GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
OF THE
VIRGIN ISLANDS

# ANNUAL OVERVIEW OF OPERATIONS

## FISCAL YEAR

# 2016

"Contributing today for a better tomorrow"

Presented to
Committee on Finance
31st Legislature of the United States Virgin Islands

Presented by:
Austin L. Nibbs, CPA, CGMA - Administrator

Earle B. Ottley Legislative Hall
Thursday, June 30, 2016
9:00 a.m.

# GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

## Annual Overview of Operations

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# GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

## Annual Overview of Operations

## INTRODUCTION

Good morning, Honorable Senator Clifford F. Graham, Chairman of the Committee on Finance, distinguished Committee members, other distinguished senators present in the chambers and good morning to all. I am, Austin L. Nibbs, Administrator/CEO of the Government Employees' Retirement System of the Virgin Islands (GERS). I am pleased to appear before you to present the System's Annual Overview of Operations. Before I begin, I would like to acknowledge members of my senior management team that are joining me today in the chambers.

In an effort to comply with the time limits set for our presentation, we will highlight our major accomplishments for FY 2016 and our major goals for FY 2017, and share the major issues affecting the GERS today.

## FISCAL YEAR 2016 ACCOMPLISHMENTS

- We have completed 65 percent of the NOPA Project updates to member records which improved the timely processing of the member's benefits while providing timely and accurate information to our members.
- We have improved customer service and educational awareness to members by 50 percent.
- We have started the implementation of the GERS Strategic Plan for FY 2016 –FY 2020, and the change management process within the organization.
- The annual statement implementation was completed and statements will be issued for calendar year 2015 to approximately 60 percent of Tier I members this summer.
- The Certified Audited Financial Statements for FY 2015 were issued on June 22, 2016.
- The annual Actuarial Valuation Review is 90 percent completed and will be issued by the end of July.

## FISCAL YEAR 2017 GOALS

- To reconcile and close the FY 2016 books by December 2016.
- To complete the FY2016 Certified Annual Audit and the FY 2016 Actuarial Valuation by March 2017.
- To reduce outstanding loan delinquencies by 50 percent.
- To reduce backlogged prior service requests by 30 percent.
- To conduct workshops with all human resources government representatives.
- To complete employer service credit evaluations for employer billings.
- To complete the Phase I refurbishment project to improve the appearance of the Havensight Mall.
- To issue the annual statements for Tier I and Tier II members for calendar year 2016 by the 2nd quarter of FY 2017.
- To increase employee engagement and morale.
- To aggressively monitor our international exposure in the portfolio in light of the recent developments in the United Kingdom.

## UNFUNDED LIABILITY (EMPLOYER'S NET PENSION LIABILITY)

In our April 2016 newsletter, which is included as part of this presentation, we have outlined in detail the reason for the significant change in the unfunded liability which is now referred to as the ***employer's net pension liability***. The Government Accounting Standard Board (GASB) revised and established new financial reporting requirements for most states and local governments that provide employees with a defined benefit pension plan. GASB 68 mandates that the governments providing defined benefit pensions to recognize their long-term obligations for pension benefits as a liability for the first time on the FY 2015 financial statements of the central government and some autonomous agencies. GASB 68 enhances accountability and transparency. Prior to the implementation of GASB 68, the Fund had an unfunded liability of $ 2.0 billion. Because of the implementation of GASB 68, the ***employer's net pension liability*** increased to

$3.1billion. This is an increase of $1.1billion. The reason for this increase is because in the past years, the Plan's long-term expected rate of return was 7.5 percent. Because pension plans are not realizing their expected returns, the Government Accounting Standard Board's interpretation was that pension plans were understating their unfunded liability. To eliminate this distortion and for better transparency, the Plan's long-term expected rate of returns had to be discounted using a 20 year AA Municipal Bond Index. So, GERS's 7.5 percent long-term expected rate of return was discounted to 4.42 percent. The lower the expected rate of return, the higher the employer's net pension liability. The employer's net pension liability occurs when there are more liabilities (debt) than assets. Simply, the monies needed to cover current and future retirements are not readily available.

One of the major contributors to the unfunded liability is the Government of the Virgin Islands (Plan Sponsor) failure to contribute the required Actuarially Determined Contributions (ADC), which is the amount of contributions that should be paid to the fund each year in order to keep the System actuarially sound. For the past 25 years from 1991 – 2015, the Plan Sponsor has contributed $1.3 billion less than it should have contributed to the GERS. What should have been contributed for the past 25 years was $2.7 billion. The Plan Sponsor actual contributions were $1.4 billion. We note that in 2015, the ADC was $200.1 million and the actual contributions received were $75.2 million. We are in the process of retrieving from the archives and analyzing the ADC and actual contributions paid prior to 1991.

The question remains, how is the GERS going to collect this shortfall in contributions?

In the board meeting held on May 26, 2016, the Board directed the Administrator to follow the law in Title 3, Chapter 27, Sections 718 and 718(a) and Chapter 28A, Sections 767 and 767(a). Therefore, the GERS has delayed paying benefits to members who participated in the early retirement program, and who have filed an application to retire under the early retirement program (all hazardous employees, judges and legislators), and who have not received an initial annuity beginning May 26, 2016, until the actuary can provide a methodology to calculate the additional ADC the plan sponsor owes for each retiree. The retiree annuity will be delayed until the plan sponsor has made payment for the additional ADC. Thereafter, we will determine the additional ADC that is due and the System will bill the Plan Sponsor for each retiree who retired and is receiving an annuity under any early retirement program, to include the nine (9) unfunded legislative mandates that were passed by the 15$^{th}$, 20$^{th}$, 21$^{st}$, 23$^{rd}$ and 24$^{th}$ Legislatures.

For all other retirees and active members, the actuary will also determine the additional ADC that is due, and the System will bill the Plan Sponsor.

**MISSING EMPLOYER CONTRIBUTIONS-CENTRAL GOVERNMENT**

In 2011, the actuary Segal Consulting estimated the employer missing contribution amount to be $47 million. Since 2012 through June 14, 2016, we have billed and received $7.6 million. The remaining estimated balance as of June 14, 2016 is $39.4 million. To date, the amount that was billed and *not received* is $710,319.40. I would like to note however, that the central government is timely with its FY 2016 bi-weekly contributions. The issue of prior periods missing employer contributions is a legacy issue for the System. With the implementation of the new V3 System in March 2012, the problem surfaced as the new system is programmed to account for both the employee and employer contributions in accordance with the 2005 pension reform legislation. The System will continue to bill the Plan Sponsor prior to the retirement of a member for ***missing contributions*** not paid by the employer during the career of the member.

**MISSING EMPLOYEE AND EMPLOYER CONTRIBUTIONS-AUTONOMOUS AGENCIES**

The autonomous agencies are timely with payment of their FY 2016 employee and employer contributions with the exception of Juan F. Luis Hospital and Medical Center (JFLHMC). JFLHMC continues to have a significant outstanding contribution amount due to the System for prior years. In our meeting with JFL officials on May 25, 2016, we presented them with a cumulative billing for outstanding contributions for fiscal years 2012, 2013, 2014, and 2015 in the amount of $7.1million (employee-$1.5 million, employer-$3.5 million, interest & fees-$2.1 million). They could not assure us that the outstanding contributions will ever be paid nor did they present us with a payment plan. Therefore, the GERS has filed a civil action in the Superior Court.

**DIRECT CONTRIBUTIONS DUE FROM CENTRAL GOVERNMENT**

Act No. 7261 calls for *appropriating in fiscal year ending September 30, 2013, and all subsequent fiscal years,* the sum of $7,000,000 from the Internal Revenue Matching Fund to the GERS as a direct contribution. We are happy to report that on May 31, 2016, we received a check in the amount of $7 million from the central government as a payment on the $28 million that was due since FY 2013. The balance outstanding is $21 million.

**MEMBERSHIP/TOTAL CONTRIBUTIONS VS. BENEFIT PAYMENTS & EXPENSE**

The gap between the active members and the retirees and beneficiaries has decreased from a 1.09 to 1 ratio in Fiscal Year 2014 to a 1.07 to1 ratio in Fiscal Year 2015. The active members increased by 141 between September 30, 2014 and September 30, 2015, and the retirees and beneficiaries increased by 296 for the same period. Based on the most current numbers for FY 2016 (October 1, 2015 – June 15, 2016), we estimated the ratio to be 1.07 to 1 (active members 9,200/retirees 8,553), which is about the same as in FY 2015, down from 2.58 to 1 in 1996.

We note that the deficit between total contributions and benefit payments and expenses decreased from $163.6 million in FY 2014 to $158.0 million in FY 2015. The reduction in the deficit was due mainly to the increase in the employees' contribution rates. The trend appears to be the same in FY 2016 as in FY 2015. As of May 2016 year-to-date, total contributions received were $73.5 million and contributions and benefit payments and expenses were $170.1 million, for a deficit of $96.6 million for the eight (8) months of FY 2016.

**ANNUITY PAYMENTS (CENTRAL GOVERNMENT AND AUTONOMOUS)**

The total annuity payments from October 1, 2015– June 15, 2016 was $170.3 million for 8,533 retirees. The gross retiree payroll for pay date June 15, 2016 was $10.1 million. For the period October 1, 2015 – June 15, 2016, 249 retirees were placed on the payroll. During the same period, 184 retirees were removed from the payroll because of deaths.

There were 299 (St. Croix-150 /St. Thomas-149) retiree applications filed in calendar year 2015. Of the 299 applications received, to date 233 retirees have received their initial retirement annuity payment. From January 1, 2016 to June 15, 2016, 78 (St. Croix-31 / St. Thomas-47) retiree applications were received. Of the 78 applications received in 2016, to date, 4 retirees have received their initial retirement annuity payment. The number reflected is not higher for one or more of the following reasons:

- Missing employer contributions billed and not received
- Retirement NOPA not received
- Missing NOPAs
- Contribution Postings for the GVI are not up to date due to errors in the file. Finalizing cases up to March 31, 2016.
- Corrections and final review
- Mandate from the GERS Board to discontinue paying Special Pensions until review is done by the actuary

## ASSETS

The assets of the GERS include the investment portfolios, which include cash and cash equivalents, stocks and bonds, private equity and other alternative investments, such as real estate and local investments and member loans.

### Portfolio Performance

The System will continue its commitment to a disciplined investment strategy that focuses on long-term results. Its investment portfolio is managed by 13 investment managers (9 equity – domestic & international), 2 fixed income (bonds), 1 private equity (non-local), and 1 life settlement.

At May 31, 2016, the market value of the portfolio was $755.2 million which represents a decrease from $825.9 million for the same period one year ago. (See investment performance handout). To meet obligations, $58.5 million was withdrawn from the Fund. The Fund earned income of $12.9 million and had a loss in the portfolio of $25.2 million.

We are monitoring the portfolio to access the impact the United Kingdom's referendum to break away from the European Union has on the portfolio. The portfolio consists of 14% - International Equity and 14.2% - International Fixed Income.

The System's aggregate assets performance at May 31, 2016 year-to-date is 2.7 percent. The total plan returned -0.1percent for the month of May 2016. Since 1981 when the portfolio was invested in the market, the total plan has returned 9 percent. Since 1981, Total Equity has returned 12.8 percent, Total Fixed Income (bonds) has returned 7.6 percent, and Total Alternatives has returned -1.4 percent.

## Alternative Investment Program

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; simply any investments other than the traditional equity and bonds.

The Alternative Investment Program is designed to enhance the total Fund performance by generating a long-term rate of return greater than the Fund's assumed actuarial rate of 7.5 percent. On January 23, 2014, the Board approved a rate of no less than 10 percent effective January 1, 2014 for all alternative *local* investments. To date, GERS has invested in three types of alternative investments, private equity, real estate, special situations (local investments), and member loans.

**The portfolio for Alternative Investment consists of:**

**Private Equity**

1. Mesirow Financial Private Equity Fund (Limited Partnership)

**Real Estate**

1. GERS Complexes in St. Thomas and St. Croix
2. Undeveloped Land (Estates Hoffman and Nullyberg-St. Thomas and Estate Coakley Bay – St. Croix
3. Havensight Shopping Mall – St. Thomas

**Special Situations**

1. Renaissance Carambola Beach Resorts and Spa – St. Croix
2. V.I. Property Tax Revenue Anticipation Note – Territory-wide
3. Kazi Foods Virgin Islands – St. Thomas and St. Croix
4. V.I. Finest Foods LLC – St. Thomas

**Life Settlements**

The Attilanus Fund I, L.P. – Outside the Territory

**Member Loans** – Territory-wide

On November 19, 2015, the Board voted unanimously to *indefinitely* suspend the granting of any new member loans because of liquidity issues and the volatility in the market. At May 31, 2016, there were 8,090 units in the member loans portfolio with a total value of $138.3 million, down from 8,716 units with a total value of $156.9 million on August 31, 2015.

On May 9, 2016, the 31st Legislature passed Bill No. 31-0289 which was signed into law by the Governor as Act No. 7880 on May 27, 2016. After reviewing the information that was presented during the Administrator's presentation to the Committee on Finance on March 21, 2016 on Bill No. 31-0289, and updates by the Investment Officer, and the performance of the System's portfolio and market conditions and the System's liquidity challenges, on June 16, 2016, the Board voted unanimously *not to reinstate* the member loan program at this time.

## 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. The latest actuarial valuation was conducted for FY 2014 and is available on our Website.

The actuary is presently conducting the FY 2015 actuarial valuation and simultaneously conducting an experience study of the assumptions that were made in prior years. The actuary will make his presentation to the Board at the board retreat in July.

## ANNUAL FINANCIAL AUDIT

The System's most recent certified financial statements are as of September 30, 2015. The results of the audit were presented to the Board on June 16th. The report was issued on June 22, 2016.

## SUMMARY

I would like to thank the employees of the GERS for their hard work and commitment to providing quality service to our members. We are not perfect but our employees are dedicated to perfecting what we do. The employees of the GERS are also members of the Fund. They experience the same anxieties and uncertainties of their future as their fellow members, while continuing to provide the level of services that is expected. As other members who have not vested, because of the uncertainty of the survivability of the Fund, a few of our employees have exited the System, and relocated to the mainland or have entered the private sector. I extend my gratitude to those who remain, and still have confidence in the System.

I end with a quote from a famous artist. ***"The world today doesn't make sense, so why should I paint pictures that do?"*** Pablo Picasso.

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

Thank you.

## GERS OF USVI
May 31, 2016

# PORTFOLIO PERFORMANCE

**Monthly Cash Flow Update**

**Cash Flow**

- Ended month at approximately $755 million*
- No cash raised in the month of May

**Investment Management/Custodian/Consulting Fees**

- $ 401 thousand MTD
  - Investment management $401 thousand
- $1.5 million Calendar YTD
  - Investment management $1.3 million
  - Investment consultant $188 thousand
- $2.1 million Fiscal YTD
  - Investment management $1.9 million
  - Custodian bank $6 thousand
  - Investment consultant $188 thousand

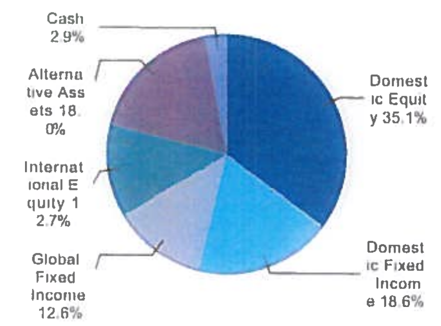
**Securities Lending**

- MTD earnings $22 thousand
- YTD earnings $93 thousand
- FYTD earnings $148 thousand

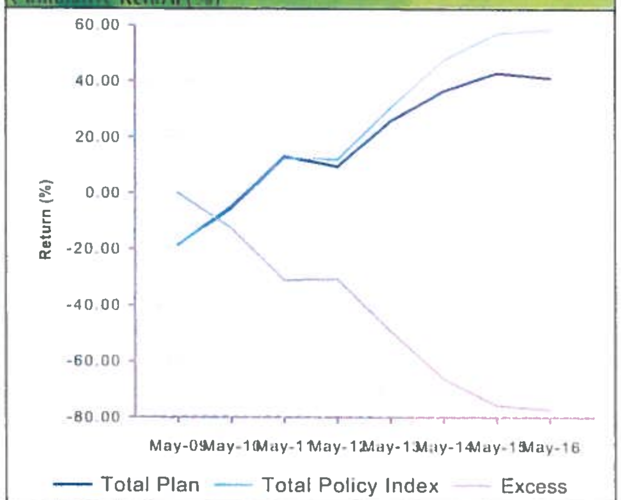
### Record of Asset Growth

| | One Month | Year to Date | One Year |
|---|---|---|---|
| Total Plan | | | |
| Beginning Market Value | 756,618,165 | 751,023,715 | 825,925,722 |
| Net Cash Flow | -403,295 | -16,278,240 | -58,475,836 |
| Income | 1,502,480 | 6,019,338 | 12,940,139 |
| Gain/Loss | -2,499,021 | 14,453,515 | -25,171,696 |
| Ending Market Value | 755,218,329 | 755,218,329 | 755,218,329 |

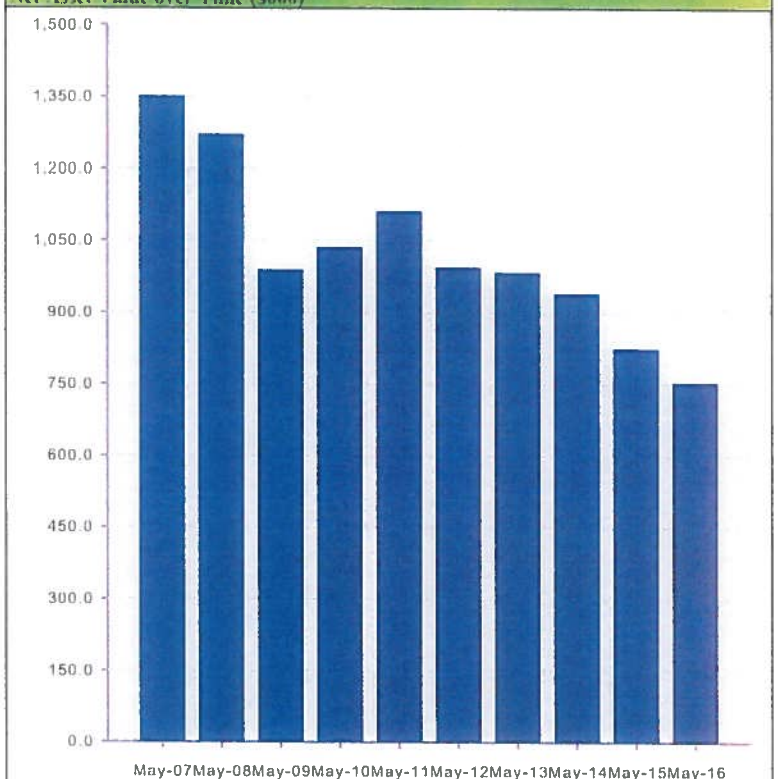
### Asset Allocation




### Cumulative Return (%)




### Net Asset Value over Time ($000)




### Allocation Market Values

| | Ending Market Value in Millions |
|---|---|
| Domestic Equity | 265.00 |
| International Equity | 96.11 |
| Domestic Fixed Income | 140.37 |
| Global Fixed Income | 95.36 |
| Alternative Assets | 135.95 |
| Cash | 22.27 |

* Excludes: Members Loan Program - (MV) $142 million, STT Office Complex - (MV) $7.6 million, and STX Office Complex - (MV) $3.1 million.

GERS OF USVI
May 31, 2016

# PORTFOLIO PERFORMANCE

## Monthly Performance & Update

**Total Plan Performance**

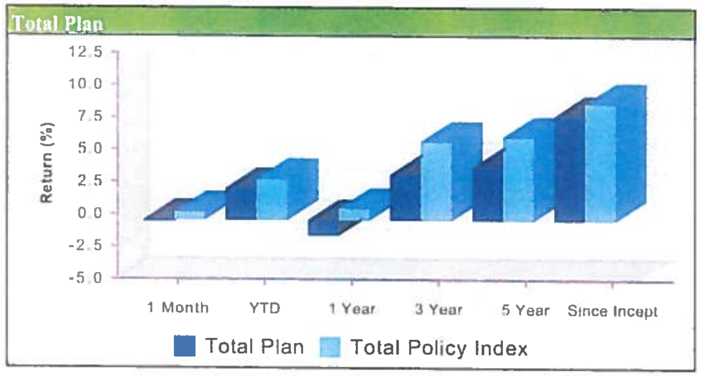
- Total Plan returned -0.1% for the month
- Underperformed its benchmark by 80 bps
- Total Equity's 0.3% return underperformed its benchmark by 100 bps
- Total Fixed Income's -1.4% return underperformed its benchmark by 150 bps
- Total Alternative's 1.2% return underperformed its benchmark by 90 bps

**Notable manager performance**

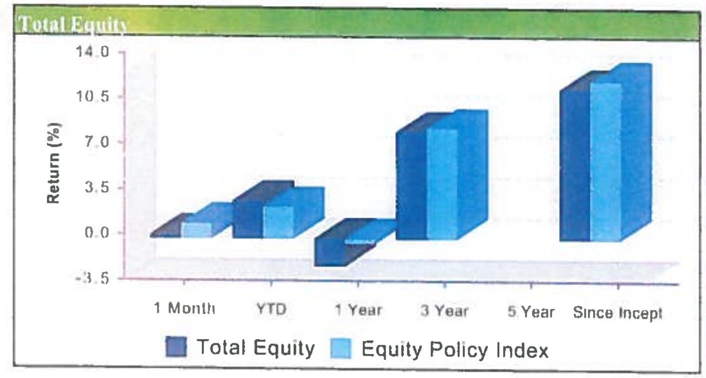
- Concentrated Small Cap's -1.0% return underperformed its benchmark by 329 bps
- EM Index's return for the month was -3.8%
- Brandywine's -3.7% return underperformed its benchmark by 215 bps

**Compliance Updates**

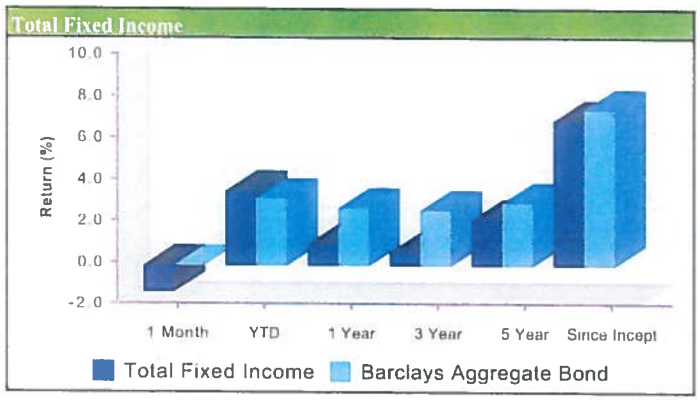
- Continuing to work with custodian to have commingled funds added



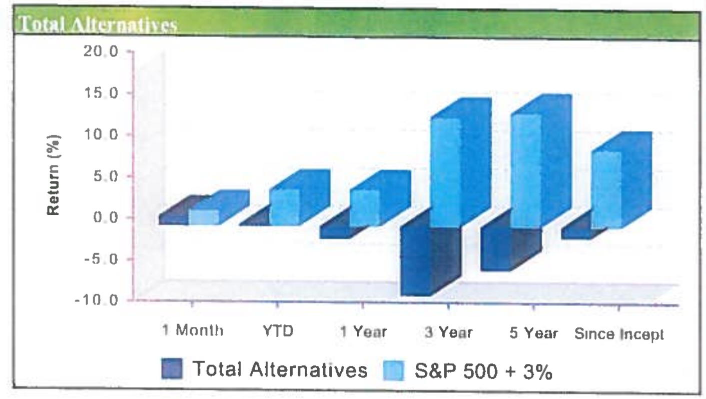

| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Plan | -0.1 | 2.7 | -1.3 | 3.9 | 4.5 | 8.9 |
| Total Policy Index | 0.7 | 3.5 | 1.0 | 6.7 | 7.1 | 10.0 |
| Excess | -0.8 | -0.8 | -2.3 | -2.8 | -2.6 | -1.1 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Equity | 0.3 | 3.2 | -2.3 | 9.1 | | 12.8 |
| Equity Policy Index | 1.3 | 2.7 | -0.4 | 9.4 | | 13.5 |
| Excess | -1.0 | 0.5 | -1.9 | -0.3 | | -0.6 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Fixed Income | -1.4 | 3.9 | 1.1 | 0.7 | 2.4 | 7.6 |
| Barclays Aggregate Bond | 0.0 | 3.5 | 3.0 | 2.9 | 3.3 | 8.2 |
| Excess | -1.5 | 0.4 | -1.9 | -2.3 | -0.9 | -0.7 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Alternatives | 1.2 | 0.2 | -1.6 | -9.1 | -5.7 | -1.4 |
| S&P 500 + 3% | 2.0 | 4.8 | 4.8 | 14.4 | 15.0 | 10.2 |
| Excess | -0.9 | -4.7 | -6.4 | -23.4 | -20.7 | -11.7 |

*Total Alternatives performance excludes Member Loan Program, STT Office Complex, and STX Office Complex

GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

UPDATE

ISSUE 28 | April 2016

## Inside This Issue



## What is GASB 68?

Since June 2012, there has been a change in the way in which states and local governmental employers that are the sponsors of defined benefit pension plans report their Unfunded Liability. The Unfunded Liability is Total Pension Obligations less Total Assets of the Fund. The Government Accounting Standard Board, also known as GASB 68, revises and establishes new financial reporting requirements for most states and local governments that provide employees with a defined benefit pension plan. It mandates that the governments providing defined benefit pensions to recognize their long-term obligations for pension benefits as a liability for the first time on their financial statements. The new standard enhances accountability and transparency. Under GASB 68 the terminology changes. For example, the term used for Actuarial Accrued Liability is now Total Pension Obligation, for Actuarial Value of Assets is now Plan Fiduciary Net Position, and for Unfunded Actuarial Accrued Liability it is Employer's Net Pension Liability.

GASB 68 is required to be reflected on the fiscal year 2015 financial statements of the central government and the autonomous agencies of the Government of the Virgin Islands. In 2014, prior to the implementation of GASB 68, the Fund had an unfunded liability of $1.973 billion (Actuarial Accrued Liability of $3.128 billion less Actuarial Value of Assets of $1.155 billion). See Exhibit A. Since the implementation of GASB 68, the 2014 unfunded liability has increased to $3.086 billion (Total Pension Liability of $4.228 billion less Plan Fiduciary Net Pension of $1.142 billion). See Exhibit A. An increase of $1.113 billion in the unfunded liability due to the implementation of GASB 68. The reason for this increase is because in the past years the Plan's long-term expected rate of return was 7.5%. However, because pension plans are not realizing their expected returns, the GASB's interpretation was that Pension Plans were understating their Unfunded Liability. To eliminate this distortion and for better transparency, the Plan's long-term expected rate of returns had to be discounted using a 20 year AA Municipal Bond index. Therefore, GERS's 7.5% long-term expected (continued pg. 2)

| Exhibit A | 2014 Pre GASB 68 | 2014 Post GASB 68 |
|---|---|---|
| Total Pension Liability | $3.128 Billion | $4.228 Billion |
| Plan Fiduciary Net Position | $1.155 Billion | $1.142 Billion |
| Employers' Net Pension Liability | $1.974 Billion | $3.086 Billion |
| Funded Ratio | 36.91% | 27.01% |

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rate of return was discounted to 4.42%. The lower the expected rate of return, the higher the Unfunded Liability (Employer's Net Pension Liability). The Unfunded Liability (Employer's Net Pension Liability) occurs when there are more liabilities (debt) than assets. In other words, the money needed to cover current and future retirements is not readily available.

## History of Employer Contributions

The Government of the Virgin Islands (GVI) who is the Plan Sponsor of the GERS is required on an annual basis to contribute Actuarially Determined Contributions (ADC), which is the amount of contributions that should be paid in each year in order to keep the System on sound footing. As shown in Exhibit B below, for the past 25 years (from 1991 – 2015), the GVI has contributed $1.278 billion less than it should have contributed to the GERS. The total ADC from 1991 – 2015 that should have been contributed was $2.673 billion. The GVI actual amount contributed for the same years was $1.396 billion.

Exhibit B

| Plan Year Ended September 30, | Actuarially Determined Contributions ($ millions) | Actual Contributions ($ millions) | Percentage Contributed |
|---|---|---|---|
| 1991 | $48,659,324 | 38,169,889.20 | 78.44% |
| 1992 | 48,123,177 | 34,850,312 | 72.42% |
| 1993 | 47,181,730 | 38,632,619 | 81.88% |
| 1994 | 46,856,812 | 39,353,600 | 83.99% |
| 1995 | 55,089,820 | 50,944,748 | 92.48% |
| 1996 | 58,128,608 | 46,075,378 | 79.26% |
| 1997 | 58,251,171 | 47,703,717 | 81.89% |
| 1998 | 62,578,121 | 45,984,661 | 73.48% |
| 1999 | 62,237,129 | 45,148,387 | 72.54% |
| 2000 | 64,992,493 | 44,078,554 | 67.82% |
| 2001 | 64,179,332 | 43,387,158 | 67.60% |
| 2002 | 95,186,021 | 50,594,531 | 53.15% |
| 2003 | 117,124,299 | 51,588,235 | 44.05% |
| 2004 | 108,358,399 | 54,084,454 | 49.91% |
| 2005 | 120,184,848 | 51,542,030 | 42.89% |
| 2006 | 131,059,471 | 65,061,430 | 49.64% |
| 2007 | 137,797,268 | 60,778,382 | 44.11% |
| 2008 | 138,488,871 | 75,871,146 | 54.79% |
| 2009 | 147,490,851 | 80,177,004 | 54.36% |
| 2010 | 157,817,709 | 77,004,630 | 48.79% |
| 2011 | 162,841,336 | 80,849,762 | 49.65% |
| 2012 | 178,644,349 | 66,677,155 | 37.32% |
| 2013 | 172,439,842 | 64,431,322 | 37.36% |
| 2014 | 189,715,251 | 68,298,617 | 36.00% |
| 2015 | 200,089,791 | 75,152,533 | 37.56% |

## Unfunded Legislative Mandates

There were nine (9) unfunded mandates that were passed by the 15th, 20th, 21st, 23rd and 24th Legislatures. See Exhibit C. What does this mean? Prior Legislatures passed early retirement incentive plans aimed at bringing relief to the central government. However, these legislative mandates simply shifted the financial burden from the central government to the GERS because while the Government was no longer responsible for paying those early retirees a salary, GERS's retiree payroll increased. This reduction in the workforce caused an erosion in the contribution base as less contributions were now coming in to the GERS. See Exhibit D, which shows the continuing increase in benefit payments and expenses, with the total amount of contributions lagging way behind. A review of the U.S. Inspector General revealed that because of the enactment of Act No. 6007 (Early Retirement Incentive Training & Promotion Act of 1994) in August 16, 1994, the GERS lost $121 million in contributions. The Legislature subsequently appropriated and GERS was paid a total of $31 million resulting in a net loss of $90 million in contributions. A review was not done of the remaining eight (8) Acts. Using a conservative average of $60 million lost in contributions for each of the remaining eight (8) Acts, we project that the GERS with the enactment of the nine (9) unfunded mandates lost approximately $570 million in contributions.

Exhibit C

| | | Act No. | Date |
|---|---|---|---|
| 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 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 |
| 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 |

## Contributions Vs. benefit Payments & Expenses

Beginning in 1996, there has been a deficit between total contributions that were received and the benefit payments to the retirees and the administrative expenses of the GERS. In 1996 the deficit was $1.6 million and in 2015, the deficit grew to $157.2 million. In years prior to 1996, the revenue earned on the investments used to offset any deficit. However, as the Fund began to mature, the revenue earned on the investments decreased and the benefit payments and expenses increased. At the same time, the Plan Sponsor was not paying in the required contributions.

**Exhibit D**

| Fiscal Year | Total Contributions | Benefit Payments & Expenses | Surplus/Deficit* |
|---|---|---|---|
| 1994 | $61.7 million | 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 | 123.8 | 223.0 | (99.2) |
| 2012 | 104.4 | 251.5 | (147.1) |
| 2013 | 98.5 | 260.1 | (161.6) |
| 2014 | 102.3 | 265.9 | (163.6) |
| 2015 | 108.5 | 265.7 | (157.2) |

** () parentheses indicate a negative figure*

## Membership

Another major contributing factor to the System's unfunded liability is the active employee to retiree ratio. See Exhibit E, which gives you a snap shot of GERS' membership in 1982 through 2015. You will see there were 8,914 active members and 1,360 retirees receiving benefits in 1982. That is a ratio of 6.55 to 1 (Active Employees to Retirees). Fast forward to 2015, you will see that those numbers have drastically changed. The ratio is just about 1 to 1, meaning there is about the same number of retirees as there are active members.

**Exhibit E**

| Fiscal Year | Active Members | Retirees & Beneficiaries | Ratio of Active to | 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 | 10,731 | 7,868 | 1.36 to 1 | 18,599 |
| 2012 | 9,935 | 8,151 | 1.22 to 1 | 18,086 |
| 2013 | 9,393 | 8,024 | 1.17 to 1 | 17,417 |
| 2014 | 9,227 | 8,465 | 1.09 to 1 | 17,692 |
| 2015* | 9,368 | 8,761 | 1.07 to 1 | 18,129 |

** Unaudited*


## Tidbits...

Bonds are *debt*, whereas stocks are *equity*. By purchasing equity (stock) an investor becomes an owner in a corporation. By purchasing debt (bonds) an investor becomes a creditor to the corporation (or government). To sum up, there is generally less risk in owning bonds than in owning stocks, but this comes at the

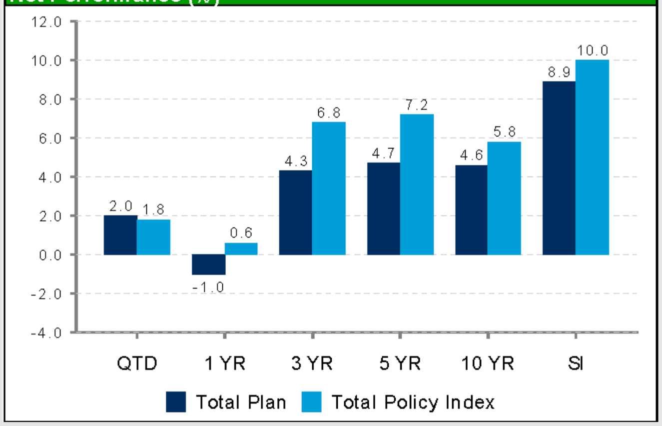
We are currently in communication with a number of businesses on the island of St. Croix, that are interested in participating in *GERS' Member Discount Program*. We are really excited about this and look forward to these new partnerships. Visit our website or tune in to our weekly radio program on your favorite station (WSTA 1340 AM: Saturday's between 9:15 - 9:30 a.m.; WAXJ 103.5 FM: Saturdays 5:00 p.m.; WDHP 1620 AM: Mondays 10:00 a.m.; WGOD 97.9 FM: Tuesdays between 9:00 - 10:00 a.m. and Thursdays at 3:05 p.m. Members, stay tuned!

# Quarter Ending March 31, 2016 Update

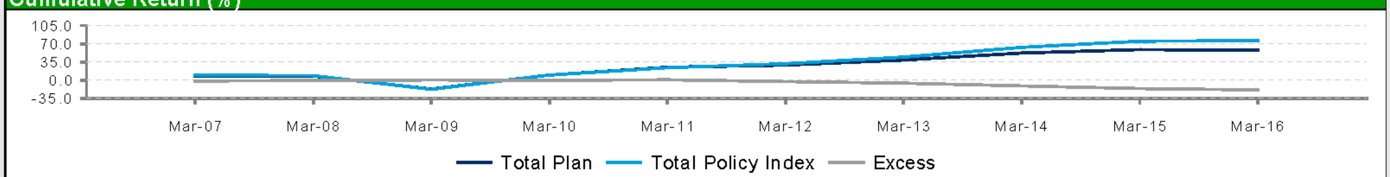
## Record of Asset Growth

| | One Quarter | Year to Date | One Year |
|---|---|---|---|
| Total Plan | | | |
| Beginning Market Value | 751,023,715 | 751,023,715 | 835,379,073 |
| Net Cash Flow* | -670,317 | -670,317 | -60,500,382 |
| Income | 4,015,888 | 4,015,888 | 12,397,267 |
| Gain/Loss | 11,304,635 | 11,304,635 | -21,602,037 |
| Ending Market Value** | 765,673,920 | 765,673,920 | 765,673,920 |

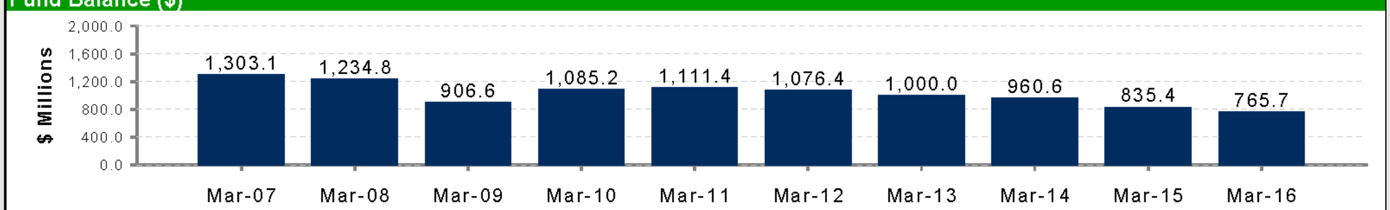
## Net Performance (%)



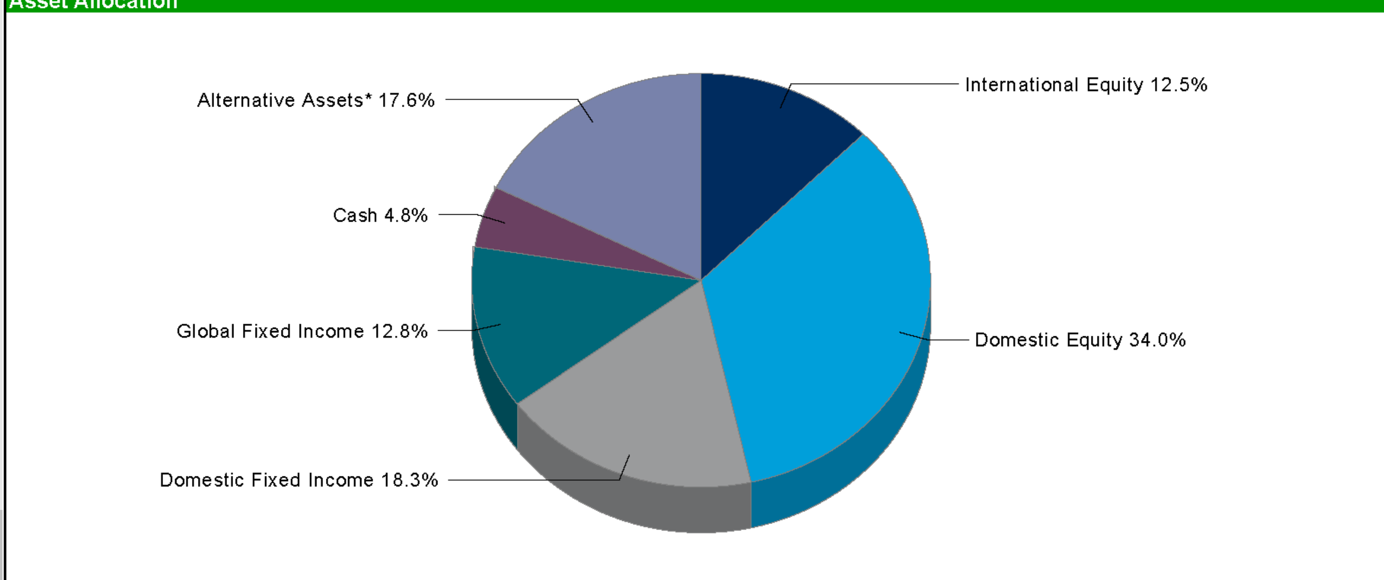

## Cumulative Return (%)




## Fund Balance ($)




## Asset Allocation



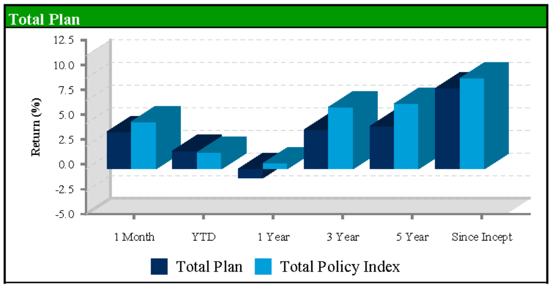

* Includes addition of Havensight Mall, Estate Coakley Bay as well as Estates Hoffman and Nullyberg

** Excludes: Member's Loan Program—(MV) $146 million, STT Office Complex—(MV) $7.6 million and STX Office Complex—(MV) $3.1 million

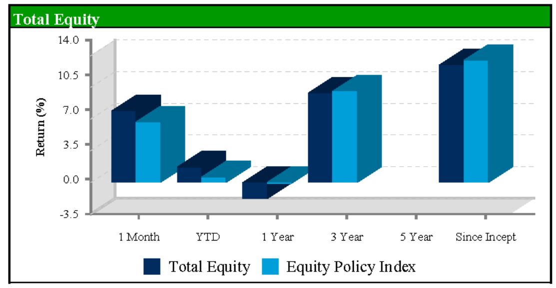
## Quarter ending March 31, 2016

## Total Plan Performance

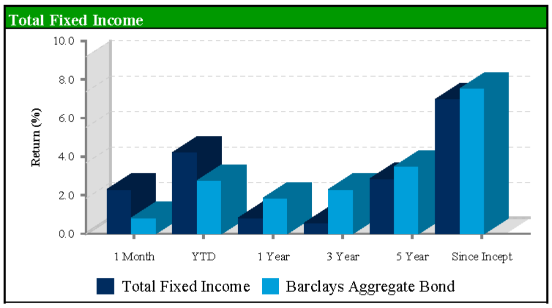
- Total Plan returned 4.1% for the month
- Underperformed its benchmark by 110 bps
- Total Equity's 7.9% return outperformed its benchmark by 120 bps
- Total Fixed Income's 2.5% return outperformed its benchmark by 160bps
- Total Alternative's - 2% return underperformed its benchmark by 900 bps



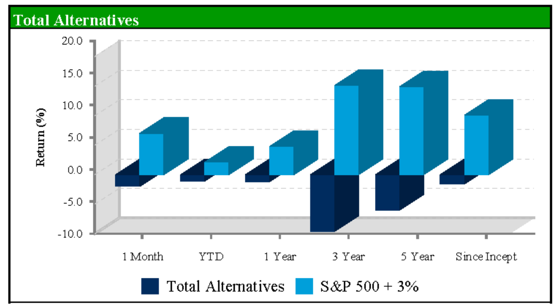

| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Plan | 4.1 | 2.0 | -1.0 | 4.3 | 4.7 | 8.9 |
| Total Policy Index | 5.2 | 1.8 | 0.6 | 6.8 | 7.2 | 10.0 |
| Excess | -1.1 | 0.2 | -1.6 | -2.5 | -2.5 | -1.1 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Equity | 7.9 | 1.7 | -1.8 | 9.9 | | 13.0 |
| Equity Policy Index | 6.7 | 0.6 | -0.1 | 10.1 | | 13.5 |
| Excess | 1.2 | 1.2 | -1.7 | -0.2 | | -0.5 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Fixed Income | 2.5 | 4.6 | 0.9 | 0.6 | 3.1 | 7.6 |
| Barclays Aggregate Bond | 0.9 | 3.0 | 2.0 | 2.5 | 3.8 | 8.2 |
| Excess | 1.6 | 1.6 | -1.1 | -1.9 | -0.7 | -0.6 |




| | 1 Month | YTD | 1 Year | 3 Year | 5 Year | Since Incept |
|---|---|---|---|---|---|---|
| Total Alternatives | -2.0 | -1.1 | -1.2 | -9.6 | -6.0 | -1.6 |
| S&P 500 + 3% | 7.0 | 2.1 | 4.8 | 15.1 | 14.9 | 10.1 |
| Excess | -9.0 | -3.2 | -6.1 | -24.7 | -20.9 | -11.7 |

* Does not include alternative investments

## GERS Investment Returns Over a 22 Year Period

| Periods Ending | * Beginning Market Value ($) | Net Cash Flow ($) | Gain/Loss ($) | * Ending Market Value ($) | % Return |
|---|---|---|---|---|---|
| 1993 | - | - | - | 381,844,000 | - |
| **1994** | 381,844,000 | 20,283,000 | -11,171,000 | 390,957,000 | -2.49 |
| 1995 | 390,957,000 | 113,242,000 | 218,614,000 | 722,813,000 | 22.06 |
| 1996 | 722,813,000 | 12,330,000 | 82,690,000 | 817,833,709 | 10.15 |
| 1997 | 817,833,709 | 9,697,255 | 139,674,013 | 967,204,977 | 17 |
| 1998 | 967,204,977 | 6,750,253 | 118,350,595 | 1,092,305,825 | 12.21 |
| 1999 | 1,092,305,825 | -19,691,022 | 105,580,769 | 1,178,195,571 | 9.58 |
| 2000 | 1,178,195,571 | -41,861,816 | 27,751,526 | 1,164,085,281 | 3.69 |
| **2001** | 1,164,085,281 | -25,918,939 | -21,819,747 | 1,116,346,595 | -1.85 |
| **2002** | 1,116,346,595 | -34,514,650 | -60,891,903 | 1,020,940,042 | -5.35 |
| 2003 | 1,020,940,042 | -74,141,695 | 216,650,198 | 1,163,448,544 | 22.19 |
| 2004 | 1,163,448,544 | -46,498,814 | 119,334,381 | 1,236,284,111 | 10.52 |
| 2005 | 1,236,284,111 | -59,045,383 | 82,102,663 | 1,259,341,391 | 6.9 |
| 2006 | 1,259,341,391 | -93,382,988 | 128,704,178 | 1,294,662,582 | 10.62 |
| 2007 | 1,294,662,582 | -73,548,144 | 110,903,083 | 1,332,017,521 | 8.81 |
| **2008** | 1,332,017,521 | -53,170,712 | -316,590,395 | 962,256,413 | -24.26 |
| 2009 | 962,256,413 | -79,866,351 | 195,152,364 | 1,077,542,426 | 21.11 |
| 2010 | 1,077,542,426 | -97,124,122 | 133,293,341 | 1,113,711,644 | 13.36 |
| **2011** | 1,113,711,644 | -118,662,715 | -6,872,009 | 988,176,920 | -0.93 |
| 2012 | 988,176,920 | -140,621,542 | 106,340,073 | 953,895,451 | 11.3 |
| 2013 | 953,895,451 | -149,240,157 | 137,043,940 | 941,699,234 | 15.9 |
| 2014 | 941,699,234 | -155,868,298 | 53,342,907 | 839,173,843 | 6.2 |
| **2015** | 839,173,843 | -157,906,210 | -12,725,852 | 668,541,781 | -2.1 |
| **TOTAL** | | **-1,258,761,050** | **1,545,457,124** | | |

# Upcoming Events

| Month | Date | Location | Event |
|---|---|---|---|
| MAY | 11th | St. Thomas | Financial Planning Workshop |
| | 13th | - - - | Retiree Pay Day |
| | 18th | St. Thomas | Pre-Retirement Workshop |
| | 19th | St. Croix | Board Meeting |
| | 25th | St. Croix | Countdown to Retirement Workshop |
| | 31st | - - - | Retiree Pay Day |
| JUNE | 8th | St. Thomas | Countdown to Retirement Workshop |
| | 8th | St. Croix | Financial Planning Workshop |
| | 15th | St. Croix | Pre-Retirement Workshop |
| | 15th | - - - | Retiree Pay Day |
| | 16th | St. Thomas | Board Meeting |
| | 30th | - - - | Retiree Pay Day |
| JULY | 13-16th | St. Croix | Board Retreat |


The St. Croix Government Retirees, Inc. (advocacy for the preservation of the GERS) would like to encourage retirees to visit their website: www.stcroixgovernmentretirees.com, to learn more about the organization.

ADDRESS SERVICE REQUESTED

UPDATE


3438 Kronprindsens Gade
GERS Complex, 3rd Floor
St. Thomas, VI 00802-5750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