The Virgin Islands Consortium

Facing Insolvency, GERS Requests Gov't Assistance Of $600 Million And Changes To Pension Plan

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ST. THOMAS -- The Government Employees' Retirement System (GERS) must see an infusion of cash of $600 million if it is to remain solvent, officials testifying at a Wednesday Committee of the Whole hearing at the Earl B. Ottley Legislative Hall here told senators. It also needs contributors' monthly payments to be higher as part of a plan to save the system.

To survive at its current rate, the system would need a 15 percent rate of return every year "for the foreseeable future to just maintain its current status," said Leandro Festino, managing principal of Meketa Investment Group. An amount that is impossible to achieve at a time when wages in the territory remain stagnant with an economy that is struggling to come out of recession.

The system's current problems were longtime in the making, too, and were only exacerbated during the 2008 recession and HOVENSA's closure in 2012, coupled with government contraction over the years.

And the $600 million that GERS is requesting, to be paid fully by the Government of the Virgin Islands, would only push the problem down the road some 30 years, but at least it buys the system more time to allow new contributors' benefits to kick in with changes already made to the system, while longtime members would have already been out as a result of mortality.

In the year 2025, GERS will have no money in the bank if the Senate fails to take action; so the funds that will be available to pay benefits will be what comes in from the employer and employee, meaning contributions coming in will be immediately paid out. At that point, beneficiaries will only receive 45 percent of what they're currently receiving.

For example, "a person getting $1000 a month in a pension now, will only be able to get $450. And that's what we're looking at if we don't have some major changes done to the system," said Leon 'Rocky' Joyner of Segal Consulting.

So GERS is supporting a measure that it helped create, sponsored by Senator Neville James, which includes actions aimed at saving the system.

The bill, if enacted, would do away with the cap placed on employee contributions. It would also change the law by making high-earning government employees pay full pension contributions on every dollar earned. The measure also intends to raise retirement ages for some GERS members while adding other types of employees to join immediately as compared to waiting. See full measure here.

The law also changes benefits for Tier 2 government employees from a final average salary form of payment to a career average salary form of payment. The change protects GERS from rapid inflation late in a person's career and also expands contributions from less than $65,000 to all salary, and adds a benefit for contributions for above $65,000 that is 1 percent on every dollar earned above that level.

Such a setup would see employees earning $100,000 making payments of $350 upon their current annual payment into the system, according to GERS officials.

But the senate must act fast as an October 1 deadline is looming, the date when Tier 2 government employees become completely secured into GERS. If changed after the aforementioned date, system members unhappy with the new law could sue.