

The Virgin Islands Consortium

Finance Commish Says Gov't Does Not Have \$600 Million Needed To Save GERS

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Valdamier Collens is being paid \$125,000 annually – a \$28,000 increase over his predecessor, Angel Dawson. At \$125,000, Collens makes the same salary as Lt. Governor Osbert Potter.

ST. THOMAS -- The Government of the Virgin Islands does not have enough collateral to borrow the \$600 million [experts say is needed](#) immediately to save the Government Employees' Retirement System. And even if it did, expending that amount on only one government-owned entity would severely hurt every other branch of government -- including essential services indelible to the daily operations of the territory.

That's according to Commissioner of Finance Valdamier Collens, testifying before the Committee on Finance at the Earl B. Ottley Legislative Hall on Tuesday, encouraging the committee not to approve, at this time, legislation sponsored by Sen. Neville James, bill No. 31-0146.

Hearings on all three islands earlier this month saw GERS representatives explaining why the system would immediately need an infusion of cash of \$600 million, and an increase to what contributors already pay into the system monthly.

And the \$600 million that GERS is requesting 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.

But Collens, who reminded that GERS has a \$1.8 billion shortfall and a actuarial unfunded ratio as of Sept. 30, 2014, of 36.9 percent, said the territory's borrowing limit -- which includes the value of all assessed property -- is about \$400 million.

"But that, in my opinion -- based on fiscal year 2016 budget and what I would estimate is going to happen in fiscal year 2017 -- I would be hard pressed at this very moment to say that we have enough to cover \$600 million in pension obligation bonds (POBs)," Collens said, responding to a question posed by Committee Chairman Sen. Clifford Graham.

Later, Collens was asked by freshman Sen. Marvin Blyden whether there way any ideas being explored that would see GERS receiving "quick cash."

"One of the things that we need to explore is whether or not there is any opportunity to apply a percentage from the matching [rum] funds that we're currently receiving -- just like we take 3 percent community development fund -- we might want to look at doing such a thing to help the system, because ultimately we are the plan's sponsors," Collens said.

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 at a Sept. 2 hearing.

Sen. James' legislation removes the cap on employee contributions, which is currently capped at \$65,000. The new law would see 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](#).

In response to the idea of eliminating the cap, Collens said tough decisions must be made to keep the system alive.

"Obviously [removing the cap] is going to affect the employee because they would have to pay for anything over \$65,000, [but] we are at the point of making tough choices and hard decisions. This is one of them, and it's one of the decisions we have available to us to try and close the gap," Collens added.

The commissioner went on, making known that if the government decided to move forward with a \$400 million or \$600 million bond to shore up GERS, the rating agencies would "stress test" it, "because pension obligation bonds are the types based on timing of the market," Collens said. He added that currently the market is at its peak, and the best time to consider such major decisions would be when the bull run is in its infancy stages.

"These POBs are really based on timing," Collens said, adding that he does not support floating bonds at this time.

How then, does the government save GERS? There are no immediate fixes to the longstanding problem.

Collens advised the Senate to allow the GVI some time to consult with its bond counsel. He said they've looked at certain states that employed the same strategy suggested by the GERS representatives and the ideas included in James' bill, but "those states are not doing good right now," Collens said.

"In either case, it's one additional tool that we should look at -- maybe not \$600 million, maybe a lower amount -- but we will continue to look at it as a viable option," he added.

But Senator Tregenza Roach, who admitted that initially he was not in support of the James-sponsored bill, said he became convinced because, as explained by GERS representatives, the \$600 million is a "companion item" tied to other measures aimed at saving the system -- including the \$65,000 cap elimination. And Roach expressed frustration that Collens hadn't consulted with the government's bond counsel to get a sense of the risks involved in such a large loan.

The finance commissioner said he would do so and get back to the Senate with updated information.

Even then, lawmakers went on to favorably forward the measure to the Committee on Rules and Judiciary, with [all present](#) voting yes. Roach was absent when the vote was taken.

Feature Image: Finance Commissioner Valdamier Collens.

Image Credit: Virgin Islands Legislature.