



# Legislature of the Virgin Islands

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## POST AUDIT DIVISION

June 21, 2016

### COMMITTEE ON FINANCE FISCAL YEAR 2017 BUDGET HEARING

### GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

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**BACKGROUND AND HISTORY**

The Government Employees’ Retirement System (GERS) of the United States Virgin Islands was statutorily created, defined as a Benefit Pension Plan sponsored by the Virgin Islands Government. The statutory mandate of GERS is to encourage qualified personnel to enter and remain in the service of the Government by establishing an orderly means whereby those members, who become superannuated or incapacitated as a result of disability, to retire from service without suffering economic hardship. The System also enables employees to accumulate reserves for themselves, their dependents and their beneficiaries, to provide for old age, death, disability and termination of employment, thus promoting economy and efficiency in the administration of government.

The Employees’ Retirement System of the Government of the Virgin Islands (GVI) was established by Act No. 479 as an independent and separate agency of the Government of the Virgin Islands. The responsibility for the operation of the System falls under the discretion of the Board of Trustees. The Executive Director of GERS is Mr. Austin Nibbs, CPA. The Board of Trustees is composed of seven (7) members who are appointed by the Governor with the advice and consent of the Legislature.

The current members of the Board are:

- Vincent G. Liger, Member
- Dr. Wilbur Callendar, Chairperson
- Carol Callwood, Member
- Desmond L. Maynard, Esq. Member
- Judge Edgar Ross, Vice-Chairperson
- Leona Smith, Member
- Michael McDonald, Member

GERS became operative on October 1, 1959, when contributions by employees and the Virgin Islands Government commenced. In accordance with the mandatory provisions of the Act, all regular employees of the Virgin Islands Government, except those individuals who are excluded by law, must become members of the Retirement System within one month of service as a condition of their employment.

GERS operates under the following five (5) divisions:

DIVISIONS	RESPONSIBILITIES
Administration	Provides administrative, technical, personnel, and legal support and direction to all divisions.
Accounting and Finance	Cash management and the preparation of financial reports for auditing purposes, budget preparation, administrative payroll processing, accounts payable, and the procurement and inventory functions.
Benefits	Processes and services member contributions, annuitant’s payroll, recalculation of benefits, and pre-retirement and post-retirement counseling.
Loans	Processing and servicing of personal, auto, and mortgage loans.
Operations	Oversees the management and maintenance of properties and the collection of rents and parking fees.

### **FISCAL YEAR 2014 OPERATIONAL GOAL**

- Complete the development and implementation of a comprehensive long range Strategic Plan for the System.
- Issue the Fiscal Year 2012 Annual Certified Financial Statements and complete the Fiscal Year 2013 Annual Certified Financial Statement.
- Continue to improve on the timeliness of processing members benefits.
- Complete all backlogged Prior Service Requests.
- To provide timely and accurate information to our members.
- Continue to promote Direct Deposit process for domestic and international retirees.
- Continue to provide system-wide customer service training.
- Continue to provide the necessary education to assist the members of the GERS with the planning and managing their retirement funds.
- Continue to develop a refurbishing plan to address energy saving measures in our buildings.
- Continue with the implementation of a supplemental contribution program as outlined in the Reform Act of 2005.
- Begin the due diligence and planning and final determination on the development of the Estate Hoffman and Estate Coakley Bay properties.
- To complete the 2013 certified actuarial valuation.
- To complete review of the Havensight Mall operations, its development, and capital expenditures.

### **FISCAL YEAR 2014 ACCOMPLISHMENTS**

- Completed a comprehensive long range Strategic Plan for the System which will be presented to the Board for approval.
- Issued Fiscal Year 2012 Annual Certified Financial Statement and completed Fiscal Year 2013 Annual Certified Financial Statements.
- Completed the October 1, 2013, Certified Actuarial Valuation.
- Completed full implementation of the member and employer service modules.
- Provided the necessary planned education through workshops and social media to assist our member with the planning for retirement and managing their retirement funds.
- Increased mortgage loan closings with the implementation of the new reduced interest rates.
- Administrator recommended and the Board approved to set interest rate for the Alternative Investment Program at no less than 10% retroactive to January 1, 2014.
- Improved on the timeliness of processing members' benefits.
- Completed the certified actuarial valuation for the period ended October 1, 2013.

- Increased to a reasonable capacity member participation in the Direct Deposit program.
- Provided and will continue to provide necessary system-wide customer service training.

### **FISCAL YEAR 2015 PROJECTED GOALS AND OBJECTIVES**

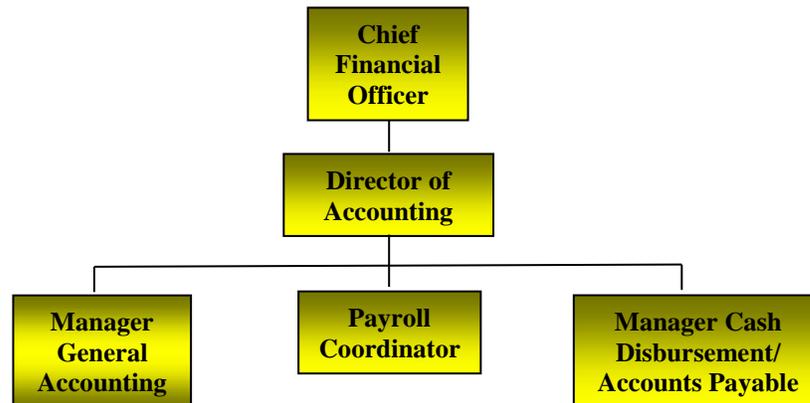
- Continue to improve on the timely processing of member's benefits and providing timely and accurate information to our members.
- Continue to reduce backlogged Prior Service Requests.
- Reduce the update to member records by 50%.
- Continue to address the outstanding issues surrounding the new V3 Benefits and Loans System and the Financial Accounting System, and reduce the issues by 50%.
- Continue to address energy saving measures in our building, to include solar system.
- To obtain the rezoning of the Estate Hoffman/Nullyberg property and make a final determination on the development of the Estate Hoffman and Estate Coakley Bay properties.
- Complete an economic and site development study for the Havensight Mall.
- Issue member discount cards to at least 50% of our membership.
- Complete the Fiscal Year 2014 Certified Annual Audit and the Actuarial Valuation by March 2015.

### **FISCAL YEAR 2016 PROJECTED GOALS AND OBJECTIVES**

- Increase the focus on the NOPA Project in order to reduce update of member records by 50% which will improve on the timely processing of the member's benefits while providing timely and accurate information to our members.
- Increase manpower to Prior Service Request to reduce the backlog by 33%.
- Reduce the outstanding issues surrounding the new V3 Benefits and Loans System and the Financial Accounting System by 75%.
- Continue to address energy saving measures in our building, to include solar system.
- Make a final determination on the undeveloped real properties.
- Improve customer services and educational awareness to members.
- Complete the Fiscal Year 2015 Certified Annual Audit and the Actuarial Valuation by March 2016.
- Implement the Strategic Plan beginning October 1, 2015.

## **GERS ACCOUNTING DIVISION**

- The Employees' Retirement System of the Government of the Virgin Islands currently uses MAS 500 Financial Reporting System.
- The Financial reporting roles and responsibilities of the Division are



- Chief Financial Officer - Directs and monitors the financial operations of the Government Employees Retirement System's Accounting and Finance Division including the preparation of all financial reports, the annual budget.
- Director of Accounting - Supervises the Accounting Activity Centers to include General Accounting, Payroll and Cash Disbursement/Accounts Payable, compiles the unaudited annual financial statements and administers the standards for financial reporting for the Government Retirement System.
- Manager of General Accounting - Records and reconciles transactions of the System's general ledger and assists with the preparation of the unaudited annual financial statements.
- Payroll Coordinator - Processes administrative payroll and annuitant's payroll and maintains employees' leave records and prints all checks for administrative expense payments, loan proceeds and benefits proceeds.
- The Manager of Cash Disbursement (Accounts Payable) - Processes and disburses administrative expense payments, loan proceeds and benefits proceeds.

**The following information represents a submissions from last fiscal year and requires updating by the Agency. To date, no updated information has been received by Post Audit.**

**FISCAL YEAR 2015 EXPENDITURES YEAR-TO-DATE**

*Exhibit I* shows the overall Expenditure for Fiscal Year 2015 as of July 31, 2015.

AGENCY	FY 2015 BUDGET	YEAR-TO-DATE 10/1/2014 - 7/31/2015
Personnel Services	\$7,516,950	\$4,730,376
Fringe Benefits	2,301,973	1,774,464
Supplies	596,038	187,186
Other Services and Charges	6,484,339	3,852,016
Utilities	1,059,500	440,337
Capital Outlay	1,313,141	735,029
Team GERS	2,000,000	564,685
<b>Grand Total</b>	<b>\$21,271,941</b>	<b>\$12,284,093</b>

*Exhibit I*

*Exhibit II* displays the Projected Expenses for Fiscal Year 2016.

AGENCY	FY 2014 ACTUALS	YEAR-TO-DATE 10/1/2014 - 6/30/2015	FISCAL YEAR 2016 PROJECTIONS
Personnel Services	\$5,865,590	\$4,730,376	\$7,516,950
Fringe Benefits	2,035,199	1,774,464	2,301,973
Supplies	279,341	187,186	596,038
Other Services and Charges	4,390,824	3,852,016	6,429,839
Utilities	251,826	440,337	1,059,500
Capital Outlay	649,540	735,029	591,225
Team GERS	351,500	564,685	2,000,000
<b>Grand Total</b>	<b>\$13,823,820</b>	<b>\$12,284,093</b>	<b>\$20,495,525</b>

*Exhibit II*

**COLLECTION REPORT**

As of June 30, 2015 GERS has collected the following depicted in *Exhibit III*.

Loan Category	Year-to-Date 10/1/14 – 6/30/15
1 <sup>st</sup> Mortgage	\$1,498,573
2 <sup>nd</sup> Mortgage	3,046
Active Personal	20,879,141
Automobile	45,724
Land	135,320
Retiree Personal	11,749,134
<b>Total</b>	<b>\$34,310,938</b>

*Exhibit III*

**MEMBERSHIP**

Membership statistics as of July 31, 2015 are shown in *Exhibit IV*.

Year	2015
Active Members	9,240
Retirees	8,468
<b>Total Membership</b>	<b>17,708</b>

*Exhibit IV*

**ASSET VALUE AS OF JULY 31, 2015**

The Total Asset Value is shown in *Exhibit V*.

Investments	\$ 846,570,119 (as of 7/31/2015)
Real Estate	71,218,790 (as of 7/31/2015)
Member Loans	156,892,632 (as of 7/31/2015)
<b>Total Value of Assets</b>	<b>\$1,074,681,541</b>

*Exhibit V*

**REVENUE REPORT**

Charted below in *Exhibit VI* is the Revenue Report provided by GERS.

Tenant	Rent As of 7/31/15	Projected Revenues Fiscal Year 2015
VI Casino Control Commission	\$42,003	\$84,006
Job Corps (ResCare)	16,027	19,233
VI Division of Personnel	186,144	158,273
VI Justice Department	370,630	444,756
First Bank	2,578	3,094
Ophthalmology Consultants, LLC	37,080	43,260
Plessen Eye, LLC-Admin	23,355	27,247
Plessen Eye, LLC-ASC	25,587	29,851
<b>Total</b>	<b>\$703,404</b>	<b>\$809,720</b>
<b>Parking Receipts</b>	<b>\$9,125</b>	<b>\$11,520</b>
<b>Total Revenues</b>	<b>\$712,529</b>	<b>\$821,240</b>

*Exhibit VI*

**UNFUNDED LIABILITY**

*Exhibit VII* demonstrates the Unfunded Liability as of July 31, 2015.

<b>Unfunded Liability</b>	<b>\$2,005,818,459</b>
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*Exhibit VII*

**BENEFITS PAID FOR FISCAL YEAR 2014**

The following chart *Exhibit VIII* equates to Benefits Paid for Fiscal Year 2015; as of October 15, 2014 through July 31, 2015. The Government Employees Retirement System submitted a total of \$273,386,509 which did not equate to the grant total. Post Audit calculations equaled to \$203,386,509.

Pensioners	\$10,224
Regulars	198,022,855
Survivors	1,372,572
Duty Connected Death	30,121
Duty Connected Disability	2,504,933
Non-Duty Connected Disability	1,445,804
<b>Grand Total</b>	<b>\$203,386,509.00</b>

*\*Amount Reimbursed by Central Government*

*Exhibit VIII*

**PROJECTED CONTRIBUTIONS**

*Exhibit IX* illustrates the projected contributions of GERS for Fiscal Year 2015.

	<b>FY 2015 Employer Share</b>
<b>Projected Contributions</b>	<b>\$68,090,139</b>

*Exhibit IX*

**CONTRIBUTIONS RECEIVED**

Charted below in *Exhibit X* are contributions received as of July 31, 2015.

<b>AGENCY</b>	<b>EMPLOYER SHARE</b>	<b>EMPLOYEE SHARE</b>
VI Public Finance Authority	\$54,048	\$23,549
Frederiksted Health Care	273,989	157,085
East End Medical Center	211,324	97,125
VI Waste Management Authority	839,438	385,003
Water and Power Authority	3,925,315	1,860,945
VI Housing Authority	1,021,987	464,337
University of the Virgin Islands	1,238,196	567,495
VI Port Authority	2,340,100	1,127,733
Employees' Retirement System	812,772	374,367
VI Lottery	402,597	189,867
Industrial Development Commission (IDC)	26,765	13,118
Economic Development Authority	351,752	169,242
Juan Luis Hospital	1,431,152	638,900
VI Public TV	37,403	17,215
Central Government	42,116,825	20,482,531
VI Housing Finance Authority	294,273	139,243
Roy L. Schneider Medical Center	2,175,700	1,016,719
<b>Grand Totals</b>	<b>\$57,553,636</b>	<b>\$27,724,474</b>
<b>Total Contribution</b>		<b>\$85,278,110</b>

*Exhibit X*

## **INVESTMENT MANAGERS**

The following provides a listing of the current investment managers of the GERS:

1. BlackRock – U.S. Fixed Income/Emerging Market/Large Value Equity and Mid Cap Equity/Large Capt Core Equity/Large Cap Growth Equity
2. Brandywine Global Investment Management, LLC – Global Fixed Income
3. Fisher Investments Institutional Group – U.S. Small Cap Value Equity
4. LSV Asset Management – U.S. Large Cap Value Equity
5. Mesirow Financial – Private Equity
6. Union Heritage Capital Management – U.S. Large Cap Value Equity
7. The Attilanus Fund – Alternatives Investment (Life Settlement)
8. Pugh Capital Management Incorporated – U.S. Fixed Income
9. Walter Scott Investment Management – International Equity
10. Kanye Anderson Rudnick Investment Management – U.S. Small Cap
11. Channing Capital Management – U.S. Small Cap Value
12. Cove Street Capital – U.S. Small Cap Growth
13. Granite Investment Partners – U.S. Small Cap Growth
14. Punch & Associates – U.S. Small Cap

## **OTHER INVESTMENTS – REAL ESTATE**

The real estate holdings of the GERS include the Havensight Mall, the System's Facilities, and vacant land. The Havensight Mall on St. Thomas was purchased on June 30, 1993 for \$32 million. Recently, the value of the property was appraised at \$66.6 million. Other real estate investments include the GERS Complex on St. Thomas, which is GERS' principal location for business. Our tenants are the Division of Personnel, the Department of Justice, Rescare (Job Corps) and FirstBank Virgin Islands (ATM). GERS also owns an additional 2.9 acres located at Parcels No. 5 and 6 Estate Orange Grove, St. Croix, which houses the St. Croix Branch Office and the Casino Control Commission. The new St. Croix Complex was completed August 2010 and dedicated on October 1, 2010, the 51st anniversary of the System. It houses a 22,000 square foot two-story building which augments the existing facilities now located on the site.

In late 2006, GERS purchased 120 acres of land at Estates Hoffman and Nullyberg on St. Thomas and in October 2010 purchased 170 acres of land at Estate Coakley Bay on St. Croix. These purchases were made primarily as an additional real estate investment for our members. The System's Facilities are a partial investment of the System's retirement funds in real estate held for rent or lease. The GERS uses a portion of the buildings in its operation. The remaining areas of the building are leased to other government agencies and commercial tenants.

## **GENERAL DESCRIPTION OF THE RETIREMENT PLAN**

The GERS provides for retirement, death benefits, and disability to plan members. Benefits may be extended to beneficiaries of plan members. Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered “Safety Employees” as defined in the V.I. Code are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained age 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained age 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member’s average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is \$65,000, except for senators and judges, whose annual salary is used. The annuity payment to retirees 60 years or older increases by 1.5% of the original annuity amount on July 1 of each year after the first year of payments.

Subject to the provisions of the retirement law and subject to rules and regulations prescribed by the board of trustees, GERS members have the right of obtaining loans from the System to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to the System for at least five years is \$250,000. The interest rate on new first mortgages is 8% and on second mortgages, 9% per annum. Members may also borrow up to \$50,000 to purchase land. Members who have contributed to the System for at least five years can borrow up to \$18,000 for the purchase of an automobile. The loans bear interest at 9.75% with a maximum term of five years. A member may also borrow up to 75% of their contributions to the System to a maximum borrowing of \$50,000 as a personal loan. The interest rate offered on personal loans is 8.5% per annum.

The GERS has recently eliminated or reduced service fees for members who request copies of financial documents. As of July 1, members will not be charged for copies of amortization schedules, certified photocopies, check stubs, 1099 and 1098 forms. The cost of the copies had ranged from \$3.50 to \$10.00. Reductions in copy fees include: credit letters from \$15 to \$5; verification letters from \$15 to \$5; and verification of service from \$20 to \$10.

The administrator of the GERS manages the business of the System and is responsible for its proper operation, subject to the orders, resolutions, and directives of the board of trustees of the System. The board of trustees approves the GERS’s annual operating

budget and the GERS's operating expenses are managed and maintained through its own bank accounts.

The System is a component unit of the Government for financial reporting purposes and is included in the Government's financial reports as a pension trust fund.

Title 3, Chapter 27, Section 718 (a) of the Virgin Islands Code mandates that the Employees Retirement System be financed on an "actuarial reserve basis". This means the money for an employee's retirement is supposed to be funded during his or her employment before retiring. From time to time, the Board may actuarially determine the rate of contribution for members and employers of the system. Further, after October 1, 2005, the system may not provide any increases in benefits to members or beneficiaries, unless the administration has identified a specific funding source and concurrently makes a provision for the funding of all future benefit improvements on sound actuarial basis in the annual budget. However, employee/employer contributions are currently determined by the Legislature and according to GERS officials, this handicaps the growth of the fund since the current method has not kept pace with the percentage required by the actuarial reserve method.

According to GERS, in order to generate enough money to keep paying retirement annuities, employees and employers would need to pay almost twice as much into the system as they do now. GERS indicates that its actuaries point out that in order for the system to balance and meet the system's needs, the combined contribution of payroll should be 43.5 percent. The current combined contribution is approximately 25.5 percent. The government contributes 17.5 percent of salary to the system for employees, and employees contribute 8 percent (policemen, firemen, defined peace officers and hazard duty employees contribute 9 percent). In 2005 a law was passed that set the contribution of employees hired after October 1, 2005 at 8.5 percent. However, the implementation of this higher rate has been pushed back to January 1, 2010, and according to GERS will be retroactive, to include some form of installment provision for those who could not afford paying a lump sum. The disparity between contributions and disbursements has created an estimated \$1.64 billion unfunded liability for GERS, which is the difference in promised payments to retirees and the funding available to meet those payments over time.

The system has for years been paying out more than it collects and for years the return on its investments has covered the difference. However, the current economic downturn has substantially weakened the system's investment portfolio, which is made up of stocks and bonds in both the domestic and international markets. The portfolio lost about 21 percent in 2008. From October 1, 2008 and June 30, 2009, (the first half of Fiscal Year 2009), GERS collected approximately \$126.5 million but has paid out about \$167.6 million, a shortfall of \$41.1 million. In FY 2008, the deficit in operational cash flow was \$66

million. The system typically runs a deficit on a month-to-month basis of between \$4 million and \$4.5 million. GERS has indicated that the System's portfolio reached the 1 billion mark in the latter part of July 2009, after losing more than \$350 million in value since 2008 because of the crash of the financial markets.

**FISCAL YEAR 2012 and 2013 AUDIT REPORT**

The Fiscal Year 2014 Certified Financial Statements was not issues by GERS external auditor.

A handwritten signature in blue ink, appearing to read "Jose L. George". The signature is fluid and cursive, with a large initial "J" and "G".

Jose L. George  
Post Auditor

