

The Virgin Islands Consortium

G.E.R.S. Defends Decision Not To Reinstate Loan Program

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ST. THOMAS -- Officials of the Government Employees' Retirement System testified under oath at the Earl B. Otley Legislative Hall on Thursday, where they faced pointed questions from lawmakers, some of whom have been livid with the G.E.R.S. Board of Trustees for [disregarding a bill](#) that was sponsored by Senators Kurt Violet and Kenneth Gittens -- signed into law by Governor Kenneth Mapp -- that called for the system to make available some \$20 million in loans to its members, some of whom have historically relied on the program to help pay for critical needs, including school supplies for children.

But G.E.R.S. Administrator Austin Nibbs, keeping in line with a press release issued to media upon the board's decision not to follow the law, reiterated the system's stance that board members have a fiduciary responsibility to protect the system and its members.

In fact, G.E.R.S. Deputy General Counsel Ishmael Meyers evoked Virgin Islands Code that says investments should be in line with "prudent industry standards."

But senators were perturbed that G.E.R.S. officials referenced prudent standards now that its own members need the money. And doing so even as the loan program has been successful, yielding an 8 percent interest rate to the beleaguered system. Mr. Nibbs tried to downplay the positive impact of the returns on the system, however, contending that with all metrics included, the interest rate gains total about half that amount -- 4 percent.

The Consortium reported extensively on multiple risky investments the G.E.R.S. board made through the Alternative Investment Program (A.I.P.). We reported that G.E.R.S. [could lose \\$40 million on a speculative deal](#); that it has made illegal investments; approved a loan totaling \$8.2 million for the development of a [local grocery store](#), even after being advised not to by an outside financial consultant; and [granted a \\$5.7 million loan](#) to the local owner of the Kentucky Fried Chicken fast food chain, Kazi Food, LLC, and have failed to give an account of how the money was used. G.E.R.S. also inadequately protected the pension funds of government employees when it was [forced to take ownership of the Carambola Beach Resort & Spa](#) after loaning the faltering establishment \$15 million on December 8, 2009, for the purposes of paying off an existing mortgage that had been in default, and to fund renovation costs.

G.E.R.S. has been in severe trouble for many years, with an unfunded liability of over \$3 billion that has forced the pension system into a decade-long liquidation of assets to meet obligations. It has accumulated a deficit of over \$67 million this year alone. In 2015, employer contributions needed to adequately fund the system was \$200 million, but, alas, the government only paid \$75 million. So it was good news when on Wednesday the pension system issued a press release making known that on May 31, it received the first \$7 million from the federal excise taxes on rum, called rum cover-over, made possible by a 2011 law, which had been delayed for several years because of budgetary issues.

The 2011 law required that \$7 million from rum cover-over funds, beginning in 2011 "and all subsequent fiscal years" be appropriated to G.E.R.S. to help stave off impending collapse. According to Mr. Nibbs, the remaining funds of \$21 million are due on September 31, 2016.

The crux of the impasse is the money: The bill sought to restore the loan program for approximately one year, and demanded that G.E.R.S. lends up to \$20 million to government employees. It would allow for not more than \$10,000 per individual, and the total lending sum of \$20 million would split equally between districts. The payment plan comes with a five-year deadline with interest.

Mr. Nibbs said G.E.R.S. would have no problem giving the loans if senators could find the money. During prior Senate hearings when the loan measure was being examined and debated, senators had suggested finding the funds elsewhere -- not from G.E.R.S. itself -- to cover the costs. But that never occurred, and Thursday, Mr. Violet said the Senate would look into providing the funds, which would give G.E.R.S. no other option

but to reinstate the program.

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