

The Virgin Islands Consortium

Health Insurance Cost For Gov't Employees And Retirees Set To Increase If 2018 Budget Remains As Is

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ST. THOMAS -- As budget meetings continue this week, senators will be hearing testimony from a number of government departments and agencies, combing through areas where reductions in spending can be made and where increases can be justified. In Governor Kenneth Mapp's [2018 budget](#), \$67 million in cuts is proposed, a painful decision that had to be made because of the government's structural deficit of approximately \$100 million this year, caused by the loss of access to the bond market. The governor also proposed \$4.4 million in cuts for the legislative and judicial branches of government.

But the 2018 budget, \$883.9 million in total, is a fragile setup that was painstakingly put together by the administration's financial team. In fact, so fragile it is that Mr. Mapp [ravaged lawmakers recently](#), which was [partly erroneous](#), for introducing two pieces of legislation that the governor said would siphon funds out of a government already struggling to make do.

"If the central government collapses financially, there will be no bailout or solvency of the Government Employees' Retirement System. If the central government collapses financially, the Water and Power Authority [and] probably the Port Authority, will fall right behind it. If the central government collapses financially, health insurance benefits for government workers, retirees and their dependents will disappear. Those are just realities, and there will be untold pain and suffering throughout this territory," Mr. Mapp warned.

He went on: "I'm appealing to the Legislature, I'm appealing to the people of the Virgin Islands, that we really have to find a common collective of goodwill for all of the Virgin Islands, and if we're going to have to hold off on our individual interest so that collectively as a territory, we're going to get to a better place."

The governor's appeal last week placed in plain light the tough decisions that must be made if the government is to remain solvent. One of the most painful reductions of the 2018 budget is the change in the insurance burden that the G.V.I. currently carries for its employees. The current system sees the government paying 65 percent of healthcare costs for current employees, while these employees pay 35 percent. The 2018 budget calls for a 60/40 split. For retirees under the age of 65, the administration is seeking even greater savings with a proposed 50/50 cost sharing setup. At a press conference a week ago, Mr. Mapp said if the changes were to be implemented, the government would save \$20 million annually on the 50/50 split alone.

If senators leave the proposals as is, current government employees will see further reductions in their salaries, while retirees will see reductions in their annuities. Senators in the Finance Committee recently expressed concern with the proposed changes, with committee chairman Kurt Violet wondering aloud whether retirees would survive the reductions.

But with potential savings of tens of millions of dollars for a government whose liquidity is unhealthy, the decisions facing lawmakers are not easy. In one way, refusing to change the government's healthcare burden by shifting more cost to employees and retirees, appears politically correct. At the other end, though, the government may collapse if the changes are not implemented.

The G.V.I. is running on an extremely tight budget, with liquidity on a monthly basis set to approach "an undesirable average of \$9 million" through the month of July. That's \$23 million lower than what the administration anticipated, and is a result of the government's inability to access the bond market for working capital, as well as "slippage of approximately \$30 million in actual revenues and other inflows received versus budgeted projections," according to Office of Management and Budget Director Nellon Bowry, speaking during the [budget overview hearing last week](#).

Yet, asking government employees and retirees to contribute more to the health insurance plan may affect the government in other ways, albeit indirectly. People may spend less, which could negatively impact an economy that has barely improved; after declining in previous years, the territory's gross domestic product grew by 0.2 percent in 2015, not merely enough to affect tax collection levels or consumer spending in any meaningful way.

And the upward movement could be wiped out if government employees, who represent a wide swath of the consumer base, suddenly find themselves with even less money to spend because of the changes in the government's health insurance policy.

So the decisions ahead for lawmakers are difficult matters that will be watched closely not only by locals, but also bondholders with a stake in the territory's future, and by the ratings agencies constantly seeking indicators as to the financial health of the USVI.