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## Puerto Rico Board Agrees to Remove Pension Cuts in Debt Plan.

- **Board backs away from pension cuts if lawmakers approve bonds**
- **Oversight panel sought an 8.5% reduction to some pensions**

Puerto Rico's financial oversight board agreed to remove proposed public employee pension cuts from a plan to slash the island's debt, a major concession aimed at securing lawmakers' approval for a bond restructuring that will put an end to its more than four-year bankruptcy.

The board included a 8.5% reduction to some pension benefits in the debt adjustment plan that it filed to the bankruptcy court in March. Governor Pedro Pierluisi and island legislators have balked at any pension cuts.

The board's concession was made to end a clash with lawmakers over legislation authorizing new bonds to replace existing debt, an exchange that will allow the government to cut what it owes to investors. Still, the panel maintains Puerto Rico must freeze the teacher and judges pension systems, a move the island's Senate is trying to block.

"When the legislature and governor enact acceptable legislation, the oversight board will amend the plan to eliminate cuts to the accrued pensions of retired public employees and current employees of the commonwealth," David Skeel, the board's chairman, wrote in a letter dated Thursday to Pierluisi and the island's legislative leaders.

The board last week warned that it may be forced to withdraw its debt restructuring plan from the court if lawmakers pass legislation that includes Senate amendments that would increase the island's expenses by tens of billions of dollars. Such a step would put court confirmation of the plan at risk and prolong a bankruptcy that began in May 2017.

"While the oversight board continues to have reservations about the impact on the plan, it is prepared to accept the wishes of the elected representatives of the residents of Puerto Rico to the extent it can do so prudently and without failing to carry out its duties under Promesa," Skeel wrote.

The board's announcement was welcomed by Pierluisi, who said he has consistently fought against pension cuts and is also seeking to protect funding for the island's university and its municipalities. The board also agreed to such funding.

"We will continue fostering dialogue and working to get out of bankruptcy and respond to the needs of our people," he said in a statement Thursday.

While the board has agreed to remove pension cuts from the debt plan, U.S. District Court Judge Laura Taylor Swain may still require reductions to retirement benefits, according to the letter.

Swain is set to hold confirmation hearings next month on the debt plan, which would restructure \$33 billion of debt, including \$22 billion of bonds. Island lawmakers are under deadline to pass the

legislation authorizing the new restructuring bonds before those hearings.

The board's willingness to remove the proposed retirement reduction from its debt plan could prompt island lawmakers to approve the necessary legislation.

The board also agreed to Senate amendments allocating \$500 million annually for five years to the University of Puerto Rico, increasing municipal funding and spending \$1 million for a study on the feasibility of extending medical coverage to uninsured residents, according to the letter.

## **Bloomberg Markets**

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