

Commonwealth of Puerto Rico

Pension Overview

Pension Funded Level Poor **UAAL Per Capita** Poor **Pension Level Management** Poor **Overall Pension Quality** Poor

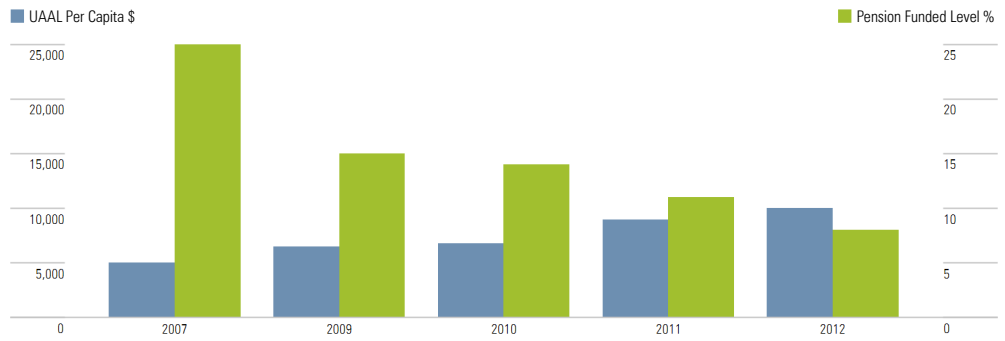
Key Statistics

# of Plans Administered By State:	3
# of Plans State Contributes To:	3
Aggregate Funded Ratio (2012):	8.40%
Aggregate UAAL Per Capita (2012):	9,987
Structure of Plans:	DB
Multi-Employer or Single-Employer:	Multiple
Largest Category of Pension Inv:	Fixed Income
Largest Investments % of Total	52.81%
Assumed Investment ROR:	6.4-6.6%
Total State Contributions (\$000s)	775,762
Total State Contributions as % of Spending	4.14%

Pension Funded Levels

State	%
Wisconsin	99.9
Washington	98.1
North Carolina	93.9
South Dakota	92.6
Tennessee	92.1
Delaware	88.3
New York	87.3
Florida	86.4
Idaho	84.4
Oregon	82.0
Texas	82.0
Georgia	81.9
Wyoming	79.6
Iowa	79.5
Nebraska	78.5
Ohio	77.2
Maine	77.2
Missouri	76.9
Utah	76.5
California	76.0
Minnesota	75.0
Arizona	74.0
Arkansas	71.4
Nevada	71.0
Virginia	69.5
Vermont	68.4
Massachusetts	66.4
Michigan	66.4
North Dakota	66.3
Alabama	66.2
New Jersey	65.4
South Carolina	65.4
Oklahoma	65.3
Maryland	64.4
West Virginia	64.0
Montana	63.9
Pennsylvania	63.9
Colorado	63.2
New Mexico	63.0
Hawaii	59.2
Alaska	59.2
Indiana	58.4
Rhode Island	58.2
Mississippi	58.0
Kansas	56.4
New Hampshire	56.2
Louisiana	55.5
Connecticut	49.1
Kentucky	46.8
Illinois	40.4
► Puerto Rico	8.4

Historical Aggregates



Overview

The Commonwealth administers and contributes to three pension plans. ERS is the largest plan accounting for over 68% of total liabilities.

Perspective

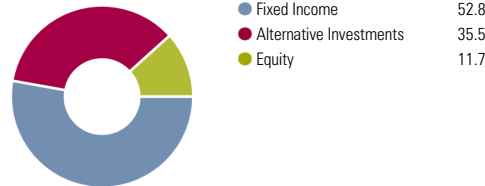
- The Commonwealth's pension plans have historically been poorly managed, leading exceptionally low funded levels (currently 8.4%) which have declined further in recent years. The UAAL per capita is quite high at almost \$10,000.
- Modest steps have been taken to aid the system's fiscal health in prior years including the increase in employer contributions.
- In April 2013, the government passed substantial

additional pension reform (Act 3), switching new ERS members to a defined contribution plan. The reforms also raise the retirement age, increase employer contributions, and lower benefits for some public workers for ERS members. The new laws do not effect TRS or JRS members.

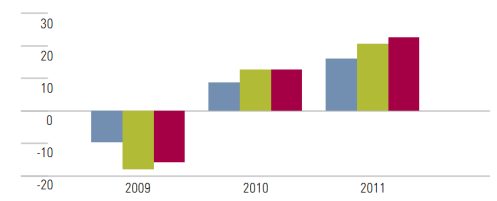
- Though we view the recent reform package as a significant and necessary first step to prevent the system from running out of assets within the next 10 years, we believe that Puerto Rico's large pension liability will remain a large fiscal burden for the foreseeable future.
- Loans to members account for concerning high \$1.3 billion of assets.

System Investments

Breakdown %



Realized Rate of Return %



Investments

Investments are concentrated in fixed income, followed by alternative investments and equity.

Also of note is the \$1.3 billion of assets currently in the form of personal loans to members.

This is concerning as it reduces potential investment returns and liquidity levels of the already stressed systems.

In 2011, the Board of Trustees for ERS and JRS lowered the

maximum amount members are allowed to take in personal loans from \$15,000 to \$5,000. This could lead to a shift in the system's investment profile over time and increase liquidity.

Market returns have fluctuated significantly over the past few years, driven by the recession and subsequent recovery. The systems have decreased their assumed rates of return from 6.4%-6.6% to 6% for 2013 in recent years to more accurately reflect realized results.

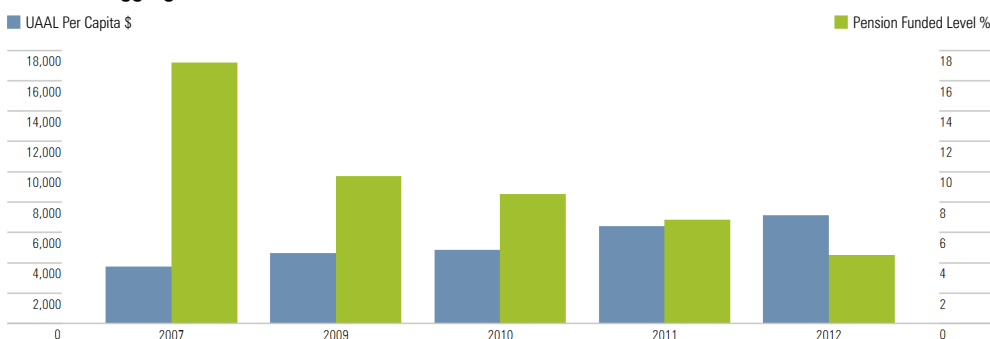
Commonwealth of Puerto Rico

Plan Name: Employees' Retirement System

Key Statistics

Structure of Plans	DB and DC
Multi-Employer or Single-Employer	Multiple
Funding ARC	No
Payment as % of ARC	29.20%
State Contribution(\$000s)	589,743
Member Governments	N/A
Latest Actuarial Valuation Date	6/30/2012
Actuarial Cost Method	proj. credit unit
Amortization Method	level \$
Remaining Amortization Period	26
Asset Valuation Method	market value
Investment Rate of Return	6.40%
Projected Salary Increases	3%
COLA	1%

Historical Aggregates



Plan Description

The Puerto Rico Employees' Retirement System (ERS) has historically been a defined benefit system consisting of a cost-sharing multi-employer plan and a cash balance plan. The defined benefit was closed to members entering the system on or after January 1, 2000. New members hired between January 1, 2000 and June 30, 2013 were enrolled in the cash balance plan in which participants are entitled to a lump-sum payment, which can be received in full or used to purchase an annuity.

The system covers employees of the Commonwealth as well as its political subdivisions. The majority of total active members are Commonwealth employees. Contributions levels are established by law and are not actuarially determined.

The system's funded level is abysmally low at 4.5%. Factors that have driven the system's fiscal decline include contributions below the ARC, special laws, early retirement programs, personal loans and the issuance of pension obligation bonds. The Commonwealth's fiscal 2012 CAFR states that the fund was due to run out of assets during fiscal 2015.

The Commonwealth has begun to take some action to improve the funded level of the system. The employer's contribution was increased for fiscal 2012, with annual increases set for future years. The increases in the employer contribution levels for fiscal years 2012-2014

are required by law to be funded by the Commonwealth from General Fund revenues with estimated annual additional costs ranging from \$27 million to \$33 million. As the Commonwealth's overall fiscal condition is already stressed, this could contribute to an overall deterioration in the Commonwealth's fiscal profile. Despite this increase, contributions are expected to remain below the ARC in coming years. In addition, the Commonwealth has proposed incremental annual contributions from the general fund of \$140 million per year, for the next 20 years, to increase the liquidity and solvency of ERS. An appropriation for such annual contribution has been included in the Commonwealth's budget for the fiscal year 2014.

In April 2013, the government passed additional pension reform (Act 3), which will raise the retirement age, increase employer contributions, and lower benefits for some public workers for ERS members. Most importantly, the defined benefit port of ERS was frozen on July 1, 2013 with all future benefits, including those for current employees, will be provided through a defined contribution formula. The Puerto Rico Supreme Court has upheld the constitutionality of the reform.

The Commonwealth projects these reforms will be sufficient to prevent the exhaustion of the fund's assets. However, the significant liability will still need to be addressed over time.

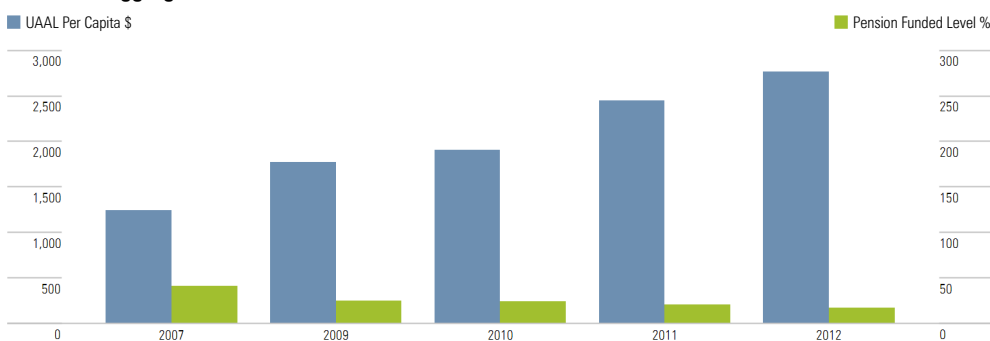
Commonwealth of Puerto Rico

Plan Name: Puerto Rico System of Annuities and Pensions for Teachers

Key Statistics

Structure of Plans	DB
Multi-Employer or Single-Employer	Multiple
Funding ARC	No
Payment as % of ARC	26.48%
State Contribution(\$000s)	174,571
Member Governments	N/A
Latest Actuarial Valuation Date	6/30/2012
Actuarial Cost Method	entry age
Amortization Method	level %
Remaining Amortization Period	15
Asset Valuation Method	Market Value
Investment Rate of Return	6.40%
Projected Salary Increases	3.50%
COLA	N/A

Historical Aggregates



Plan Description

The Puerto Rico System of Annuities and Pensions for Teachers (TRS) is a defined benefit cost-sharing multi-employer plan. The plan provides pension benefits to public school teachers, certain private teachers and school administrative personnel throughout Puerto Rico. The Commonwealth was responsible for 99% of total employer contributions for fiscal 2012.

The plan has historically been poorly managed leading to its exceptionally low funded level of 17%. The Commonwealth has consistently made annual contributions equal to a fraction of the ARC. The UAAL per capita is sizeable at just under \$2,800.

In prior years, TRS was forced to use a portion of its resources to make system administered pension benefits that should have been funded by the Commonwealth. TRS has since reached a settlement with the Commonwealth which is making annual payments to the system.

The Commonwealth also begun to make slow progress in raising funded levels. The employer's contribution was increased for fiscal 2012, with annual increases set for future years. However, due to the current remarkably low funded level, additional extreme changes would be necessary to make the system fiscally solvent in the long-term.

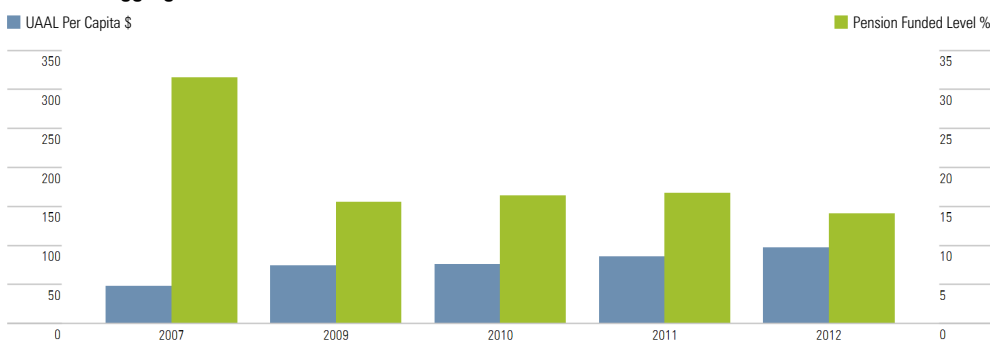
Commonwealth of Puerto Rico

Plan Name: Judiciary Retirement System

Key Statistics

Structure of Plans	DB
Multi-Employer or Single-Employer	Single
Funding ARC	No
Payment as % of ARC	34.13%
State Contribution(\$000s)	11,448
Member Governments	1
Latest Actuarial Valuation Date	6/30/2012
Actuarial Cost Method	proj. credit unit
Amortization Method	level %
Remaining Amortization Period	26
Asset Valuation Method	market value
Investment Rate of Return	6.60%
Projected Salary Increases	3%
COLA	1%

Historical Aggregates



Plan Description

The Puerto Rico Judiciary Retirement System (JRS) is a single-employer defined benefit pension plan. The system provides benefits to the judiciary branch of the Commonwealth.

Like the other pension systems of the Commonwealth, JRS has historically been poorly managed. Employer contributions have been significantly lower than the actuarially determined ARC, contributing to the exceptionally low 14.1% funded level for 2012. During fiscal 2011, the system was forced to liquidate \$19 million on investments to finance administrative expenses that have accumulated in prior years. A similar \$9.9 million liquidation took place in fiscal 2012.

The plan overall is much smaller in total size than other pension systems of the Commonwealth. Due to its limited overall size, the UAAL per capita remains low at \$97 despite the poor funded level.

The Commonwealth's fiscal 2012 CAFR indicates the fund may exhaust its resources during fiscal 2019. Unlike ERS and TRS, the Commonwealth did not increase employer contribution levels for 2012.

Significant actions will be needed for the system to be solvent over the long-term.

Commonwealth of Puerto Rico

Data Appendix

Actuarial Funding Levels

	2007	2009	2010	2011	2012
Employees' Retirement System					
Actuarial Assets (\$000s)	2,891,501	1,842,143	1,664,991	1,723,811	1,236,873
AAL (\$000s)	13,878,011	18,943,586	19,501,761	25,457,354	27,645,786
UAAL (\$000s)	16,769,512	17,101,443	17,836,770	23,733,543	26,408,913
Funded Ratio %	17.2	9.7	8.5	6.8	4.5
UAAL Per Capita	3,744	4,614	4,812	6,403	7,125
Judiciary Retirement System					
Actuarial Assets (\$000s)	81,473	50,566	55,410	63,975	58,588
AAL (\$000s)	177,104	323,928	338,195	382,776	416,340
UAAL (\$000s)	258,577	273,362	282,785	318,801	357,752
Funded Ratio %	31.5	15.6	16.4	16.7	14.1
UAAL Per Capita	48	74	76	86	97
Puerto Rico System of Annuities and Pensions for Teachers					
Actuarial Assets (\$000s)	3,163,000	2,158,000	2,221,977	2,385,863	2,099,563
AAL (\$000s)	4,593,000	8,722,000	9,279,776	11,448,609	12,350,836
UAAL (\$000s)	7,756,000	6,564,000	7,057,799	9,062,746	10,251,273
Funded Ratio %	40.8	24.7	23.9	20.8	17.0
UAAL Per Capita	1,239	1,771	1,904	2,445	2,766

2012 Investments

	All Pension Funds
Alternative Investments	1,401,806
Equity	460,825
Fixed Income	2,084,748
Total	3,947,379