
Fiscal Plan Amendments Summary

March 13th, 2017



This presentation is for illustration purposes only and is superseded in its entirety by the text of the Resolution or Resolutions adopted by the Board.

Amendment to right sizing personnel section

Board assessment

- The Government's Fiscal Plan needs additional safeguards to ensure that sufficient liquidity and budgetary savings are realized to fund essential services in FY 18

Measures

The Government's fiscal plan should be amended to include the use of furloughs and removal of the Christmas bonuses, as needed, to achieve necessary liquidity and budgetary savings. Furlough program would:

- Achieve \$35-40 million in monthly savings, through the equivalent to 4 days per month for most Executive branch government personnel
- 2 days per month for teachers and frontline personnel at 24-hour institutions
- Frontline law enforcement personnel should be exempted from the furlough program
- Additionally, Christmas bonuses would be wholly eliminated

Determination of the timing and implementation of these measures shall be subject to the following:

- **1: Liquidity (4/30)**
 - Government submits budget, implementation plan for its right-sizing measures, as well as a liquidity plan, showing how they will achieve an additional \$200MM cash reserve by June 30, 2017
 - If Government satisfies Board's criteria: no furloughs
 - If in the Board's judgement, the Government's plan will not generate the necessary cash reserves: furloughs begin 7/1
- **2: Budget (6/30)**
 - Furloughs beginning no later than 9/1 shall be instituted unless sufficient savings will be achieved through the Government's right-sizing measures
 - Board will assess the implementation plans for right-sizing personnel measures, when considering the Government's budget proposal
 - Depending on determination on level of savings that will be achieved, the Board will determine whether the furlough program will be implemented, and the size and scope of the furlough program
- **3: Implementation (9/30)**
 - Elimination of Christmas bonus shall be instituted unless sufficient savings have been achieved through the Government's right-sizing measures
 - By 9/1, Board will examine the trend of personnel costs
 - Depending on determination on level of savings that will be achieved, the Board will determine whether the Christmas bonus could be partially or fully provided

Amendment to pension section

Current situation

- The Board supports the Government’s pension design principles, but the Government’s plan does not achieve the magnitude of savings that the Board believes represents an equitable sharing of burden
 - Puerto Rico’s three main pension funds are projected to run out of money by FY 2018
 - For decades, governments have failed to fund promised pension benefits and even have increased benefits, without required funding. Structural changes are necessary to ensure sustainability for the budget and security of benefits for pensioners
 - Pension reform must recognize that all parties are making significant sacrifices, through changes to healthcare, education, government right-sizing and other areas
 - Board believes annual pension savings of ~\$200MM beginning in FY 2020 are necessary to achieve budget balance while funding essential services and providing adequate funding to the pension system
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Principles to be adhered to

- The Board resolves to amend the Government’s Fiscal Plan to achieve the target savings based on the following design principles:
 - Recognize that with pension assets exhausted, benefits must be funded on a pay-as-you-go basis
 - To protect current employees, segregate their pension contributions into individually-owned accounts
 - Progressively reduce annual benefit outlays by 10% while preventing retirees from falling into poverty
 - Enroll newly-hired teachers and public safety workers in Social Security
 - Explore enrollment for current teachers and public safety under age 40
 - Consider mechanisms to assure current employees will receive the benefits they have accrued under the current pensions systems in a pay-as-you-go structure
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Process going forward

- Over the next 30 days, the Government and the Board will work together to craft policies that preserve jointly agreed-upon principles, achieve necessary savings targets, and adequately fund pensions
 - The Board will finalize its decisions on pensions by June 30, 2017, in alignment with the budget timeline
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