



General Audit Chamber

Algemene Rekenkamer

APRIL 2019



**COMPLIANCE AUDIT:
2017 FINANCIAL STATEMENTS OF THE
GENERAL PENSION FUND ST. MAARTEN**



This document is an English translation of the original Dutch language report entitled: "Rechtmatigheidsonderzoek: Jaarrekening 2017 van het Algemeen Pensioenfonds Sint Maarten". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

April 2019

General Audit Chamber, Juancho Yrausquin Bldv 10, Philipsburg, Sint Maarten

PREFACE

This is the General Audit Chamber's report that presents the results of our audit of the General Pension Fund of St. Maarten's (APS) 2017 Financial Statements.

Although APS' coverage ratio is 103.1% at the end of 2017 (2016: 99.6%), the fund's financial health is not optimal. Its financial capital is still insufficient to cover general and investment risks. In the past, we recommended development of a recovery plan geared towards attaining a coverage ratio of 105%. APS reports that such a plan was prepared in 2019. We will analyze the recovery plan during our audit of the 2018 Financial Statements.

Ronald C. Halman

Chairman of the General Audit Chamber

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SUMMARY

The General Audit Chamber has examined APS' 2017 Financial Statements in accordance with article 26 of the National ordinance General Pension Fund St. Maarten.

With this report, we provide the Minister of Finance and Parliament with information regarding the reliability of the 2017 Financial Statements, as well as the legal compliance of APS. Our report is public, which allows the Fund's participants to also take note of the results of our investigation.

Although the coverage ratio at the end of 2017 is 103.1% (2016: 99.6%), the Fund's financial health is not optimal. Its financial capital is insufficient to cover general and investment risks.

It is our opinion that APS' 2017 Financial Statements provide a true and fair representation of the Fund's financial position as of December 31, 2017, as well as its 2017 financial result, with the exception of the following qualifications:

1. No agreement has been reached regarding the size of the claim of ANG 12.7 million (2016: ANG 12.8 million) with the General Pension Fund of Curaçao (APC). There is uncertainty regarding the existence and valuation of the claim;
2. There is uncertainty regarding the valuation of the claim in the amount of ANG 23.7 million (2016: 24.3 million) against the Government of St. Maarten and other participating organizations;
3. Settlement of the remaining claim based on the debt payment agreement has not occurred. There is uncertainty about the timing of the settlement of the claim against the Government for an amount of ANG 20.2 million (2016: ANG 20.2 million). This concerns *when* the claim will be settled, not the value of the claim.

According to APS, a recovery plan and a draft policy regarding the method of rounding off the actuarial rate have been drafted. In addition, research is ongoing regarding the applicability of the mortality principles.

We established that APS, with the exception of a single provision, is legally compliant. The one item concerns establishment by the board of the investment policy. It did not happen during fiscal year 2017. APS indicates that this was an omission.

RECOMMENDATIONS

According to APS, a recovery plan to ensure a healthy coverage ratio of 105% was drafted in 2019, and progress was made for implementing the recommendations presented in the audit report of APS' 2016 Financial Statements. Specifically, the establishment of a draft policy regarding the methodology for rounding off the actuarial rate, as well research regarding the suitability of mortality rates. We recommend completing both activities in 2019.

1 OUR AUDIT

1.1 Basis for the audit

APS is subject to audit by the General Audit Chamber based on article 26 of the National ordinance General Pension Fund St. Maarten (APS). In accordance with article 18, paragraph 10 of this ordinance, we present the audited financial statements to Parliament and the Minister of Finance along with our comments. This report presents the results of our investigation into APS' 2017 Financial Statements.

1.2 The objectives and audit questions

The objective of this audit is twofold. Firstly, we seek to inform Parliament and the Minister of Finance of our opinion regarding the reliability of the financial statements, and report on legal compliance.

Secondly, we advise Parliament, the Minister of Finance and APS about areas where we recommend improvement.

We formulated the following audit questions:

1. Do APS' 2017 Financial Statements provide a true and fair representation of the Fund's financial position as of December 31, 2017, as well as the financial result for fiscal year 2017?
2. Did APS comply with the National ordinance General Pension Fund St. Maarten and related regulations and guidelines in 2017?

1.3 Audit methodology

APS' 2017 Financial Statements were audited by an external accountant. To avoid duplication of activities, we determined, on the basis of efficiency, the extent to which we could use the external accountants' work and results. As such, we analyzed the external accountant's audit files, and we spoke to the auditor. In addition, we conducted our own review of the 2017 Financial Statements, such as:

- a quantitative analysis of the financial statements;
- assessment of documentation requested from, and provided by, APS; as well as
- conducting interviews.

Aspects relating to actuarial assumption in determining the pension obligation provision (hereafter: *VPV – voorziening pensioenverplichtingen*) were reviewed by an external actuary.

1.4 Reading guide

The following topics, in order of presentation, are discussed in this report: the outcomes regarding the financial position and APS' financial result (Chapter 2), findings regarding APS' legal compliance (Chapter 3). We conclude with our epilogue (Chapter 4), which contains an appendix from APS regarding the status of implementation of our recommendations.

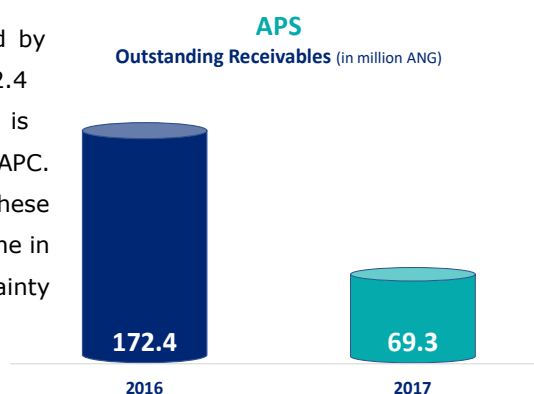
2 THE FINANCIAL STATEMENTS

In this chapter, we describe the results of our investigation of the 2017 Financial Statements. We conclude by providing our answer regarding the first audit question:

"Do APS' 2017 Financial Statements provide a true and fair representation of the Fund's financial position as of December 31, 2017, as well as the financial result for fiscal year 2017?"

2.1 Claims

The total outstanding receivables decreased by ANG 103.1 million in 2017, from ANG 172.4 million to ANG 69.3 million.¹ The reduction is caused by payments from Government and APC. Uncertainty remains regarding if and when these claims will be settled, despite the sharp decline in outstanding receivables. The uncertainty concerns:



1. Uncertainty regarding the existence and valuation of the claim against the General Pension Fund Curaçao of ANG 12.7 million (2016: ANG 12,8 million);
2. Uncertainty about the valuation of claims totaling ANG 23.7 million (2016: ANG 24.3 million) against the Government of St. Maarten and other participation organizations;²
3. Uncertainty regarding the timing of the settlement of the claim against the Government of St. Maarten (remainder debt settlement) of ANG 20.2 million (2016: ANG 20.2 million). This concerns when the claim will be settled, not the value of the claim.³

The outstanding items are "old" claims (from 2016 and before). Because the value of money decreases each year (inflation), the value of the old claims decreases as well.

2.2 Pension obligation provision

On October 31, 2018, APS' actuary issued an opinion regarding fiscal year 2017. His opinion regarding the pension obligation provision states:

"The pension obligation provision is, considered in its entirety, adequately defined in accordance with the prescribed calculation rules and principles."

The VPV is the amount that a pension fund must have at its disposal in order to fully meet pension obligations to the participants. At the end of 2017, APS' VPV totaled ANG 653,6 million (2016: ANG 623,8 million). The VPV is calculated based on data of registered participant's and future predictions, also referred to as actuarial assumptions. It is essential

¹ Balance sheet items: Other non-current assets, Accounts receivable, Other receivable and Accrued interest receivable.

² Grant Thorton, Independent Auditor's Report Financial statements 2017 APS, October 31st, 2018: *For the settlement of the remaining overdue and unpaid balance amounting to ANG 23.7 million no agreement has been reached yet. Therefore, in absence of further information, we have not been able to obtain sufficient and reliable audit evidence with respect to the valuation of the related receivables.*

³ Idem: *The accounts receivable comprise [sic] an amount of ANG 44.1 million which are currently overdue and unpaid. For an amount of ANG 20.2 million a debt payment agreement with the Government of St. Maarten has been signed. We were not able to obtain sufficient and reliable audit evidence with respect to the expected settlement date.*

for the calculation of the VPV that the participant administration is accurate and complete, as well as prudent actuarial assumptions.

2.2.1 Accuracy and comprehensiveness of the participant administration

APS' external accountant stated, based on their audit of the basic data⁴, that the information in the participant administration is accurate, complete and consistent with support documents in the participant files, with one exception. APS' actuary carried out supplemental work on the basic data to be able to include the information in his opinion regarding the comprehensiveness of the VPV.

In our reports of previous financial statements, we asked that attention be given to the quality of the participant administration due to the many retroactive changes.

APS indicated that the reason for the retroactive changes are due to participating employers who either do not provide required documentation or do so late and also make late payments.⁵ Furthermore, APS reported that access to the participant administration is secured better (employees only have access to data related to their job function), and the Fund is busy setting up a risk management procedure whereby processes will be internally evaluated.

2.2.2 Prudence of actuarial assumptions

The actuarial assumptions used by APS for calculating the VPV are specified in the 2017 Financial Statements. Two of the fundamental assumptions that are important for determining the level of the VPV are the actuarial rate and the mortality principles.

Actuarial rate

The actuarial rate is the value used to calculate the amount of money a pension fund currently needs in order to fully pay future pensions of participants. In general, the actuarial rate is based on the expected risk-free yield. It is important that this estimate is not overly optimistic. After all, consistently applying a rate that is excessive will result in a VPV that is too low, which could lead to inadequate reserves of money to pay the future pension of participants.

The actuarial rate used for fiscal year 2017, is 3.75%. APS states that it has adopted a draft policy regarding the methodology for rounding off the actuarial rate.⁶ In our audit report on the 2016 Financial Statements, we recommended establishing such a policy. According to APS, this policy will be completed for the 2018 Financial Statements (November 1, 2019).⁷ In our opinion, such a policy contributes to a consistent way of rounding of actuarial rates. We will monitor the progress.

⁴ Participant's date of birth, former participant, eligible participant (retiree), partner of eligible participant, latent orphan; gender, date of marriage/divorce, date of death, start date of participant, date of retirement, income data (including salary; percentage part-time, rate of disability, income limits).

⁵ Letter from the General director dated February 27, 2019, in response to the Memorandum of findings, reference 2019-02/APS-035.

⁶ Idem.

⁷ Idem.

Mortality principles

To calculate the VPV at the end of 2017, APS again used the adjusted GBM/V 2000-2005 mortality tables. We reiterate our recommendation from the audit report of the 2016 Financial Statements, to review whether the mortality principles remain suitable for APS given that lower future risks of mortality can lead unduly low VPV-calculations.

APS reports that research on mortality principles is ongoing and will be complete prior to work related to the 2018 financials.⁸

2.3 Coverage ratio

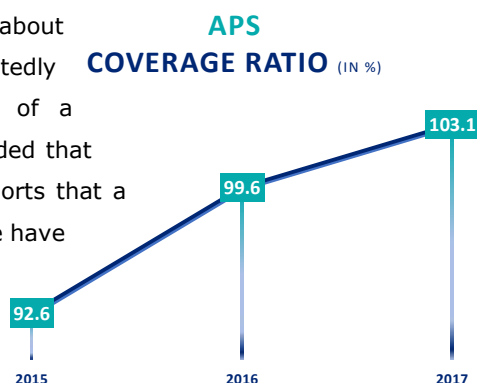
A coverage ratio of 100% represents that the Fund is able to just meet future pension obligations. However, with a coverage ratio of 100%, the pension fund is unable to withstand general and financial risks. To overcome this problem, a minimum coverage ratio of 105% can be used. APS' policy is based on a minimum coverage ratio of 105%.

APS' coverage ratio at the end of 2017 is 103.1% (2016: 99.6%). The increase of 3.5% in the coverage ratio is partially based on a 2% investment result.

We note that the assumption made in determining the coverage ratio, is that the assets are correct, complete and at fair value. We stated in section 2.1. that there is uncertainty regarding the valuation of claims totaling ANG 36.4 million (see items 1 and 2 of section 2.1).

Despite being above minimum 100% level in 2017, the available assets are insufficient to cover general and investment risks.⁹

In previous reports, we expressed our concern about APS' suboptimal coverage ratio, and we repeatedly recommended preparation and implementation of a recovery plan. In 2017, APS' actuary recommended that the Fund draft a recovery plan as well.¹⁰ APS reports that a recovery plan has since been drafted.¹¹ Though we have not been able to familiarize ourselves with the recovery plan during the audit, we are hopeful that it will lead to the achievement of the 105% coverage ratio.



In our opinion, measures to achieve a 105% coverage ratio, should not primarily fall to government, participants or the general population.

2.4 Financial result for 2017

The 2017 Financial Statements record a positive result of ANG 22.5 million (2016: ANG 41.8 million). The decline in 2017 is primarily due to:

⁸ Letter from the General director dated February 27, 2019, in response to the Memorandum of findings, reference 2019-02/APS-035.

⁹ Actuarial report for fiscal year 2017, WTW, October 31, 2018, Financial position.

¹⁰ Certification report, WTW, October 31, 2018.

¹¹ Letter from the General director dated February 27, 2019, in response to the Memorandum of findings, reference 2019-02/APS-035.

Adverse impacts:

- a. APS realized a one-time catchup-effect of ANG 24.9 million from invoicing the legally required 25% premium (regarding the period 2010-2015). A premium of 22% was invoiced in previous years;
- b. Higher contribution to the VPV of ANG 8.2 million;

Beneficial impact:

- c. Higher investment returns of ANG 11.3 million.

2.5 Opinion regarding the 2017 Financial Statements

Based on our audit, we are of the opinion that APS' 2017 Financial Statements, with the exception of the possible effects described below, provide a fair and true representation of the size and composition of the assets as of December 31, 2017, and the financial result for fiscal year 2017.

The exceptions and possible effects thereof are:

1. Lack of agreement with the General Pension Fund of Curaçao regarding the claim totaling ANG 12.7 million (2016: ANG 12.8 million). There is uncertainty regarding the existence and valuation of the claim;
2. There is uncertainty regarding the valuation of the claim against the Government of St. Maarten and other participating organization in the amount of ANG 23.7 million (2016: ANG 24.3 million);
3. Settlement of the remainder of the claim based on the debt payment agreement is still pending. There is uncertainty regarding the timing of the settlement against the Government of St. Maarten for an amount of ANG 20.2 million (2016: ANG 20.2 million). This concerns when the claim will be settled, not the value of the claim.

3 COMPLIANCE

In carrying out its task, APS must comply with applicable laws and internal and external regulations.

The following question is answered in this chapter:

“Did APS comply with the National ordinance General Pension Fund St. Maarten and related regulations and guidelines in 2017?”

3.1 Legislation

In 2017, APS complied with all legal requirements of the National ordinance General Pension Fund, with one exception. The omission concerns article 15, first paragraph, which stipulates that the board, having heard the investment committee, must establish an annual investment plan containing a general outline of the investment policy. The board failed to establish an investment plan for 2017.¹²

3.2 Opinion regarding compliance

Based on the above, we are of the opinion that APS, with the exception of article 15, first paragraph of the National ordinance General Pension Fund St. Maarten, is compliant for fiscal year 2017.

¹²As part of the consultative process, APS' Board responds that the investment plan for fiscal year 2017, was erroneously not signed due to clerical omission, and that they will make the necessary administrative correction.

4 OUR EPILOGUE

APS' Board reacted to the draft report on March 27th, 2019. In that reaction, the Board indicates placing great importance for completing and/or implementing the various recommendations that we issued in the past. As part of the reaction, APS' Board, included an addendum listing the status of these recommendations. The listing is provided as part of this report (appendix 1). The recovery plan referred to in the listing is not part of the appendix.

We consider the fact that APS takes our recommendation to heart as a positive development and we will continue to review APS' progress during our audit of the 2018 Financial Statements.

Finally, we thank APS' Board and management of APS for their cooperation during the audit.

APPENDIX 1: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

Below is the translated appendix of the status of recommendations from the General Audit Chamber as presented by APS.

#	Recommendation	Status	Time for completion
1	Drafting recovery plan	A recovery plan was drafted by Willis Towers Watson (WTW). See addendum 1	Completed
2	Claims against Government and APC	<p>Claims against Government APS continues to communicate with the Minister of Finance. The expectation is that within a reasonable period of time, APS will prepare a proposal for a new settlement agreement for presentation to the Minister of Finance.</p> <p>Claim against APC APC completed their analysis and presented the related files to APS. Those files are being reviewed by APS.</p>	Continuous process
3	Review participant administration	<p>To increase the accuracy of the participant administration, the following activities have been, and continue to be carried out:</p> <ol style="list-style-type: none"> 1. The participant administration has been checked for differences and errors by Keylane (vendor of the pension management system). The resulting changes have been included in the database. 2. To improve the reliability and completeness of the pension administration, employers will be requested print the pension premium files from the payroll system for verification. In addition, the employer must sign this printout. A formal letter regarding this matter will be sent to all employers. The letter will be sent in April 2019. <p>Moreover, APS is researching the possibility of conducting periodic voluntary sample checks by employers.</p>	End of Q2 2019
4	AO process, technical system separation of functions, risk management, KPI's and IRM.	<p>AO process The AO-descriptions will be modified. This is a continuous process. In addition, various processes will be expanded in terms risk management. This process is in an advanced stage for a number of departments.</p> <p>Technical system separation of functions Risk management The technical system separation of functions has been implemented in the pension management system MAIA.</p> <p>KPI's and IRM The departments produce monthly reports with Key Performance Indications (KPI's). These are used for reporting. An integral Risk Management (IRM) reports is published every quarter. This is a continuous process.</p>	<p>Q4 2019</p> <p>Completed</p> <p>Completed</p>
5	Additional statement regarding rounding up actuarial rates	The statement will, according to our internal schedule, be discussed within short with our accountant and actuary.	End Q2 2019
6	Including method of rounding up actuarial rates in actuarial rate policy	The policy has been amended and will be internally discussed. The Board will have ultimate approval.	End Q2 2019
7	Review mortality tables	The analysis/assignment has been provided and completed.	Completed
8	Completion of risk management	The first IRM report was published in Q4. The IRM report discussed by both Board and Management. Since January 2019, monthly reports are produced including defined risks and KPI's, as input for the quarterly IRM reports.	
9	Completion Board regulation	APS sent the Board regulation to the Minister of Finance and is awaiting his reaction.	Completed



General Audit Chamber

Algemene Rekenkamer