COMPLIANCE AUDIT:

APS' 2021 FINANCIAL STATEMENTS

General Audit Chamber
Algemene Rekenkamer

October 2022

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This document is the English translation of the original Dutch report entitled: "*Rechtmatigheidsonderzoek: Jaarrekening 2021 van het Algemeen Pensioenfonds Sint Maarten*". In the event of textual contradictions or any other differences, the original Dutch text prevails.

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PREFACE

We present the report of the General Audit Chamber, setting out the results of the review of the 2021 Financial Statements of the General Pension Fund Sint Maarten (APS).

APS' coverage ratio improved from 101.9% to 104.1% compared to 2020. This is a positive development. Most of the improvement is attributable to the performance of international investments. We also noted an incidental positive effect of 0.9% due to a correction to participants incorrectly recorded as "active."

Conversely, the APS reduced the actuarial interest rate by 0.25%, from 3.5% to 3.25%. As a rule, a lowering of 0.25 percentage points translates into a reduction in the coverage ratio of about 4.5 percentage points.

As part of our report on the 2020 APS Financial Statements, we revealed the results from the Asset Liability Management study (ALM). The ALM study provides insight into the fund's future developments. Its predictions are clear: notwithstanding the pension reform in 2020 intended to achieve a structurally sound and robust fund; it is likely that tough financial decisions will be required, which will further affect participants.

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SUMMARY

APS's coverage ratio at the end of 2021 is 104.13% (2020: 101.93%). This means that the liabilities are covered. However, there are insufficient assets to cover the general and investment risks.

We believe that, except for the limitation regarding the uncertainty of the valuation of receivables up to an amount of NA*f* 14.8 million (2020: NA*f* 21.9 million) from the Government of St. Maarten and specific other participating organizations, APS' 2021 Financial Statements are a true and fair representation of the size and composition of the assets, and the financial result as of December 31, 2021.

Consistent with APS assumptions and based on the consulting actuary's advice, the actuarial interest rate was lowered from 3.5% at the end of 2020 to 3.25% in 2021. Consequently, the coverage ratio declined by 4.7 percentage points.

This report provides the status of local investments. Since the purchase of Mary's Fancy in 2014, developing an eco-hotel has been an investment goal. The fund reviewed the project timeline in 2022 because of the project's dependency on finding a suitable operator and receipt of the necessary permits. The APS intends to construct a multi-level parking facility with commercial uses on the ground floor near the government building. The project has been delayed since 2019 because the focus has been placed on the development of Mary's Fancy and Oryx Hills, according to the 2021 Financial Statements.

A total of 62 homes are included in the Oryx Hills project. In the first quarter of 2021, 45 homes were occupied, and only two units were left unoccupied. The original intent was to build affordable housing with 100% financing. For various reasons, APS transitioned to rental and lease-to-own arrangements. From the 2021 Financial Statements, it is unclear how the business case change will affect the profit forecast.

As of May 2016, APS entered into a financing agreement with Rainforest Adventures (RFA). In its Financial Statements for 2021, APS reports that while the collateral's appraised value (market value) is higher than the loan's carrying value, an amount of NA*f* 2.4 million has been recognized as impaired by the Fund due to RFA's non-performance.

On April 28, 2020, the SXM Investment Agency (SMIA) was established as a private limited liability company (BV) and a subsidiary of the APS. The loan of 1.3 million granted in 2020 has been classified as fully impaired in the 2021 Financial Statements. However, APS is considering completely restructuring the SMIA investment.

Considering the declining actuarial interest rate and APS's limited influence on international investment results, the coverage ratio will be under pressure in the years ahead. This implies that the amount of pension received in the future will be increasingly uncertain for active and former participants. The liquidity support provided by the Netherlands includes a provision in the Country Package (Section E.5) that stipulates that the retirement age will be raised to 66 by 2025 unless independent research determines that raising the retirement age to 66 by 2025 is unrealistic and alternative proposals with the same budgetary impact are available.

We reiterate that before implementing this, stakeholders conduct proper research into the (social) consequences of this, also considering certain 'strenuous' occupations which may benefit from earlier pension eligibility.

RECOMMENDATIONS

As a result of our findings, we recommend the following:

- Conduct research to align the investment policy with the strategic investment policy or verify whether the current strategic policy is realistic*;

- Pursue ALM study's recommendations. If APS determines there are valid reasons to deviate from the recommendations, perform further analysis to reorient, if necessary, the execution of the recommendations;

- In 2022, review the rate of the surcharge for future administration costs and establish a policy for regularly reviewing the principles;

- Correct the errors that emerged during the implementation of the new administration system*;

- Investigate which measures can be taken to achieve the desired coverage ratio within the proposed recovery time limit;

- Simplify the international investment portfolio based on the results of the ALM study*.

**In a reaction, APS indicated that the recommendation was addressed as of 2022. Since this report is a review of APS' 2021 Financial Statements, we will verify the progress in a subsequent audit.*

1 OUR AUDIT

1.1 The basis for the audit

We audit the APS based on Article 26 of the National Ordinance General Pension Fund Sint Maarten (hereafter referred to as Lv APS). Each year, we submit the financial statements we have audited together with our observations to the Parliament and the Minister of Finance as required by Article 18, tenth paragraph of the Lv APS. This report contains the results following our APS 2021 Financial Statements review.

1.2 The objective and audit questions

Our objective for this review is twofold. We advise Parliament and the Minister of Finance of our opinion concerning the reliability of the financial statements and legal compliance. Additionally, we advise Parliament, the Minister of Finance, and the APS about areas for potential improvement.

We formulated the following audit questions.:

1. Do the APS's 2021 Financial Statements provide a true and fair representation of the financial position as of December 31, 2021, and the results for 2021?
2. Did the APS operate in compliance with the National Ordinance on APS in 2021?

1.3 Methodology

Based on our review, we concluded that relying on the results of work performed by APS's external auditor, who has audited the 2021 Financial Statements, is acceptable. Furthermore, we collected audit information. We formed our opinion on the 2021 Financial Statements accordingly.

1.4 Reading Guide

The report discusses, successively:

Chapter 2: results on APS' financial position and performance, including an analysis of local investments;

Chapter 3: findings of our investigation into APS' legal and regulatory compliance;

Chapter 4: the possible impact on the participant in the coming years, based on the ALM study;

Chapter 5: APS Board's reaction and our epilogue.

2 THE FINANCIAL STATEMENTS

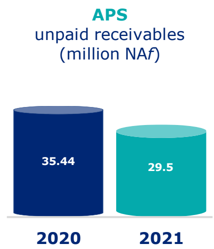
Here, we present our findings and express our opinion on the audit question, "Do the APS 2021 Financial Statements accurately reflect the financial position as of December 31, 2021, and the results for 2021?

2.1 Receivables

The total outstanding receivables decreased by NA*f* 6 million in 2021, from NA*f* 35.4 million to NA*f* 29.5 million.[1] There is uncertainty about some of the unpaid receivables concerning whether and when they will be settled. The uncertainty involved is as follows:

No arrangement to settle the outstanding claims against the National Government and some other participating organizations up to an amount of NA*f* 14.8 million (2020: NA*f* 21.9 million) has been reached.

Figure 1: Unpaid receivables



2.2 Pension Provision

APS's actuary issued an actuarial opinion for the fiscal year 2021 on June 30, 2022. His opinion on the VPV is as follows:[2]

"In accordance with the described calculation methods and assumptions, the provision for pension liabilities, when considered as a whole, is sufficient."

At the close of 2021, the APS' VPV is NA*f* 841.7 million (2020: NA*f* 790.3 million). Total pension assets amount to NA*f* 876.5 million (2020: NA*f* *805*.3 million).[3] The coverage ratio can subsequently be calculated by applying the following formula:

$$\frac{\textbf{Pension Assets } (\textbf{NA}\boldsymbol{f}\ \textbf{876.503.000}^{4})}{\textbf{VPV } (\textbf{NA}\boldsymbol{f}\ \textbf{841.746.000})} * 100 = \textbf{Coverage ratio } (\textbf{104}, \textbf{1\%})$$

2.2.1 *Accuracy and comprehensiveness of participant records*

Consistent with previous years, the auditor included a qualification in his report on the 2021 statement of basic data.[5] The APS prepared a premium analysis. According to the auditor, the premium analysis revealed that 40 participants had an ''Active'' status, but no premium was collected. In the case of 18 participants, it has since been determined that, mistakenly, no premium was received. Further information is currently lacking for the remaining group of 22 participants, which would allow us to conclude whether they should have the status of 'Active' or 'Dormant'.

According to the actuary, this analysis shows that the provision was established prudently.[6] APS's external auditor declared[7] that the statement of basic information used by the certifying actuary as of December 31, 2021, has been prepared in all material aspects consistent with the applicable criteria, except for the limitation noted above.[8]

2.2.2 Actuarial Interest

APS promises a pension benefit to its members. How does the APS know how much is needed today to pay all pensions in twenty, thirty, or forty years? For this purpose, the APS uses the actuarial interest rate.

Example:

Suppose you promise someone to pay NAf 100 in ten years. You could deposit NAf 100 in a vault now. Alternatively, you can deposit money in a savings account. In that case, you would receive interest from the bank every year. This means you would not have to deposit NAf 100 today but rather a smaller amount. Assume, for example, that the interest rate is 1%, then you would only need to deposit NAf 90.53 in your account. The higher the interest rate, the less you must deposit on your account right now. Assuming the interest rate is 2%, you only need NAf 82.05 now.

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[1] Balance Sheet items: Accounts receivable, Other non-current assets, Accrued interest receivable and Other receivables.
[2] Certifying Report Willis Towers Watson Fiscal Year 2021, Actuarial Statement, opinion on page 9.
[3] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position.
[4] According to page 19 of the 2021 Financial Statements, the assets amount to NA*f* 876,783,000. According to the actuary's certifying report (page 8), the assets are NA*f* 876,503,000. This represents a difference of NA*f* 208,000. In calculating the VPV, we used the value from the actuary's certifying report.
[5] "Source: Grant Thornton, Assurance report from the independent auditor. Dated June 29, 2022, Substantiating the qualified opinion in the declaration of basic data of insured persons and other beneficiaries."
[6] Certifying Report Willis Towers Watson Fiscal Year 2021, Summary, comments and recommendations, page 6.
[7] Participant DOB, former participant, pensioner, pensioner's partner, a latent orphan, gender, date of marriage/divorce, date of death, starting date of participant, pension date, income data (a.o. salary; part-time percentage, disability level income limits).
[8] Assurance report on the basic data. Grant Thornton a.o. June 29, 2022.

As in the example above, the APS's obligations work similarly. Here they look at the interest rate to determine how much money is needed today to pay out the promised pension later. This is known as the actuarial interest rate. As in the example, the higher the actuarial interest rate, the less money the APS must now have on hand to be able to pay out all pensions later. In contrast, the lower the actuarial interest rate, the more money they must maintain on hand now.

Consistent with APS' assumptions and based on advice from the consulting actuary, the actuarial rate has been reduced from 3.5% at the end of 2020 to 3.25%.[9] This caused the coverage ratio to shrink by 4.7%.[10] We share the opinion of the external actuary that active monitoring must ensure that the actuarial interest rate used is sufficiently prudent in the future.[11] According to APS, the actuarial interest rate is subject to annual review by the actuary as per APS policy. "The policy involves a graduated reduction of 0.25% basis points in the actuarial interest rate. Consequently, in 2021 the actuarial interest rate was reduced from 3.5% to 3.25%. The expectation is that the actuarial interest rate will not be further reduced for 2022."[12]

The actuary alerts the APS to the consequences of a further reduction in the actuarial interest rate going forward. The premium is expected to stop covering costs when considering the solvency surcharge. The actuary recommends performing research into the level of the solvency surcharge.[13] The APS has since explored this and expects to decide in the third quarter of 2022.[14]

The change in the actuarial interest rate resulted in an expenditure of NA*f* 36.4 million (a decrease in the coverage ratio of 4.7 percentage points).

2.2.3 *Surcharge for future implementation costs*

The provision for pension liabilities includes a 3% surcharge against future administration costs. That provision is designed to meet future costs required to settle the accrued obligations if no further contribution income is received. The external actuary recommends that the surcharge be reviewed in 2022 and to incorporate a regular review of the assumptions.[15] We support the external actuary's recommendation.

2.2.4 *Pension Administration System*

In 2020, the fund transitioned to a new pension administration system that incorporated the new assumptions. Furthermore, the actuary identified errors in the setup of the administration system, requiring manual adjustment of the accuracy of the change in the provision. The actuary strongly recommends that the fund rectify the errors. We support this advice.[16]

2.3 Coverage Ratio

APS policy assumes a minimum coverage ratio of 105% but aspires to a coverage ratio of 115%.

By the end of 2021, APS' coverage ratio stood at 104.1% (2020: 101.9%). Figure 2 depicts the progression of the coverage ratio.

The coverage ratio at the end of 2021 improved by 2.2 percentage points compared to the previous year. This was partly due to the return on investments and inflation, which positively affected the coverage ratio. A reduction in the actuarial interest rate from 3.5% to 3.25% caused the funding ratio to decline by 4.7 percentage points.[17]

Figure 2: Progression of the APS Coverage Ratio

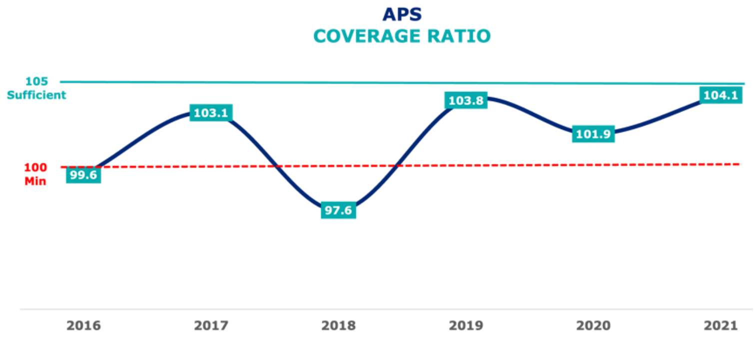
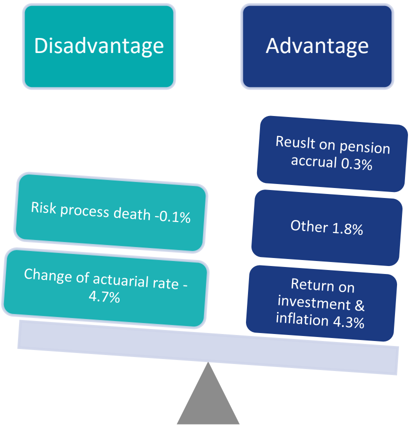


Figure 3 highlights the main reasons for the increase in the coverage ratio.

[9] Actuarial Advisory Report Willis Towers Watson Fiscal Year 2021, Discount Rate, page 11.
[10] Certifying Report Willis Towers Watson Fiscal Year 2021, page 6, Summary, comments, and recommendations.
[11] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position, page 14.
[12] APS management reaction dated September 27, 2022, to the Memorandum of Findings.
[13] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position, page 16.
[14] Letter from APS dated August 31, 2022.
[15] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position, Future implementation costs, page 14.
[16] APS' management reaction dated Sept. 27, 2022, to the Memorandum of Findings asserts that as of 2022, the identified errors have since been corrected.
[17] In the APS' reaction dated September 27, 2022, to the Memorandum of Findings, management observes that there is no expectation that the actuarial interest rate will require further reduction in 2022.

Figure 3: details of the increase in the coverage ratio



A coverage ratio of 104.1% shows that by the end of 2021, the pension obligations were covered by the available assets. However, the assets were insufficient to cover general and investment risks adequately. Consequently, as of 2021, APS had a funding shortfall. [18]

Recovery plan

In 2018, the coverage ratio resulted in the APS preparing a short-term Recovery Plan. It was updated at the end of 2021.[19] Under the plan, the fund will reach the desired minimum coverage ratio of 105% by the end of 2023. However, if the interest rate continues to be reduced as expected, this desired coverage ratio may not be achieved.[20]

We concur with the actuary's recommendation to investigate possible steps to achieve the desired coverage ratio within the planned recovery period.

2.4 2021 Result

The 2021 Financial Statements reveal a positive result of NA*f* 19.8 million (2020: NA*f* 12.2 million loss).[21] Improvement was attributable primarily to investment results, pension accruals, and other items. The increase in the Provision for pension obligations (VPV) represented a higher expense.

Premium income

In 2021, premium income exceeded total actuarial costs by NA*f* 4.0 million (in 2020: the premium income was NA*f* 2.0 lower than the total actuarial costs).[22] This produced an increase in the coverage ratio of 0.3 percentage points.

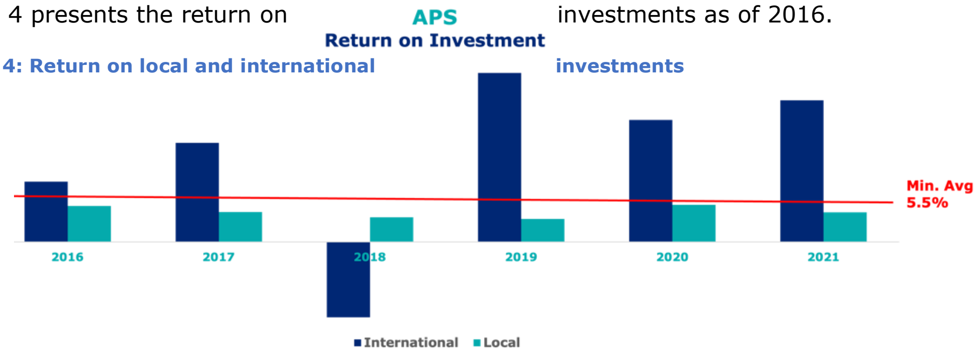
The adjustment of the actuarial interest rate produced an expense of NAf 36.4 million (a decrease in the coverage ratio of 4.7 percentage points). However, the positive return on investments and inflation of NAf 35.7 million boosted the coverage ratio by 4.3 percentage points.[23]

2.5 Return on Investment

There was a positive yield on all investments in 2021.[24] The international portfolio's return is higher[25] than the previous year, and the return on local investments is lower.[26] The total return is 7.26% (2020: 7.03%) and exceeds the investment target of 5.5%. A positive return on investments and inflation of NA*f* 35.7 million helped to boost the coverage ratio by 4.3%.[27]

Figure 4 presents the return on investments as of 2016.

Figure 4: Return on local and international investments



[18] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position, Contingency and solvency, page 11.
[19] The Recovery Plan was issued in 2018 (and later updated). It does not constitute a recovery plan as defined in the National Ordinance on Pension Reform for Public Servants (PB 2020, no.34).
[20] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position, Recovery Plan, page 12.
[21] Paragraph 3.2 of the 2021 APS Financial Statements.
[22] Certifying Report Willis Towers Watson Fiscal Year 2021, Key Figures, page 8 and financial position, page 15 and 16.
[23] Certifying Report Willis Towers Watson Fiscal Year 2021, Financial Position page 9 and 15.
[24] 2021 Financial Statements, *Financial highlights*, page 17.
[25] The ROI internationally was 16.91% in 2021 and 14.56% in 2020.
[26] The ROI on local investment in 2021 is 3,54% and in 2020 it was 4,46%.
[27] Certification Report Towers Willis Watson, Financial Position, page 9 and 15.

2.6 Local investments

Our report on the APS's 2019 Financial Statements summarizes the status (then) of the evolution of local investments. In 2022, we now present an update.

2.6.1 Mary's Fancy

Since its acquisition in 2014, the investment objective has been the development of an eco-hotel. In 2019, APS received the necessary permits for the estate's demolition and (re)construction. Construction was scheduled to start in the fourth quarter of 2020.[28] The expected completion time is 15 months.

APS indicates in the 2020 Financial Statements that on January 18, 2021, the fund applied for a building permit. The proposed timeline for construction would be from Q4 2021 to Q3 2022, contingent upon receipt of the necessary permits. The 2021 Financial Statements indicate that the search for a suitable contractor began in 2021. The fund reviewed the timeline in 2022 since APS relies on finding a suitable operator and receiving the necessary permits.[29]

2.6.2 Parking lot

APS intends to construct a multi-level parking facility with commercial use at ground level near the government building. In September 2016, APS received this parcel of property as part of the debt settlement agreement with the government. The 2017 and 2018 Financial Statements reveal that the development was slated for the 3rd quarter of 2019. In the 2020 Financial Statements, however, APS indicated that the project had a low priority in the short term (1 year).[30]

In the 2021 Financial Statements, it is noted that since 2019, deferred development due to the focus on the Mary's Fancy and Oryx Hills projects. APS is currently awaiting a response from the government regarding a new proposed 'debt payment agreement.'

2.6.3 Professional Office Park

In December 2016, APS purchased the "Professional Office Park" property consisting of two commercial properties and a piece of undeveloped land. These properties generate revenue from rent. The parcel of undeveloped land is earmarked, in part, for the construction of the new APS headquarters office. The new office is part of a larger building. This has been planned since 2016. The plan also includes the construction of residential units on the property.[31]

The 2020 Financial Statements report the initiation of the application for a building permit and that construction is scheduled to begin in the first quarter of 2022 with a completion time until the second quarter of 2023. The 2021 Financial Statements specify that construction is expected to begin in the third quarter of 2022, contingent upon receipt of the necessary building permit and successful completion of the pre-construction phase.[32]

2.6.4 Oryx Hills (Welgelegen)

The Oryx Hills project totals 62 residential units.[33] According to the 2020 Financial Statements, in Q1-2021, 45 homes were occupied, and only two units were vacant.[34] The status of the remaining homes is unclear based on the 2020 Financial Statements. In the 2021 Financial Statements, APS reports that the vast majority of the units are occupied by the end of 2021, 58 units are occupied, and four are vacant.

In 2020, APS decided to offer lease-to-own in addition to purchase. At the end of 2021, 5 units were leased using short-term contracts, and 45 units were leased using "lease-to-own" contracts. The initial business case was to sell affordable housing units for which the APS would offer 100% financing. Due to various reasons, the business case was modified whereby the units were offered (among other things) in

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[28] Reaction from APS from July 21, 2020.
[29] In APS management's reaction to the memorandum of findings dated September 27, 2022, they state that APS is still waiting for the permit.
[30] 2020 Financial Statements from APS, page 12: "*Parking lot Development*".
[31] Response from APS' management, dated July 31, 2020.
[32] In response to the Memorandum of Findings dated September 27, 2022, APS management indicated that construction costs have increased due to the pandemic, inflation, and war in Ukraine. The development will likely be delayed as a result.
[33] APS 2021 Financial Statements, page 12: *"Welgelegen (Oryx Residences)"*.
[34] APS 2020 Financial Statements, page 30: "*Welgelegen (Oryx Residences)*".

the form of lease-to-own, and third-party financing (Banco di Caribe) was made available. A total of 8 mortgages were arranged.[35]

The APS management, in response, indicated that a lack of mortgage-eligible participants drove the decision to introduce the lease purchase and rental options. Absent the change in strategy, the properties would have remained mostly vacant. This would have had a substantial adverse effect on the fund's returns.[36]

It is unclear to us from the 2021 Financial Statements how the change in the business case will affect the profit projections.

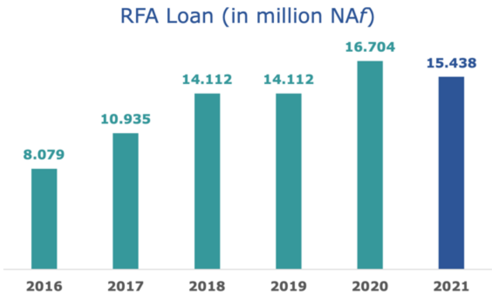
2.7 Local loans

In addition to developing property, the APS has been financing projects. For this report's purpose, we highlight two financing arrangements; the Rainforest Adventures loan (RFA) and St. Maarten Investment Agency Loan (SMIA).

2.7.1 Rainforest Adventures St. Maarten Loan

APS entered into a financing agreement with RFA in May 2016.[37] The first interest payment was made in January 2019. The expected recovery in tourism activity did not materialize, resulting in unsatisfactory business performance to meet the payment obligation. RFA requested a moratorium on payments.

Figure 5: Rainforest Adventures Loan



The lenders accepted the moratorium based on the forecasts provided by RFA. The expected recovery did not pan out in 2019, and the 2020 COVID pandemic negatively impacted RFA's business. In 2019 and 2020, RFA failed to meet the terms of the loan agreement.[38]

However, APS did not incur a write-off in 2020 because the value of RFA's collateral was significantly higher than the loan's carrying (book) value.[39]

APS states in the 2021 Financial Statements that although the appraisal value (market value) of the collateral is higher than the carrying value of the loan, it has recognized an amount of NA*f* 2.4 million as impaired due to the non-performance of RFA.

The financial statements report loans at amortization value using the effective interest method.

2.7.2 St. Maarten Investment Agency Loan

On April 28, 2020, the SXM Investment Agency (SMIA) was established as a private limited liability company (BV) and a subsidiary of the APS. According to the APS 2020 Financial Statements, SMIA is "fully operational," and its main objective is *to recognize and pursue investment opportunities that contribute to the sustainable development of St. Maarten*. SMIA received a loan from APS.

Following further analysis in 2021, APS concluded that the costs incurred during the preparation phase for the establishment of SMIA (2018 - April 28, 2020) should not be part of the loan. These costs were excluded from the SMIA loan in 2021 and included as a fund charge. According to APS, in 2020-2021, due to the deteriorating economic situation (COVID pandemic), SMIA did not generate the expected revenue. Consequently, in 2021, the fund has had to continue to finance SMIA's additional operating costs.[40]

Moreover, APS considers the likelihood of SMIA repaying the original investment very unlikely. Therefore, APS is considering a complete restructuring of the SMIA investment, and the loan has been recorded in the financial statements as a finance charge as of December 31, 2021. This loan has been classified as fully impaired (NA*f* 1.3 million).[41]

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[35] APS 2021 Financial Statements, page 13.
[36] Response of APS management dated September 27, 2022, to the Memorandum of Findings.
[37] Senior Secured Term Loan Facility: financing term 14 years (later extended with 8 months) at the 2016 LIBOR-rate interest rate, plus a margin of 5.25%, with a fixed minimum rate of 6%, 2020 Financial Statement, page 52.
[38] 2020 APS Financial Statements, pages 14-15.
[39] 2020 APS Financial Statements, page 13.
[40] 2021 APS Financial Statements, page 54.
[41] 2021 APS Financial Statements, page 64.

The 2021 Financial Statements do not specify how the NA*f* 1.3 million was used, except that the amount is not considered an investment but an additional expenditure.[42]

2.8 Opinion on the 2021 Financial Statements

Based on our review, we conclude that, except for the possible effect of the matter described below, the APS' 2021 Financial Statements provide a true and fair representation of the size and composition of the assets as of December 31, 2021, and the results for that year.

The possible effect concerns the fact that no settlement has yet been reached for the outstanding claims up to an amount of NA*f* 14.8 million (2019: NA*f* 21.9 million) against the Government of St. Maarten and several participating organizations. There is uncertainty about the valuation of these receivables.

[42] APS management reaction dated September 27, 2022, to the Memorandum of Findings indicates that the total impairment of the SMIA loan in 2021 was included as a business loan expense (NA*f* 1.3 million as part of investment costs).

3. LEGAL COMPLIANCE

This chapter answers the following research question: "Did the APS comply with the National Ordinance APS in 2021?"

3.1 Legislation

In 2021, the APS complied with all the legal requirements of the Lvo APS except article 5, paragraph 1, which states that the Board consists of a chairperson and four members. In fact, at the end of 2021, there were two vacancies.

The board adopted the 2021 investment plan at its August 25, 2022, meeting. Before August 25, 2022, APS did not comply with the National Ordinance.[43] However, in a response, the APS stated that the fund operated in accordance with the 2021 investment plan.[44]

3.2 Opinion on legal compliance

Given the above, we believe that the APS complied with the legal provisions in 2021, except for the items listed above.

[43] APS letter dated August 31, 2022.
[44] APS Board reaction dated October 24, 2022.

4 POSSIBLE CONSEQUENCES AS A RESULT OF THE ALM STUDY

4.1 What are the most important results from the ALM study?

An Asset and Liability Management Study (hereafter: ALM-study) is conducted to provide insight into the relationship between projected investment returns and the associated risks. The study can recommend changes that may improve the coverage ratio. In February 2021, APS completed the ALM study.[45]

The results from the ALM study reveal that:
- APS is at serious risk of lowering participants' pensions in the near future. The main reason for this is the falling actuarial interest rate.
- There is too much liquidity;[46]
- If approval can be secured from the Central Bank of Curacao and St. Maarten, a portion of the cash could be invested internationally;
- The current international investment portfolio is complex and holds investments that are not in line with APS principles;
- Given the current premium contribution of 18%, the 2% pension accrual is unrealistic;
- Increasing the contribution rate to 22% or more will affect APS participants;
- A coverage ratio of 115% is not attainable, with a minimum pension accrual of 1.75%.[47] This may result in a lower pension accrual.

The premium in 2021, due in part to the reduction in the accrual rate from 2% to 1.75%, appeared to be sufficient to cover the accrual of pension obligations for the year, including the other actuarial costs.[48] Based on the ALM study, the board decided to reduce the actuarial interest rate in increments of 0.25%. This methodology is in accordance with APS policy.[49]

4.2 Update as of September 2022

In response, the APS management offers an update on the current situation:[50]

- Based on the latest projections, the actuarial interest rate is not expected to be further reduced in 2022.
- Liquidity declined significantly in Q3 2022 due to the transfer of NA*f* 90 million to the international portfolio after gaining approval from the CBCS in May 2022.
- In July 2022, the Board approved a new Strategic Asset Allocation (SAA) featuring a significantly simplified international portfolio. The fund started the transition to the new SAA and expects to complete it in 2023.
- Pension accrual was reduced to 1.75% in 2021.
- An increase in contribution remains subject to any increase in the total contribution rate.
- The conclusion that a coverage ratio of 115% is not feasible with a minimum pension accrual of 1.75% is retained.

In a response, the APS Board commented that a coverage ratio of 115% will be difficult to achieve as APS is required by Article 30 of the National Ordinance on Pension Reform for Public Servants to increase pensions annually in line with the consumer price index number once the coverage ratio reaches 105%.[51]

4.3 What are potential measures?

In our report entitled Compliance audit: 2020 APS' Financial Statements, we specified the possible measures that could be taken based on the results of the ALM study. Notwithstanding the 2020 pension reform, designed to achieve a structurally sound and robust pension fund, we conclude from the ALM study that several measures will potentially be necessary to improve the fund's financial position systematically.

[45] Asset & Liability Management Study. Ortec Finance dated March 3, 2021.
[46] The percentage of liquid assets of the total invested assets has fallen to 15.6% in 2020. This percentage is still much higher than the strategically targeted 1%. Willis Towers Watson, Fiscal Year 2020 Report, page 7.
[47] Solvency is expressed as a coverage ratio that indicates whether the fund maintains a sufficiently sound financial position.
[48] Management summary of the actuarial advisory report, page 7.
[49] According to the APS management's response dated September 27, 2022, to the Memorandum of Findings.
[50] Response of APS management dated September 27, 2022, to the Memorandum of Findings.
[51] Reaction from the APS Board dated October 24, 2022.

These measures include:
- Increasing the retirement age;
- Increasing the pension premium;
- Lowering pension.

These measures are separate from the legal provisions, namely the non-indexation of the 2% pension and reduction of the pension accrual from 2% to 1.75%.[52]

4.4 How will this affect the participant in the coming years?

Considering the decreasing actuarial interest rate and the limited influence that the APS has on international investment performance, the coverage ratio will remain under pressure in the years ahead. This implies that the amount of pension received in the future is becoming less certain for active and former participants.

As part of the Netherlands' liquidity support, the Country Package (section E.5) includes an agreement to increase the retirement age to 66 in 2025 unless independent research demonstrates that raising the retirement age to 66 years by 2025 is unrealistic and alternative proposals exist that have the same budgetary impact. We would like to reiterate that before implementing this measure, Government should conduct proper research into the (social) consequences of this step, including considering certain " strenuous " professions which may benefit from earlier eligibility for the pension.

[52] Pursuant to Article 28b, paragraph 2, of the Civil Servants Pension Ordinance, every year, no later than November 1, the actuarial expert provides advice to the APS board regarding the accrual rate for the following year.