Government of the Virgin Islands· Retirement System Board Meeting

GERS Retirement System (Board of Trustees)

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0:00:00 um i let call to order the employees retirement system of the regular meeting of the board of trustees for thursday august 27 2020. no but i think i think your hand went in we'll call please please trusty carwood present trusty barry present trusty clinton president good morning morning trusty cohen trusty cohen sleeping trusty cohen i'm seeing him on the screen okay trustee liger yeah i'm here trustee mcdonald absent trustee smith chairman canada present trustee cohen i i think he's saying present you hear me um offering up seven present one absent thank you okay um let you get approval of the secretary's minutes for 7 23 2020 any could additions deletions corrections and i need the motion for approval i'll move to approve the motion the minutes

0:01:52 second yes trusty barry yes trusty cohen trusty cohen i was not at the last meeting so i will um trusty cohen get through yes you said yes yeah trusty mcdonald absent the trustee smith Yes. Chairman Callender? Yes. Chair, oh boy. Five yes, one not voting, one absent. All right, thank you. The minutes have been approved. the administrator has made a request to reorder the agenda by moving the seagull solvency projections of special legislation to be inserted after the secretary's minutes i i so move yes trustee barry yes trustee cohen trustee liger yes trustee mcdonnell absent trustee smith yes chairman calendar yes trustee cohen yes thank you six yes one absent thank you the chairman rocky rocky joiners on the good morning we're just um wait for you to call so i'm just gonna sit in the background

0:04:36 oh you can you can go ahead right now oh okay let me Aldwin is dialing in now. Okay. Give me just a second. There he is. Now. Okay. Give me just a second. There he is. Okay. I think they're ready for us, Aldwin. okay uh good morning everyone good morning good morning everyone's doing well all right uh should i share my screen maybe or do you guys have the reports in front of you it'll be good to share the screen because when it goes on youtube the members can see it okay let me just try to do that now all right can everybody see the report yes yeah okay so um i'm just gonna turn to let me see go try to navigate this all right can you can you see me moving it just want to make sure yeah yeah yes yes okay so um we we heard from the governor regarding the proposal that they have which would allow the government to have additional money to pay for different things so assuming that you know I know we have other needs in in the islands but assuming we get the two hundred fifty five million dollars all going to GRS or eighty five

0:06:43 million dollars per year over the next three years what we've done here is determine how that's going to impact your solvency we all know that we need a lot more than that so what we've done in addition to that is basically try to figure out what additional increases and the employer contributions are needed in order for the GERS to be solvent in in the future I'll back up just to and we've discussed this before but we're running these at seven percent and three percent the seven percent would be a longer term assumption that you might be able to get if you actually have some assets that you can invest the three percent is more short term in nature but both of them are necessary to give an analysis of what's going on that's correct all right it's just going turning on to the next page the light blue line here is basically our current state so our current state everybody knows we're running out of money between 2023 and 2024 if we get to 255 million or 85 million dollars over the next three years based on the seven percent return that will extend the solvency for about uh two years from between 2023 to 2024 to 2025 or 2026. if we assume three percent return it's going to be slightly earlier uh closer to the end of the 2025 fiscal year so in order to keep the plan or the system solvent what we need in addition

0:08:35 to these two in cash infusion our additional five percent contribution increases so it's either going to be nine five percent contribution increases per year uh which would make the ultimate contribution rate go up from 23.5 percent to 68.5 percent by 2029. what's the er er is employer i'm sorry oh okay yeah it's not it's not emergency room just just very briefly the 68% is very similar the 68% is very similar to what the contribution rate was projected about five or six years ago before we made plan and changes in different things right and basically what we're doing here is just trying to give you an order of magnitude and not not to say that the 255 million isn't going to do anything i think you know the two-year extension is a pretty big deal uh just thinking about um being able to pay full benefits for another two years i think that's that's a big deal but i you know i think what we've been talking about here and and you know for for many years now is trying to sustain the system uh for a much longer period of time so the other thing that we've done here and i know this was not part of the original request but i just want to put into perspective this additional resources that we have from the last proposals or the last projections that we showed you where you've also sent a letter to the governor where if if we don't if nothing else happens what what kind of remedies the system need in order to have the system sustainable in the future so if you recall a couple of months ago we've said that if nothing else happens the

0:10:37 only thing that the board can do right now is to authorize uh three percent pay increases every five years so if we couple what the board can do and and also be able to reduce the benefits starting one one 2021 um system can sustain itself if there's a 42 benefit reductions on the tier one benefits in addition to that four three percent pay increases every five years so this is what we what we said before um now if if we have this additional 255 million dollars or the 85 million dollars over the next three years um the 42 percent can can be reduced to 35 so that's another way of thinking about this additional resources that we have um it does have some impact um you know from perspective of you know the kind of benefit reductions we need uh going forward so 42 going to 35 i think it's uh you know i think it's pretty significant uh it's a step in the right direction uh but it's not quite uh sufficient and this would be this would be uh starting when starting uh january 1 2021 i thought i'm talking about the the reduction so that'll be in 2026 the the reduction will be in january 1 2021 no no the 35 percent yes instead of the 35 is effective january 1 2021 did i hear you correctly trustee barry okay okay i got you so yes oh right the the benefit reduction uh that i'm talking about here the 35 it's effective january 1 2021 the employer contributions um i believe we just increased uh three percent uh effective uh january 1 2020.

0:12:44 so the first one after that would be uh in 2025. okay the other things that you guys have requested we we did some additional scenarios so so just excuse me so just so the 35 with the 35 reduction plus the the 255 million uh the reduction will have to take effect still have to take effect january 1 21. correct okay right i mean that that's that's one way to do it uh that you know there there are other ways to do it um i think if you think about um our cash flow right now you know you're you're you're taking in about ten eleven million dollars every month but you're paying out about twenty million dollars every every month so you have that ten million dollar nine million dollar gap each month and so if we you know if we run out of money if we wait all the way to the end and run out of money essentially you're only going to be able to pay out benefits based on what you're taking in so if you're only taking in 10 11 million dollars that will be about a 50 percent reduction and which is what we've we've talked about before and then paid that it yeah here what i'm trying to get that clear the 282 55 postponed insolvency to 26 so that is the date when it will drop to 20 20 to 35 no don't want it no no when when it when the fund run when the system runs out of money the benefits are going to drop about 50 or even

0:14:50 up to 70 as we've said before if you're not able to collect employee contributions so that's kind of like your maximum um hit if we wait all the way at the end what we're trying to do is is come up with uh some remedies now so that the hit will be smaller okay yes okay got you got you go ahead and and by the way it's not clear on on slides 11. uh the benefit reduction that we um our our modeling here is only going to be in effect for 20 years so basically you know the the problem is this for next 20 years we need to bridge the gap between the benefit payments and the contributions once you're able to bridge that gap in the 20 years after 20 years whoever um is still in the tier one system their benefits will be restored back to a hundred percent okay i went wait when you're talking about a benefit reduction you're talking about some entity imposing a 42 or 35 percent reduction on benefits from retirees correct correct and and i think everybody realized that the board has taken the position is on record saying that the board does not have the authority to impose any reduction on annuity payment or benefits just just to jump in here um um i'm sorry to interrupt you pedro but so we did we if we had to redo the resolution

0:16:45 the day after the 255 the number with the the what we sent to government house we substitute 35 percent for the 42 yes okay so i'm good meaning that the board will be recommending to the governor and the legislature a 35 percent reduction yeah i mean but it'd be up to the legislature to put that into the code right right but but i think it's it's it's a a powerful message to show that um you know the government you know with with their efforts and with all our efforts um you know we we are seeing that you know some of these things that are being proposed have some significant differences uh we have a lot more to do but but they are making some differences and showing that you know we're able to change the reduction from 42 to 35 I think it's a big deal so but you know as I said you know we need we need more so just to show the impact or really I guess the amount of money that we would need it was also requested for us to do additional scenarios showing instead of the 255 million what if we have 600 million dollars what if we have 1 billion or 2 billion dollars would we need additional pay increases or anything else in order to solve the solvency situation so we've done a bunch of those projections in here I'm gonna skip all the way to the end for a second just to show you what the summary is and

0:18:38 and then if you want we can go back to the to the to the charts uh but basically what this chart shows you um is the projected insolvency year you know somewhere in the middle depending on what kind of additional infusion that we're getting uh we've also showed what the investment return that we're assuming you know as rocky said we've assumed either seven percent three percent um if if we truly get you know this additional cash in from the beginning we probably will be able to have the ability to earn a seven percent return in the long term and which we have we were able to to demonstrate that over the years um with grs investments um but just to be more conservative uh we have also that uh demonstrated what would happen if it's if it's three percent return that you're getting um i don't know i'm going to jump in a little bit so i think it's up to again i don't know how many of our board members have been following this the legislation and the legislature is going on um the the meeting was originally scheduled for last week it was postponed until this week tuesday because one of the centers contracted covid and they actually had their first meeting yesterday. I guess not Tuesday. And I don't know if you're all aware that the committee of the whole didn't take any action. They punted over to a finance committee that is supposed to be meeting today. And one of the things that's apparently being looked at is the possibility of the 600 million dollar number and and the and the way that's being looked at is what the proposal the financing proposal before the legislature right now is focused on the on savings and debt service savings and some some of the centers are asking Well, rather than try to reduce debt service, why don't you use the debt service to maximize about 110 million dollars we could at 2.5 percent it would probably finance 1.8 billion dollars and and which means that excuse me uh trustee barry yeah uh to save mr

0:21:29 Tory from going crazy, can you maybe try to keep your head, to keep your body still, not enough fluctuation may help, but you're moving in and out as your head moves, your voice moves also. Oh, that service is only a hundred million a year. Okay. So, so the talk, the talk is, is about, the talk is about changing the strategy, right? The current strategy is to take advantage of debt service saving with debt service. The new strategy is to save debt service to borrow more money because of the low interest you guys hear me yeah yes yes yes okay so the current the construct of being considered that's what's going to be in finance committee one recommendation excuse me everybody who's not speaking mutual devices that would help so what's being looked at today apparently is a changing strategy keep the same debt service and and maximize the borrowing based on the lower interest rate and this is a quick calculation it took 2.5 percent interest um it could probably service a 1.8 billion debt over 20 years and that would then free up 800 million if you take out the the 1 billion they're trying to refinance and just 80 600 million What we could do after this is to try to develop a scenario on the assumption of a 600 million and see what else we'll need to do with that to then 600 million you guys said we'll extend

0:23:52 for about six years the 600 million with some other enhancements could take it out some more so um i want to just run some additional scenarios and see how how far we could take 600 million know if you have to bring some other other additions and contributions that's it i want to do it again okay thank you trustee barrow i think that's a very good background on on the different uh requests that we are doing here uh but before i continue i just want to ask do do we know how how is senator gittins doing um no i i the last word i heard that he he was not necessarily in danger all right that's good i'm not sure what that means but i mean of course you know you can release information okay all right so just building on what trustee barry is talking about if if if we do get the 600 million dollars um that will extend the solvency of the plan by about four to five years instead of being installed in 2024 it'll be either 2028 or 2029 depending on what kind of investment returns that we get but in order to to solve that going forward we need additional contribution increases and for a 600 million dollar infusion and seven percent return we would need four additional five percent annual contribution rate increases which would make the total employer contribution rate 43.5 percent in in four years so so you know you're you're gonna need additional monies in um right and if we just get 600 million

0:25:54 dollars i i know and what i like for me personally is is for for you to translate that in some some dollars because there's also talk about this new marijuana industry so the question is how much how much will we need to get from that or wherever else so so you could give the government some options to to to maximize the in the 600 million also um all one these scenarios shown on 14 do not uh include any reductions in benefits for tier one folks so if you saw earlier that the 255 million reduces the necessary reduction from 42 to 35 with nothing else being done and if you put in the 600 million instead of 255 the 35 will go down even lower and you could again there are some balancing to be done if you go that direction and can't quite get rid of insolvency alone with the contributions and the infusion then you can look at those as of possible compromise yeah so that's that's that's what i'm suggesting maybe after this you guys want a couple other options on how how a 600 how we could make a 600 million dollar work to i just had to put a plan together what what additional would you need um so okay we can do that i mean in in terms of you know the dollars that you're talking about so right now the employer contributions are about um 84 million dollars i'd say 80 million dollars a year so that's that's

0:27:46 based on the 20.5 percent that we were getting prior to 2020. so if if we're talking about here four additional contribution rate increases or additional five percent contribution rate increases that basically means that we're going to have to double the 80 million per year so that's that's the kind of money additional money we would need even after receiving a 600 million dollar cash infusion today in terms of coupling that with benefit reduction as you saw earlier if we have the 255 million um the 42 can go down to 35 so if if we get instead of 255 um we have 600 million dollars you know the 35 can can go even further down possibly down to 25 but we we we can do that um modeling after the meeting okay thanks and if if it's helpful we can we can probably show So the year by year numbers that we need in terms of savings, since, you know, that will be part of what what the government ultimately have to have to see how much real dollar money.

0:29:01 Right. Right. Right. So obviously if we increase the 600 million dollars to a billion or two billion, you know, we would need less additional things to do. So for the $1 billion, it forestalls insolvency to 2031 or 2035, which means we will need an additional two, 5% contribution rate increases over the next two years or four years.

0:29:38 If it's $2 billion that we get, that is basically enough if we're assuming a 7% return. And again, as Rocky said, the summary here does not include benefit reductions. So if you include benefit reductions, the additional increases necessary will be less. it'll be good it'll be good to to to show that those those options okay go ahead i'm sorry i mean that that basically concludes the projections that we did if anyone has any questions when I have a I have a comment German the recent legislative a couple of senators suggested that during the seven years single has been the actuary that you have done nothing to assist GIS in averted insolvency and you how would you respond to that well doctor I guess the way I would respond is I mean in your practice you can prescribe you know remedies and and and and things that people need to do in order to make themselves better from whatever it is ailing them but you

0:31:41 cannot really force them to do anything so you know if you can prescribe something but they don't do it they're not going to get any better if you recall I think we've been sounding the alarm I think as early as 2001 or 2006 we've said that if we don't do anything if we continue down the that where we are not contributing at least the a deck um we will be running into a problem and i think back in 2006 i believe there's there's a government summit we did predict and project that we were going to be running out of money sometime in the 2020s um and since then you know i think the board um has actually done basically what we um told you to do you know we told you to eliminate the COLA increase the contributions every time you have the opportunity to do it and and you've done that but at this point there's really nothing much the board can do unilaterally and that's why we need the government's help the legislature's help everybody's help to try to solve this problem and also um calendar if we recall the the government hired in a separate actual form to review what was being done their recommendations parallel with what we were telling the board and the government also uh mr chairman yes sir i i would like to know what exactly they expected seagull to do first of all i want to make sure they understand that i didn't say this now okay i know that i was trying to get a reaction from them because i thought it was ludicrous what was said on the floor that day i i think to me maybe they suggested that there were other jurisdictions

0:33:44 that had similar problems and they were able to to be turned around maybe what happened there was that maybe those jurisdictions follow the actuary um i don't know if they're expecting them to put the money in um it just didn't make sense to me i mean if you look around the country and and and see the retirement systems that are are not doing well um there's usually one consistent uh message there is that you're not contributing what the actuarial determined employer contributions or ada uh and and that's basically the story of grs over the past uh 30 years 20 30 years um one parallel if you look at the state of new jersey the state of new jersey and and illinois also have um you know tough problems right now and that's the same situation they haven't been paying the adec so now we're we're come to a situation where um you know putting in the money isn't going to be enough um if if we are lucky enough to figure out and and and actually get two billion dollars or 1.6 billion dollars um then we don't have to do additional things um but you know that's just not reality so i think everybody has to um figure out a way uh to share the pain i guess the only thing you could do um is to satisfy your plan i assume if you're still here that's right and ask your question could you could you suggest um

0:35:34 a report that has been issued independently. I know there are certain organizations that study this thing. I know the Pew research has been into that a lot. Is there, if you could identify a report that sort of summarize what you just said about how, you know, the systems that are in trouble and why and how they fix them well mr bowery a couple things one we had a governor's task force about seven years ago where we we for single participated in that we came up with what we thought was a pretty good solution to the problem and the legislature cherry-picked certain aspects of the solution without in putting the whole thing in place and so it didn't really do a lot of good well I understand that that's why I saw why did something from somebody I mean I mean you're preaching to the choir here just so you know what I understand most of the players are the same players most of the players in the Legislators in the same is the same senator. So I don't I don't understand why it is so difficult for them to understand But I mean we've been preaching this for years Two years ago we had NCPIRS down here NCPIRS is an international organization For exactly, you know pension systems all the the present governor was there all the senators were running for office they were there but they were challenging everything that we said I mean this can be

0:37:26 we did this uh video can be shown it's on the website but we did three days of meetings with them and we had some other people down from around three or four other people down national people down national institute of retirement and we said the same thing and they were just challenging us all the time but i'm asking for something from i understand there's also a congressional report that was done we had gao gao i met with geo and i said that in a meeting we met for last week after two years and we gave him a lot of information i'm sure they're going to write the report but um you know i i understand what barry is saying i mean you know as far as the pew report but i i'm i'm thinking i'm speaking more specifically to what other yeah folks have i mean i know i know that we got a lot of stuff about for us i was piggybacking you know what um aldrin was saying that um about what you're coming and after colorist comment that they said other people have turned around and and he made a comment that if you read reports that you see a consistent uh problem throughout and that's why i'm looking at something that's yeah yeah yeah and i think at that meeting the presenters they did give information on other systems and um what they did but um the bottom line was infusion we needed a infusion of cash we did make changes to the contribution rates and there's information we have i i think we can go back and but we need to update it from national institute of retirement maybe they can give us

0:39:27 some information but we can get that information but they have presented that before trust me the other thing also there's a there's there's the white papers about 100 pages of the history of the plan and the issues facing it going back 20 or 30 years that is is a pretty good comprehensive document showing where you've come and where you're headed if nothing happens okay all right sorry for having the debate I'll see any other any other questions when I want to thank gentlemen I want to thank both of you what both of you all the way thanks for the great job you've been doing for us thank you doctor thank you all right so if there are no more questions um um rocky and i will uh drop off um is that okay yes okay okay and just email us if you need something else Okay, good day. Bye.

0:40:58 Okay, so we're back to... Excuse me, Mr. Chairman, can we go off the record a second, please? And can you stop recording, Mr. Nibbs, or? Running into internet connection.