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TERS Loan Program Could Open to Gov't Employees in October; Senators Call for Interest Rate Cap

Legislative efforts aim to balance flexibility with member protections in loan accessibility

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By October 2024, members of the Government Employees Retirement System may be able to access personal loans up to \$10,000 from the TERS, representing almost a decade of legislative effort to reinstate the popular program.

In 2016, Senator Kenneth Gittens sponsored what ultimately became Act 7880, requiring TERS to revive the suspended loan program. Eight years later and [threats of legal action](#) against TERS, the pension system's board [voted to resume](#) the popular program with an initial capital allocation of \$20 million.

On Tuesday, Senator Milton Potter presented the Senate Committee on Budget, Appropriations and Finance with Bill 35-0196, which seeks to establish a September 30th 2024 deadline for the “resumption of the GERS loan program,” remove the 8 percent interest rate cap on personal loans and “limit the System's liability to \$75,000.”

As the bill’s sponsor explained, “removing the mandatory 8 percent interest rate on the member loan program allows the GERS, like virtually every other institution offering loans, the flexibility to establish interest rates based on real-time data.” He also noted that “the \$75,000 liability cap that the bill proposes simply puts the system in line with all other semi-autonomous and autonomous government instrumentalities.”

Dwane Callwood, senior chairperson of the GERS’ Board of Trustees, shared the retirement system's opinion that the proposed legislation would make key strides towards “protecting the sustainability of the GERS.” He explained that restarting the loan program earlier was “not a prudent thing to do.” Therefore, the amendments under Bill 35-0196 constituted a “clean-up” of the original 2016 legislation. Come April 2024, GERS will begin a limited version of the loan program at the established 8 percent interest rate.

The loan program would first be available to active members of GERS who have made contributions for a minimum of two years. Thereafter, the pension system will “see what we could come up with for the retirees.” Act 7880, though, made no provisions for retirees to access the loan program despite retired individuals being able to take out loans in the past.

Given GERS's history of financial challenges, Senator Marvin Blyden questioned the possible impacts on the loan program during periods of low cash flow. Mr. Callwood, optimistic throughout the committee meeting, noted that the program represented a guaranteed return on the funds that were circulating. “From a longevity perspective, you know, this is a sure source of income,” he assured Mr. Blyden.

Meanwhile, Senator Novelle Francis questioned the GERS’s team on the “criteria by which the board would make a determination on what that percentage interest rate should be.” Mr. Callwood explained that they would rely on precedence from “private institutions for comparable loans,” all while remaining competitive.

For Senator Samuel Carrion, his concerns rested on the fact that the amendment to the 8 percent interest rate cap “gives all the authority and the power to the board to increase the interest rate.” Citing the original intent that the program be established with a “low-interest-rate,” he told Mr. Callwood that he still had reservations about the elimination of the interest cap. Meanwhile, Senator Ray Fonseca, who agreed with the bill’s other considerations appealed to the GERS team to “hear what we're saying and try to keep the loan interest rates low.”

While Mr. Callwood shared that the GERS is currently “comfortable” with the 8 percent interest rate and is indeed currently applying it, the pension system is also wary of future changes in the financial world and finding themselves in a “situation where the 8% is no longer competitive... We want to have the flexibility to be able to set the interest rate.” The GERS, prior to Act 7880, did have the authority to adjust interest rates.

Nonetheless, committee chair Senator Donna Frett-Gregory cautioned the GERS about competing with local banks. “That is not something that we should be doing with our retirement system. We should make the loans available, but they must be available within a reasonable percentage,” she maintained. “We need to have language in there that specifically protects both the retirement system, as well as the members,” said the Finance Committee chair who stressed the need for

clear intent.

With confirmation coming from Mr. Potter that he would further clarify the language of the draft bill, particularly that concerning interest rates, lawmakers unanimously voted in favor of the measure's ascension to the Committee on Rules & Judiciary.

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