

BRYAN ROACH

FOR GOVERNOR AND LT. GOVERNOR 2018

The Bryan/Roach Proposal on Transforming GERS



GOVERNMENT EMPLOYEES'
RETIREMENT SYSTEM
OF THE VIRGIN ISLANDS



Where Are We?

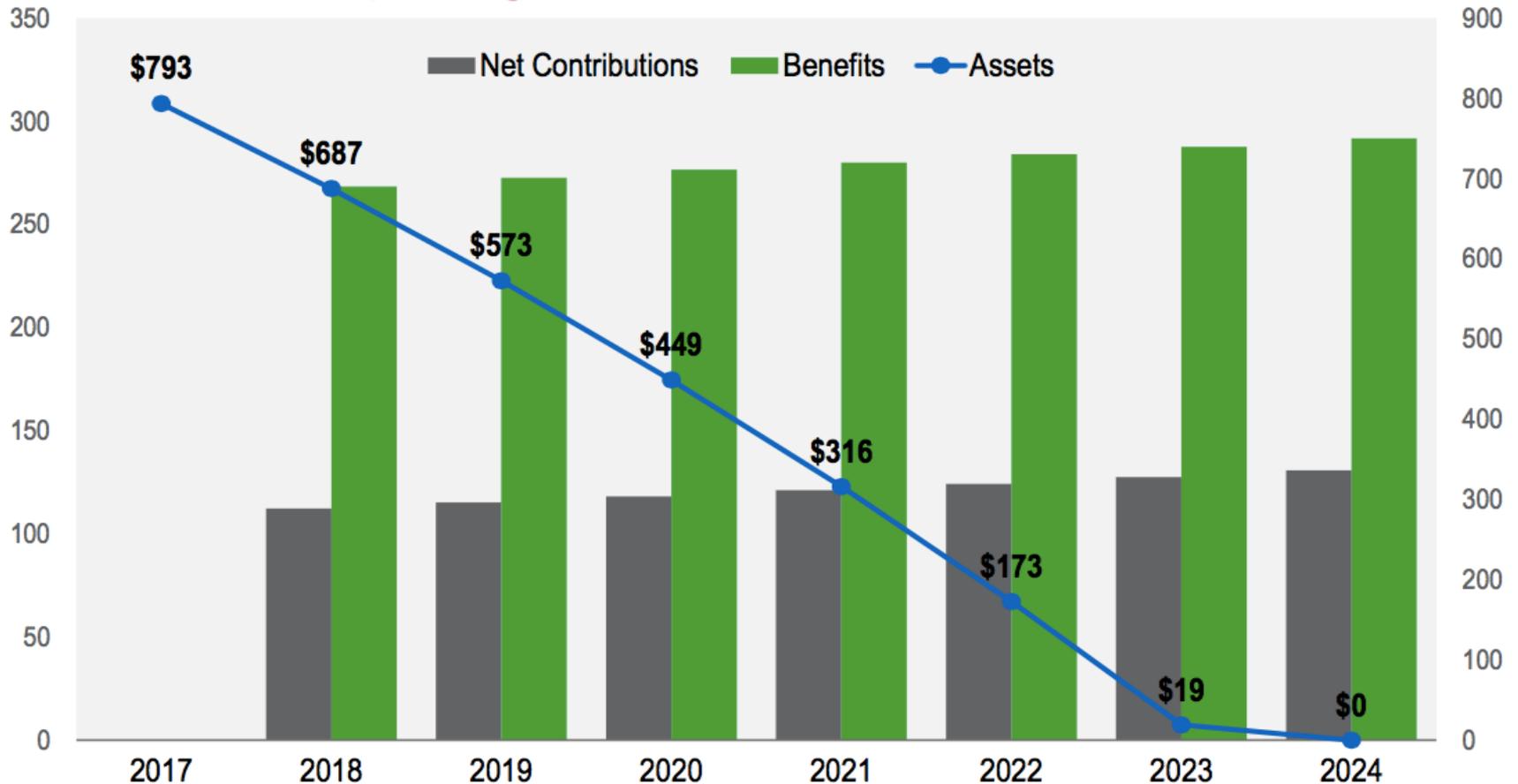


What They Tell Us

- GERS has been underfunded for years
- Plan is underfunded to the tune of **\$2.82 Billion**
- Using GASB 67 rules it is underfunded by \$4.74 Billion
- Underfunding created by the government's failure to pay their share on a regular basis and unfunded mandates
- Need a significant infusion of cash into the System by **February 2023**. If not, GERS will run out of assets by February 2023 or sooner.

Projected insolvency in 2023 – 2024 but could be earlier depending on market and economic conditions

\$ Millions



What We Know



- We can't borrow at reasonable rates on the bond market (Credit Rating = Junk)
- Even if we could borrow we have no feasible repayment method currently
- There are **8,761** retirees currently collecting benefits
- The retiree benefit payouts and expenses of the GERS total **\$270 million** annually

What We Know



- The gap between the contributions and benefit payouts is **\$164 million** annually
- The Actuarially Determined Employer Contribution for 2017 was **\$250 million**
- Pension obligations are requiring an increasing share of the budget.

The 800-Pound Gorilla!

Audited Plan Year Ended September 30,	Actuarially Determined Contributions	Contributions Received	Contributions Due	% Contributed
1991	48,659,324	38,169,889	10,489,435	78.44%
1992	48,123,177	34,850,312	13,272,865	72.42%
1993	47,181,730	38,632,619	8,549,111	81.88%
1994	46,856,812	39,353,600	7,503,212	83.99%
1995	55,089,820	50,944,748	4,145,072	92.48%
1996	58,128,608	46,075,378	12,053,230	79.26%
1997	58,251,171	47,703,717	10,547,454	81.89%
1998	62,578,121	45,984,661	16,593,460	73.48%
1999	62,237,129	45,148,387	17,088,742	72.54%
2000	64,992,493	44,078,554	20,913,939	67.82%
2001	64,179,332	43,387,158	20,792,174	67.60%
2002	95,186,021	50,594,531	44,591,490	53.15%
2003	117,124,599	51,588,235	65,536,364	44.05%
2004	108,358,399	54,084,454	54,273,945	49.91%
2005	120,184,848	51,542,030	68,642,818	42.89%
2006	131,059,471	65,061,430	65,998,041	49.64%
2007	137,797,268	60,778,382	77,018,886	44.11%
2008	138,488,871	75,871,146	62,617,725	54.79%
2009	147,490,851	80,177,004	67,313,847	54.36%
2010	157,817,709	77,004,630	80,813,079	48.79%
2011	162,841,336	80,849,762	81,991,574	49.65%
2012	178,644,349	66,677,155	111,967,194	37.32%
2013	172,439,842	64,431,322	108,008,520	37.36%
2014	189,715,251	68,298,617	121,416,634	36.00%
2015	200,089,791	72,287,934	127,801,857	36.13%
2016	247,158,137	86,346,838	160,811,299	34.94%
2017	250,574,023	80,723,102 *	169,850,921	32.22%
Totals	\$ 3,171,248,483	\$ 1,560,645,595	\$ 1,610,602,888	

* = Projected

Under Consideration by GERS

- Enforce Section 718(I) of the V.I. Code and suspend payment of benefits (**catastrophe!**)
- Reduce Tier I by 30% to Tier II levels
- Suspend Defined Benefit plan and move to Defined Contribution plan for all active workers
- Sales tax dedicated to GERS
- Territorial income tax (similar to state income tax) dedicated to GERS



Time is up. **Change Course Now!!!**



Mapp's Plan Comes Up Short



- Proposes to increase employer contribution to 23.5% in 2019, 26.5% in 2020, and **29.5%** in 2021.
- If we can't make contributions at the current level of 20.5%, how do we now afford to make contributions at a greater rate?
- By his own admittance **only delays the insolvency by 1 year to 2025!**
- What are we really saying?

Mapp's Plan Comes Up Short

Governor's Message to Senate President Myron D. Jackson re Proposed Executive Budget for Fiscal Year 2019 for the Government of the Virgin Islands of the United States

May 30, 2018

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The Government Employees Retirement System (“GERS”) faces a crisis that has been decades in the making and is a matter of wide spread community concern. For the last 17 years, the Government Employees Retirement System has paid out more in benefits than it has received in contributions. Unless we act, GERS will be insolvent by 2024. This Administration is committed to implement multi-fold corrective measures to prevent a collapse of the system.

While my proposals today do not solve the crisis, we will extend the solvency of the Retirement System for an additional year to 2025. Through this and next year, I intend to forward comprehensive strategies to preserve GERS for our retirees and all of our hardworking employees.

Our Approach

**THE
BRYAN/ROACH
PROPOSAL**

Priorities



- Protect people that are already **retired**
- Protect people that are already **vested**
- Better position our government to keep up with its obligations to the System
- Transform the retirement system for the long haul... don't just kick the can down the road

The Government Must PAY



- Start making **regular** contributions and maintain pay levels monthly
- Remit the loans and other deductions coming out of the employees' checks

Determine Actual Liability



- System will set an effective date for all claims to retirement system
- No claims after that date
- Proactively determine the actual liability of the system
- Retirees should be paid within 30 days of retirement



Freeze the Current Plan

- Only viable way forward
- It is not fair to contributors paying into a system that is bound to collapse
- The system is not sustainable
 - Gov't can't keep up with payments
 - System continues to be a political football and unpredictable
- Defined benefit plans are in trouble and being phased out across the country

IMPACT OF THE BRYAN/ROACH PROPOSAL



Impact on Vested Workers

- All vested Tier I workers will be converted to Tier II accrual rates
- Years of benefit up to effective date will accrue at current rate of **2.5% per year** of service
- Years of benefit after effective date will accrue at 1.75% per year of service.
- Vested workers on Tier I plan will have **no change** to their contribution
- All vested employees can borrow short term against plan

Impact on Non-Vested Workers

- **Moving to a hybrid plan: Defined Benefit-Defined Contribution**
- Defined Benefit accrues at **1.25% per year** of service
 - Employee contribution 5%
 - Employer contribution actuarially determined
- Defined Contribution
 - Minimum 5% employee contribution
 - Employer 100% match up to 5%
 - Transferable upon termination of employment
- Employees can borrow against defined benefit





Impact on New Employees

- Automatic enrollment in hybrid plan: Defined Benefit-Defined Contribution
- Defined Benefit accrues at 1.25% per year of service
 - Employee contribution 5%
 - Employer contribution actuarially determined
- Defined Contribution
 - Minimum 5% employee contribution
 - Employer 100% match up to 5%
 - Transferable upon termination of employment
- Non vested employees can borrow against defined benefit

Impact on Retirees

- Benefits for existing retirees will remain unchanged.



Impact on the Private Sector

- **Reduces** the overall cost of government
- More money to spend on services for the public
- **Stabilizes economy** by avoiding pension system collapse.



Impact to Government/GERS



- Immediately reduces Unfunded Liability
- Improves the government's credit rating
- Reduces the social cost of retired community
- Save 10% on cost of every new employee
- Creates more attractive employment benefit for potential government workers
- Reduces the potential social cost of underfunding retired community

Summary of Proposal

- Stop taking new entrants into the existing plan
- All benefits for vested workers from effective date of legislative change will accrue at Tier II rates
- Vested employees will continue to pay into the system at same rate
- Government will continue to pay in on your behalf
- Non-vested employees will be converted to hybrid plan
- New employees will be added to hybrid plan
- Non-vested employees will see a potential increase in their take home pay of 4.5%

How Do We Pay down the Unfunded Liability?

Cash Infusion in the Plan

- \$600 million in bonding has already been approved by the senate
- Need actuarial calculation to see if this enough with the proposed changes
- Increase asset base to **\$1.4 Billion**
- Interest only for the first 10 years
- Work on bond rating



Increase Rum Excise Cover-Over

- **Proper** application of the Caribbean Basin Initiative formula
- **Improved** marketing of our existing rum brands
- **Expansion** of the rum industry in the Virgin Islands



Proper application of the CBI formula

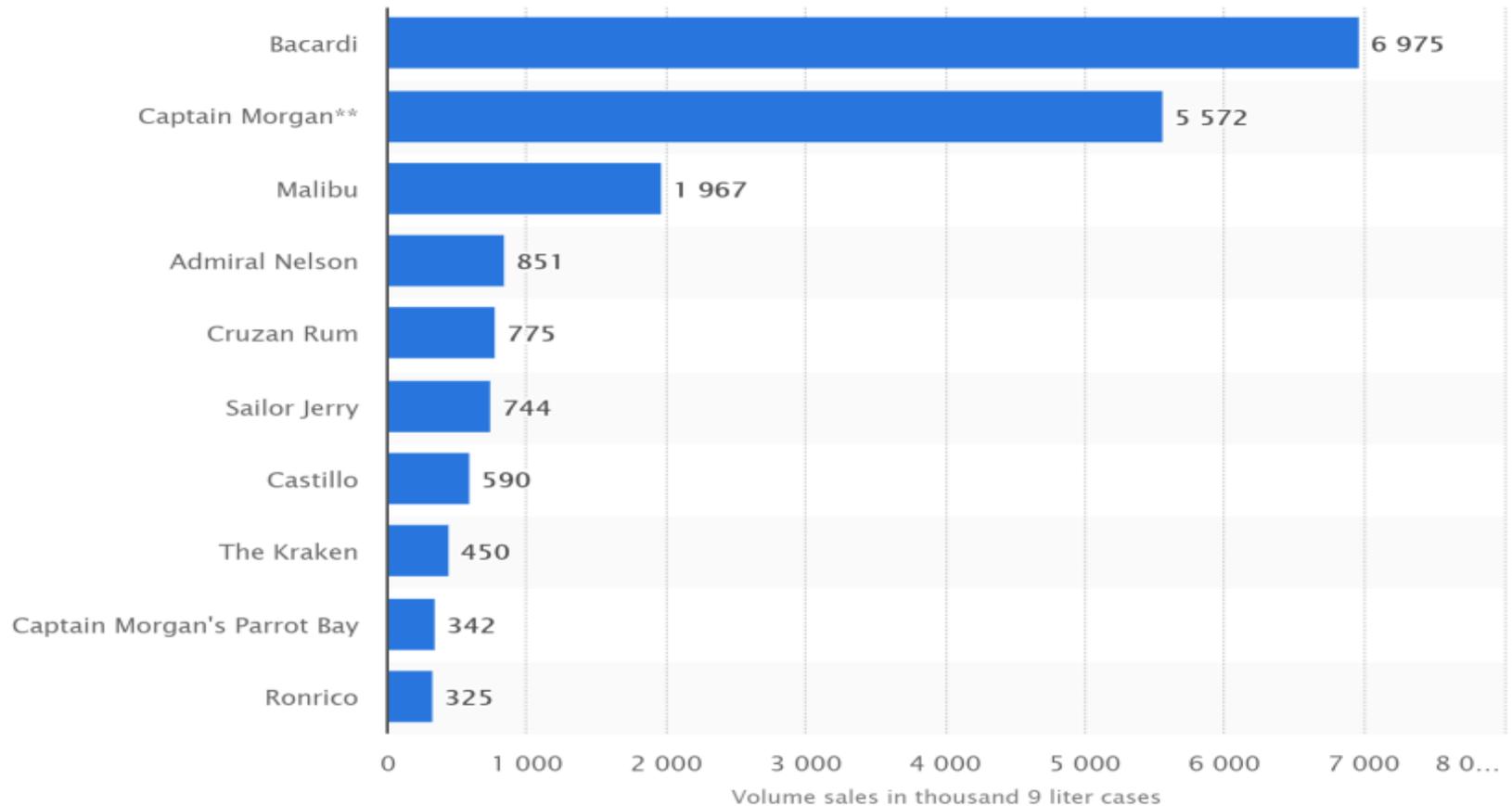
- 27 CFR 26.31 **mandates** that the VI get no less than 12% of the excise taxes paid on all U.S. rum imports
- Treasury has been **underpaying the VI** for at least 7 years
- We will get this money going forward to the tune of 7-10 million **annually**
- Can bear a bond for at least **\$100 million** more if combined with improved credit rating

Improved Marketing of our Rum Brands

- How is the marketing subsidy being **utilized**?
- How can we help **boost** rum production?
- How can we **leverage** Tourism Department in marketing?



Add Another Distillery



Internet Gaming



- Internet gambling has been legal in the VI since 2001
- The Supreme Court recently ruled that states can allow sports betting online
- There is potential to lure companies with our high-speed fiber optic network and economic incentives
- Firms would likely be restricted to taking bets from gamblers from within states or from countries where online gaming is already legal.
- This is a \$90 million industry in Antigua

Establish Cannabis Research & Registry

A new report from Arcview Market Research says retail cannabis sales will jump 33% over 2016's totals to hit \$10 billion this year. That's a faster pace than the group had previously predicted. Researchers say next year's numbers could increase by an even greater percentage.

Arcview says it expects the legal cannabis market to reach sales of \$24.5 billion by 2021

<http://fortune.com/2017/12/06/legal-marijuana-sales-10-billion/>

[www.bryanforgovernor](http://www.bryanforgovernor.com)

Establish Cannabis Research & Registry

- A **2014 referendum** on legalization of medicinal cannabis in the Virgin Islands passed 56%–43% (10,503–8,074).
- The use of cannabis for **medical purposes** is legal in 29 states, plus the territories of Guam and Puerto Rico, and the District of Columbia
- Nine states have approved **full legalization**



Establish Cannabis Research & Registry

- Invite researchers to the VI to **study** the various medicinal applications of Cannabis
- Patents derived from any research would be agreed to be VI sourced for life of the patent
- This would include strains, equipment, edibles, topicals or any other related product
- VI would offer a **60% tax reduction** on all licensing sales
- All tax revenue would be **dedicated to GERS**

Minimal Impact – Maximum Profit

- If done correctly these industries provide new revenues to the economy with little or no local negative impact.



What's Next?

Action Now

- Need community buy in!
 - Retiree groups
 - Unions
 - lawmakers
- Need GERS to initialize actuarial study
- Finalize and initiate plan



Final Note

Re-Evaluate Periodically

- The defined benefit of the hybrid plan can be gradually increased if justified.



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