

P R E S S R E L E A S E

For immediate release

GDB Contact: Betsy Nazario
(787) 728-9200

Treasury Contact: Eva Lizardi
(787) 248-8151



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GDB PRESIDENT AND TREASURY SECRETARY ANNOUNCED PERMANENT SOLUTIONS TO FINANCIAL CRISIS OF THE COMMONWEALTH EMPLOYEES RETIREMENT SYSTEM

Legislative measures stabilize the Systems' finances, guarantee pension benefits to retirees and benefits accrued to public employees, while being sensitive to the most disadvantaged individuals

San Juan, Puerto Rico – Government Development Bank for Puerto Rico President Javier D. Ferrer and Treasury Secretary Melba Acosta announced today a series of measures the government is proposing to reform the Employees Retirement System of the Government of the Commonwealth through “permanent and comprehensive solutions” that will allow to cut down the System’s actuarial deficit totaling approximately \$35.0 billion, avoid that it runs out of money to make pension payments to our retirees, and honor the accrued benefits of active public employees.

The officials gave details of the proposed principal measures and emphasized that each one of them “is necessary so that, collectively, they can significantly reduce the cash flow deficit of the System that is threatening to deplete its funds in the near future.”

In summary, the measures proposed to reform the Commonwealth’s Employees Retirement System, comprised of approximately 116,658 retirees and 131,361 active employees, are:

1. Moving public employees under the defined benefit plan established by Act 447 and Act 1 to a hybrid plan that also has a defined contribution plan component. Suspend benefit accrual of active public employees under the defined benefit plans established by Act 447 and Act 1, by eliminating the acquisition of new benefits under the present System, but respecting all the accrual earned by those public employees to the present. Employees will receive upon retirement a pension equal to what they’ve accrued up to June 30, 2013, under Act 447 or Act 1, plus an annuity corresponding to contributions made after July 1, 2013. The merit pension under Act 447 is eliminated.
 2. A staggered increase in retirement age for those public employees who are now close to the required retirement age under the current laws.
 - a. Act 447: from 58 to 65 years of age
 - b. Act 1: from 65 to 67 years of age
 - c. System 2000: from 60 to 67 years of age
 - d. Police officers and firefighters: from 50 years (Act 447 and System 2000) or any age plus 30 years in service (Act 1) to 58 years of age
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3. Increasing the employee contribution to the System, from 8.275% to a minimum of 10%.
4. Modifying the benefits granted under Special Laws, using the product of these savings to fund the Employees Retirement System. Thus, ensuring benefits are paid to retirees and to those active public employees with accrued benefits under the present system.

A. For retirees receiving a monthly pension equal to or less than \$1,500 (approx. 80% of retirees)

- 1) Reduce the Christmas bonus by 30% (from \$600 to approximately \$425**).
- 2) Reduce the additional contribution to the medical plan by 50% (from a maximum \$1,200 to a maximum \$600 per year).
- 3) Eliminate the summer bonus (\$100).
- 4) Increase the medication bonus by 25% (from \$100 to \$125).

B. For retirees receiving a pension greater than \$1,500 (approx. 20% of retirees)

- 1) Reduce the Christmas bonus by 66% (from \$600 to \$200).
- 2) Eliminate the additional contribution to the medical plan (a maximum of \$1,200).
- 3) Eliminate the summer bonus (\$100).
- 4) Eliminate the medication bonus (\$100).

**Computation based on the additional reduction in bonuses and contributions payable to individuals subject to column B and crediting the "savings" through that additional reduction to retirees under column A.

Special laws benefits will be eliminated for all future retirees.

5. Conversion of global payment made to public employees who retire under System 2000 to a lifetime annuity that will provide a fixed monthly income to our public employees.

A Sound and Sensible Reform

The Treasury Secretary underscored that even though these proposed measures reform the System's benefit structure for those not retired and modify the basic requirements to receive a pension under the System, the Reform aims to be sensitive towards retirees whose economic reality makes them more vulnerable to changes in the System, as well as towards public employees who are nearing the age of retirement. The changes designed to soften the impact on the most vulnerable public employees are:

1. Increasing the minimum pension to \$500 from \$400.
 2. Using part of the product of the savings from the changes to the Special Laws to offer more generous benefits to those pensioners who receive less on a monthly basis from the System.
 3. Implementing a staggered increase in the retirement age in order to reduce the impact of the Reform on those who are closer to the present retirement age.
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4. Converting the total amount of the contributions made by employees subject to the System 2000 into an annuity, which guarantees them, as opposed to the System 2000, a fixed lifetime income.

“In this way we seek to strike a reasonable balance between the fiscal crisis of the Systems and the economic and social reality of our retirees and our more disadvantaged public employees,” Acosta stated.

In addition, the official emphasized the fact that the impact of, and the sacrifice produced by the Reform are comparable. “Everyone contributes: retirees, through reduced special bonuses; those not retired, through a changed benefit structure, a staggered increase in the retirement age and an increase in employee contribution; and government employers and taxpayers, in general, through increased employer contributions enacted under Act 116, plus an additional multimillion annual injection into the System during the next decades,” she said.

It was also stated that these series of principal measures will be presented together with other changes to the benefit structure, such as, the change in death and disability pension benefits. “The important thing is that these changes are prospective. In other words, they do not undermine benefits promised to retired public employees”, she pointed out.

Acosta added that even after enacting all these measures, it is estimated that the General Fund would have to make additional contributions to the System of over \$100 million per year during the next decades.

“We must emphasize that this annual contribution to the System would be in addition to the increase in employer contributions provided by Act 116 of 2011, and that the General Fund would need additional revenues to cover this gap. The Commonwealth of Puerto Rico is exploring the implementation of a recurring source of income in order to fund this additional contribution to the Retirement System,” she explained.

“Each one of these measures is needed to preserve the System’s solvency and to guarantee our public employees a dignified retirement. More importantly, this Reform respects and validates the accrued benefits of retirees, which benefits will not be affected, and of active public employees who continue contributing to the System. Even though the easiest solution would be to reduce accrued benefits in order to adjust them to the economic and fiscal reality of our times, this Reform strives to honor those benefits in the face of the System’s imminent insolvency and Puerto Rico’s fiscal situation,” Ferrer pointed out.

Ferrer warned that if no actions are taken now, the pensions of over 240,000 Commonwealth employees, pensioners, firefighters and police officers would be at risk because once the System’s assets run out, there will be no money to make pension payments. In other words, if the Reform does not take place, our public employees may be left without pension benefits.

He underscored that a failure to carry out the Reform would have severe consequences for the Island's economy and in the government's capacity to provide essential services. "The Retirement System's crisis is no longer the exclusive problem of our public employees who expect to enjoy a dignified retirement; it is a systemic risk that threatens the Puerto Rican society and the everyday life of all citizens living in Puerto Rico. The truth is that the Government does not have the resources to continue contributing more funds to the System. That is why we are acting with a sense of urgency outlining bona fide, well thought-out, complete, sensible solutions," Ferrer pointed out.

Finally, the GDB President stated that is necessary to implement a comprehensive reform to address the crisis of the System. "If no significant changes are made to the present structure, all Puerto Ricans, including public employees, pensioners and all other productive sectors in our society will have to make huge sacrifices in order to pay the accrued pension obligations of the Systems. We all have to contribute to solve this situation and move Puerto Rico forward," he said.

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