PRESS RELEASE

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PUERTO RICO ENACTS SWEEPING PENSION REFORM

San Juan, PR – Government Development Bank for Puerto Rico ("GDB") President Javier D. Ferrer and Treasury Secretary Melba Acosta Febo were pleased with the Legislative Assembly's enactment of a comprehensive reform aimed at rescuing the Commonwealth's Employees Retirement System.

"Today, after an open and inclusive public hearing process and after years of debate on how to address the System's recurrent shortfall, the Legislative Assembly has passed a pension reform that will safeguard the System, preserve the pensions of our retirees and, for the first time, offer a lifetime annuity to all our public employees upon retirement, while taking into consideration the most disadvantaged individuals. Very few other jurisdictions have implemented a pension reform as extensive and comprehensive as this one, necessary due to the precarious situation of our System", the GDB President stated.

The GDB President emphasized that this reform, together with an annual legislative appropriation from the General Fund, will eliminate the System's cash flow deficit that threatened to leave thousands of retirees without the pensions they now receive. "Today we have done justice both to Puerto Rico retirees and ordinary citizens, who will not have to pay more and more from their pockets to cover benefits accrued by public employees."

The Treasury Secretary pointed out that the amendments to the bill introduced by the executive branch were the result of effective teamwork and sustained communication between the legislative and executive branches, leading to a legislation that maintains the spirit and main objective of the original bill while addressing the concerns and suggestions submitted by pensioners, public employees and other sectors during the public hearings.

"We've said that the time has come to act responsibly and to stop kicking the can down the road because the present and future pensions of our public employees are at stake. The time has come because we came to understand that the crisis of the System is not merely a financial matter; it's not just dollars and cents. It's about thousands of public employees who, absent any action, would be left without a pension after having served the government for a large part of their lives," Ferrer said.

On a separate note, Acosta praised the legislative leadership for taking on the challenge and passing such significant legislation for Puerto Rico. "Just as we worked on this project, I'm sure that we will continue to work hard, day and night, to stabilize and eventually restore government finances and stimulate Puerto Rico's economy. We have a long way to go, but we are hopeful that we will soon begin to see the fruits of those efforts," the Treasury Secretary pointed out.

Ferrer summarized the main elements of the reform:

(1) benefits accrued by all retirees are grandfathered by the reform;
(2) minimum pension will be increased to $500 from $400;
(3) benefits accrued up to June 30, 2013 by active public employees under the defined benefit plans of Act 447 of 1951 ("Act 447") and of Act 1 of 1990 ("Act 1") are grandfathered by the reform;
(4) retirement age will be increased for some groups of employees;
(5) employee contribution to the System will be increased to 10% from 8.275%;
(6) active public employees will be granted future benefits based on a defined contribution plan (similar to the System 2000), which will be paid through a lifetime annuity (the "New Hybrid Plan");
(7) Special Laws' benefits are modified (and the resulting savings will be allocated to the System); and
(8) benefits payable to public employees under the System 2000 will be converted to a lifetime annuity.

"Through this pension reform we are striving to strike a reasonable balance between the System's fiscal crisis and the social and economic reality of our retirees and our public employees," the GDB President said.

The Treasury Secretary stressed that the impact and the sacrifice produced by the Reform will be equally shared. "Everyone contributes. Retirees contribute through reduced special bonuses. Active public employees, through the change in benefit structure, changes in the retirement age for some groups of employees and the increase in employee contribution. Finally, government employers and taxpayers in general contribute through the increase in employer contributions of Act 116, the allocation to the System of the savings produced by the changes in Special Laws' benefits, and an additional annual legislative appropriation for the System during the next decades," she said.

Finally, the officials explained that the bill was enacted with the following changes:

(1) A staggered increase in the retirement age to 61 years for participants under Act 447, instead of 65 years as proposed in the original bill.
(2) Keeping the retirement age at 65 years for participants under Act 1 and a staggered increase in the retirement age to 65 years for participants under System 2000, instead of 67 years as proposed in the original bill.
(3) Establishing the retirement age of state and municipal police officers, firefighters, and custody officers at 55 years, instead of 58 as proposed in the original bill.
(4) Establishing the retirement age for new employees, joining the System after July 1, 2013, at age 67 and at age 58 for new state and municipal police officers, firefighters, and custody officers.
(5) Changing the benefits granted by Special Laws as follows:
    a. Keeping the medical plan contribution unaltered, up to a maximum $1,200;
    b. Keeping the medication bonus unaltered at $100;

   c. Reducing the Christmas bonus to $200 from $600; and
   d. Eliminating the summer bonus.

(6) Extending the period to retire from July 1, 2013, to December 31, 2013, for those employees who joined the System before April 1, 1990, and who may retire with 55 years of age or more and 30 years of service, or who may retire with 30 years of service or more, at any age. The maximum pension benefit for those who have reached at least 55 years of age will be 60% of their average salary, and for those who are less than 55 years old, the maximum pension will be 55% of their average salary.

(7) Establishing the rate to purchase services not credited at 9.5%, instead of 15% as established in a circular letter. The purchase of services not credited may be up to a maximum of 60% of the average salary for those who complete 30 years of service as of June 30, 2013.

(8) Veterans benefit: Veterans may purchase service for military leave rendered before June 30, 2013, at any time. Additionally, public employees in active military service may make voluntary contributions to their accounts under the New Hybrid Plan for periods in military service.

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