Fitch: Puerto Rico’s bond rating (BBB-) depends on reform

By Editor Test *Thu, Apr 11, 2013*

Reforms signed into law in Puerto Rico last week aim to reduce future cash flow deficits in the plan both by increasing payments into the plan and reducing future cash payments out of the plan, Fitch said in a release.

Noting that Puerto Rico faces a large structural budget gap until fiscal 2015, Fitch Ratings said its rating on the commonwealth’s general obligation bonds (BBB-, with a negative outlook) will depend on continuing pension reform.

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The legislation converts the current PERS defined benefit plan into a hybrid defined benefit/defined contribution plan. It also raises employee contributions, increases the retirement age, and reduces future benefit payments.

Even with these changes, the commonwealth will have to increase its annual payments to the fund, Fitch said.

The current fiscal year’s economic and revenue underperformance have increased the fiscal 2013 operating imbalance and widened the gap the commonwealth must address in its upcoming budget deliberations.

While Fitch does not expect the fiscal 2014 budget to be structurally balanced, the rating assumes substantial progress toward structural balance.