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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
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GDB PRESIDENT URGES THE APPROVAL OF ACT TO MANAGE THE RETIREMENT SYSTEM DEFICIT

Government Development Bank for Puerto Rico (GDB) President, William Lockwood, urged today the approval of a bill proposing the issuance of $2 billion in bonds for the Commonwealth Employee's Retirement System and to increase employers' and individual's contributions, as strategies to deal with the actuarial deficit and the cash flow deficiencies the agency faces, and as part of the priority initiatives of the Five Year Plan to straighten the Commonwealth finances.

"After a thorough analysis of the fiscal situation of the Retirement System, which has been conducted for over a year, we have identified these measures as the most satisfactory alternatives to take care of the fundamental problems this agency is confronting," the president said in reference to injecting capital into the System through the sale of a bond issue up to a maximum of $2 billion payable from the General Fund, increasing the Commonwealth's contribution to the Retirement System (from 9.275% to 10%), and increasing the contributions of individuals to the System (from 8.275% to 10%).

Lockwood made this statement during his appearance before the Treasury and Financial Affairs Commission of the House of Representatives, presided by Antonio Silva, that is currently considering Bill of the House 1268, which proposes to authorize the issuance of $2 billion in Commonwealth General Obligation Bonds to increase the liquidity of the Retirement System.

In the most recent Actuarial Report of December 2004, the Retirement System was reported with $1.947 billion in assets versus future liabilities of $11.191 billion. These balances reflect an actuarial deficit of approximately $9.244 billion.

In addition to a high actuarial deficit, the Retirement System has the lowest capitalization when compared to other pension plans in the states of the United States.

Since the Commonwealth is responsible for financing this actuarial deficit, it affects the Commonwealth's credit, a situation that the credit rating agencies—Moody's Investors Service and Standard & Poor's –have required to be addressed with high priority. Hence, the GDB president said that "this bond issue evidences that we are taking affirmative action to improve Puerto Rico's credit situation," while stressing that "in addition to the information we have already submitted to them, once this Bill is made law, the analysts who rate Puerto Rico's credit will receive a detailed presentation of the financial condition of the Retirement System. As a result of the presentation, they will rate the bond issue.

Regarding the effect of this transaction on the General Fund, the President stated that the debt service will be structured in such a way that it will not have a significant impact. In this sense, the structure contemplates to free a considerable portion of the liabilities that burden the General Fund with the contributions provided by several Special Laws that include adjustments to increases and benefits. Likewise, the Retirement System will assume the responsibility of paying the first $100 million related to the Special Laws and the General Fund will pay the excess over the $100 million. For this reason, the credit rating agencies have stated their opinion that this bond issue will have a neutral effect on the Commonwealth's credit given the fact that they consider the actuarial deficit as part of the Commonwealth's debt.

Since 1991 there have been no increments in the individual contributions. However, the Retirement System has increased its benefits to retirees during the past 14 years, the president commented in reference to the recommended increment to the individual contribution.

The GDB President was categorical when he indicated that "although these measures will benefit the Retirement System they are not the final solution to the financial condition currently afflicting the System. This proposal is one of the various measures that will be implemented at long term to strengthen the fiscal health of the System". To this effect, he proposed other alternatives that should be considered, such as implementing effective measures to achieve that the Retirement System received the amounts owed from the General Fund, municipalities and public corporations, selling Telpri shares, assigning a fixed percentage of the revenues collected through the fiscal reform to the System, and assigning to the System the residual funds from the Tobacco Settlement Agreement after the Children's Trust bonds are paid.