

# Wall Street Pirates of the Caribbean: Puerto Rico's Public Pension System Teetering on Collapse as Retired School Teacher's Face Cuts

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Protests erupted this past Thursday in San Juan, Puerto Rico's capitol building. The ongoing economic stagnation of Puerto Rico continues with proposed pension cuts for retired public school teachers according to the Associated Press:

The protest interrupted a special legislative session that Gov. Alejandro Garcia Padilla had called to debate reform measures amid pressure to appease Wall Street ratings agencies as the U.S. territory braces for its eighth year in recession. Garcia said the teachers' pension system has a \$10 billion deficit and will run out of funds by 2020 if nothing is done.

"We cannot remain with our arms crossed," he said. "Postponing this reform will worsen the state of the system, require more drastic measures to save it and contribute to the country's worsening credit." The government is seeking to change the system from a defined benefit plan to a defined contribution one and possibly increase the retirement age, among other things.

✘ This means reducing monthly payments and increasing the retirement age. Wall Street is looking to profit from Puerto Rico's debt problem through "trading revenue" according to Bloomberg News last month:

Lazard Capital held a meeting Oct. 10 at its New York office with about 75 participants said Peter Santry, head of fixed-income trading. As more hedge funds buy and sell commonwealth securities, the firm wants to capture that trading revenue, Santry said. "You want to get business out of it," Santry said.

Former Governor Luis Fortuno, who lost a re-election bid in November 2012 and is now a partner at Washington-based Steptoe & Johnson LLP, spoke at the Lazard Capital meeting on the legal structures of Puerto Rico debt and the commonwealth's economy, Santry said. Fortuno declined to comment in an e-mail, saying he wouldn't discuss current or potential clients.

Citigroup hosted an Oct. 24 conference that attracted more than 200 attendees, eight times more than the company was expecting, according to two participants, who asked not to be identified because the meeting was private. Bank representatives said in the presentation that the company originally booked a conference room and had to find a bigger space, the attendees said.

Former Puerto Rico Governor Luis Fortuno's decision not to mention his current and future potential client for Puerto Rico's potential commonwealth securities is troubling. But Fortuno's law firm Steptoe & Johnson LLP in the past represented CEO and Chairman of Goldman Sachs Lloyd Blankfein in relation to mortgage fraud in 2012 that resulted in no criminal charges for the banking institution after a year-long investigation. That should win the hearts and minds of the Puerto Rican people! The new governor Alejandro Garcia Padilla will bow to Wall Street's demands. "Teachers protesting the proposed measures say they favor alternatives such as increasing taxes on foreign companies to generate more revenue and receiving unclaimed money from the island's electronic lottery system" according to Bloomberg. Caribbean Business reported back on October 10th 'García Padilla administration makes new pitch on Wall Street':

Despite Moody's ill-timed move, García Padilla's top economic brass remain steadfast in a plan that they insist will be instrumental in achieving 2.6% growth by the end of 2016.

During an exclusive roundtable interview with CARIBBEAN BUSINESS, Economic Development & Commerce Secretary Alberto Bacó Bagué, Puerto Rico Industrial Development Co. Executive Director Antonio Medina, Puerto Rico Tourism Co. Executive Director Ingrid Rivera Rocafort and Puerto Rico Commerce & Export Co. Executive Director Francisco Chévere explained that a concerted effort is underway to showcase an integrated plan—the fiscal and economic teams together— in presentations to credit-rating agencies on Wall Street.

The idea is for the rating agencies to see the economic-development plan, not as an afterthought, but as an integral part of a strategy—the next step after raising taxes and fixing the government workers' retirement plan—that will spur growth even in the face of austerity. To that end, they have commissioned a review of Puerto Rico's economy by the Boston Consulting Group (BCG) that, they say, will certify 2.6% economic growth and the creation of 90,000 new jobs by the end of 2016—if they execute their plan to perfection.

The government of Puerto Rico and the teachers both agree to raise taxes on foreign companies. It is important to note that raising taxes on companies would force them to leave the island altogether in hopes of finding better tax shelters in other nations with a lower tax rate. In the process, jobs would be eliminated which will increase unemployment rates adding to an already struggling economy. Raising taxes on foreign companies is not the only bad idea. Using unclaimed money from the Puerto Rico lottery system would not "trickle down" down to the local economy.

The Puerto Rico government would use unclaimed funds to repay its growing \$70 billion debt to Wall Street. Puerto Rico's austerity measures would not create 90,000 jobs with a 2.6% economic growth rate which will be certified by the Boston Consulting Group (BCG) is unrealistic. The only jobs that will exist in Puerto Rico will be through the US government and the military with its ever expanding defense department budgets and continuous wars.

What is more disturbing for Puerto Rico's retired teachers is that they fully depend on their pensions because they do not receive any form of social security benefits or any other retirement incentives.

*"Nearly 42,000 teachers contribute to a pension system that supports nearly 38,000 retired*

*teachers. Unlike other government workers in Puerto Rico, teachers do not receive Social Security and depend completely on their pensions upon retirement” according to the Bloomberg report. Once austerity measures take place, Wall Street and other private investors would reap the benefits. Puerto Rico will suffer the economic consequences of their politicians because of their loyalties to Washington and Wall Street. Maybe when Governor Alejandro Garcia Padilla’s term expires or if he loses the next election, he will find himself in a cushy position in a Wall Street firm following his predecessor former Governor Luis Fortuno. Don’t be surprised.*

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