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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
COMMONWEALTH OF PUERTO RICO

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GDB AND TREASURY HEADS STRESS URGENCY OF PENSION REFORM

SAN JUAN, P.R. – Government Development Bank President Javier D. Ferrer and Treasury Secretary Melba Acosta reiterated today the urgent need to reform the Commonwealth's Employees Retirement System (ERS) and explained the data showing how serious the situation is.

The officials explained that as of June 30, 2011, the Commonwealth's Employees Retirement System ("ERS") had only $1.7 billion in net assets and $4.7 billion in gross assets. As of December 31, 2012, ERS' net assets totaled only $1.2 billion, a decrease of approximately $500 million in just one and a half year. According to the System's actuaries, the ERS will run out of net assets as soon as next year, in fiscal 2013-2014, since ERS' annual pension obligations are higher than the System's annual contributions.

The officials reiterated that although the ERS has the proceeds from the pension obligation bonds (POBs) issuance, which would extend the life of the System until 2018-2019, these bonds are payable from the employer contributions that the System receives and, once depleted, there will not be enough money to make neither pension nor bondholders' payments . The difference between the System's gross assets and net assets is the principal amount ($3 billion) of the POBs.

"This means that beginning on fiscal year 2013-2014, if the System is not reformed, we will start using the money we borrowed in order to pay pensions. If we do not undertake the reform, the pension fund will liquidate all its assets in the next few years and at the end of the day we won't have enough money to pay the pensions or the money that we have borrowed," the GDB President warned.

Acosta, meanwhile, said it was totally irresponsible to say, as has been said in the last few days, that the ERS crisis is being exaggerated to justify other tax increase measures. "The truth is that the System carries an unsustainable deficit. Currently, the ERS has to pay out about $1.55 billion annually, but only receives annual income of approximately $750 million, that is, 48% of its obligations. In other words, the ERS has an annual deficit of approximately $800 million, more than half the revenues needed to make pension payments. Right now, the ERS is covering this shortfall by selling assets, but without a comprehensive reform as the proposed one, we will run out of assets and there will be no money to pay pensions. With the reform, pensions will be protected, retirees will continue receiving their pension checks and active employees will be able to count on a pension when they retire," Acosta pointed out.

"The Government does not have the resources to continue contributing more to the ERS. Moreover, we are not being honest with pensioners and public employees if we tell them the Government's General Fund has the capacity to do so. That's why it is important that they understand the severity of the issue and the urgency to undertake a deep and permanent reform of the System," Ferrer emphasized.

“In addition, this reform is aimed at incentivizing those eligible for retirement before June 30, 2013, to remain in their posts and keep working so that they can have a higher income when they retire. The reform guarantees that each one of these public employees receive 100% of their pension accrued as of June 30, 2013, regardless of whether they retire now or at any time after that date. In fact, these employees will also receive a supplemental lifetime annuity based on their contributions to the System after June 30, 2013” the Secretary added.

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