	35.8	73.6	-	256.4	17.8	26.3	469.8	14%
2019	36.7	75.5	-	261.4	18.3	19.3	321.6	10%
2020	37.6	77.4	-	268.4	18.8	11.8	161.1	5%
2021	38.5	79.3	$10.2	273.3	19.4	3.7	-	0%
2022	39.5	81.3	178.4	279.2	20.0	-	-	0%
2023	40.5	83.3	181.3	284.5	20.6	-	-	0%
2024	41.5	85.4	183.1	288.7	21.2	-	-	0%
2025	42.5	87.5	186.2	294.3	21.8	-	-	0%
2026	43.6	89.7	187.7	298.5	22.5	-	-	0%
2027	44.7	91.9	191.1	304.5	23.2	-	-	0%
2028	45.8	94.2	194.4	310.6	23.9	-	-	0%
2029	46.9	96.6	197.9	316.8	24.6	-	-	0%
2030	48.1	99.0	201.3	323.1	25.3	-	-	0%
2031	49.3	101.5	204.9	329.6	26.1	-	-	0%

Exhibit D

Projection of Market Value of Assets

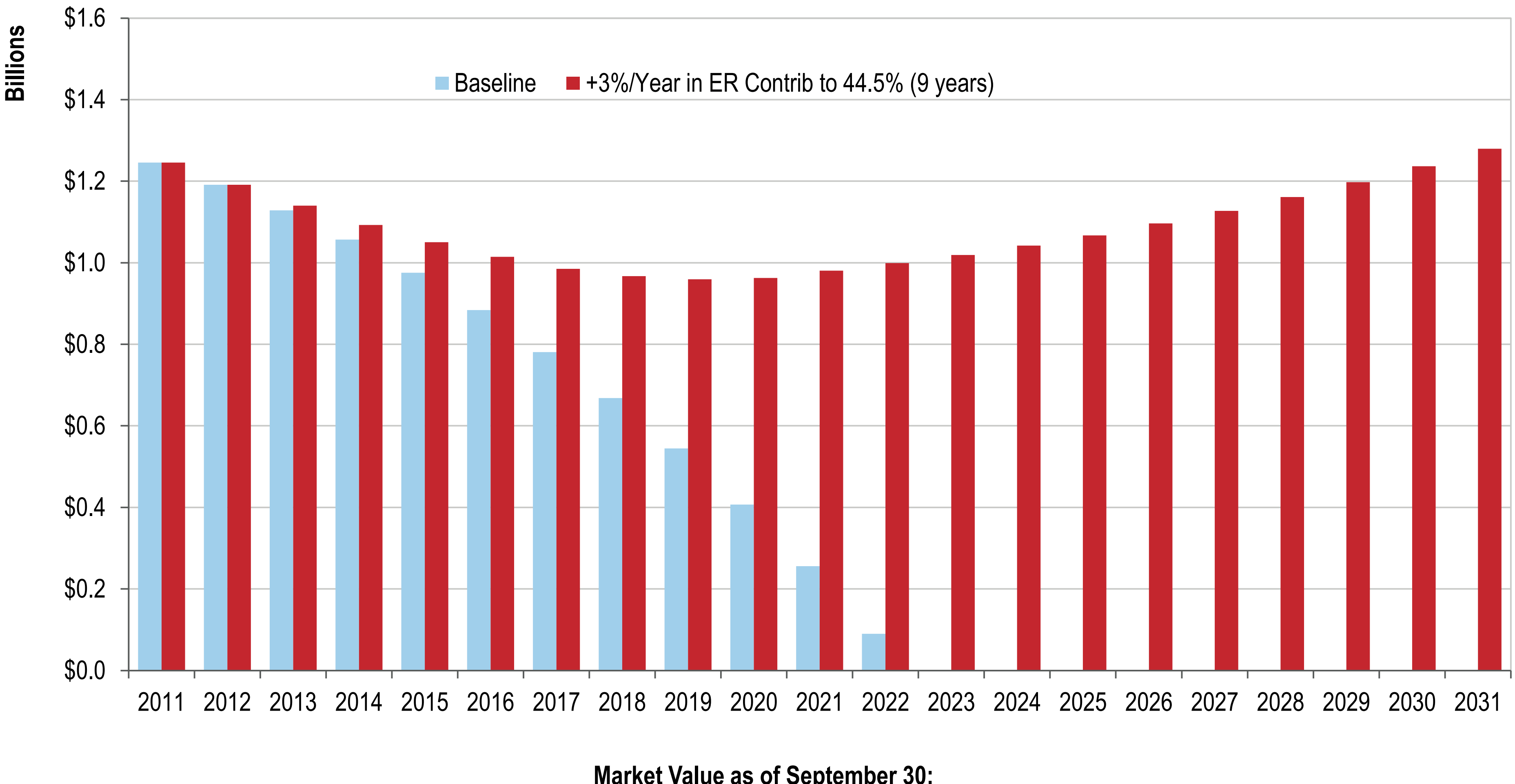

Exhibit D

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Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll, increasing 3% per year to 44.5% after 9 years
Employee Contribution Rate: 8.5% of payroll

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$ 88.1	1,191.2	40%
2013	31.6	76.2	-	228.1	15.3	84.3	1,139.9	37%
2014	32.4	89.6	-	234.0	15.8	80.7	1,092.8	34%
2015	33.2	103.5	-	240.0	16.3	77.5	1,050.7	31%
2016	34.0	118.1	-	246.2	16.7	74.6	1,014.6	30%
2017	34.9	133.4	-	252.6	17.2	72.3	985.3	28%
2018	35.8	149.4	-	256.4	17.8	70.6	966.9	27%
2019	36.7	166.0	-	261.4	18.3	69.6	959.5	27%
2020	37.6	183.4	-	268.4	18.8	69.5	962.8	27%
2021	38.5	201.6	-	273.3	19.4	70.2	980.4	27%
2022	39.5	206.7	-	279.2	20.0	71.5	998.9	27%
2023	40.5	211.8	-	284.5	20.6	72.9	1,019.1	27%
2024	41.5	217.1	-	288.7	21.2	74.5	1,042.3	28%
2025	42.5	222.5	-	294.3	21.8	76.3	1,067.4	28%
2026	43.6	228.1	-	298.5	22.5	78.2	1,096.2	28%
2027	44.7	233.8	-	304.5	23.2	80.4	1,127.4	29%
2028	45.8	239.7	-	310.6	23.9	82.7	1,161.1	30%
2029	46.9	245.6	-	316.8	24.6	85.3	1,197.5	30%
2030	48.1	251.8	-	323.1	25.3	88.0	1,237.0	31%
2031	49.3	258.1	-	329.6	26.1	91.0	1,279.6	32%

Projection of Market Value of Assets

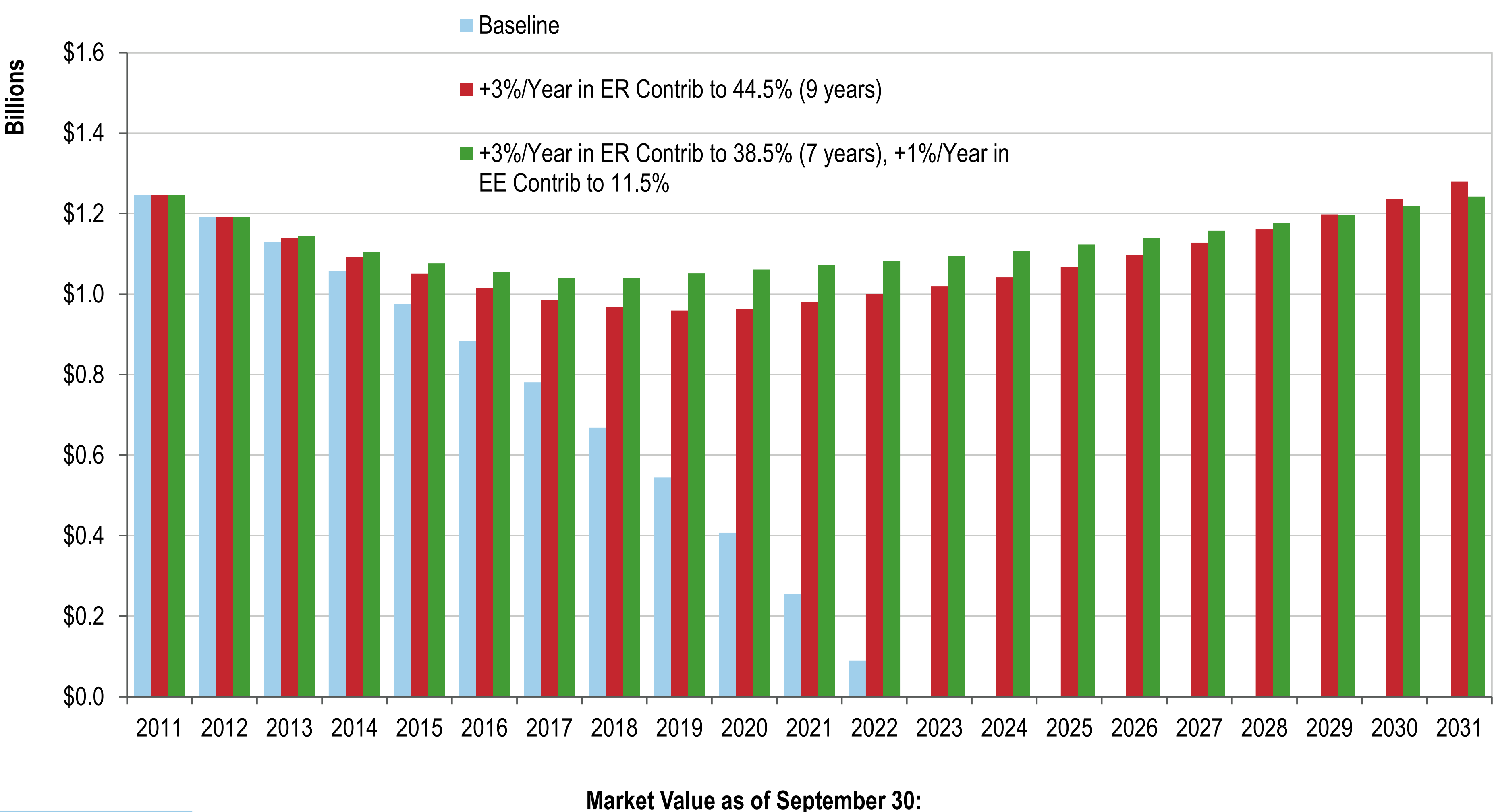


Exhibit D

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll, increasing 3% per year to 38.5% after 7 years
Employee Contribution Rate: 8.5% of payroll, increasing 1% per year to 11.5% after 3 years

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	40%
2013	35.3	76.2	-	228.1	15.3	84.4	1,143.7	37%
2014	40.0	89.6	-	234.0	15.8	81.3	1,104.8	34%
2015	44.9	103.5	-	240.0	16.3	78.8	1,075.8	32%
2016	46.1	118.1	-	246.2	16.7	77.0	1,054.0	31%
2017	47.2	133.4	-	252.6	17.2	75.7	1,040.5	30%
2018	48.4	149.4	-	256.4	17.8	75.2	1,039.3	29%
2019	49.6	166.0	-	261.4	18.3	75.5	1,050.8	29%
2020	50.8	170.2	-	268.4	18.8	76.3	1,060.9	29%
2021	52.1	174.4	-	273.3	19.4	77.1	1,071.8	29%
2022	53.4	178.8	-	279.2	20.0	77.9	1,082.7	29%
2023	54.7	183.3	-	284.5	20.6	78.7	1,094.3	29%
2024	56.1	187.8	-	288.7	21.2	79.6	1,108.0	29%
2025	57.5	192.5	-	294.3	21.8	80.6	1,122.5	29%
2026	58.9	197.4	-	298.5	22.5	81.8	1,139.5	30%
2027	60.4	202.3	-	304.5	23.2	83.0	1,157.6	30%
2028	61.9	207.3	-	310.6	23.9	84.4	1,176.8	30%
2029	63.5	212.5	-	316.8	24.6	85.8	1,197.2	30%
2030	65.1	217.8	-	323.1	25.3	87.3	1,219.0	31%
2031	66.7	223.3	-	329.6	26.1	89.0	1,242.2	31%

Projection of Market Value of Assets

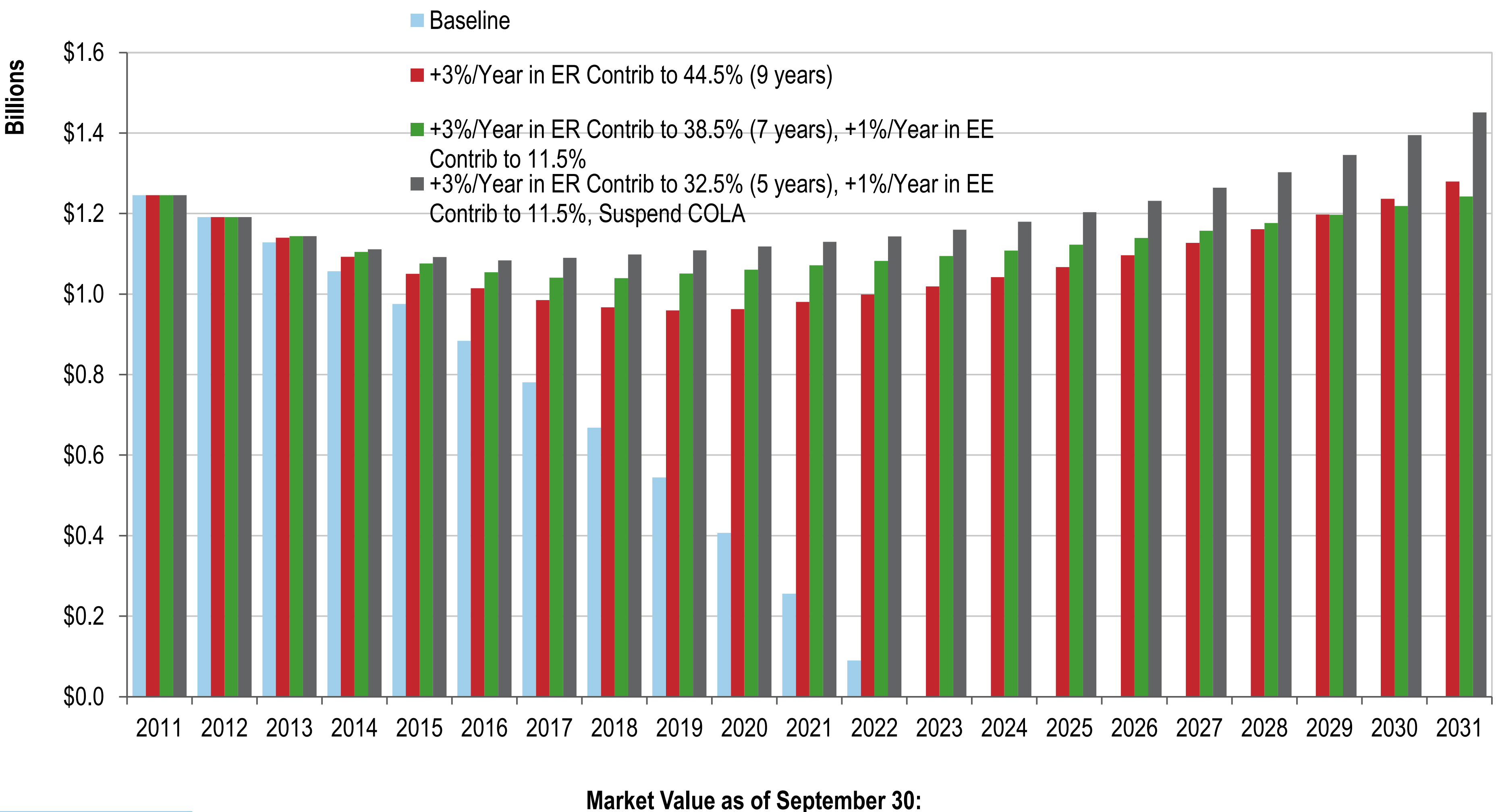


Exhibit D

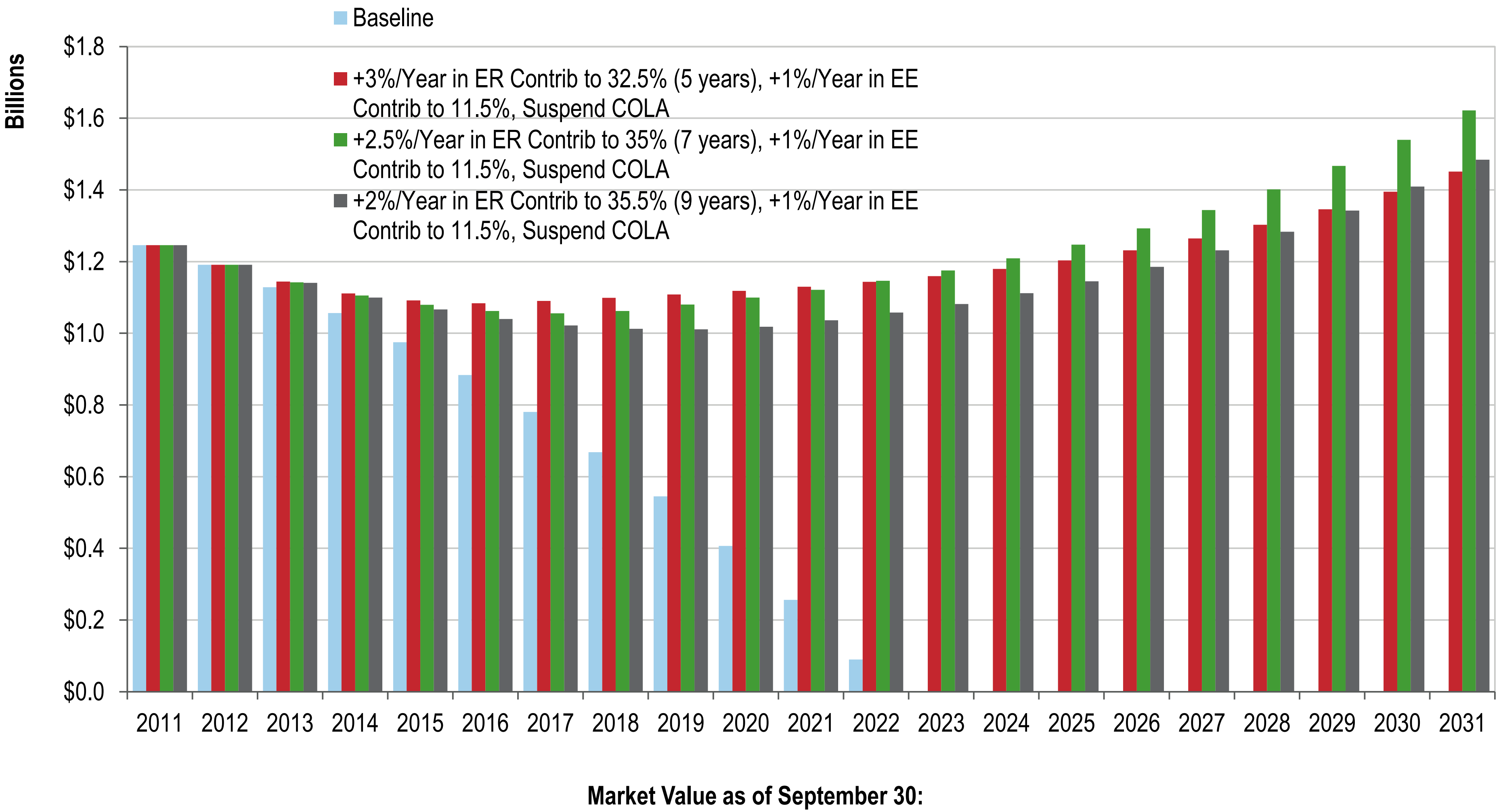
Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll, increasing 3% per year to 32.5% after 5 years
Employee Contribution Rate: 8.5% of payroll, increasing 1% per year to 11.5% after 3 years
Suspend COLA

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	44%
2013	35.3	76.2	-	227.6	15.3	84.4	1,144.2	41%
2014	40.0	89.6	-	228.2	15.8	81.5	1,111.4	39%
2015	44.9	103.5	-	231.4	16.3	79.6	1,091.8	37%
2016	46.1	118.1	-	234.2	16.7	78.6	1,083.7	36%
2017	47.2	133.4	-	235.7	17.2	78.6	1,090.0	36%
2018	48.4	136.7	-	237.9	17.8	79.1	1,098.6	35%
2019	49.6	140.2	-	241.3	18.3	79.8	1,108.5	35%
2020	50.8	143.7	-	246.5	18.8	80.5	1,118.1	35%
2021	52.1	147.2	-	249.4	19.4	81.3	1,130.0	35%
2022	53.4	150.9	-	253.0	20.0	82.2	1,143.5	35%
2023	54.7	154.7	-	256.0	20.6	83.2	1,159.6	35%
2024	56.1	158.6	-	257.8	21.2	84.6	1,179.8	36%
2025	57.5	162.5	-	261.0	21.8	86.1	1,203.2	36%
2026	58.9	166.6	-	262.7	22.5	88.0	1,231.5	36%
2027	60.4	170.8	-	265.3	23.2	90.2	1,264.5	37%
2028	61.9	175.0	-	268.0	23.9	92.8	1,302.4	38%
2029	63.5	179.4	-	270.6	24.6	95.7	1,345.8	38%
2030	65.1	183.9	-	273.3	25.3	99.1	1,395.2	39%
2031	66.7	188.5	-	276.1	26.1	102.9	1,451.1	40%

Exhibit D

Projection of Market Value of Assets



Note: Upon final review, the results have been updated to that shown above

Exhibit D

SEGAL

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll, increasing 2.5% per year to 35% after 7 years
Employee Contribution Rate: 8.5% of payroll, increasing 1% per year to 11.5% after 3 years
Suspend COLA

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	44%
2013	35.3	74.4	-	227.6	15.3	84.3	1,142.3	41%
2014	40.0	85.8	-	228.2	15.8	81.2	1,105.3	38%
2015	44.9	97.7	-	231.4	16.3	79.0	1,079.3	36%
2016	46.1	110.1	-	234.2	16.7	77.4	1,061.9	35%
2017	47.2	123.1	-	235.7	17.2	76.5	1,055.9	34%
2018	48.4	136.7	-	237.9	17.8	76.5	1,061.9	34%
2019	49.6	150.9	-	241.3	18.3	77.4	1,080.3	34%
2020	50.8	154.7	-	246.5	18.8	78.8	1,099.3	35%
2021	52.1	158.6	-	249.4	19.4	80.3	1,121.4	35%
2022	53.4	162.5	-	253.0	20.0	82.0	1,146.4	35%
2023	54.7	166.6	-	256.0	20.6	83.9	1,175.0	36%
2024	56.1	170.8	-	257.8	21.2	86.2	1,209.0	37%
2025	57.5	175.0	-	261.0	21.8	88.8	1,247.6	37%
2026	58.9	179.4	-	262.7	22.5	91.8	1,292.6	38%
2027	60.4	183.9	-	265.3	23.2	95.3	1,343.7	39%
2028	61.9	188.5	-	268.0	23.9	99.2	1,401.6	40%
2029	63.5	193.2	-	270.6	24.6	103.7	1,466.7	42%
2030	65.1	198.0	-	273.3	25.3	108.7	1,539.8	43%
2031	66.7	203.0	-	276.1	26.1	114.3	1,621.6	45%

Exhibit D

Projection of Market Value of Assets (In Millions)

Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll, increasing 2% per year to 35.5% after 9 years
Employee Contribution Rate: 8.5% of payroll, increasing 1% per year to 11.5% after 3 years
Suspend COLA

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	44%
2013	35.3	72.5	-	227.6	15.3	84.3	1,140.3	41%
2014	40.0	81.9	-	228.2	15.8	81.0	1,099.3	38%
2015	44.9	91.8	-	231.4	16.3	78.3	1,066.7	36%
2016	46.1	102.1	-	234.2	16.7	76.1	1,040.1	34%
2017	47.2	112.9	-	235.7	17.2	74.5	1,021.8	33%
2018	48.4	124.1	-	237.9	17.8	73.5	1,012.2	33%
2019	49.6	135.8	-	241.3	18.3	73.1	1,011.2	32%
2020	50.8	148.1	-	246.5	18.8	73.3	1,018.1	32%
2021	52.1	160.8	-	249.4	19.4	74.3	1,036.5	32%
2022	53.4	164.9	-	253.0	20.0	75.7	1,057.5	33%
2023	54.7	169.0	-	256.0	20.6	77.3	1,081.9	33%
2024	56.1	173.2	-	257.8	21.2	79.3	1,111.5	34%
2025	57.5	177.5	-	261.0	21.8	81.6	1,145.3	34%
2026	58.9	182.0	-	262.7	22.5	84.2	1,185.3	35%
2027	60.4	186.5	-	265.3	23.2	87.3	1,231.1	36%
2028	61.9	191.2	-	268.0	23.9	90.9	1,283.3	37%
2029	63.5	196.0	-	270.6	24.6	94.9	1,342.4	38%
2030	65.1	200.9	-	273.3	25.3	99.5	1,409.2	40%
2031	66.7	205.9	-	276.1	26.1	104.6	1,484.2	41%

Exhibit D

Benefit Analysis for Salary over $65,000

Exhibit D

Benefit Study to Eliminate the $65,000 Salary Cap

- As requested, we have analyzed the potential impact of eliminating the $65,000 salary caps for both benefit accruals and contribution purposes
- The proposed changes in benefits and contributions are as follows:
  - Future Cost of Living Adjustments (COLA) for all participants are suspended indefinitely
  - Contributions will be made at the current rates for all salaries including amounts over $65,000
  - For Regular and Public Safety employees:
    - The benefit accruals for salary up to $65,000 will remain unchanged
    - For salary above $65,000, the benefit accruals will be 1% of salaries over $65,000
  - For purposes of this study, we have assumed that these proposed changes will be effective October 1, 2012
- For Legislature and Judges, their benefits will remain unchanged
- As previously reported, our projections show that the Plan will become insolvent during the Plan Year ending September 30, 2023 assuming no changes are made to current plan of benefits and contribution rates
- Based on our projections, the proposed changes described above are projected to delay the Plan insolvency by two years from the Plan Year ending September 30, 2023 to September 30, 2025
- In addition, the proposed changes are estimated to decrease the Plan’s Annual Required Contributions (ARC) as a percent of pay from 58.4% to 50.0% of pay
- Although these proposed changes have a positive effect on the funding status of the plan, they are clearly not enough to solve the short-term solvency and long-term funding issues facing the Plan

Exhibit D

Benefit Accruals over $65,000 Example

Tier 1 Regular Employee:

Salary history:

Year	Salary
2005	$50,000
2006	51,500
2007	66,000
2008	66,600
2009	67,000
2010	65,000
2011	65,000
2012	65,000
2013	60,000
2014	68,000
2015	69,000
2016	72,000

Base benefit unchanged:

Final average salary of
$65,000 x 12 years x 2.5% = $19,500

Salaries over $65,000* = $3,000 for 2014

+ 4,000 for 2015

+ 7,000 for 2016

$14,000 x 1% = $140

* salaries over $65,000 are only counted after 9/30/2012

Total accrued benefit = $19,640 per year

Exhibit D

SEGAL

Membership Summary

PRELIMINARY DATA AS OF SEPTEMBER 30, 2011

	Year Ended September 30		
Category	**2006**	***2011***	***2011 after layoff***
Active participants in valuation:			
Number	10,739	*10,376*	*9,376*
Average age	45.1	*45.7*	*45.3*
Average years of service	14.0	*13.9*	*13.3*
Average salary	$36,744	*$38,885*	*$38,693**
Retired members and beneficiaries:			
Number in pay status	7,282	*7,592*	*7,918*
Average age	68.8	*69.4*	*68.9*
Average semi-monthly benefit	$928	*$1,104*	*$1,124*

* After reflecting salary over $65,000, the average salary increases to $40,080.

Exhibit D

Actuarial, Employer and Employee Contribution Rates

PRELIMINARY RESULTS FOR YEAR BEGINNING OCTOBER 1, 2011

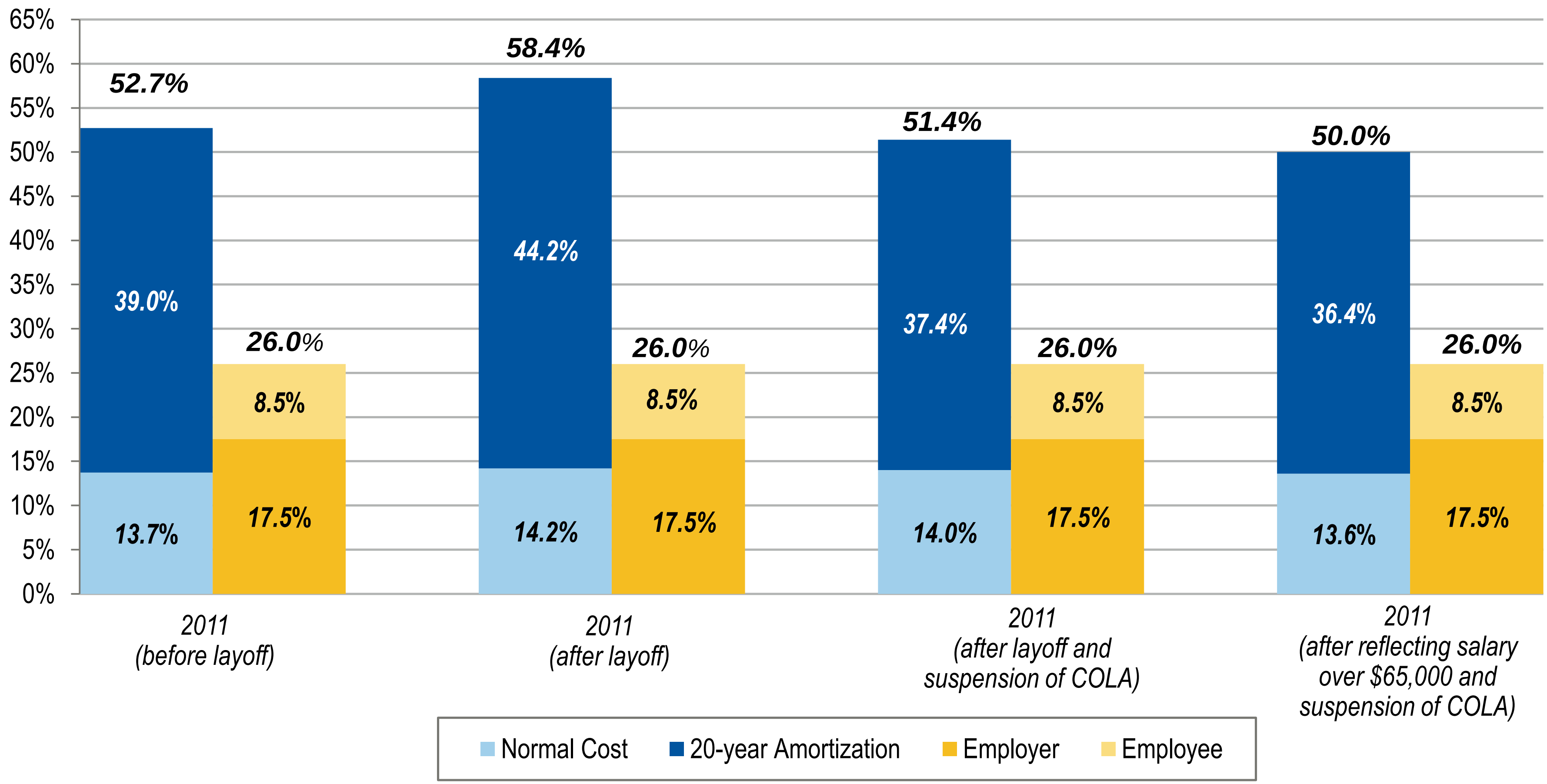


Exhibit D

Projection Parameters

Projection Assumptions:

- After the decline in the active population due to the Economic Stability Act of 2011, the active population is assumed to remain level at 9,376 employees.
- Total payroll for the year ending September 30, 2012 is projected to be $362.8 million. This amount is based on 9,376 employees and reflects the $65,000 salary limits for Regular and Public Safety employees. Without the $65,000 salary limit, the total payroll is projected to be $375.8 million. Total payroll is assumed to increase 2.5% per year.
- Administrative expenses for the year ending September 30, 2012 are assumed to be $14.9 million increasing 3% per year.
- Benefit payments for the first 15 years are projected based on the preliminary 2011 valuation results. Benefit payments after 15 years are assumed to increase 2% per year to account for retirements from new entrants after 2011. With the COLA suspension, benefit payments after 15 years are instead assumed to increase 1% per year.
- Assets are assumed to earn a 7.5% return each year.
- Benefit changes and contributions for salary over $65,000 were assumed to be effective October 1, 2012.

Caveats:

- The closer the plan gets to insolvency, asset illiquidity may become an issue and earning the assumed return may become more difficult.
- Projections, by their nature, are not a guarantee of future results. The projections are intended to serve as estimates of future outcomes, based on the information available to us and the assumptions described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions.

Exhibit D

Projection of Market Value of Assets

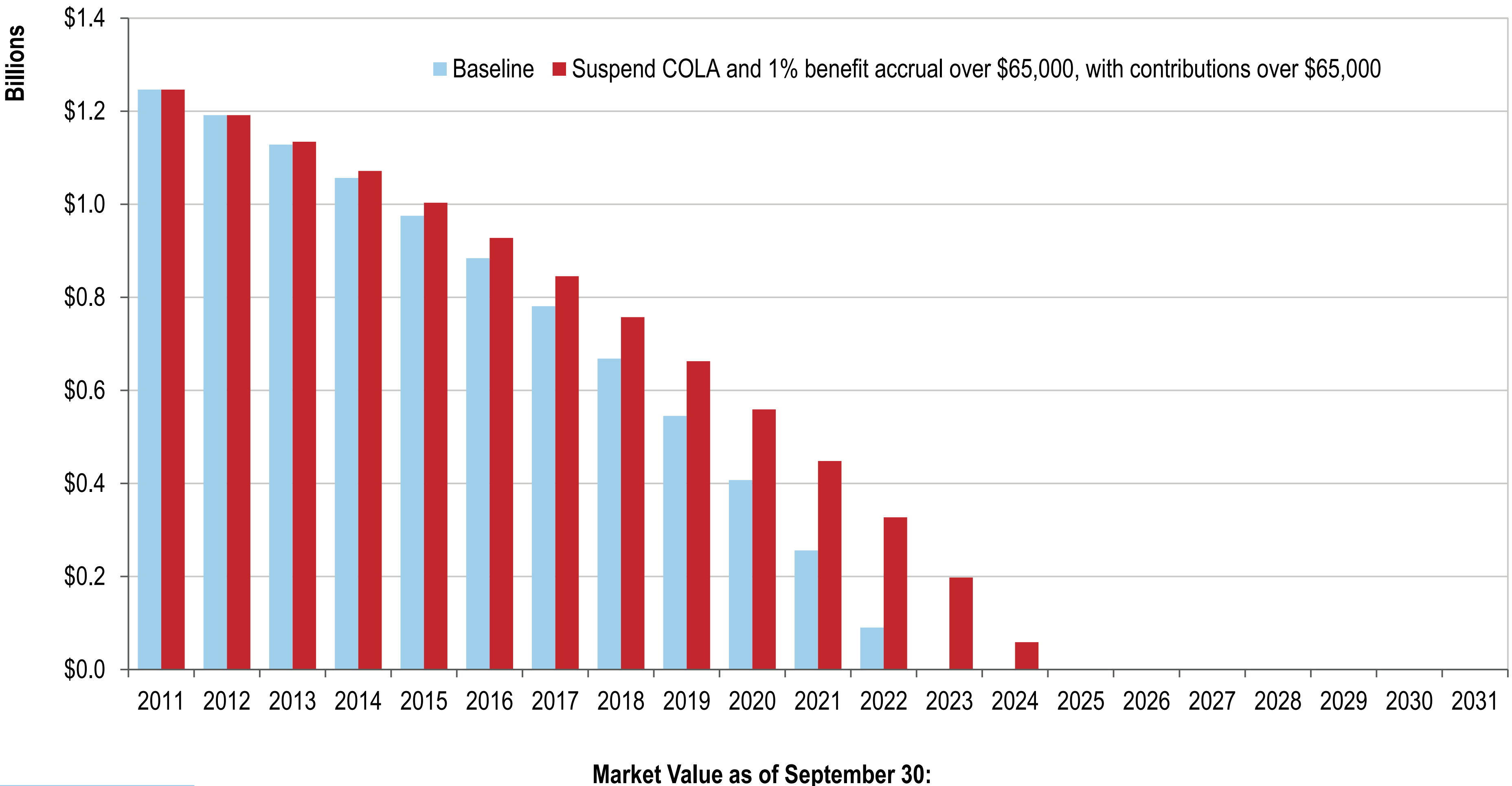


Exhibit D

Projection of Market Value of Assets (In Millions)

Baseline (Current Plan)
Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of payroll up to $65,000
Employee Contribution Rate: 8.5% of payroll up to $65,000

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	40%
2013	31.6	65.1	-	228.1	15.3	83.8	1,128.3	36%
2014	32.4	66.7	-	234.0	15.8	79.0	1,056.6	33%
2015	33.2	68.4	-	240.0	16.3	73.4	975.3	29%
2016	34.0	70.1	-	246.2	16.7	67.2	883.7	26%
2017	34.9	71.8	-	252.6	17.2	60.2	780.8	22%
2018	35.8	73.6	-	256.4	17.8	52.4	668.4	19%
2019	36.7	75.5	-	261.4	18.3	43.8	544.7	15%
2020	37.6	77.4	-	268.4	18.8	34.4	406.8	11%
2021	38.5	79.3	-	273.3	19.4	23.9	255.8	7%
2022	39.5	81.3	-	279.2	20.0	12.5	89.9	2%
2023	40.5	83.3	$91.4	284.5	20.6	-	-	0%
2024	41.5	85.4	183.1	288.7	21.2	-	-	0%
2025	42.5	87.5	186.2	294.3	21.8	-	-	0%
2026	43.6	89.7	187.7	298.5	22.5	-	-	0%
2027	44.7	91.9	191.1	304.5	23.2	-	-	0%
2028	45.8	94.2	194.4	310.6	23.9	-	-	0%
2029	46.9	96.6	197.9	316.8	24.6	-	-	0%
2030	48.1	99.0	201.3	323.1	25.3	-	-	0%
2031	49.3	101.5	204.9	329.6	26.1	-	-	0%

Exhibit D

Projection of Market Value of Assets (In Millions)

Suspend COLA and 1% Career Average Benefit Accrual over $65,000
Annual Net Investment Return: 7.5%
Employer Contribution Rate: 17.5% of total payroll (including over $65,000)
Employee Contribution Rate: 8.5% of total payroll (including over $65,000)

Year ending Sept. 30:	Contributions			Disbursements		Return on Assets	Market Value of Assets	Funded Percentage (AVA/AAL)
	Employee	Employer	Additional Government	Benefit Payments	Expenses			
2011							$1,246.0	46%
2012	$30.8	$63.5	-	$222.4	$14.9	$88.1	1,191.2	44%
2013	32.7	67.4	-	227.6	15.3	84.0	1,132.4	40%
2014	33.6	69.1	-	228.2	15.8	79.6	1,070.7	36%
2015	34.4	70.8	-	231.4	16.3	75.0	1,003.2	33%
2016	35.3	72.6	-	234.2	16.7	69.9	930.0	30%
2017	36.1	74.4	-	235.7	17.2	64.4	852.0	27%
2018	37.0	76.3	-	238.0	17.8	58.6	768.1	24%
2019	38.0	78.2	-	241.5	18.3	52.2	676.7	21%
2020	38.9	80.1	-	246.8	18.8	45.3	575.4	18%
2021	39.9	82.1	-	249.8	19.4	37.6	465.9	14%
2022	40.9	84.2	-	253.5	20.0	29.4	346.9	10%
2023	41.9	86.3	-	256.6	20.6	20.4	218.3	6%
2024	43.0	88.4	-	258.6	21.2	10.8	80.7	2%
2025	44.0	90.7	$67.9	261.9	21.8	0.5	-	0%
2026	45.1	92.9	148.3	263.8	22.5	-	-	0%
2027	46.3	95.2	148.2	266.5	23.2	-	-	0%
2028	47.4	97.6	148.0	269.1	23.9	-	-	0%
2029	48.6	100.1	147.8	271.8	24.6	-	-	0%
2030	49.8	102.6	147.5	274.6	25.3	-	-	0%
2031	51.1	105.1	147.2	277.3	26.1	-	-	0%

Exhibit D

"Contributing today for a better tomorrow"

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