To the Editor: On the matter of restructuring employee retirement benefits for Virgin Islands Government Employees

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The recent legislative hearing on the Government Employee Retirement System (GERS) suggests that the conversation should no longer be on how to save the Defined Benefit product GERS offers Virgin Islands Government ("Government") employees as a retirement benefit, but how best to revamp and modernize the retirement system such that it is affordable and responsive to the changing demographics of the Government's workforce.

Certain assumptions need noting.

First. Our community and government have an obligation to deliver the retirement benefits committed to Government workers who have met their responsibility to the retirement system. However, the economic and financial prospects of the Virgin Islands Government now require rethinking how Government offers retirement benefits such that the new benefit is affordable to the taxpayer.

Second. GERS' single product Defined Benefit Plan is both anachronistic and expensive. It is major problem for the Government's credit, workforce confidence and the operating budget. Confronted by a relatively small and aging workforce, tepid Territory-wide economic and revenue growth, and the need to attract and retain youthful talent, which increasingly values portability of retirement benefits, GERS must not only be financially stable, but also be more affordable and relevant to a changing workforce demographic.

Third. GERS' present obligations are in no small part being addressed from contributions from active employees and there is no assurance that those funding the current cost of the system can or will receive the benefits associated with their contributions to GERS. This ponzi-like approach to meeting GERS obligations needs to be brought to an end.

Concerning our obligation to government workers

Regardless of our particular thoughts concerning the efficiency or accountability of Government workers, there are certain givens. First, Government does work and that is to the credit of most Government employees. Second, a contractual agreement exists with Government workers. In exchange for certain years of service and attaining a defined age, the community, through its government, has committed to funding a set level of retirement benefits. Members of the civil service who fulfill their commitment are, therefore, justified in expecting those commitments to be honored.

That certain workers fail to perform effectively is not a valid argument for standing by while the retirement system collapses under its own weight. Inability to fund retirement obligations will impact local spending by retirees, increase social services cost and undermine an ability to attract and retain a competent workforce. Management and the community at large are complicit in contributing to the ineffectiveness, inefficiency and at times dishonesty of some workers. Lack of accountability and training, politicization of the workforce and the absence of incentives for high-level performance undermine professionalism. When we elect, appoint or entrust management responsibility to those who place individual and personal good ahead of the collective good we surrender the right to point fingers. As famously said by Walt Kelly in his Pogo cartoon, "we have met the enemy and he is us".

Concerning the GERS retirement plan

GERS offers employees a retirement plan known as Defined Benefits. Defined Benefits is a product of the late 19th century. It saw widespread adoption by the private and public sector in the mid 20th century spurred by the growth of manufacturing, collective bargaining, the Internal Revenue Act of 1921, the Great Depression, and the Federal Social Security Act of 1935. In 1974, the Employee Retirement Security Act of Congress defined the characteristics of an IRS qualified retirement plan establishing parameters for participation, funding and vesting. Defined Benefit assures the employee that in exchange for a defined amount of contribution over a pre-determined period of time the employer will provide retirement benefits, regardless of length of life of the former employee or the sufficiency of that employees' contribution to fund that level of benefit. Actuarial assumptions considering length of life, employee and employer contributions and the investment return on those contributions underwrite the retirement plan's ability to make good on the commitments made. By 2013 there were more than $2.7 trillion invested in defined benefits plans in the United States.

Several factors favored the growth of defined benefit plans in the 1950s, 1960s and 1970s. The American workforce was relatively young, the medical advancements that are now allowing longer lives were still in development, and global competition for US economic expansion was still a distant challenge. In the past thirty plus years much has changed.

Because of these changes retirement planning has shifted away from Defined Benefit to Defined Contribution. Defined Contribution plans held $6.6 trillion dollars of employee savings in June 2014. Two trillion seven hundred million ($2.7 trillion) was in Defined Benefit plans. Nine hundred and forty one billion ($941billion) was in government or non profit sponsored 403(b) plans, $255 billion in 457 plans, and $401 billion in the Federal Employees Retirement System's Thrift Savings Plan (TSP). Though the private sector was the early adopter of this form of retirement planning, it is now projected that public sector adoption will grow faster than the private sector as public sector plans play catch up.

The impetus for Define Contribution was the emergence of 401k plans, which coincided with a changing relationship between employer and employee and employees' desire for the flexibility to switch employment opportunities when that change represented a professional improvement.

Implicit was the employees' willingness to assume more individual control over saving for retirement. On the employer side, economic changes leading to restructurings, mergers and bankruptcies made clear the need to control and manage employee benefit expenses and Defied Contribution accomplished this far better than Defined Benefit.

Defined Contribution allows employees greater control of their own retirement planning. Employers offer professional assistance with this planning. Retirement savings are invested in a limited menu of low cost investment vehicles that focus on generating adequate retirement income. Employees can, within limits, determine the level of contribution each chooses to make. Employers often match or contribute to the employees' contribution and the federal government exempts these contributions and the investment return from tax liability until withdrawn from the savings plan. Defined Contribution accounts have no claim on the savings of fellow employees nor necessarily represent a post retirement obligation to the employer. The employer is able to keep cost in check by defining its long-term liability and short-term cost.

State and local government have recently implemented hybrid plans. These allow combining a mix of Defined Benefit and Defined Contribution to the benefit of the employee and employer. Hybrid plans offer a lower level of Defined Benefit coupled with an employee directed Defined Contribution plan. Employees can transfer benefits accrued under one employer to self-directed retirement plans when employment changes. In 1983, the federal government introduced this form of retirement planning for its employees.

Cash Balance plans combine aspects of Defined Benefit and Defined Contribution in a single retirement product. Employee contributions are pooled and professionally managed. The employer guarantees the employee a base level return on contributions invested, and on retirement the cash balance within the individual's account can be converted to an annuity with payouts for the remainder of the individual's life, while often maintaining the employer guarantee of investment return.

Restructuring GERS requires careful thought. Existing commitments need to be safeguarded. Future promises made to new entrants or that add financial obligations can be aligned with what is truly affordable. Decisive action allows freezing the downward spiral of liabilities, identifying approaches for addressing obligations to retired and active workers, and defining retirement benefits that better align with the needs of employees and the financial well being of the community.

Concerning not addressing the retirement plan crisis head on

Failing to deal with the GERS crisis draws comparisons to managing retirement planning in a manner akin to a ponzi-like scheme. Ponzis exist when the financial contributions of late joiners satisfy the financial expectations of earlier joiners and there is no workable plan, short of enticing new joiners, to meet the financial expectations of the preceding level of joiners.

GERS' actuary has estimated that absent an infusion of $600 million to stabilize the System it will run out of funds in eight years. The Finance Commissioner explains that the Government does not have the financial ability to make such a major cash infusion. The system's present obligations are, therefore, in no small part being paid by contributions from active employees. There is no assurance that those funding the current cost of the system can or will receive the benefits associated with their contributions to GERS.

It is easy to disregard the significance of this problem and to compare it to the Social Security problem. However, federal government resources, and the growth of the number of elderly voters ensure that Congress will continue to meet its Social Security obligation. The Social Security discussion cannot be viewed proportionately with Government's failure to address the GERS situation. GERS is a problem for a community of 100,000 people, with limited resources, a narrow based economy, and whose youth can easily relocate to pursue greater economic opportunity and avoid shouldering the financial burdens of earlier generations. The Virgin Islands faces considerable external debt, a systemic budget deficit, and stagnation of economic growth. If this assessment of the situation seems unduly pessimistic stop and consider the employee retroactive payments negotiated in the 1980s that remain unfunded and unpaid.

Task force reports and measures proposed to address liabilities and increase contributions are not prescriptions for addressing the magnitude of the GERS problem. Yes, GERS requires funding, but as important and possibly more so, requires a redesign to make it affordable consistent with a shrinking and aging workforce.

There are examples of ways to address this challenge, which are more affordable and responsive to changing demographics and workforce needs. The solution is neither increasing the employer and employee contributions to the retirement plan nor expanding the plan to include a nominal number of additional workers in an effort to make the existing Defined Benefit plan financially stable. Finding a way forward that is affordable to government and the taxpayer requires re-thinking how to save the Defined Benefit plan, which is increasingly anachronistic. GERS must design a new retirement benefit plan that learns from the experiences of others and adapts these to the Virgin Island reality. That plan must be affordable to both the community and the employee. It must also be responsive to the changing demographics of the government workforce. The political will on the part of the community and the Government is then needed to implement the required changes.