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Puerto Rico Pension Deal Scales Back on Planned Cuts to Retiree Benefits.

Proposed deal with U.S. territory's federal overseers would keep 61% of retirees whole, up from 25%

Puerto Rico's federal overseers have agreed to roll back some planned pension cuts under a proposed settlement with retirees, a key step toward wrapping up the largest U.S. municipal bankruptcy.

The official retiree committee appointed in Puerto Rico's court-supervised bankruptcy said the agreement would substantially improve the treatment of retirement benefits for 167,000 pensioners compared with a 30-year framework approved by the U.S. territory's financial-oversight board in May.

The deal, which requires court approval, covers Puerto Rico's $50 billion pension debt, the island's largest single liability. It also brings Puerto Rico closer to lifting the central government out of its more than two-year old bankruptcy. But it could face opposition from investors worried that shifting additional revenue to pensioners would deepen losses on billions of dollars in bond debt.

Government retirees who receive $1,200 a month or less in benefits would be shielded from any reduction under the settlement, up from a $600 threshold previously proposed by the board, according to signed settlement papers reviewed by The Wall Street Journal. The deal keeps 102,000 pensioners, or 61% of the total number, safe from cuts, compared with 45,000 or 25% in the earlier proposal, according to the retiree committee.

Those collecting pensions above the threshold would face progressively deeper cuts, but no more than 8.5%. Retirees wouldn't be penalized for Social Security and medical-insurance payments when cuts are calculated. Puerto Rico also would create a reserve fund to finance pension payments toward the end of the board's 30-year framework, when the government is projected to run deficits as economic growth slows and federal disaster-relief funding runs dry.

A board spokesman said the agreement "protects and secures pensions going forward" for both active and retired employees by putting near-term surplus aside to pay future benefits. "This agreement also provides for a fairer, simpler policy for adjusting pensions than what is in the fiscal plan," the spokesman said.

Puerto Rico Gov. Ricardo Rosselló has argued against any pension cuts, saying his administration has found $1.4 billion in savings elsewhere in the government budget to avoid benefit reductions. The board expects to file a plan of adjustment covering the central government within weeks, according to a person familiar with the matter.

The governor's top finance adviser, Christian Sobrino, said in a statement Wednesday the deal was "not acceptable" to the administration and that bond debt could be restructured "without having to impact our retirees."

The settlement would be put to a vote of all pensioners whose benefits are being cut and requires approval from half by number and two-thirds by dollar amount. The board has said that as unsecured creditors, pensioners would need to accept reductions on their claims alongside bondholders, as has occurred in other municipal bankruptcies.

The city of Detroit's 2014 bankruptcy plan cut pensions by 4.5% and froze cost-of-living increases while imposing steeper reductions on financial creditors. But the California cities of Stockton and San Bernardino cut bondholder claims through bankruptcy in 2015 and 2017, respectively, without corresponding pension cutbacks.

Since the assets of Puerto Rico's pension funds were almost completely exhausted, benefits since 2017 have been paid out of budget appropriations at a cost of more than $2 billion a year.

The Wall Street Journal

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June 12, 2019 6:00 a.m. ET