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Top U.S. Rating Agency Says Gov't Debt Default and Structuring 'Highly Likely' as GERS Insolvency Looms; Benefits Predicted to be Cut by 50 Percent in 2023

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The Government Employees' Retirement System will likely collapse in 2023 after depleting assets and be forced to cut retirees' benefits by 50 percent, said Moody's Rating Agency Tuesday, a move that the firm said is unthinkable politically and instead would be the driving force of a government debt default and restructuring.

Moody's assessment was part of its response to a Third Circuit Court ruling in mid-April that determined the Government of the Virgin Islands was not responsible for $43 million of a $60 million suit brought against it by G.E.R.S. The ruling represented a positive for the G.V.I., Moody's said, but the savings of $43 million does nothing to address a much larger issue — a pension system liability of an amount Moody's estimated to be $5.3 billion.

Moody's Senior Credit Officer Thomas Aaron, and Managing Director Timothy Blake, stated, "[The ruling] does little to alter the looming insolvency of GERS within the next several years. The USVI almost certainly cannot afford to pay pensions directly to retirees if GERS depletes its assets, and likely cannot politically cut benefits while paying debt service in full to bondholders, meaning a GERS insolvency is highly likely to drive a debt default and restructuring."

Moody's said unless the pension system realizes an infusion of cash, GERS will run out of assets by fiscal year 2024, which starts on Sept. 1, 2023.

In a statement issued Tuesday, Governor Albert Bryan said, “As evidence of our commitment, the Government of the Virgin Islands has paid millions to the GERS over the years, none of which they applied to the balance they claim is due. It is time to take another serious look at refinancing our bond debt to achieve lower rates, which will allow us to put more money into the system."

The governor had proposed a debt restructuring plan that he said would have resulted in hundreds of millions of dollars in savings. And though he contended the funds would be used to undergird G.E.R.S., Mr. Bryan had also said a portion of the savings would have been expended on other priorities, including infrastructure.

Ultimately, senators rejected the plan, with some sticking to their stance that the measure was not in the best interest of the territory; some contending that the refinancing, contrary to what was being said, was not certain to go toward saving the G.E.R.S., while others, including Finance Committee Chairman Kurt Vialet, contended that the deal — which would have dissolved the territory's $150 million Debt Service Reserve Fund — would affect future generations as it would have deferred payments and place a heavy burden on Virgin Islanders ten years down the road.

As of April 1, the GVI had $716 million in general obligation debt, most of it in bonds. The territory also had $1.04 billion in matching fund (rum cover-over) debt. None of these obligation include V.I. Water and Power Authority debt, according to the Bond Buyer.

Mr. Bryan said the court's decision calls for action from lawmakers and the administration. "In the judgement, the court clearly defines that it is the duty of the Legislature to address the funding needed, and by working collectively I believe we can get solve this issue on behalf of the people of the Virgin Islands," he said.

Said Moody's: "Assuming that in addition to its statutory contribution, the USVI pays the amount upheld by the appeals court in full, we still project that the GERS will run out of assets in fiscal 2024 without an extra infusion of cash or cut to benefits. To this end, the appeals court in its opinion said that GERS requires ‘possibly billions more’ to avoid insolvency, and the system's most recent actuarial valuation recommends that the Board of Trustees prepare in advance for applying benefit cuts to retirees once the systems assets are exhausted.

“We estimate that GERS would have to cut benefit outflows to retirees by around 50% once its assets are depleted if its only sources of income are the USVI's statutory contributions and active member contributions. A benefit cut of any significant magnitude is unlikely to occur, in our view, without a broader restructuring of the USVI's other debts and obligations to bondholders.”