TROUBLED PLANS AND TROUBLED PLAN SPONSORS

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What are the different types of pension plans?

Social and State Pensions

The U.S. has created a "Social Security "fund for their citizens and residents to provide income when they retire (or in some cases become disabled). This requires payments throughout the citizen's working life in order to qualify for benefits later on. This plan is funded through Payroll taxes and provides a "contribution based" benefit, which depends on an individual's contribution history. Income derived from Social Security is currently estimated to keep roughly 20% of all Americans, age 65 or older, above the federally defined poverty level.

The U.S. has put in place a "social pension", called the Supplemental Security Income. **Supplemental Security Income** (**SSI**) is a program that provides stipends to low-income people who are either aged (65 or older), blind, or disabled. Although the program is administered by the Social Security Administration, SSI is funded from the U.S. treasury Funds, not the Social Security trust fund. This program provides benefits to more than eight million Americans. Eligibility requires that the individual legally reside in one of the 50 states, the District of Columbia, Northern Mariana Islands, or is the child of military parent(s) assigned to permanent duty outside of the US, or is a student (certain restrictions apply) temporarily abroad.

What are the different types of pension plans?

Employment Based Pensions

A retirement plan is an arrangement to provide employees with an income during retirement when they are no longer earning a steady income from their employment. Many retirement plans require both the employer and employee to contribute money to a fund during their employment in order to receive defined benefits upon retirement. It is a tax deferred savings vehicle that allows for the tax-free accumulation of a fund for later use as a retirement income. Funding can be provided in other ways, such as from labor unions, government agencies, or self-funded schemes. Therefore pension plans are considered a form of "deferred compensation

Types of Employer Sponsored Pension Plans

Two types of employer-sponsored retirement plans are qualified and non-qualified retirement plans.

Qualified retirement plans meet the Internal Revenue Code requirements and the Employee Retirement Income Security Act of 1974 (ERISA) requirements.

These plans offer several tax benefits: they allow employers to deduct annual allowable contributions for each participant; contributions and earnings on those contributions are tax-deferred until withdrawn for each participant; and some of the taxes can be deferred even further through a transfer into a different type of IRA.

Non-qualified retirement plans are those plans that either do not meet the IRS Code requirements or the ERISA requirements. These plans are funded by employers and are more flexible but they do not have the tax benefits qualified plans do. Benefits are paid at the retirement age in the form of annuities, which are taxed as ordinary income tax, or in lump sum payments, which can be transferred into an IRA to defer taxes. An example is the 457 plan.

Defined Benefit Plans

A defined benefit plan promises a specified monthly benefit at retirement. The plan may state this promised benefit as an exact dollar amount, such as $100 per month at retirement. Or, more often, it may calculate a benefit through a plan formula that considers such factors as salary and service - for example, 1 percent of average salary for the last 5 years of employment for every year of service with an employer.

The number of defined benefit plans in the US has been steadily declining, as more and more employers see pension contributions as a large expense avoidable by disbanding the defined benefit plan and instead offering a defined contribution plan.

Defined Contribution Plans

A defined contribution plan, on the other hand, does not promise a specific benefit amount at retirement. Instead, the employer and employee contribute money to each employee's individual account in the plan. In many cases, the employees are responsible for choosing how these contributions are invested, and deciding how much to contribute from their paychecks through pretax deductions. Employers may add to the employees' accounts, in some cases, by matching a certain percentage of the employee's contributions. The value of an employee's account depends on how much is contributed and how well the investments perform.

Defined contribution plans have become widespread all over the world in recent years and are now the dominant form of plan in the private sector in many countries. Due to the cost of administration and ease of determining the plan sponsor's liability for defined contribution plans (you do not need to pay an actuary to calculate the lump sum equivalent that you do for defined benefit plans), in practice, defined contribution plans have become generally portable.

HYBRID PLAN DESIGNS

Hybrid plan designs combine the features of defined benefit and defined contribution plan designs.

Target Benefit Plan: Employers set a target benefit for participants; contributions depend on assumptions of the projection to reach that benefit. Contributions and earnings are tax deferred until withdrawal.

Cash Balance Plan: Cash-balance plans are a type of defined contribution retirement plan where employers make annual contributions for each employee; the contributions earn interest at rates similar to Treasury Bonds. These plans are recommended for younger employees because the retirement benefit starts building early.

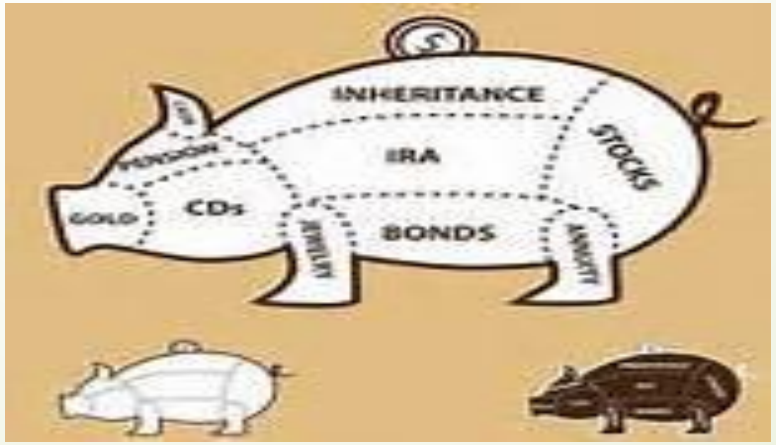
MILITARY PENSIONS

Pensions may also be granted to military veterans who met certain requirements. Military pensions are overseen by the government. These pensions may extend past the death of the veteran himself, continuing to be paid to the widow.

OTHER TYPES OF PENSION PLANS

Personal Plans: The most popular example is the Individual Retirement Agreement or IRA, which can come in different types according to their tax treatment.

Annuities: These are contracts established with an insurance company; there are fixed and variable annuities.



PENSION PLAN FUNDING

Pension Plan Funding

Defined benefit plans may be either *funded* or *unfunded*.

In an *unfunded* defined benefit pension, no assets are set aside and the benefits are paid for by the employer or other pension sponsor as and when they are paid. Pension arrangements provided by the state in most countries in the world are unfunded, with benefits paid directly from current workers' contributions and taxes. This method of financing is known as *Pay-as-you-go* (PAYGO or PAYG).

In a *funded* plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits. The future returns on the investments, and the future benefits to be paid, are not known in advance, so there is no guarantee that a given level of contributions will be enough to meet the benefits. Typically, the contributions to be paid are regularly reviewed in a valuation of the plan's assets and liabilities, carried out by an actuary to ensure that the pension fund will meet future payment obligations.

PENSION PLAN FUNDING

In an *underfunded* defined benefit pension, the retirement plan has more liabilities than assets. In other words, the money needed to cover current and future retirement benefits is not readily available. Hence, there is no assurance that future retirees will receive the pensions they were promised or that current retirees will continue to get their previously established distribution amount.

There were $3 trillion worth of unfunded pension liabilities at the state level, and $400 billion of unfunded liabilities at the large-city level. That turns out to be about $10,000 per American citizen.

ARE PARTICIPANTS' BENEFITS PROTECTED WHEN THEIR PLAN TERMINATES?

Are Participants' Benefits Protected When Their Plan Terminates?

The federal government provides insurance protection up to certain limits for benefits from most tax-qualified defined benefit plans. Insurance protection is provided for certain defined benefit plan participants in order to pay benefits these participants are entitled to receive in the event that a plan terminates with insufficient assets.

The Pension Benefit Guaranty Corporation provides insurance protection to pay benefits, in the event that a covered single-employer plan terminates with insufficient assets, and provides financial assistance to enable multiemployer plans to pay guaranteed benefits.

Are Participants' Benefits Protected When Their Plan Terminates?

PBGC does not insure defined contribution plans, such as 401(k) plans, and does not provide coverage for defined benefit plans that are not subject to the Employee Retirement Income Security Act. In particular, the termination insurance program does not cover public sector plans.

The Pension Benefit Guaranty Corporation is financed through insurance premiums by employers that maintain insured plans, investment returns on PBGC's assets, and assets acquired from terminated plans that PBGC takes over as trustee.

What Plan Benefits Does PBGC Guarantee?

The Pension Benefit Guaranty Corporation guarantees four types of benefits. These benefits include (1) benefits payable at the plan specified normal retirement age, (2) early retirement benefits, (3) disability benefits that plans may offer to participants who become disabled before plan termination, and (4) certain benefits for survivors of plan participants.

The benefit that the Pension Benefit Guaranty Corporation pays depends on certain factors, including the provisions of the terminated plan and certain statutory limits that specify maximum benefit payments. The Pension Benefit Guaranty Corporation typically pays benefits as a stream of monthly payments for life.

WHAT PLAN BENEFITS DOES PBGC GUARANTEE?

For single-employer plans that PBGC took over in 2002, the maximum insured monthly amount is $3,579.55 ($42,954.60 per year) for a worker who retires at age 65. The maximum amount payable is lower if payments commence before age 65, and is higher if payments begin after age 65. The maximum amount payable is also lower if the insured benefit amount includes benefits for other beneficiaries, such as a survivor, in addition to the participant.

The maximum amount payable for participants in PBGC-covered multiemployer plans is determined by using a formula that does not change each year. The maximum amount, which depends on the participant's years of service, is $12,870 per year for a participant with 30 years of service.

PBGC - The Washington Post

May 30, 2016 Story

"THE FEDERAL INSURANCE FUND PROTECTING MILLIONS OF PENSIONS IS RUNNING OUT OF CASH"

The Pension Benefit Guaranty Corp., which insures private pensions, is dealing with long-standing financial woes with the fund that protects multi-employer pension plans. The program, which some experts say wasn't really intended to be used, was set up more than four decades ago to serve as a backstop for private-sector pension plans. However, it has been relied on more than expected by large plans on unsteady financial footing.

The fund's deterioration could pose a threat to the 10 million people in multi-employer plans who could soon be left without a safety net for their pensions. Although most of those workers and retirees are in plans that are financially healthy, about 1.5 million people — including the Central States members — are in plans that are projected to run out of cash over the next 20 years. The PBGC fund that backs multi-employer plans has roughly $2 billion in assets and is also projected to be insolvent by 2025.

PBGC - THE WASHINGTON POST

Previous efforts to bolster the insurance program have failed, or so far fallen short. For instance, a 2014 law that made it possible for multi-employer pension plans to cut benefits for retirees was meant to alleviate the burden on the PBGC. Since the Treasury Department rejected the Central States proposal, which was the first test under the law, the insurance agency is back where it started.

With roughly $2 billion in assets, the fund for multi-employer plans does not have enough money to pay benefits for the plans that are expected to become insolvent over the next decade.

The Central States fund alone, which pays about $2.8 billion in benefits each year and is the largest multi-employer plan in financial trouble, would overwhelm the multi-employer insurance program if it went under.

With that shortfall in mind, many of the workers and retirees covered by the Central States plan are rallying behind a bill introduced by Democratic presidential candidate Bernie Sanders and Kaptur that would repeal the 2014 law that made it legal to cut pension benefits and instead lead to government assistance for the PBGC. Recently, numerous senators including Sherrod Brown (D-Ohio), Claire McCaskill (D-Mo.) and Ron Wyden (D-Ore.) wrote to Senate Majority Leader Mitch McConnell (R-Ky.) asking him to address the pension crisis before the Senate breaks for the summer.

Because previous efforts to boost pension funds with taxpayer dollars have failed, fund executives and other pension experts are skeptical that any legislation calling for government help will gain traction. A 2010 bill that would have provided taxpayer assistance to pension funds died in committee. If such an effort didn't survive when Democrats had a majority hold in Congress, it is doubtful that a similar program will advance in a Republican-controlled legislature.

PBGC -The Washington Post

In 2016, premiums, the flat rate premium for single employer plans is $64 per participant, or the variable-rate premium (VRP) for single-employer plans is $30 per $1,000 of unfunded vested benefits (UVBs). The 2016 flat rate premium for multi-employer plans is $27. The single-employer rates are scheduled to increase to $69, $74 & $80 in 2017, 2018 & 2019, respectively.

In a report released in March, the agency said annual premiums paid by multi-employer plans would need to be increased to $156 per person, or about six times the current amount, to give the fund about a 90 percent chance of staying solvent over the next 20 years. This would put multi-employer plans on par with the average premium paid by single-employer pension plans.

The PBGC was scheduled to issue reports in early June that would offer more insight on the financial health of the fund and explain how large premiums need to be to keep the fund solvent.

Whatever the fix, retirees and consumer advocates are urging Congress, pension plans and the insurance agency to make changes before it’s too late.

THE STATE OF PUBLIC PENSION FUNDS

The State of Public Pension Funds

Roughly one-third of states have explicitly under-funded their public employee pensions.

Nearly all have missed investment return goals, which historically have been in the 8 percent range. Most Public Funds have reduced their expected rate of return on investments to 7 to 7 1/2%.

Many retirees are living longer than actuarially forecasted. The average 65 year old male will live to 86.6, two years longer than predicted; and the average 65 year old female will live to 88.8, an increase of nearly 2.5 years. The additional years of drawing pension benefits translate into a 4 to 8 percent increase in funding obligations.

More than 12 states have enacted benefit reductions or increased contribution requirements for their current employees.

Troubled Public Pension Funds

1. San Francisco City Pension Fund
2. Kentucky-Auditing every state pension system to propose substantive changes; replacing current system with a 401k retirement plan for new employees and optional transfer for current employees
3. Illinois-Failed to make full pension payments.
4. New Jersey-Failed to make full pension payments due to budget constraints.
5. Connecticut-Debating Major overhauls to the plan due to budget constraints.
6. Pennsylvania-Debating Major overhauls to the plan.
7. Central States Pension Fund of Ohio- financial trouble and could run out of money in less than 10 years.
8. Scranton and Hazleton, Pennsylvania

Troubled Public Pension Funds

Scranton and Hazleton, Pennsylvania-The municipal pension legislation to put the severely distressed pension plans under management by the Pennsylvania Municipal Retirement System. This action is taken to prevent a spike in Scranton's full required pension contribution that could burden the city's finances as it struggles to emerge from fiscal distressed status. Additionally, Scranton is gradually reducing the assumed rate of investment return by 0.5 percent every two years, until it reaches the system's 5.5 percent rate of return. Otherwise, Scranton would have to reduce its 8 percent rate of return immediately triggering a spike in the city minimum municipal obligation from $17 million to $28 million.

Scranton's firefighter and police pension funds are funded at 17 percent and 23 percent, respectively. Hazleton's firefighter and police pension funds are funded at 44 percent and 48 percent, respectively.

Unfunded Public Pension Liabilities

Top 5 Unfunded Pension Liability (thousands)		Top 5 Unfunded Pension Liability Per Capita	
California	$583,627,395	Alaska	$32,454
Ohio	$287,373,800	Ohio	$24,893
New York	$260,075,662	Connecticut	$20,726
Illinois	$254,872,560	New Mexico	$20,517
Texas	$244,164,239	Illinois	$19,796

States Public Employee Pension Systems Pension Debt

- **Market Basis**
- **Total Pension Debt: $4.833 trillion Pension Debt Per Household: $41,219**

Market Basis reflects Pension Debt using a discount rate equal to 20-year Treasury yields rounded to the nearest one-quarter percentage point. The yield in 2014 was 3.00%. The use of this discount rate here is intended, as most financial economists agree, to more closely represent market realities and system liabilities. Pension Debt Per Household equals Pension Debt divided by the number of households in the United States.

Pension Debt
United States Public Employee Pension Systems

- Actuarial Basis
- Total Pension Debt: $1.040 trillion
  Pension Debt Per Household: $8,872

Actuarial Basis reflects Pension Debt using discount rates reported by most systems, typically about 7.5%. Pension Debt Per Household equals Pension Debt divided by the number of households in the United States.

Components of State Debt (thousands)

Unfunded Public Pension Liabilities	$3,900,823,389
Outstanding Debt	$618,832,092
Unfunded OPEB Liabilities	$528,787,000
Unemployment Trust Fund Loans	$19,921,682
Total	**$5,068,364,163**

PUERTO RICO

Puerto Rico's Pension System

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Puerto Rico- Puerto Rico's pension system is almost completely out of funding. At this point, the pension fund is paying out the money it takes in and accumulating no assets for future liabilities.

The Puerto Rico Government Employees' Retirement System has over 125,000 active members, who contribute 10 percent of every paycheck toward their pension. There are 107,848 retirees who are receiving benefits. The average annual pension benefit in Puerto Rico is an extremely modest $12,708- significantly lower than most pension benefits on the mainland U.S.

Since 2000, new employees haven't been eligible for traditional fixed-benefit pensions, the step didn't stop Puerto Rico's growing liabilities. The new employees, called System 2000 participants, will receive an annuity instead, because their contributions are being used by the pension system to meet its obligations. They're using these payments to shore up their existing defined-benefit plan," said Hampton, the Moody's analyst. "Their defined-contribution plan isn't really taking hold. It's just creating new liabilities for the central government."

Puerto Rico's Pension System

In 2013, the government raised the retirement age, increased employee contributions and reduced or eliminated retiree bonuses.

However, Puerto Rico has cut the number of workers on its payrolls, there are fewer paying into the retirement system. The island had 116,000 central-government employees in May 2015, down 27 percent from seven years earlier.

In 2015, there was a $30 billion shortfall in the Employees Retirement System. The pension, which covers 119,975 employees, as of June 2014 had just 0.7 percent of the assets needed to pay all the benefits that had been promised

Puerto Rico is facing more immediate concerns because it may be short of cash as soon as November. That may leave it forced to choose between paying workers and retirees or bondholders, with $357 million of interest on its general obligations.

Puerto Rico's Pension System

Several U.S. Senators introduced legislation that would designate Puerto Rico's pension funds as "senior secured debt" in any decision over debt repayment or restructuring. This means that Puerto Rico's pensions would be prioritized in negotiations over how the commonwealth should settle its debts. It's proponents argue that all of the parties involved in resolving this crisis- the U.S. Congress, Puerto Rico's political leaders, the vulture hedge funds- have a moral obligation to protect the island's retirees. Retirees should not be cast into poverty so that wealthy Wall Street financial interests can make a profit. These retirees worked hard and played by the rules their entire working lives and should not bear the cost of others' mistakes.

Puerto Rico's public employees and retirees did their jobs and earned the pension benefits they were promised. Gutting pensions in order to pay bondholders not only does nothing to make the situation better, but will make the existing humanitarian crisis worse. Congress has a moral imperative to act.

No Bailouts for State, Territory, and Local Governments Act (HR 5276)

Amid the fiscal meltdown in Puerto Rico, a coalition of Republican lawmakers introduced a bill in Congress that would prohibit any federal or Federal Reserve "funny money" funding to bail out state, county, local, or territorial governments across the United States. If the legislation is approved, the prohibition would apply to bailouts by both the Obama administration's Treasury and the "independent" Federal Reserve System, which in recent years has conjured trillions of dollars into existence out of thin air to bail out mega-banks and other in America and worldwide.

The legislation, entitled No Bailouts for State, Territory, and Local Governments Act (HR 5276), is only four pages long. The purpose, according to the summary, is simple: "To prohibit the provision of Federal funds to State, territory, and local governments for payment of obligations, to prohibit the Board of Governors of the Federal Reserve System from financially assisting State and local governments, and for other purposes."

No Bailouts for State, Territory, and Local Governments Act (HR 5276)

The measure, which passed the House 297-127 on Thursday, June 9, now heads to the Senate. It took three attempts for the bill to pass. To assist the island in maintaining discipline in its fiscal policy, the legislation provides for the creation of a financial control board to oversee spending. Puerto Rico is struggling to keep afloat as the exodus from the island has reached record numbers, and the health care and education systems continue to crumble as a result of the economic crisis brought on by the crippling debt.

Ironically, the Federal Government is drowning taxpayers in unprecedented levels of debt. "Uncle Sam has the worst finances of the bunch — $19 trillion in debt, $40+ trillion in long-term pension liabilities, and decades worth of budget deficits."

GUAM

Guam Government Retirement Fund

Most employees of the U.S. Territory of Guam participate in the Government of Guam Retirement Fund. The Fund was founded in 1951 to provide benefits to retired government employees and their spouses/dependents, provided they accumulate a designated number of years in government service.

Employees hired on or before September 30, 1995, are required to participate in a defined benefit plan. Employees hired on or after October 1, 1995, are required to participate in a 401(a) defined contribution plan.

In May 2016, Guam's Legislature Approves Overhaul Of Retirement System

It will mark the first time in more than 20 years that Guam's retirement program has gone through such a drastic change.

Pending enactment, it will create two new government retirement plans in an effort to address about 8,000 employees who currently are enrolled in the Defined Contribution system but who do not have enough savings generated from contributions and investments to retire. Defined Contribution plan members who are 55 years and older have an average of $50,000 saved in their retirement accounts.

Guam Government Retirement Fund

Summary of retirement plans

5 systems total: Guam currently has three retirement systems in place — the Defined Benefit Plan; the Deferred Compensation, or 457 Plan; and the Defined Contribution plan. Bill 2-33 creates two new government retirement plans, known as the DB Lite plan and the Guam Retirement Security Plan

Defined Benefit plan: The Defined Benefit plan closed to new employees on Sept. 31, 1995, because it was too costly for the government. It left an unfunded liability — currently around $1.5 billion — that the government has to fully pay by 2031.

Defined Contribution plan: In the Defined Contribution plan, which replaced the Defined Benefits system, retirement benefits depend on the individual's amount of contributions to the plan.

Guam Government Retirement Fund

Deferred Compensation: Deferred Compensation, a retirement savings plan, is the government's equivalent to a 401k plan, giving employees the option of having a portion of their paycheck deducted and invested into mutual funds or annuity contracts. This savings plan is available to both Defined Contribution and Defined Benefits plan members.

DB Lite: In one of the newly proposed systems, the Defined Benefit 1.75 plan, or "DB Lite," the minimum contribution rate is set at 9.5-percent along with a mandatory 1-percent contribution to the Deferred Compensation plan. When members under the DB Lite plan retire, the Retirement Fund would provide annuities equal to 1.75 percent of the retirees' average annual salary for each year of service. The member also would retire with survivor benefits for their spouse and children.

Guam Retirement Security Plan: The second proposed system, the Guam Retirement Security Plan, is essentially a cash balance pension plan where the interest credit rate – guaranteed rate of return — would be set at 4 percent annually. The plan is meant to be Guam's very own Social Security program.

GERS Current Funding Status

Unites States Virgin Islands

Government Employees' Retirement System

The "GERS" was created as a retirement and benefit system for officials and employees of the Government of the United States Virgin Islands and for their dependents and beneficiaries, for the payment of retirement annuities, disability annuities, and other benefits as provided to officials and employees, and to their dependents and beneficiaries, after stated periods of service and upon fulfillment of certain conditions.

The system became operative on October 1, 1959.

GERS FINANCING

The various obligations of the System shall be financed in accordance with actuarial reserve requirements from contributions by members, contributions by the employer, interest income, and other income accruing to the System. From time to time, the Board may actuarially determine the rate of contribution for members and employers of the System.*

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.

* This provision added November 2, 2005,

Generous Benefits

FULL SERVICE RETIREMENT

An individual may retire with a full service retirement when they have attained:

- 30 years of credited service notwithstanding age
- 10 years of credited service and at least 60 years of age

Tier I: Years of service are calculated at 2.5%

Tier II: Years of service are calculated at 1.75%

Average 5 highest years of credited service within the last 10 years of credited X 2.5%

EARLY RETIREMENT

10 years of credited service and at least 50 years of age

- Note: There is a 3.9% reduction for each year the member is less than age 60

Tier I: Years of service are calculated at 2.5%

Tier II: Years of service are calculated at 1.75%

Most recent 5 years of credited service within the last 10 years of credited X 1.75%)Changed to Career Average in October 2015)

Generous Benefits

FULL SERVICE RETIREMENT-SAFETY EMPLOYEES

A safety employee may apply for full service retirement when they have attained 20 years of credited service regardless of age

Tier I: Years of service are calculated at 3.0%.

Tier II: Years of service are calculated at 2.10%.

EARLY RETIREMENT-SAFETY EMPLOYEES

A safety employee may apply for early service retirement

when they have attained age 55 with at least 10 years of service.

Tier I: Years of service are calculated at 2.5% without any age based penalty.

Tier II: Years of service are calculated at 1.75% without any age based penalty.

Generous Benefits

Non-Duty Disability Benefits

An individual may receive a non-duty disability if they are under age 60 with nine (9) years of credited service. This individual must be totally and permanently disabled for service, either mentally or physically.

Tier I: 2.0% of average compensation for each year of credited service at date of disability subject to a minimum of 20% and to a maximum of 60% of average compensation not to exceed $65,000.00 per annum.

Tier II: 1.4% of average compensation for each year of credited service at date of disability subject to a minimum of 14% and to a maximum of 42% of average compensation not to exceed $65,000.00 per annum.

Generous Benefits

<u>Duty Disability Benefits:</u>

Any member who becomes totally and permanently incapacitated for service as a direct result of the performance of his/her duties.

Tier I: 75% of members rate of compensation at date of disability, less Workman's Compensation payments, with a maximum benefit of $65,000.00.

Tier II: 52.5% of members rate of compensation at date of disability, less Workman's Compensation payments, with a maximum benefit of $65,000.00.

Generous Benefits

Duty-Connected Death:

Death in service as a direct result of the performance of duty.

Tier I: Annuity of 40% of salary in effect on date of death for the widow, plus10% of salary for each child up to age 18 to a maximum family benefit of 60% of salary. If no widow, 10% of salary is payable on behalf of each child under age 18 to a maximum family of 50%. If no widow or children, each dependent parent is entitled to 25% of salary.

Tier II: Annuity of 28% of salary in effect on date of death for the widow, plus 7% of salary for each child up to age 18 (or 23 if a college student) to a maximum family benefit of 42% of salary. If no widow, 7% of salary is payable on behalf of each child under age 18 to a maximum family of 35%. If no widow or children, each dependent parent is entitled to 17.5% of salary.

Generous Benefits

Members of the Legislature

TIER I

1-6 years 2.5% per year

7-12 years 3.0% per year

Over 12 years 4.0% per year

With a maximum service retirement annuity 75% of compensation payable upon completion of 20 years of credited service, whether or not such member has reached age 50.

TIER II

1 - 6 years 3.5% per year

7 -12 years 4.0% per year

13 - 20 years 4.5% per year

Over 20 years 5.0% per year with a maximum of 100%

GENEROUS BENEFITS

JUDGES

Judges may receive a retirement annuity if they have attained age 50 and have completed at least one judicial term.

The Service annuity is calculated as follows:

1 term – 30% compensation

2 terms – 60% compensation

3 terms – 90% compensation

Over 20 years in office – 100% of compensation

MEMBERSHIP **Est = Estimated**

The overall membership in the System is shown in the table below:

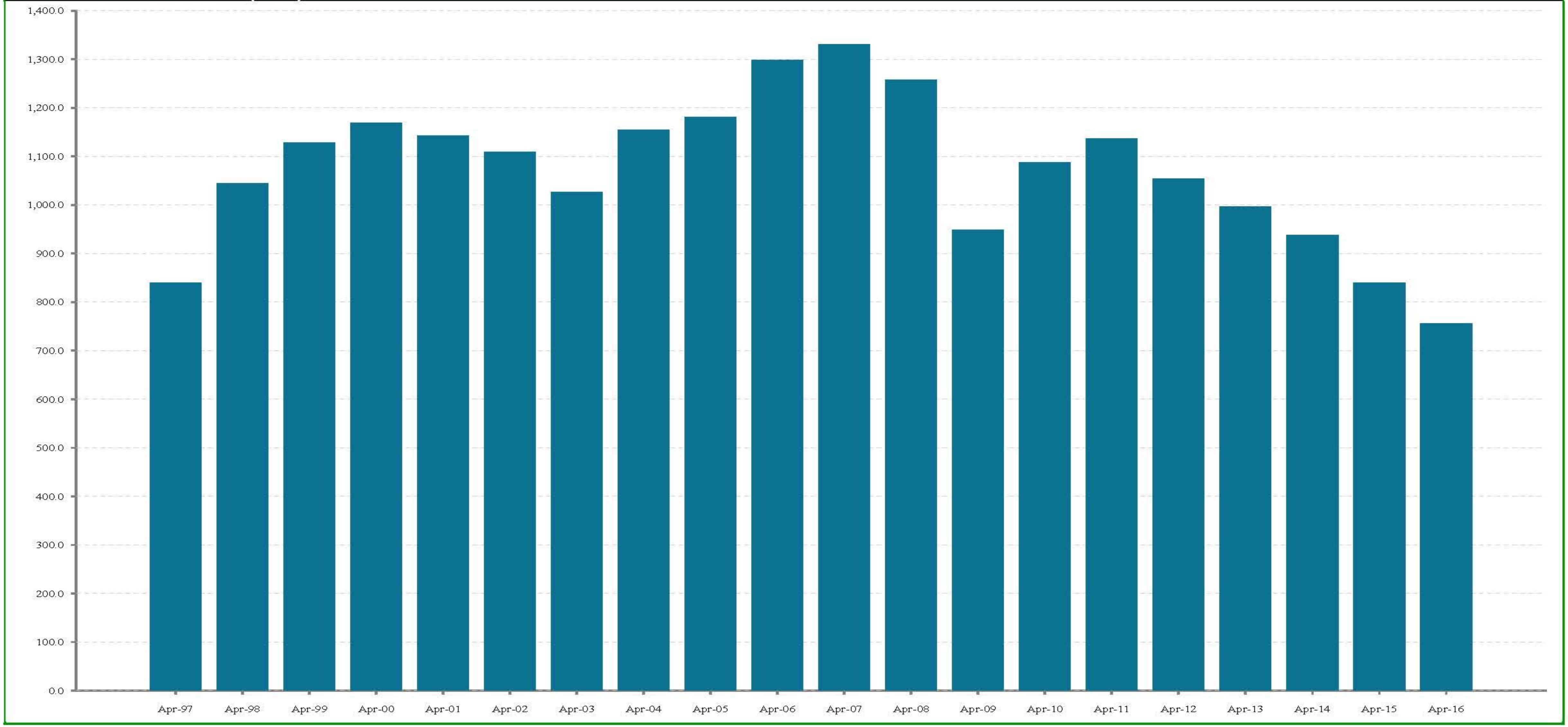
Fiscal Year		Active Members	Retirees & Beneficiaries	Ration of Actives to Retirees	Total Members
1982		8,914	1,360	6.55 to 1	10,174
1997		10,466	2,338	4.47 to 1	12,804
1991		11,766	2,901	4.05 to 1	14,677
1993		11,642	3,473	3.35 to 1	15,115
1994		12,116	3,751	3.23 10 1	15,867
1995		**11,493**	**4,438**	**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	19.1 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		9227	8,465	1.09 to 1	17,692
2015		9,368	8,761	1.07 to 1	18,129

CONTRIBUTION VS. BENEFIT PAYMENTS & EXPENSES			
Fiscal Year	**Total Contributions**	**Benefits Payments & Expenses**	**Surplus/Deficit**
1994	61.7	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	266.0	(163.7)
2015	108.5	265.7	(157.2)

UNFUNDED LEGISLATIVE MANDATES	ACT NO.	YEAR
Omnibus Authorization Act of 1984	4877	10/25/1983
To Provide for Early Retirement of Dept. Education Personnel	4896	2/21/1984
Early Retirement Inventive Training & Promotion Act of 1994	6007	8/16/1994
To Extend Act 6007	6088	12/5/1995
To Fund Salary Increases for Retirement & Eligible Employees	6415	6/18/2001
To Place Employees on Step	6427	6/19/2001
Expansion of Eligible Members of Early Retirement Program	6429	9/24/2001
To Provide Early Retirement Benefits Options & To Reduce Expenditures	6361	10/19/2000
To Increase Retirement Benefits for Superior Court Judges	6391	2/1/2001
Other Unfunded Measures		
Annual and Sick Leave Benefits Paid		1959-2005
Past Due Administrative Expenses		1987-1998

GERS OF USVI
April 30, 2016

Net Asset Value Over Time ($000)



UNFUNDED LIABILITY

Year		(a) Actuarial Value of Assets	(b) Unfunded Actuarial Accrued Liability (UAAL)	Actuarial Accrued Liability (a) + (b)	Funded Ratio (a)/(c)
1998		1,078,291,775	307,300,371	1,385,592,146	77.82%
1999		1,255,210,822	518,608,964	1,773,291,625	70.78%
2000		1,330,089,822	525,608,964	1,855,698,786	71.68%
2001		1,342,894,336	731,727,064	2,074,621,400	64.73%
2002		1,337,676,064	815,884,419	2,153,560,483	62.11%
2003		1,346,906,862	921,669,858	2,268,576,720	59.37%
2004		1,360,288,366	977,502,024	2,337,790,360	58.19%
2005		1,366,982,183	1,088,574,553	2,455,556,736	55.67%
2006		1,421,093,035	1,236,571,529	2,657,664,564	53.47%
2007		1,509,244,380	1,241,138,878	2,750,383,258	54.87%
2008		1,530,604,789	1,310,218,726	2,840,843,515	53.88%
2009		1,534,899,736	1,397,261,661	2,932,161,397	52.35%
2010		1,505,970,212	1,513,059,673	3,019,029,885	49.88%
2011		1,448,926,591	1,719,110,906	3,168,037,497	45.74%
2012		1,327,038,907	1,603,758,454	2,930,797,361	45.28%
2013		1,237,213,473	1,843,251,472	3,080,464,945	40.16%

CONSEQUENCES OF PLAN SPONSORS INACTION

1. Plan will be depleted of its assets by 2021.
2. Principal has been withdrawn to pay benefits, resulting in a lowered asset base and lower investment earnings.
3. Plan has suspended certain privileges to its members, such as the loan program.

GERS REFORMS-2005

§ 702. Definitions-Changed definition of average compensation calculation from the last 3 to "for any five highest years of credited service within the last ten years of service."

§ 704. Credited service- Added language required the member to pay to the system the withdrawn contributions, the interest paid on those contributions prior to withdrawal, and the income the system would have earned had those contributions remained in the system, and the interest on the unpaid balance, if the member elects to redeposit on an installment basis. The member shall repay the withdrawn contributions and the applicable interest before receiving his annuities.

§ 704. Credited service -Added the language requiring that "No credited service benefit may be paid to any government employee for excess annual leave, sick leave, leave without pay, study leave, or for prior military service until the system has received retirement contributions payments from the employer and employee. The member is also required to pay the income the system would have earned had those contributions been paid to the system, and the interest on the unpaid balance, if the member elects to deposit on an installment basis. If the member elects to pay on an installment basis, the member shall have the maximum of 36 months before any retirement benefits are received to pay the contributions and the applicable interest."

Employee or employer contributions for service credit on which benefits are to be calculated must be paid prior to the date of issuance of the first retirement benefits payment.

GERS REFORMS-2005

Employer or employee retirement contributions paid for a prior period must be charged a delinquent fee of 1.5% for each calendar month or part thereof that paid contributions should have been paid. This delinquent assessment may not be waived. If the delinquent assessment is not remitted within thirty days following the Benefits Division invoice, an additional delinquent assessment of 1.0% on the invoice amount shall be assessed for each calendar month or part thereof that the invoice is delinquent.

§ 706. (c) Amount of service retirement annuity, substituted 75 days for three years for the amount of time any member receiving a service retirement annuity who reenters the service of the government may continue to receive his annuity while in receipt of salary from the Government, either by appointment or on a contractual basis. In 2013, changed 75 days to 600 hours, and added "a period of time not to exceed two years."

GERS REFORMS-2005

§ 713. Refunds:

Required the member to pay not only the withdrawn contributions, but the interest paid on those contributions prior to withdrawal, the income that would have been earned had those contributions remained in the system, and the interest on the unpaid balance, if the member elects to redeposit on an installment basis, provided the payments do not exceed a period of five consecutive years.

§ 718. Financing; Added "From time to time, the Board may actuarially determine the rate of contribution for members and employers of the system. 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."

Added "Each employee who is a member of the Government Employees Retirement System shall contribute a percentage of his compensation as prescribed by the Government Employees Retirement System Board of Trustees. However, the Government Employees Retirement System Board of Trustees may not increase rates, in addition to rates already in effect, by more than 3.0% over a five-year period."

GERS REFORMS-2005

§ 718a. Financial obligations; Government.

Former section repealed and new subsections (a)-(e) added .

(a) Upon the basis of each annual actuarial valuation and appraisal provided for in this chapter, the Administrator, on or before the fifteenth day of September of each year shall prepare and file with the Budget Director and the Chairperson of Legislature's Committee on Finance an itemized estimate of the amounts necessary to be appropriated by the government to the Government Employees Retirement System for the next fiscal year. Such amounts shall be sufficient to provide for payment in full for (i) the estimated obligations of the government to the retirement system for such respective fiscal years; and (ii) any actual obligations of the government to the retirement system remaining unpaid from the prior fiscal year on such amount to be paid in the next fiscal year. If, the government overpaid its actual obligation to the retirement system for the prior fiscal year, such amount shall be credited as a reduction in amounts that would otherwise be estimated to be due the retirement system from the government. The estimate provided by the Administrator shall reflect the most recent data on annual salary and other related components, and be calculated in accordance with pension benefits authorized as of that time. Such estimate shall be provided by the Administrator within fifteen days of a request by the Budget Director.

(f) The system shall not provide any new increases in benefits to members or beneficiaries unless the Government has deposited the funding for the prior fiscal year into the bank account of the system and concurrently makes a provision for the funding of all future benefit improvements on a sound actuarial basis in the budget.

GERS REFORMS-2005

Tier II Created which reduced benefits and increased contributions for employees hired after October 1, 2005.

GERS REFORMS-2015

Tier II Members Only:

§751 (5) "Average Compensation" changed to career average of a member's compensation over the entire course of service provided to the employer, subject to the maximum salary limitations in effect during the service.

§754(c) Eligibility for annuity for a police officer, eligible employee with the Virgin Islands Water and Power Authority, eligible employee working with chlorine, sewage or carcinogens, firefighter, including a firefighter and police officer employed by the Virgin Islands Port Authority, marshal of the Supreme and Superior Court, or corrections officer, changed to age 60 and upon completion of 10 years of service, or age 58 with 25 years of service from fifty-five years or over after attaining a minimum of ten years of credited service.

GERS REFORMS-2015

Deleted provision that any member who has completed thirty years of credited service may retire on a full service retirement annuity.

Changed any member who is age fifty years with at least ten but less than thirty years of service may retire on a reduced service annuity which shall be reduced by .325 of 1% for each month, or fraction thereof, that the member's age is less than sixty. Now "Any member who is age Sixty years with at least ten but less than thirty years of credited service may retire on a service annuity which shall be reduced by .325 of 1% for each month, or fraction thereof, that the member's age is less than sixty-five years."

Refunds: No refunds are allowed for members who are vested.

Increased employee contribution rates by 1% per year over three years.

Increased employer contribution rates by 3%.

WHAT NOW?

The GERS is undertaking the following actions in anticipation of running out of funds to pay benefits.

Immediate Measures

- On May 27, 2016, the GERS ceased adding any new retirees who were participating in the Early Retirement Program, Senatorial or Judicial Retirement Program to the system's annuity payroll without their benefits fully funded, in accordance with law, by both employer and employee contributions. Each member's shortfall in employer contributions will be calculated and the employer billed. All funds must be received before the member will be placed on the annuity payroll.
- The GERS will also calculate the shortfall in employer contributions for those retired members who retired as participants in the Early Retirement Program, Senatorial or Judicial Retirement Program and bill the employer. At this time the GERS will not affect these members' benefits, but may in the future, reducing the annuity to an amount reflecting what was actuarially funded.
- The GERS will calculate the shortfall in employer contributions for all regular active members and bill the employer. At some point in the future, the GERS will not add these members to the annuity payroll until all funds must be received before the member will be placed on the annuity payroll.

Immediate Measures

- The GERS will calculate the shortfall in employer contributions for those retired regular members and bill the employer. At this time the GERS will not affect these members' benefits, but it may in the future reduce the annuity to an amount reflecting what was actuarially funded.
- Over the last 25 years the government has contributed nearly $1.3 billion less than GERS's actuarially determined needs, not including early retirement incentives, and the nine unfunded mandates passed by the 15th, 20th, 21st, 23rd and 24th Legislatures. This has accelerated the coming of the system's insolvency, predicted to arrive by 2025.
- Initiated the liquidation of non-essential, non-income producing assets such as raw land on St. Croix and St. Thomas.
- Instituted a "Dynamic Asset Allocation" structure that would maximize the GERS's ability to meet benefit obligations by matching the horizons of the plan's assets and liabilities.

Dynamic Asset Allocation

The Dynamic Asset Allocation model structures the investments that make up the Cash Flow Reserve pool such that they best match anticipated near-term liabilities (typically known net outflows for the next year or two).

1. Only highly liquid instruments are selected for the Cash Flow reserve pool (e.g. short duration investment grade bond and TIPS), as these assets are most likely to be called on to fund cash outflows in a pinch.

2. The remaining portions of the Retirement System have more flexibility, and their structure depends on the nature of the System's obligations.

3. The Surplus Reserves can be invested most aggressively for growth.

POSSIBLE SOLUTIONS

Many major public retirement systems, such as the New York Retirement System, the District of Columbia Retirement System and the Florida Retirement System have experienced unfunded liabilities similar to the GERS. They were able to turn around the deficit and unfunded liabilities by a combination of the Plan Sponsor:

1. Floating Pension Obligation Bonds;
2. Making substantial lump sums payments to the Systems;
3. Paying the entire actuarial annual normal cost;
4. Incrementally adjusting the contribution rates to keep pace with the increasing levels of benefit payments.

In addition:

5. Legislative elimination of unfunded enhanced benefits; and
6. Legislative empowerment to make BBB rated and alternative investments.

ADDITIONAL POSSIBLE SOLUTIONS

The following additional options are available to the GERS:

1. Close the defined benefit retirement plan to new participants.
2. Place all new employees in a defined employee contribution plan similar to 401(k) plans in the private sector, shifting the responsibility from government entities and managers to the beneficiaries themselves.
3. Lower the assumed rate of return on investments (the higher the assumed rate of return, the lower the obligation and the perceived, reported total future liability).
4. Institute litigation against the Plan Sponsor (Government of the Virgin Islands) to recover the shortfall in contribution payments.

QUESTIONS

THE END!!!