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GERS Not Out of Danger Yet, According to Actuarial Analysis Being Presented to Senators Friday

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The Government Employees' Retirement System headquarters on St. Croix. By. ERNICE GILBERT/ V.I. CONSORTIUM

The 35th Legislature will meet later today to hear from representatives of the Government Employees Retirement System (GERS), who will provide an overview on enrollment, finances, and future projections.

Consortium journalists have viewed a copy of the presentation that will be delivered to legislators, and have noted one area that is sure to draw questions from the assembled senators — an estimated unfunded liability of \$4.4 billion.

An “unfunded liability” is a debt that an entity or organization does not currently have the assets or investments to cover. Actuaries have calculated that GERS can only fund eight percent of the system’s 4.8 billion dollar liability, as of September 30, 2022.

The analysis also shows that actual contributions submitted by employers have been falling far short of the actuarially determined contributions for at least two decades.

Actuarially determined contributions, according to the Government Finance Officers Association(GFOA) website gfoa.org, “represent[s] the amount needed to fund benefits over time. If the contributions are not fully paid, interest accrues on the unpaid portion at the plan’s expected long-term rate of return. Persistent underfunding will ultimately jeopardize the plan's sustainability. The GFOA recommends that the full amount of the actuarially determined contribution be paid to the plan each year.”

According to the analysis which will be discussed by the Senate during today’s hearing, GERS has been underfunded since at least 2002, when actual contributions totalled just 53% of the recommended employer contributions, leaving an unfunded gap of 47%.

Over the years, actual contribution never rose higher than 55%. In 2020, 73% of the needed contributions went unpaid. Over the last 19 years, instead of the approximately \$3.7 billion that needed to be paid into the system, GERS received just under \$1.5 billion, less than half of what actuaries said was needed.

In April of 2022, GERS received an injection of \$89.2 million dollars, the first payment coming out of the territory’s debt securitization deal that at the time was touted as a savior for the system. Projections show that without the deal, GERS would have become insolvent by 2025, but even with the deal, the system’s asset value will dwindle until about 2038, when it is projected to begin increasing again.

“More needs to be done,” one slide in the actuaries’ presentation is titled. The slide comprises three main action points, the first of which is permanently increasing the rum cover-over tax cap from the current \$10.50 to the “extended” \$13.25, something that Governor Albert Bryan recently said might take until this August to achieve. The actuaries project that if the shortfall in cover over funds persists for two years (2023 and 2024), it would mean that GERS would be insolvent for approximately four years - starting from 2035 or 2036 - before ultimately recovering.

Analysts also want the Government of the Virgin Islands to resume paying the administrative expenses of GERS of at least \$15 million annually, as it had been before 1998. This, along with closing the rum cover over deficit, is anticipated to be able to completely forestall any bottoming out of the system, ensuring its solvency for decades to come, once returns meet or exceed the projected 6% rate.

The actuaries have also proposed a third step - one that would ensure the ongoing health of GERS but which would mean greater pressure on central government finances - to increase the employer contribution rate by three percentage points starting in January 2024, moving up the rate increase by one year. In this scenario, the system would reach 100% funded status by 2050, two years earlier than in the previous scenario.

While Governor Bryan’s touted debt re-securitization deal has seemed to have staved off the worst possible outcome for GERS - looming, irreversible insolvency - the actuary's assessment points to a system that stills needs a lot of work before being declared resolved.

