GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM OF THE VIRGIN ISLANDS

UPDATE

ISSUE 28 | April 2016

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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

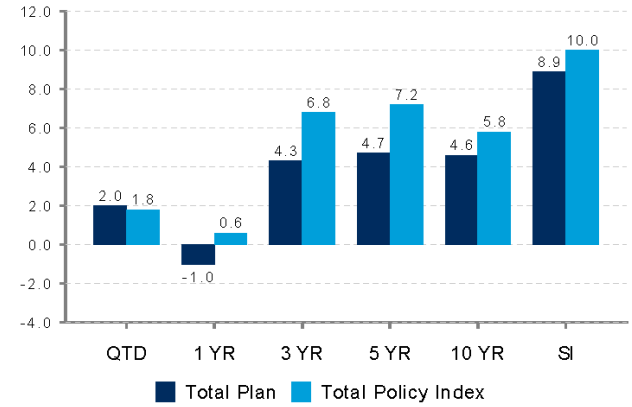
We are currently in communication with a number of businesses on the island of St. Croix, that are interested in participating in *GERS' Member Discount Program*. We are really excited about this and look forward to these new partnerships. Visit our website or tune in to our weekly radio program on your 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

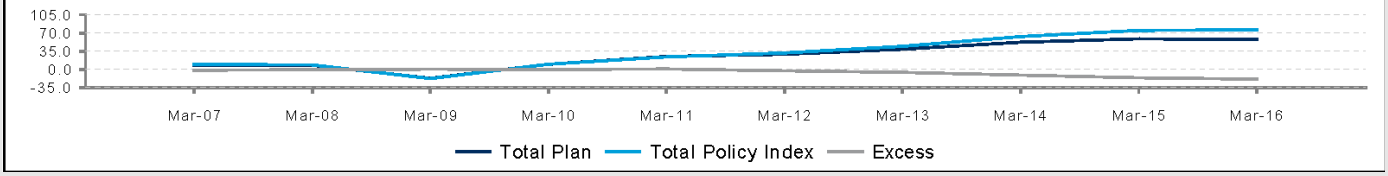
Record of Asset Growth

	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

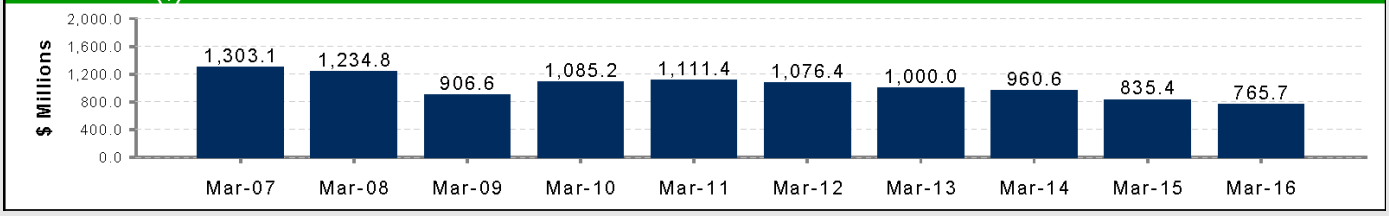
Net Performance (%)



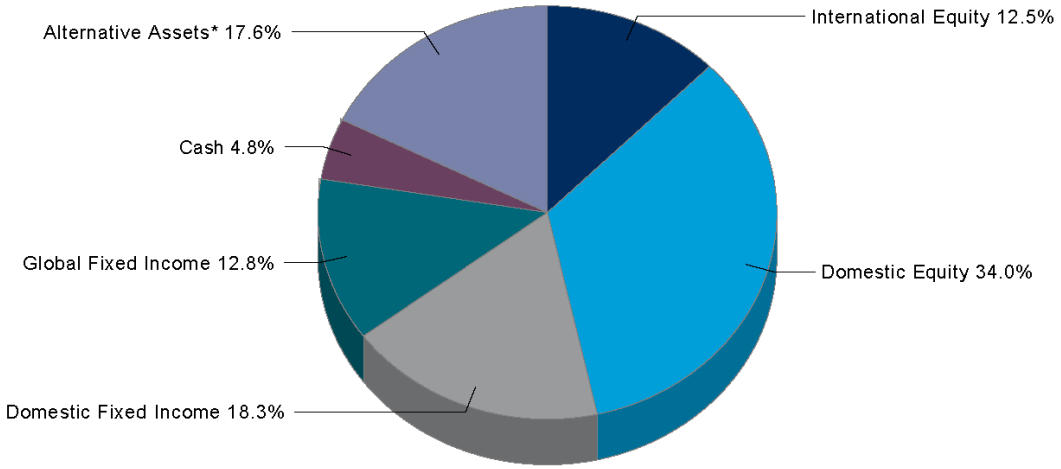
Cumulative Return (%)



Fund Balance ($)



Asset Allocation



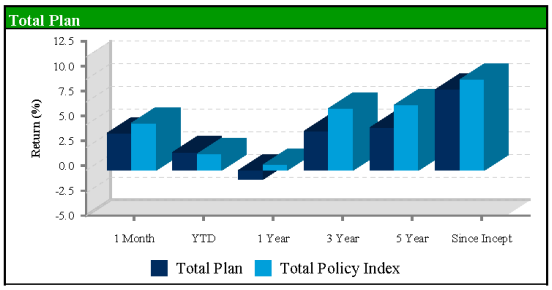
* Includes addition of Havensight Mall, Estate Coakley Bay as well as Estates Hoffman and Nullyberg

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

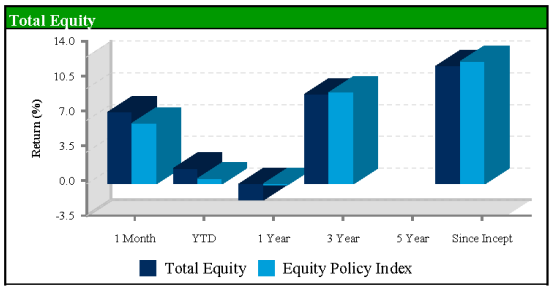
Quarter ending March 31, 2016

Total Plan Performance

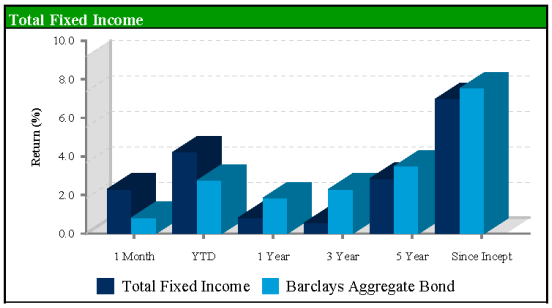
- Total Plan returned 4.1% for the month
- Underperformed its benchmark by 110 bps
- Total Equity's 7.9% return outperformed its benchmark by 120 bps
- Total Fixed Income's 2.5% return outperformed its benchmark by 160bps
- Total Alternative's - 2% return underperformed its benchmark by 900 bps



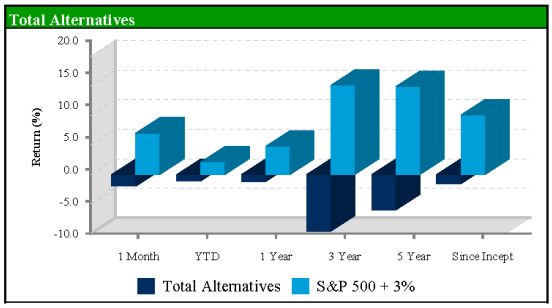
	1 Month	YTD	1 Year	3 Year	5 Year	Since Incept
Total Plan	4.1	2.0	-1.0	4.3	4.7	8.9
Total Policy Index	5.2	1.8	0.6	6.8	7.2	10.0
Excess	-1.1	0.2	-1.6	-2.5	-2.5	-1.1



	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**		

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Upcoming Events

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.

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GERS Update

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