Pension Reserve Trust

Asset and Withdrawal Modeling Study

Actuarial Report

April 2026 / Matthew Strom / Daniel Siblik

Segal

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April 30, 2026

Pension Reserve Trust
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Guaynabo, Puerto Rico 00968-3029

Re: Asset and Withdrawal Modeling Study

Dear Trustees and Staff:

We are pleased to submit the results of the Asset and Withdrawal Modeling Study for the Puerto Rico Pension Reserve Trust ("PRT", or "Trust"), prepared as of June 30, 2025. The purpose of this actuarial study is to assist the Pension Reserve Board Trustees ("Trustees") with the evaluation of different investment strategies and to assess the three major sources of risk to the Trust's mission. Primarily, these are contribution risk, payout risk, and investment risk.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The undersigned are independent actuaries; both are credentialed by the Society of Actuaries, are Enrolled Actuaries, are Members of the American Academy of Actuaries, and are experienced in performing valuations for large public retirement systems.

The projections included in this report are based on data provided by the Government and/or the Financial Oversight and Management Board of Puerto Rico, or their consultants. As with any projection analysis, this report should not be viewed for absolute results, but rather for trends in the financial measurements. It is important to note that this report is based on Trust assets as of June 30, 2025, and does not reflect any known returns experienced by the fund after that date.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: actual experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

We look forward to discussing the results of this report with you at an upcoming meeting.

Regards,

Matthew Strom, FSA, MAAA, EA
Senior Vice President and Actuary

Daniel Siblik, ASA, FCA, MAAA, EA
Vice President and Actuary

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Executive Summary

Background and purpose

Pension Reserve Trust background

The Pension Reserve Trust (PRT) was established March 14, 2022, to serve as a supplemental funding source for pension obligations if the Government of Puerto Rico lacks sufficient resources to pay benefits under the current "Pay as You Go" (PayGo) system.

The PRT operates independently from the Commonwealth of Puerto Rico, as outlined in its Deed of Trust[1] and Guidelines[2]. While the Government remains responsible for all current and future pension payments, it is required to make annual contributions to the PRT based on available surplus. These contributions may include:

- Base Contribution: A fixed annual amount based on surplus through Fiscal Year 2031.
- Additional Contribution: An amount determined by any remaining surplus after certain other obligations are funded.

The original design of the PRT was based on financial and actuarial projections, including:

- Government contributions over a 10-year period (2022–2031).
- Investment returns averaging 4.5% per annum.
- Pension disbursements beginning July 1, 2039.

Under these assumptions, projected contributions and investment earnings were expected to fully cover future pension obligations. However, beginning as early as July 2032, the Government may withdraw funds from the PRT, subject to conditions defined in the Guidelines and approved by the Pension Benefits Council. These conditions depend on the PRT's funded status and the Commonwealth's financial position.

Purpose of the modeling

This actuarial study supports the Pension Reserve Board Trustees ("Trustees") with the evaluation of different investment strategies and adoption of appropriate investment policies and potential updates to current assumptions. This assistance is primarily provided by evaluating and assessing the three major sources of risk to the Trust's mission:

1. Contribution Risks: Should there be a force majeure event – either a major natural disaster (e.g., a major hurricane) or the cessation of extra Medicaid payments to Puerto Rico by the U.S. government – reduced contributions may be made by the Commonwealth Government.

[1] Public Deed of Trust, as amended, in accordance with the "Order and Judgement confirming Modified Eight Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, The Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority" and with the "Order Granting Motion of the Financial Oversight and Management Board for Puerto Rico for Order Pursuant to Bankruptcy Code Section 1142 in Aid of Plan Implementation."

[2] "Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits," as amended.

2. Payout Risks: If certain conditions are satisfied, the Government could request a withdrawal of funds from the Trust prior to July 1, 2039, to fund PayGo obligations.
3. Investment Risks: The Trust's investment policy was developed to provide a margin of safety above the target 4.5% nominal average rate of return, taking into account market risks and the variation in investment returns. The 4.5% target was designed to be sufficient to meet the Government's projected pension obligations under the assumptions in the original Financial Plan about contributions and withdrawals.

This report presents results using both deterministic projections and stochastic modeling. A description of the scenarios run and the modeling processes undertaken in this analysis is described in more detail in Section 1.

Contribution and payout risk

Under the **original set of assumptions** regarding PRT contributions, payout timing and amount, discount rate, and investment portfolio returns, the Trust was projected to have enough assets accumulated by June 30, 2039, to cover all projected PayGo from that point forward. As demonstrated by the projection scenarios and discussion in this report, the risks related to PRT receiving less contributions than projected and requests for payment withdrawals occurring earlier than forecasted present substantial hurdles for the Trust achieving that preliminary June 30, 2039, goal.

As shown in Section 3, both contribution risk and payout risk have large impacts independently; in combination, the risks are exacerbated. Contributions to PRT, expected to total just over $10 billion, are anticipated each year from fiscal years 2023 through 2032. Withdrawal requests are first expected to occur beginning July 1, 2039. The degree to which contributions received are less than projected and/or early withdrawal requests (i.e., requests for withdrawal prior to July 1, 2039) are made may cause the Trust to have anywhere from 100% of the funds available to meet PayGo obligations to only 30% of required funds. Earlier-than-expected contribution shortfalls or early withdrawal requests have an increasingly adverse impact on the PRT.

Investment risk

Investment risk is the risk that returns on the PRT portfolio will be different than (primarily less than) assumed returns. As mentioned, the investment policy was initially developed to provide a margin of safety above the target 4.5% nominal average rate of return. Emerging returns – and the annual volatility of those returns – that average less than 4.5% inhibit the Trust from accumulating assets necessary to fund future PayGo benefits as anticipated.

Because the Trust formed in 2022 and has only received $3.4 billion of the anticipated $10 billion expected contributions, investment risk is material, but not as significant as contribution and payout risk. Actual portfolio returns less than 4.5% are detrimental, but the target portfolio was constructed with less risk exposure than many mature public sector retirement funds. The stochastic modeling in Section 6 projects that if contributions through fiscal year 2032 in the original fiscal plan are made, there is 75% probability that the Trust will have 100% of the funds available to meet PayGo obligations by June 30, 2039.

Summary conclusions

As constructed and with all assumptions relative to contributions, payout timing and amount, discount rate, and investment portfolio returns materializing at or better than expected, we project the PRT will have enough assets by June 30, 2039, to meet its objective of serving as a supplemental funding source for pension obligations if the Government of Puerto Rico lacks sufficient resources to pay ongoing PayGo benefits.

However, the Trust faces material downside risk if future contributions fall short or if early withdrawals are requested prior to July 1, 2039. The 2024 Certified Fiscal Plan illustrates these risks: reductions in projected contributions and the commencement of withdrawal activity as early as fiscal year 2033 would significantly weaken the funded trajectory, reducing the projected funded percentage to approximately 40% by the mid-2030s. These results underscore that the primary threats to long-term sustainability are contribution risk and payout risk, with investment performance and demographic experience representing secondary (but still meaningful) sources of uncertainty. We have analyzed some of the possible consequences of the 2024 Certified Fiscal Plan in an addendum to this report.

This report identifies the underlying risks and assesses how each may affect the PRT's ability to meet its goals. Requests by the Government for early withdrawals present the largest risk to PRT, followed closely by the risk of receiving contributions that are less than anticipated. Investment return experience is material, but its magnitude is less impactful than contribution and payout risks. Other risks, such as future discount rates that are lower than projected and retirees living longer than expected, also exist; while their impact is less material than contribution, payout, and investment risk, this report provides context on how they affect projected experience.

Segal, in this report, does not provide financial advice with respect to the Trust's investment policies. The purpose of this report is to provide data and analysis to help the trustees with their obligation to review the Trust's investments. We remain available to the Trust to answer any questions arising from the issues raised in this report.

Section 1: Introduction

Background

Overview of the Pension Reserve Trust

The Pension Reserve Trust (PRT) was established on March 14, 2022, through the execution of a Public Deed of Trust, as amended (the "Deed of Trust") in accordance with the "Order and Judgment confirming Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, The Employees Retirement System of the Government of the Commonwealth of Puerto Rico, and the Puerto Rico Public Buildings Authority" and with the "Order Granting Motion of the Financial Oversight and Management Board for Puerto Rico for Order Pursuant to Bankruptcy Code Section 1142 in Aid of Plan Implementation." The Plan of Adjustment incorporates as a Plan Supplement the "Guidelines for the Governance and Administration of the Puerto Rico Plan of Adjustment Pension Reserve Trust and Monitoring of Plan of Adjustment Pension Benefits," as amended (the "Guidelines") and the Deed of Trust incorporates the terms of the Guidelines. These Guidelines establish a means of governing the PRT as long as it exists.

As outlined in the Deed of Trust and Guidelines, PRT functions independently from the Commonwealth of Puerto Rico (the "Government"). The Government is required to make financial contributions to the Trust (based on the Government surplus) while remaining responsible for all pension payments, current and future. The PRT is expected to receive a Base Contribution and in certain cases an Additional Contribution each year based on Commonwealth financials through Fiscal Year 2031. The Additional Contribution is based on the actual remaining surplus after funding certain obligations.

PRT is meant to provide alternate or subsidiary means to help fund pension obligations in the event the Government of Puerto Rico does not have sufficient funds to satisfy its obligation under the current "Pay as You Go" ("PayGo") system. Initial planning for and construction of the PRT relied on projected contributions from 2022 through 2031, an investment portfolio that targets 4.5% annual investment returns, and withdrawal requests to cover benefit payments that are projected to commence July 2039. However, beginning in July 2032, the Government may begin withdrawing funds from the PRT subject to certain conditions being met, based on a formula defined in the Guidelines, depending on the funded level of the PRT and the financial status of the Commonwealth.

If PRT assets are greater than or equal to the present value of PayGo for a given year, then the Government may request a withdrawal for the full amount of PayGo for that year. If PRT assets are less than the present value of PayGo, the request for withdrawal is limited to a portion of the PayGo amount for that year based on the ratio of PRT assets to present value of PayGo. For example, if the PRT balance is $16 billion and the total present value of projected PayGo is $20 billion, 80% (or $16 billion ÷ $20 billion) of PayGo may be requested for that year.

Purpose of the modeling

This actuarial modeling report provides the Pension Reserve Board Trustees with a clear, quantitative evaluation of the Pension Reserve Trust's long-term sustainability under a broad range of future economic and fiscal environments. While the Executive Summary outlines the high-level objectives of the study, this section describes the more detailed intent and analytical framework underlying the projections.

The modeling is designed to assess how the Trust's assets evolve relative to the projected stream of PayGo obligations, taking into account the statutory contribution structure, limitations on early withdrawal requests, and the investment strategy reflected in the PRT's target asset allocation. The analysis focuses on identifying the conditions under which the Trust can achieve and maintain full funding, as well as the conditions that give rise to material shortfalls. This includes isolating the financial influence of the Trust's major risk drivers: Commonwealth contributions, timing and level of PayGo withdrawals, investment returns, discount rate environment, emerging mortality, and the potential for extraordinary fiscal disruptions.

Unlike a traditional valuation, the purpose of this modeling is less about estimating a current liability and more about understanding the Trust's resilience. The projections are intended to illustrate how varying combinations of economic experience, cash-flow patterns, and policy-driven actions can meaningfully change the Trust's funded trajectory. By developing a structured set of baseline, stress testing, and stochastic scenarios, this report equips Trustees with a forward-looking perspective on how contribution sufficiency, withdrawal timing, and market performance interact, and where policy safeguards may be most beneficial.

Data, assumptions and process

Sources of data

Data for this actuarial analysis originated from the Government and/or the Financial Oversight and Management Board of Puerto Rico, or their consultants. Primarily, this included:

- The 2022 Certified Fiscal Plan for the Commonwealth of Puerto Rico (2022 CFP), dated January 27, 2022.
- The Revised 2024 Certified Fiscal Plan (2024 CFP), dated June 6, 2025.
- Projected pension benefit payments (PayGo) certified by the Government's actuaries.

Additional information used to develop stochastic simulations of future investment portfolio returns is based on the 2025 Horizon Actuarial Survey of Capital Market Expectations[3].

Other assumptions, considerations and definitions

Both the Commonwealth and PRT operate using financial fiscal years that end June 30. Accordingly, this actuarial modeling study uses June 30, 2025, as the valuation date, reflecting the most recently completed fiscal year at the time the analysis was undertaken. The June 30, 2025, analysis represents the first full three-year period following the establishment of the Trust, consistent with the intended cadence of Asset and Withdrawal Modeling studies. Experience

[3] https://www.horizonactuarial.com/survey-of-capital-market-assumptions

and events occurring after June 30, 2025, are not reflected in the results presented herein. Throughout this report, use of "fiscal year 20XX" refers to a value as of June 30, 20XX or a cash flow occurring during the 12-month period that ended June 30, 20XX.

In addition to the limit on withdrawal requests based on funded level, it is also assumed that a separate override is applied based on the Commonwealth's projected post-Plan of Adjustment and debt service deficit shown in the 2024 CFP ($608 million as of fiscal year 2032, increasing to over $2 billion by fiscal year 2040).

Per PRT Guidelines, the Pension Benefits Council "…shall approve a Fully Funded Withdrawal Request…" for the following fiscal year when it is determined that the funded percentage at the end of a given year is 100% or higher. In addition, for purposes of this modeling, it is assumed that requests for withdrawal will be made beginning July 1, 2039, in any event.

Modeling Process and Scenario Design

To evaluate the sustainability of the Pension Reserve Trust, this report applies a combination of deterministic projections and stochastic simulations. The modeling framework follows accepted actuarial practice and relies on a consistent set of data, assumptions, and methods described earlier in this section.

The deterministic modeling focuses on isolating the effect of specific risk factors by varying one or more key assumptions at a time. This includes examining:

- alternative contributions, including reductions down to the legal minimum of $175 million;
- early withdrawal activity beginning in different fiscal years;
- alternative investment return scenarios, such as sustained +1%/−1% return environments, multi-year periods of exceptionally high or low returns, and structured volatility patterns;
- alternative discount rate environments that reflect potential future Internal Revenue Code Section 417(e) rate conditions; and
- emerging mortality that is materially higher or lower than the baseline expectation.

The stochastic modeling simulates 1,000 potential investment return paths based on composite capital market assumptions and the PRT's target asset allocation. This allows the analysis to quantify the probability distribution of funded outcomes, showing not only the expected trajectory but also the likelihood of materially better or worse results occurring due to market uncertainty.

Across both deterministic and stochastic approaches, each scenario measures the Trust's asset evolution, the present value of projected PayGo, and the resulting funded percentage over time. The comparisons highlight how sensitive the Trust is to changes in core assumptions and illustrate the range of possible funding outcomes. The design of these scenarios also facilitates stress testing for structural risks such as the Medicaid funding cliff, early withdrawal eligibility under the Guidelines, and potential force majeure events that could depress Commonwealth revenues and temporarily reduce contributions.

Together, these analyses provide Trustees with a comprehensive view of the PRT's prospective financial path and the degree to which contribution policy, withdrawal governance, and investment outcomes shape the long-term viability of the Trust.

Metrics evaluated

Present value of PayGo and projected assets

The primary objective of PRT is to protect the long-term ability to pay public pension obligations – even during economic downturns – by setting aside dedicated, independently governed assets during periods of fiscal surplus. Projected PayGo is based on life annuities promised to a closed-group of pensioners and their beneficiaries through one of the Government-sponsored defined benefit programs[4]. Annual PayGo cost for fiscal year 2026 for all three systems combined is expected to be $2.6 billion; annual PayGo is expected to decrease over time, declining below $2.0 billion by fiscal year 2039 and below $1.0 billion by fiscal year 2051.

The "liability" associated with projected PayGo at any point in time is the discounted present value of all future projected PayGo costs from that point forward. Throughout this report, that liability is referred to as the "present value of future PayGo". Per PRT Guidelines, the present value of future PayGo is determined by discounting each annual, aggregate projected pension benefit cash flow with the segment rate from the corresponding year of the rates defined under Internal Revenue Code Section 417(e)(3) (the "417(e) rates"). For purposes of this study and related risk analyses, a single discount rate is used as a proxy for the expected composite level of future 417(e) segment rates.

PRT assets are projected through time by adding expected contributions, subtracting any applicable PayGo deductions, and estimating annual investment return on the opening balance and cash flows during the fiscal year. For purposes of this study, the opening asset balance is as of June 30, 2025.

At any point in time, the difference between the projected asset value and the liability as of that date reflects the projected funded status – a positive value represents a "surplus" while a negative amount represents a "shortfall".

Funded percentage

Another way to evaluate the PRT funded status at any point in time is based on the funded percentage, which is calculated as the PRT asset value divided by the present value of future PayGo liability. If the actual (or projected) funded percentage is equal to or greater than 100%, it is expected that the Trust has sufficient assets to cover future PayGo, if all future experience emerges as expected.

In other words, while future experience may deviate from expectations, when the funded percentage is 100% or more, the expectation is that the assets in the Trust are enough to cover all future benefit payments from that point forward. A funded percentage less than 100% – say, 75%, for example – implies that PRT assets can cover three-fourths of future benefit payments from that point forward. Because the funded percentage provides a clear, single metric for assessing the Trust's ability to meet its objectives, it serves as a central focus of the modeling in this report.

[4] Puerto Rico Government Employees Retirement System, Teachers Retirement System, and Judiciary Retirement System

Establishing a baseline

Original baseline projection

Based on the 2022 Certified Fiscal Plan, initial projected contributions to PRT (including both Base plus Additional), then-available projections of PayGo, a 3.5% discount rate, and 4.5% expected annual investment portfolio returns (collectively referred to in this analysis as the "Original Baseline"), the PRT was projected to be fully funded by June 30, 2039.

Under the Original Baseline projection and the original Fiscal Plan, PayGo withdrawal requests were expected to commence July 1, 2039, and the value of PRT was projected to be enough to satisfy remaining PayGo requests for the duration of the expected PayGo stream.

Actual experience since prior projection

The first Government contributions to the PRT were received on or around September 2022 in the amount of $1.42 billion. After this initial contribution and through the valuation date of this actuarial analysis (coincident with the PRT fiscal year ending June 30, 2025), three contributions[5] have been made totaling $3.43 billion. Initial projected contributions through June 30, 2025, were expected to total $3.36 billion; actual contributions received have been $71 million more than anticipated in the Original Baseline.

Actual investment portfolio returns since the Trust's inception have generally exceeded the 4.5% per year target. The average annualized return through June 30, 2025, is 7.1%.

As mentioned, the present value of PayGo is determined using 417(e) rates. The level of prevailing 417(e) segment rates has increased in recent years relative to the level of rates at the time of the inception of the PRT. Over the last 36 months, the second segment rate (a proxy for a single equivalent discount rate) has averaged 5.3%. To maintain consistency with the higher level of 417(e) rates, a discount rate of 5.0% is used in this actuarial study.

The projection of PayGo costs has been revised based on updated projections prepared by the System's actuary Milliman, reflecting the most recent actuarial valuations and underlying demographic data available at the time of their analysis. As a result, the level of updated PayGo payments are generally 16-18% higher in the near-term and 10-15% higher through 2050 than those used in earlier projections.

Updated baseline projection

Relying on actual contributions to PRT, updated projections of PayGo, a 5.0% discount rate, and actual investment returns through June 30, 2025 (collectively referred to in this analysis as the "Updated Baseline"), the PRT is still projected to reach a 100% funded percentage by June 30, 2039.

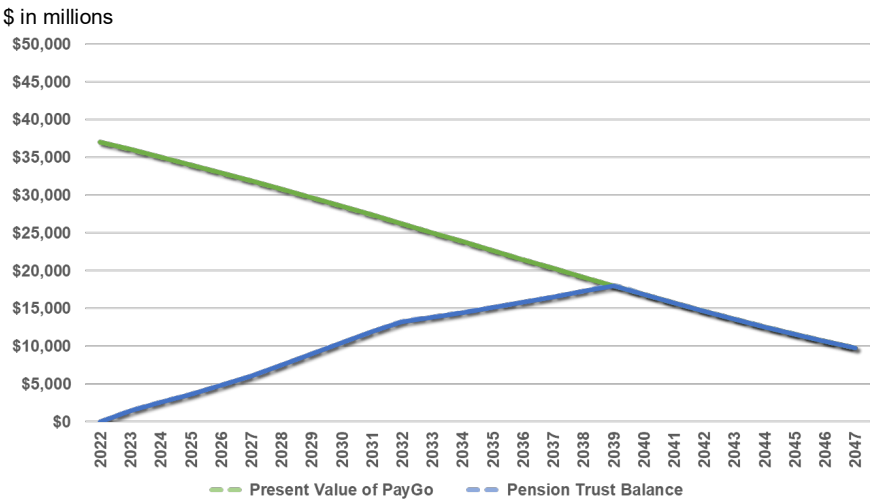
Better-than-expected investment returns, higher-than-projected actual contributions, and use of a higher discount rate offsets the higher present value of PayGo, resulting in the projected year of "fully funding" the Trust remaining unchanged.

[5] Contributions made in September 2023 and September 2024 have included amounts related to Act 80 contributions.

Section 2: Updating the Baseline

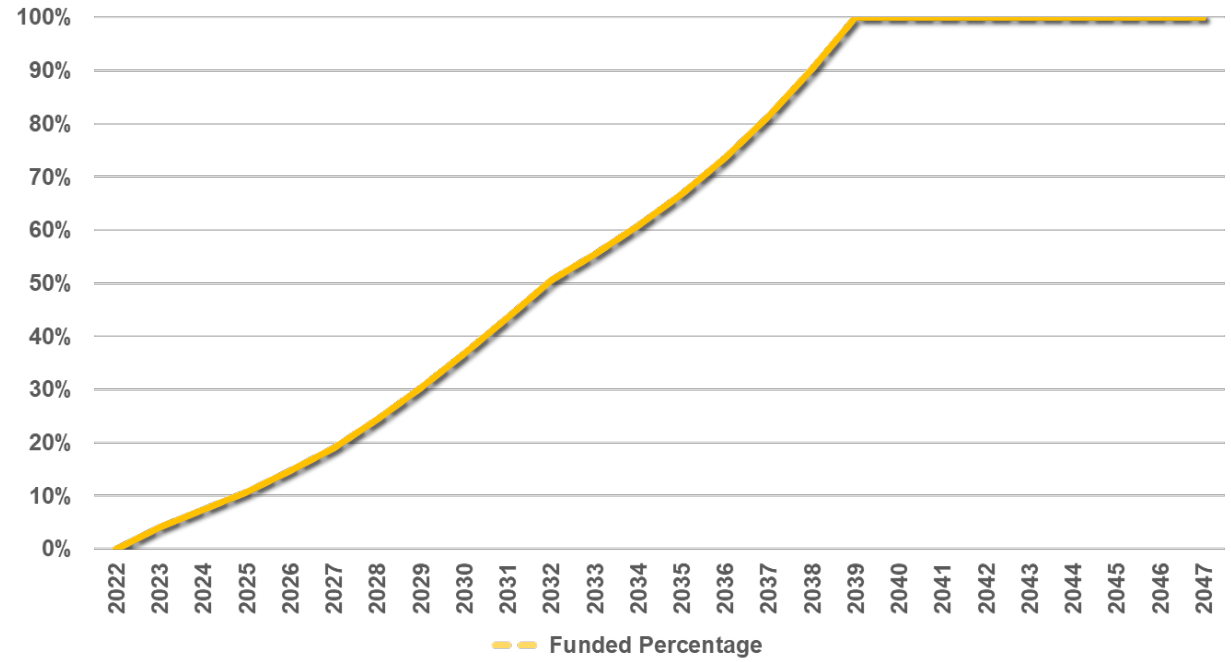
Original baseline projection

Initial planning for and construction of the PRT relied on projected contributions from 2022 through 2031 (corresponding to PRT fiscal years 2023 through 2032), an investment portfolio constructed to target 4.5% annual investment returns, and PayGo withdrawal requests that commenced July 1, 2039.



Discount Rate: 3.50%

FY	Contrib.	Return
2023	$1,421	4.50%
2024	1,036	4.50%
2025	906	4.50%
2026	971	4.50%
2027	970	4.50%
2028	1,132	4.50%
2029	1,123	4.50%
2030	1,027	4.50%
2031	934	4.50%
2032	801	4.50%



Based on the 2022 Certified Fiscal Plan, initial projected contributions to PRT (including both Base plus Additional), then-available projections of PayGo, a 3.5% discount rate, and 4.5% expected annual investment portfolio returns (collectively referred to in this analysis as the "Original Baseline"), the PRT was projected to be fully funded by June 30, 2039.

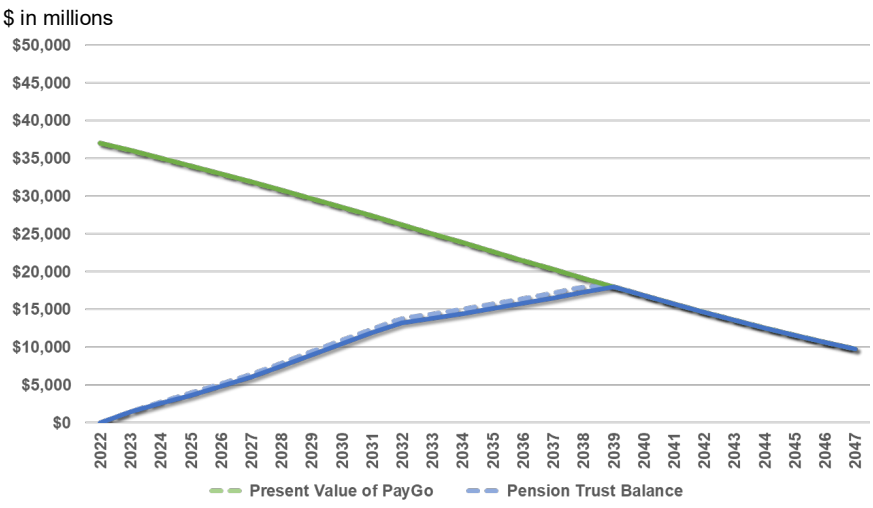
Experience through June 30, 2025

Actual contributions and portfolio returns

The first Government contributions to the PRT were received in September 2022 (fiscal year 2023) in the amount of $1.420 billion. In the two subsequent years, two additional contributions were made: $1.092 billion in September 2023 (fiscal year 2024) and $922 million in September 2024 (fiscal year 2025). Through June 30, 2025, three Government contributions have been made totaling $3.434 billion. Initial projected contributions through June 30, 2025, were expected to total $3.363 billion; actual contributions received have been $71 million more than anticipated in the Original Baseline.

A portion of this additional $71 million is related to contributions that were required to be made under Act 80-2020 ("Act 80"), as partially implemented pursuant to a final stipulation approved by the Hon. Laura Taylor Swain, from August 2024 continuing each month thereafter through fiscal year 2031. Act 80 – also called the Incentivized Retirement Program and Justice for Our Public Servants Act – was intended to expand retirement eligibility and benefits for public employees in Puerto Rico, but due to fiscal and legal challenges, it was significantly curtailed. The act ultimately produced a limited early-retirement program designed primarily to reduce government payroll and included a requirement for additional contributions to PRT from savings generated under the negotiated partial implementation. From fiscal years 2026 through 2030, an additional $80.9 million of so-called "Act 80 contributions" are expected to be made, averaging approximately $16 million per year. Another $4.3 million of Act 80 contributions are expected to be made in fiscal year 2031.

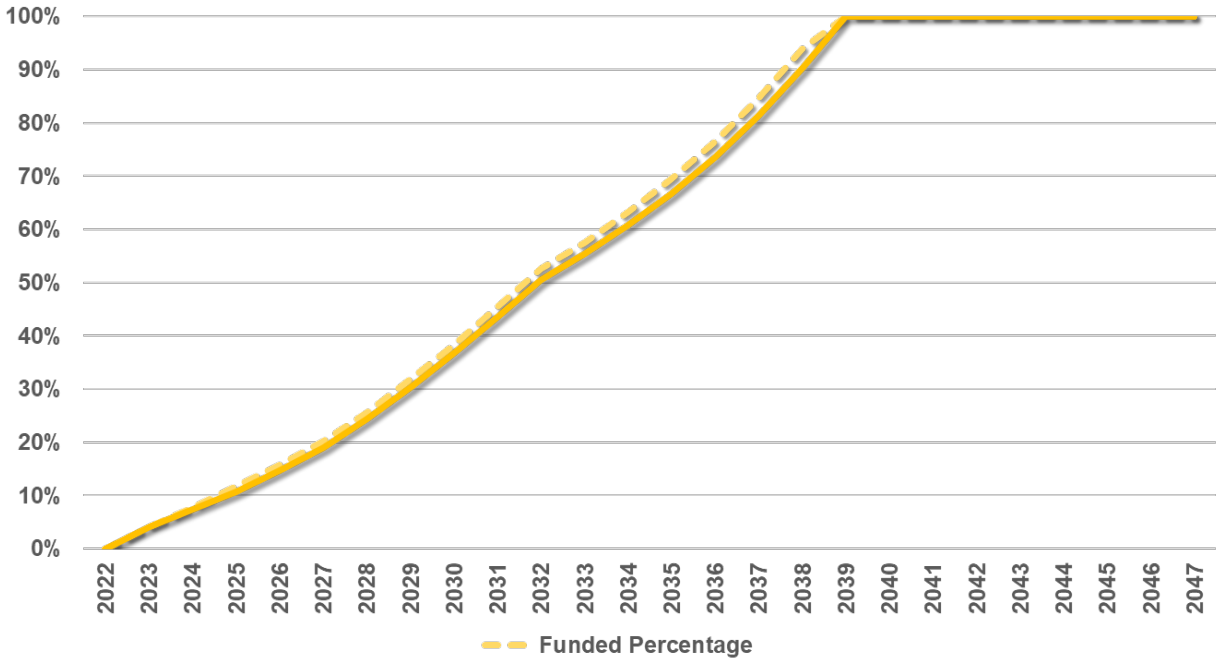
Actual investment portfolio returns since the Trust's inception have generally exceeded the 4.5% per year target. While the portfolio return for fiscal year 2023 was 4.3%, the returns for the following two fiscal years were 8.1% and 8.9%, respectively. In aggregate, the average annualized return through June 30, 2025, is 7.1%.



Discount Rate: 3.50%

FY	Contrib.	Return
2023	$1,420	4.32%[6]
2024	1,092	8.14%
2025	922	8.91%
2026	989	4.50%
2027	987	4.50%
2028	1,148	4.50%
2029	1,138	4.50%
2030	1,042	4.50%
2031	938	4.50%
2032	801	4.50%

[6] Represents a partial year return for the period September 2022 to June 2023.



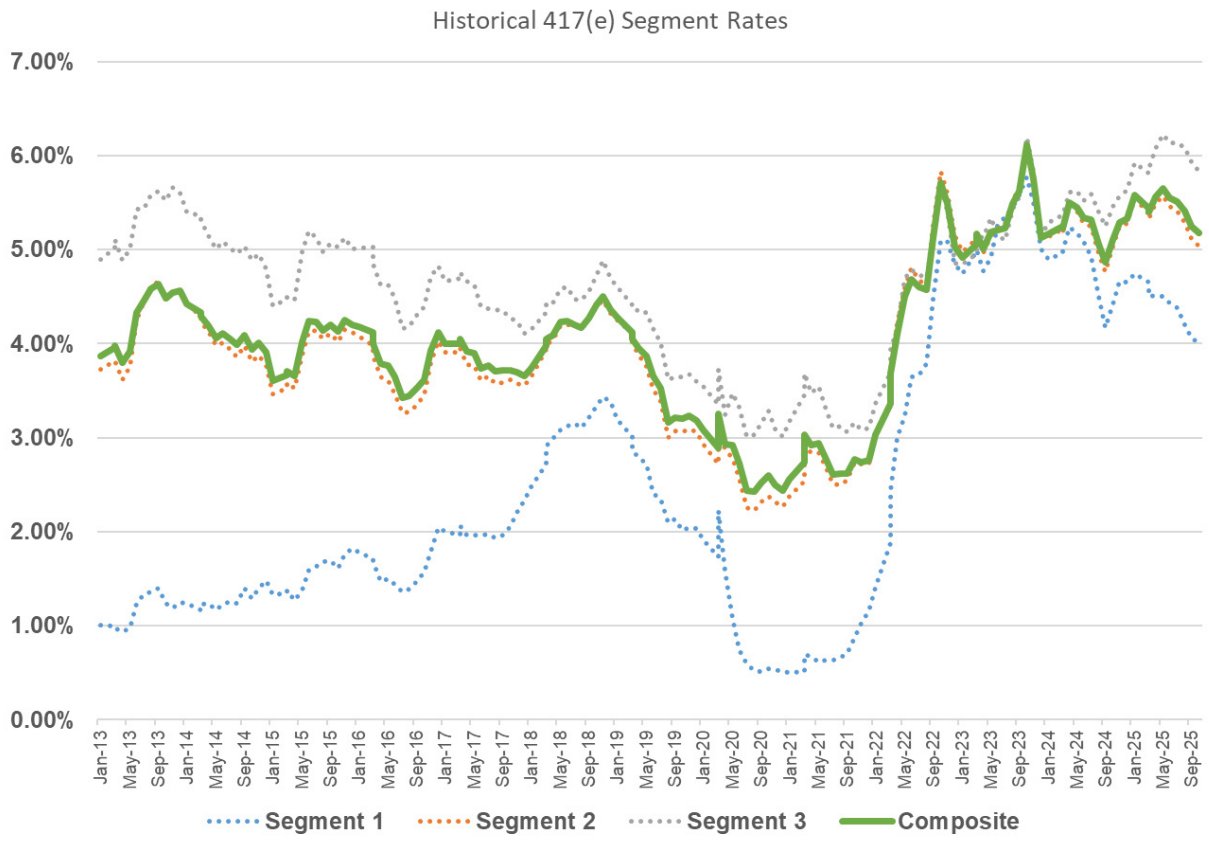
Actual contributions and investment returns through June 30, 2025 – along with reflecting additional Act 80 contributions – yield marginally better projection results, with the Trust still projected to attain 100% funded by June 30, 2039.

Discount rate

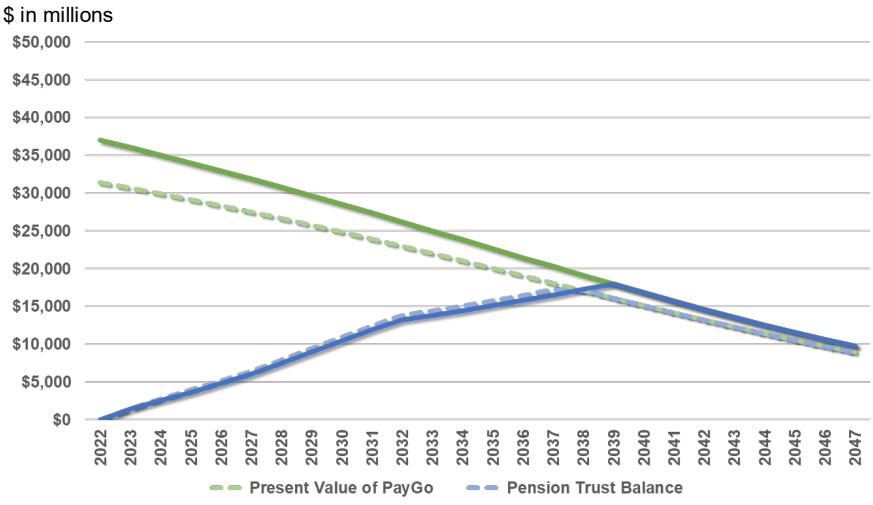
Per the Guidelines, the present value of future PayGo is determined by discounting each projected pension benefit cash flow with the segment rate from the corresponding year of the rates defined under Internal Revenue Code Section 417(e)(3) (the "417(e) rates"). At the time the PRT was established, the second segment 417(e) rate (a proxy for a single-equivalent rate) had recently risen from COVID-19 pandemic-driven lows below 3% and was trending upward. Given this environment, selecting a 3.5% discount rate was a reasonable and supportable assumption at the time.

Since that time, however, the level of 417(e) rates have increased substantially. Following the post-pandemic period of elevated inflation and rising interest rates, all three segment rates exceeded 5% by the third quarter of 2023. Since the third quarter of 2022, the second segment rate has averaged 5.3%. With this sustained shift in the interest-rate environment, reevaluating the discount rate now supports the use of a higher assumption to better reflect current market conditions.

The following chart illustrates the movement in 417(e) segment rates since 2013. Layered on top of the segment rates is a single-equivalent composite rate calculated using the PRT projected PayGo. Note that the second segment rate runs very close to the composite rate throughout the period, supporting the claim that it is a reasonable proxy for the single-equivalent rate.

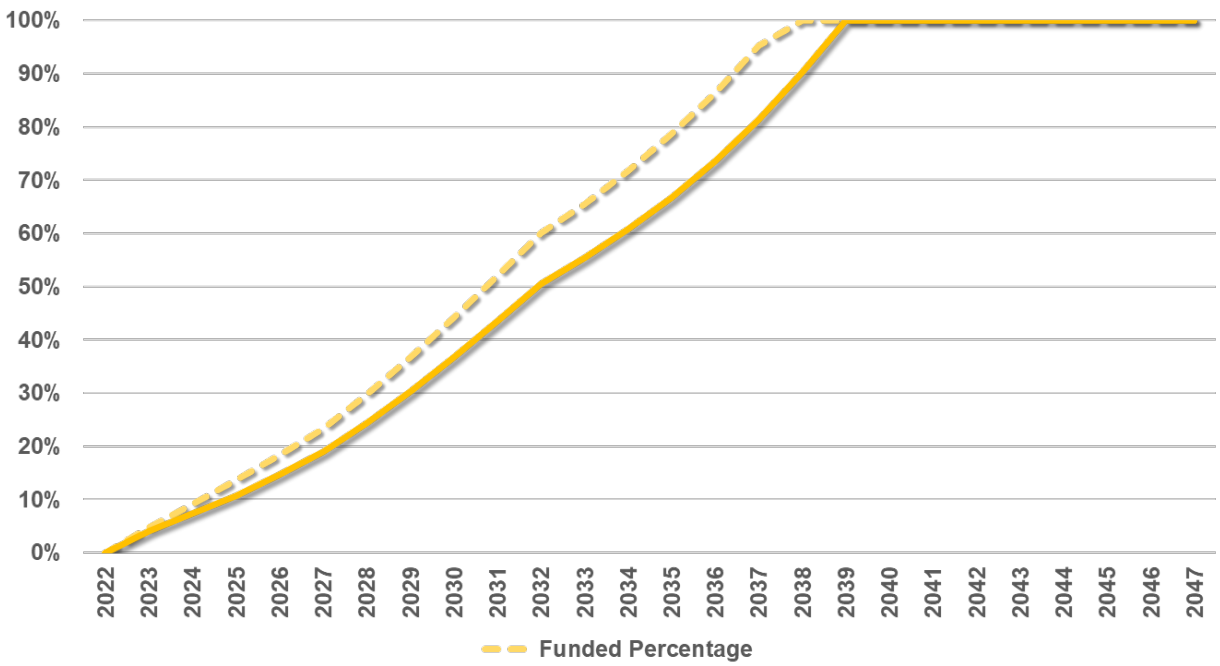


To maintain consistency with the higher level of 417(e) rates, a discount rate of 5.0% is used in this actuarial study.



Discount Rate: 5.00%

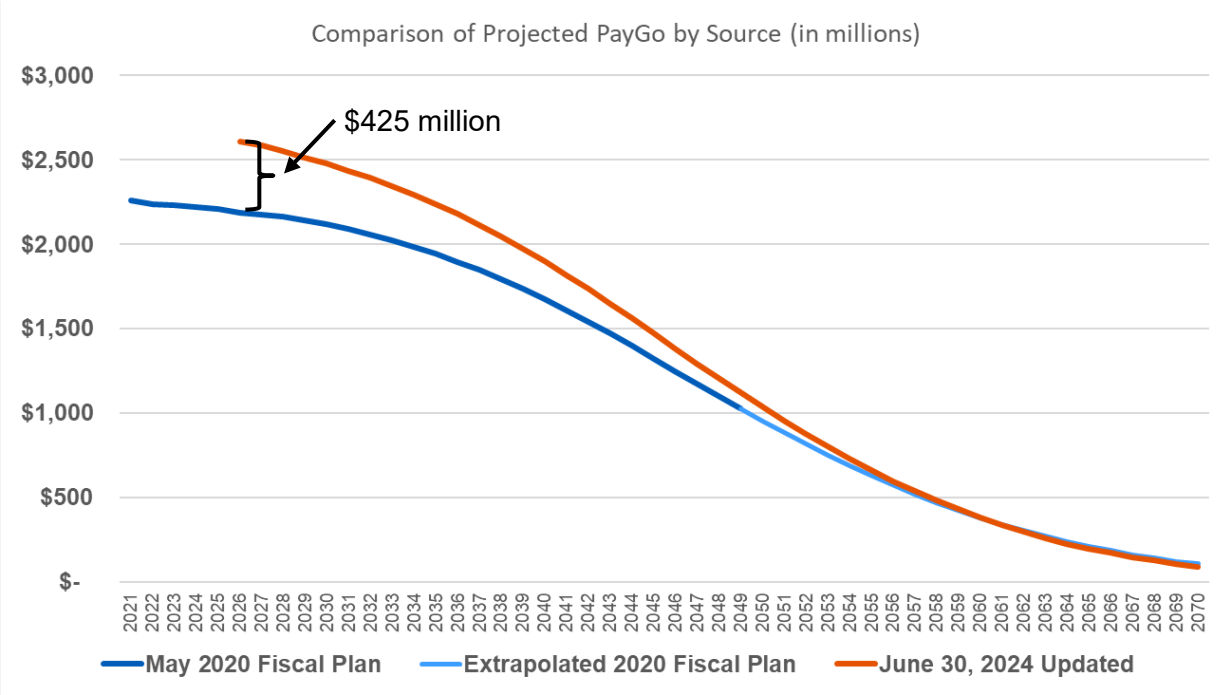
FY	Contrib.	Return
2023	$1,420	4.32%
2024	1,092	8.14%
2025	922	8.91%
2026	989	4.50%
2027	987	4.50%
2028	1,148	4.50%
2029	1,138	4.50%
2030	1,042	4.50%
2031	938	4.50%
2032	801	4.50%



Reflecting both actual contributions (including Act 80 contributions) and investment returns through June 30, 2025, and a 5.0% discount rate (which lowers the present value of future PayGo), we project the Trust to reach 100% funded by June 30, 2038 – a year earlier than with a 3.5% discount rate.

Revised PayGo projections

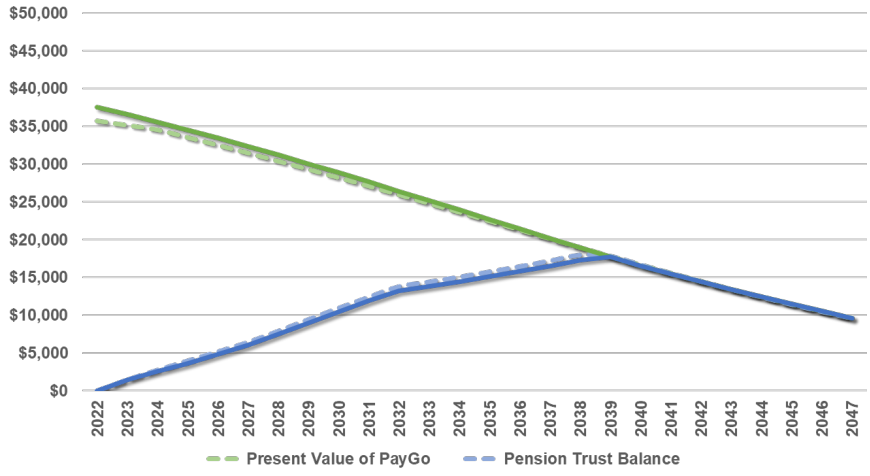
The Government's actuarial consultant, Milliman, provided updated projected PayGo based on the draft June 30, 2024, actuarial valuations. The revised PayGo reflect higher annual payments as illustrated in the following graph:



The level of updated PayGo payments based on Milliman's draft June 30, 2024, actuarial valuations are generally 16-18% higher in the near-term and 10-15% higher through 2050 than those used in earlier projections based on the 2020 Fiscal Plan. For example, in fiscal year 2026, the updated PayGo amount is projected to be $425 million, gradually declining to a delta of $225 million by fiscal year 2040 and less than $90 million by fiscal year 2050. While no detailed reconciliation of the increase in projected PayGo relative to earlier projections has been provided, increases can arise for numerous reasons – when updated actuarial valuations incorporate more recent retiree and beneficiary data, mortality experience that was better than expected, actuarial assumptions that were modified, or other refinements to cash flow modeling.

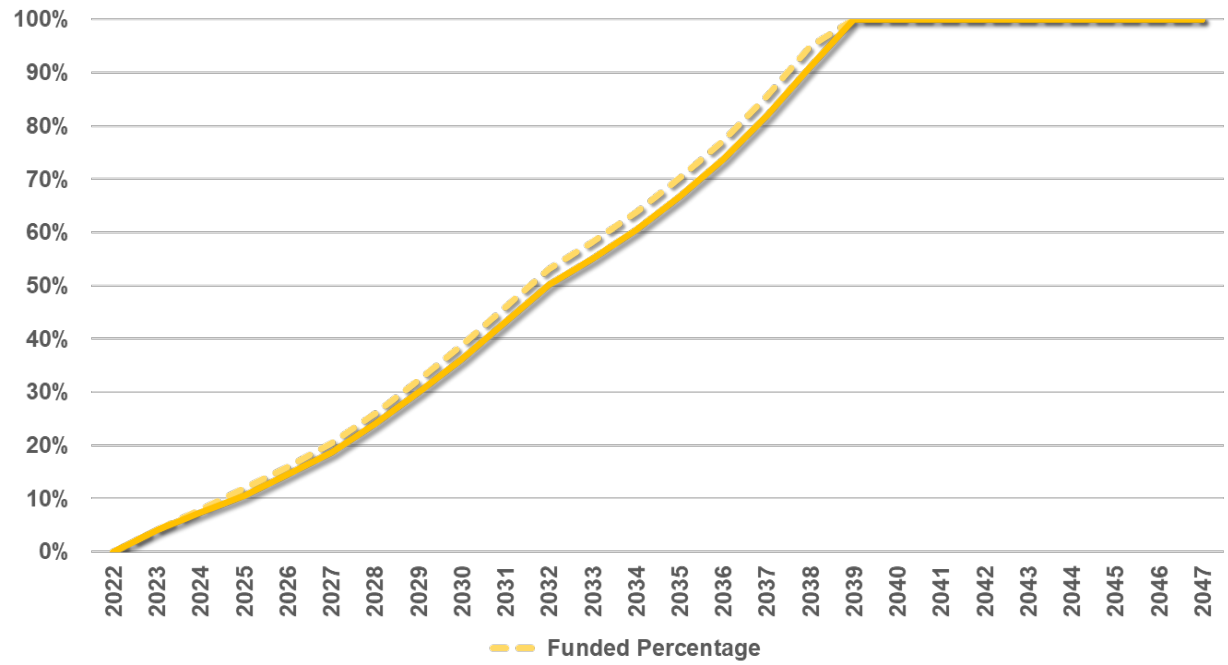
$ in millions

Updated PayGo Projection



Discount Rate: 5.00%

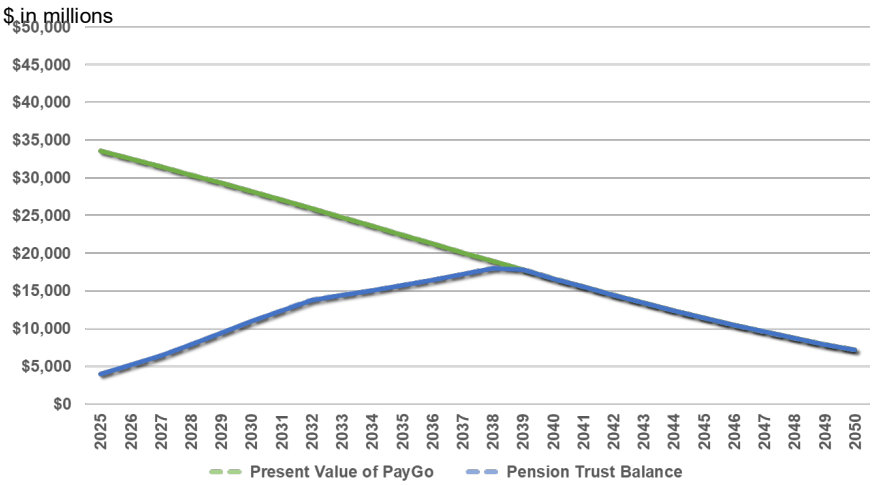
FY	Contrib.	Return
2023	$1,420	4.32%
2024	1,092	8.14%
2025	922	8.91%
2026	989	4.50%
2027	987	4.50%
2028	1,148	4.50%
2029	1,138	4.50%
2030	1,042	4.50%
2031	938	4.50%
2032	801	4.50%



Taking into account the most recent projection of PayGo, the date we project the Trust will attain 100% funding reverts back to June 30, 2039. The net impact of all actual experience through June 30, 2025, increasing the discount rate to 5.0%, and reflecting revised PayGo yields no change to the projected full funding date of the PRT.

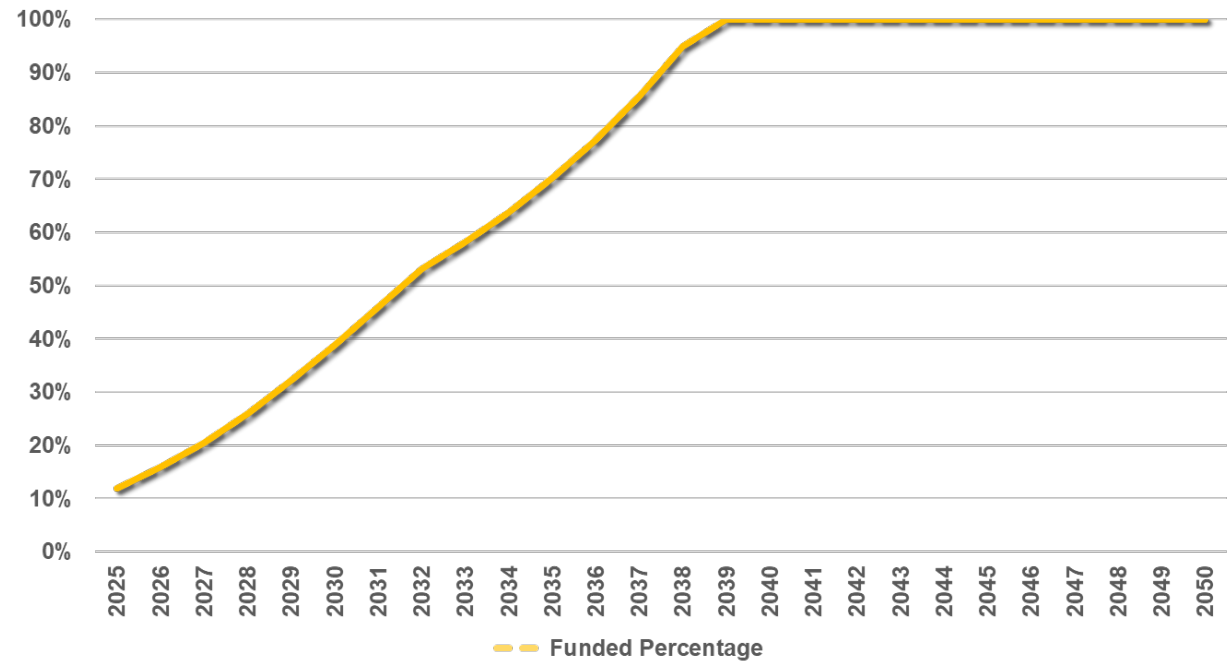
Updated baseline

Combining all known experience through June 30, 2025, the following chart and table show an "Updated Baseline" projection of PRT balance and funded level from fiscal years 2025-2050. Under the Updated Baseline, we project the Trust will be 100% funded as of June 30, 2039.



Discount Rate: 5.00%

FY	Contrib.	Return
2026	$989	4.50%
2027	987	4.50%
2028	1,148	4.50%
2029	1,138	4.50%
2030	1,042	4.50%
2031	938	4.50%
2032	801	4.50%



Section 3: Contribution and Early Withdrawal Modeling

Additional deterministic modeling

Risk of lower contributions and early withdrawal requests

Reduced contributions through fiscal year 2032 and/or requests for early withdrawal prior to July 1, 2039, are significant levers in determining the long-term sustainability of PRT and its ability to fulfill its mission. This section illustrates this risk by focusing on the projected funded percentage as of June 30, 2039, under potential combinations of reduced non-Act 80 Commonwealth contributions (assumed to decrease to $175 million threshold for the noted fiscal year and all subsequent fiscal years through 2032) and early withdrawal requests.

Assuming 4.5% annual portfolio returns

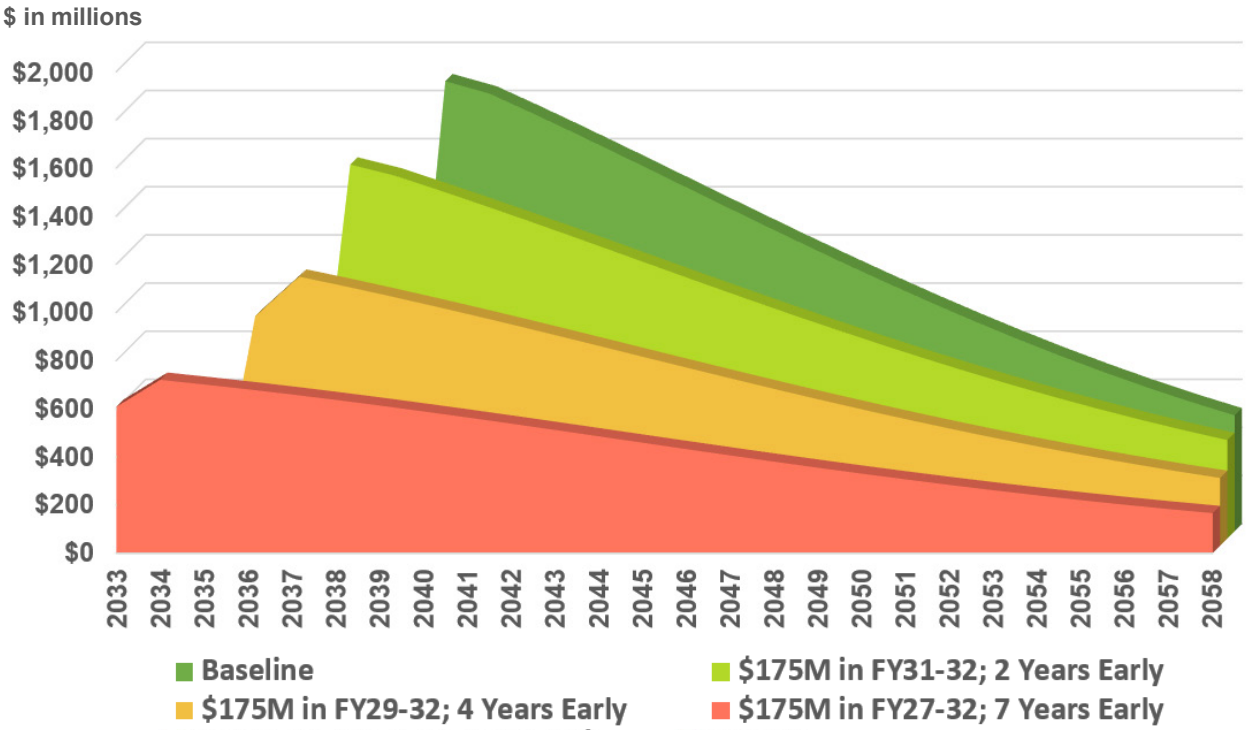
The following table illustrates the projected PRT funded percentage at various combinations of reduced contribution and early withdrawal requests. Reduced contribution years are indicated by column heading and early withdrawal requests are indicated by row labels[7]. The label "N/A" indicates that either contributions are received at their full projected amounts each year or that no requests for early withdrawals are made prior to July 1, 2039.

Starting year that early withdrawals could commence	Starting year that contributions could be reduced to $175 million						
	N/A	FY 2032	FY 2031	FY 2030	FY 2029	FY 2028	FY 2027
N/A	100%	100%	94%	87%	78%	69%	61%
FY 2039	95%	90%	85%	78%	70%	62%	55%
FY 2038	86%	82%	76%	70%	63%	56%	50%
FY 2037	79%	75%	70%	64%	57%	51%	45%
FY 2036	74%	70%	65%	59%	53%	46%	41%
FY 2035	69%	65%	60%	55%	49%	42%	37%
FY 2034	65%	61%	56%	51%	45%	39%	33%
FY 2033	61%	57%	53%	48%	42%	36%	31%

[7] For example, the 64% value under the column "FY 2030" and row "FY 2037" is based on a scenario where non-Act 80 contributions for fiscal years 2030-2032 are equal to $175 million and requests for early withdrawals are made for three years. Similarly, the 31% value under the column "FY 2027" and row "FY 2033" is based on a scenario where non-Act 80 contributions for fiscal years 2027-2032 are equal to $175 million and requests for early withdrawals are made for seven years.

Potential projected withdrawals

The following graph illustrates the **projected withdrawal amounts** from PRT based on various combinations of reduced contribution and early withdrawal requests from the table above. The Baseline scenario (green) represents projected withdrawals where all contributions are received at projected amounts and there are no early withdrawals (i.e., commencement in fiscal year 2040). The other three alternative scenarios – "$175M in FY31-32; 2 Years Early", "$175M in FY29-32; 4 Years Early", "$175M in FY27-32; 7 Years Early" – represent combinations of reduced contributions and early withdrawals along the diagonal from upper-left to lower-right in the table above. The four scenarios illustrate the resulting projected withdrawal amounts that correspond to the funded percentages of 100%, 76%, 53%, and 31%, respectively. Colors shown below correspond to the grid on the previous page.



In each alternative scenario, the longer contributions are reduced, and the earlier withdrawal requests begin, the less funding the PRT has available to supplement PayGo costs. Note that one of the underlying projection assumptions is that withdrawal requests are limited to the projected amount of Commonwealth fiscal deficit in any given year. As can be observed in the graph, this override clearly applies in fiscal year 2033 in the "$175M in FY27-32; 7 Years Early" scenario and fiscal year 2036 in the "$175M in FY29-32; 4 Years Early" scenario, and to a lesser extent in the "$175M in FY31-32; 2 Years Early" and Baseline scenarios.

Assuming 5.5% annual portfolio returns (+1% per year)

The following table illustrates the projected PRT funded percentage at various combinations of reduced contribution and early withdrawal requests, assuming that investment returns are 1% higher than assumed each year (i.e., portfolio returns of 5.5% per year rather than 4.5%).

Starting year that early withdrawals could commence	Starting year that contributions could be reduced to $175 million						
	N/A	FY 2032	FY 2031	FY 2030	FY 2029	FY 2028	FY 2027
N/A	100%	100%	100%	98%	89%	79%	70%
FY 2039	100%	100%	96%	88%	80%	71%	63%
FY 2038	99%	94%	87%	80%	72%	64%	57%
FY 2037	90%	86%	80%	73%	65%	58%	51%
FY 2036	85%	80%	74%	68%	60%	53%	46%
FY 2035	80%	75%	70%	63%	56%	49%	43%
FY 2034	75%	70%	65%	59%	52%	44%	39%
FY 2033	71%	66%	61%	55%	48%	41%	36%

Earning better returns each year partially offsets the impact of reduced contributions and early withdrawals to a certain extent. More combinations (five) still result in PRT achieving a 100% funded percentage than under the baseline (two). As expected, in the most extreme scenario where contributions and early withdrawals are modeled for the longest period – and therefore PRT assets have the lowest ability to accumulate – superior investment returns have a limited impact, only improving the projected funded percentage from 31% to 36%.

Assuming 3.5% annual portfolio returns (−1% per year)

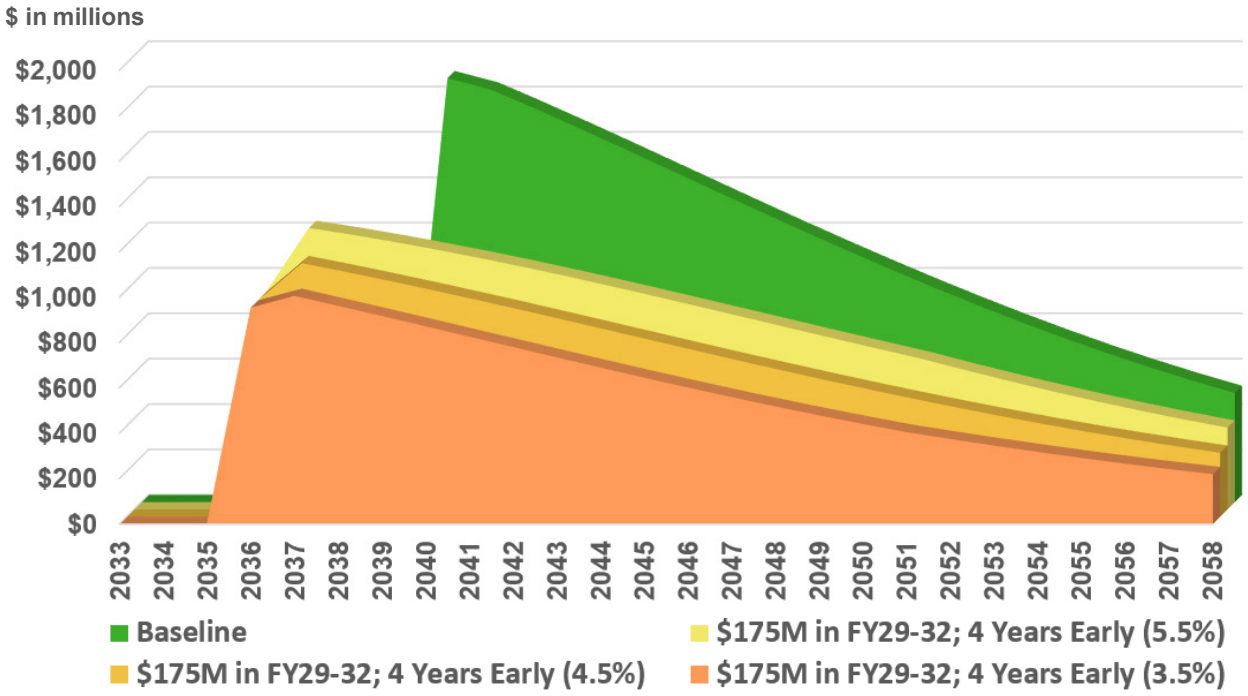
The following table illustrates the projected PRT funded percentage at various combinations of reduced contribution and early withdrawal requests, assuming that investment returns are 1% lower than assumed each year (i.e., portfolio returns of 3.5% per year rather than 4.5%).

Starting year that early withdrawals could commence	Starting year that contributions could be reduced to $175 million						
	N/A	FY 2032	FY 2031	FY 2030	FY 2029	FY 2028	FY 2027
N/A	94%	89%	84%	77%	69%	61%	54%
FY 2039	84%	80%	75%	69%	62%	55%	49%
FY 2038	76%	72%	67%	62%	56%	49%	44%
FY 2037	69%	66%	61%	56%	50%	44%	39%
FY 2036	64%	61%	56%	52%	46%	40%	36%
FY 2035	60%	57%	53%	48%	42%	37%	32%
FY 2034	56%	53%	49%	44%	39%	33%	29%
FY 2033	53%	50%	46%	41%	36%	31%	27%

Unsurprisingly, worse-than-assumed portfolio returns each year exacerbate the impact of reduced contributions and early withdrawals. No combinations result in PRT achieving a 100% funded percentage and in the most extreme scenario where contributions and early withdrawals are modeled for the longest period, the projected funded percentage barely exceeds 25%.

Potential projected withdrawals

The following graph illustrates the **projected withdrawal amounts** from PRT based on a single combination of reduced contribution and early withdrawal requests – specifically, "$175M in FY29-32; 4 Years Early" – across all three tables above (baseline 4.5% investment returns each year, as well as alternative 5.5% and 3.5% investment returns each year). The Baseline scenario, shown for reference, represents projected withdrawals where all contributions are received at projected amounts and there are no early withdrawals (i.e., commencement in fiscal year 2040). The four scenarios illustrate the resulting projected withdrawal amounts that correspond to the funded percentages of 100%, 60%, 53%, and 46%, respectively. Colors shown below correspond to the grids on the previous pages.



As previously stated, the alternative investment return scenarios have limited impact – in either direction – on the level of funding the PRT has available to supplement PayGo costs.

Section 4: Impact of Force Majeure Event

20-year hurricane lookback (2006-2025)[8]

The following table summarizes Caribbean-area hurricanes over the last 20 years that have impacted Puerto Rico. For this summary, "Damage Impact" levels are defined as:

- **Small** – Limited, localized damage on the island; brief service disruptions; modest, short-lived hit to tax collections; minimal extraordinary outlays.
- **Medium** – Measurable infrastructure/service disruptions island-wide; noticeable revenue dip for one or more broad-based taxes (e.g., SUT/sales), with recovery in several months; meaningful extraordinary expenditures and cash-flow management needs.
- **High** – Widespread damage, long power/water interruptions; sharp, sustained revenue contraction; very large emergency and capital outlays; substantial reliance on federal disaster funds; administrative frictions in reimbursements; multi-year fiscal after-effects.

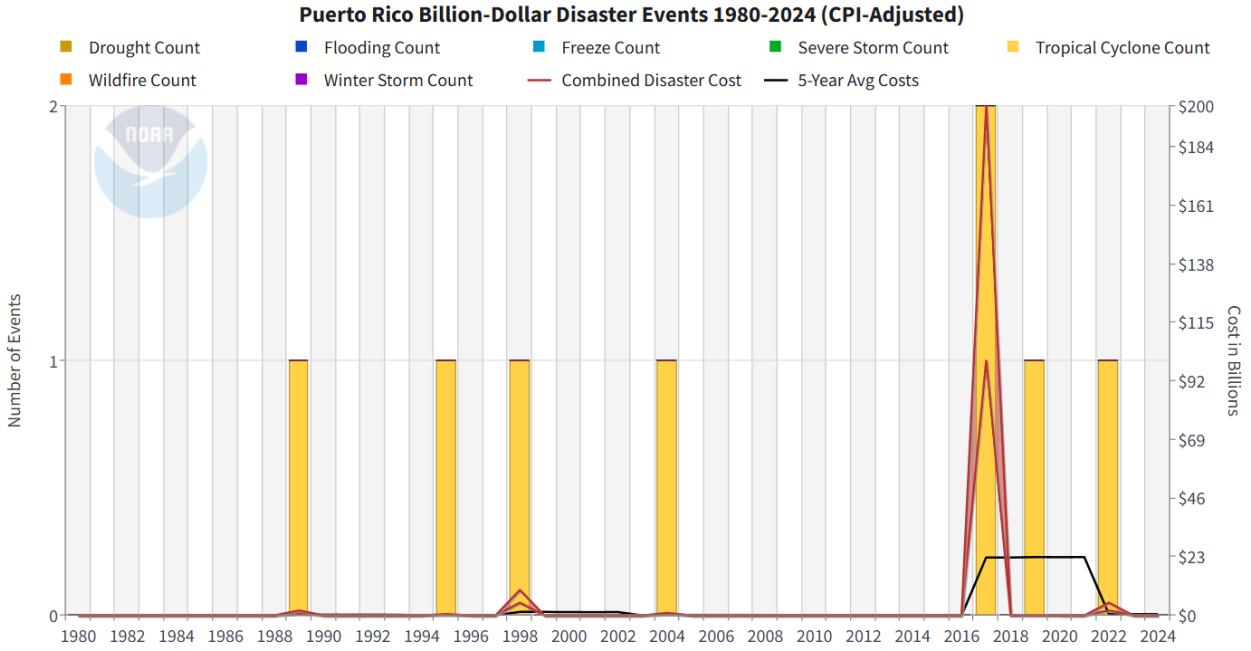
Year	Storm	Puerto Rico Impact	Damage Impact
2008	**Hanna, Ike**	Heavy rain/swell; limited PR fiscal impact; minor localized issues	**Small**
2011	**Irene**	Outer bands over PR; flooding/wind damage; service outages; no long-lasting fiscal drag noted; localized infrastructure/response costs	**Small-Medium**
2017	**Irma** (Cat 5 passed NE of PR)	Significant outages and damage in several areas; largely a glancing blow that weakened systems ahead of Maria; emergency expenditures; near-term revenue disruption	**Medium**
2017	**Maria** (Cat 4 PR landfall)	Catastrophic island-wide damage; longest blackout in US history; nearly $90B losses; massive federal disaster funding requirement; severe, multi-year hit to revenues; very large emergency and capital outlays; prolonged reimbursement cycle	**High**
2019	**Dorian**	Brushed PR; limited direct damage; minimum PR fiscal effect	**Small**
2020	**Isaias**	Heavy rain; power interruptions; COVID complications; short-lived revenue/service effects	**Small-Medium**
2022	**Fiona**	Island-wide blackout, severe flooding and landslides; FEMA assistance $1.2B+ within 15 months; noticeable, but shorter-lived revenue hit than Maria; meaningful emergency/repair costs	**Medium**

[8] Information and narrative compiled with assistance from Microsoft Copilot AI.

2024	**Beryl**	Passed south of PR; precautionary disruptions; minor, brief impact	**Small**
2025	**Erin, Humberto**	No direct PR strike; grid fragility highlighted by island-wide blackouts; fiscal risk via outages	**Small**

Frequency of hurricanes impacting Puerto Rico

Puerto Rico lies along common Atlantic storm pathways and the late-summer and early-fall months carry the greatest risk. Even when the island avoids the eyewall, outer-band rainfall and wind can trigger major floods, landslides and service disruptions. The National Oceanic and Atmospheric Administration (NOAA) tracking archives show frequent brushes with tropical cyclones, with periodic direct landfalls. NOAA characterizes Puerto Rico's experience with hurricanes as "costly but episodic". From 1980 to 2024, Puerto Rico logged a total of eight billion-dollar tropical cyclone events; the 2017 season noted above (Irma and Maria) dominating the loss profile.



Source: NOAA's National Centers for Environmental Information – Billion-Dollar Weather and Climate Disasters https://www.ncei.noaa.gov/access/billions/state-summary/PR

The most recent decade showed multiple hurricanes – some with elevated financial losses – whereas prior decades showed less frequency of such storms. The increased frequency of storms in the period from 2016 to 2024 compared to 1980 to 2015 resulting in the likelihood of more frequent, costly storms in the projection period of this study is not part of the analysis. The period from 1980 to 2024 is still a relatively small sample size overall. The next section shows the effects of Small, Medium and High damaging storms over different projected time periods by driving contributions down to the combined limit of $175 million plus the Act 80 contributions for one, two or four-year periods based on the damage level being modeled (Small, Medium and High, respectively).

Modeling hurricane impact on PRT

How hurricanes impact the Commonwealth's finances[9]

There are three primary ways that hurricanes can impact Government revenues:

1. **Real-time economic halt** (e.g., power/water outages, road closures, etc.): Suppresses sales & use tax, excise, lodging, and motor-fuel tax collections; delays compliance for income/withholding. In Maria, near-total service interruption and outmigration led to a material, prolonged revenue shortfall.
2. **Tourism and services slump**: Fewer visitors combined with curtailed activity depress hotel occupancy and related taxes. Maria's multi-month blackout uniquely deepened this channel; Fiona's blackout was shorter, so revenue impacts were briefer.
3. **Manufacturing disruption**: Temporary stoppages/logistics delays impair gross receipts and corporate tax bases (particularly pharma/electronics clusters).

In addition, there are three broad transmission channels to affect Government expenditures:

1. **Emergency response and debris**: Immediate spending (e.g., overtime, sheltering, debris removal, emergency contracts, etc.) spikes cash needs. Federal government (i.e., FEMA) provides reimbursement later, but with lag and documentation burden.
2. **Repairs and capital recovery**: Permanent work (schools, roads, PREPA grid, PRASA water) demands local match, procurement capacity, and working capital.
3. **Energy system fragility**: Grid damage from Maria and again from Fiona produced costly economy-wide losses and emergency energy measures in 2025. Recurring blackouts can depress revenues and raise public sector operations and maintenance/contingency costs even outside hurricane landfalls.

The duration of any impact to revenues and expenses is highly dependent on the impact category as outlined earlier. Small damage events generally impact finances up to three months. Short-lived SUT and tourism/manufacturing dips are commonly caught up within two quarters and emergency outlays are relatively modest and quickly reimbursed. Medium damage events are typically felt for three to nine months. Revenue normalization can occur within two fiscal quarters and power/service stability returns. Expenditures are elevated for a longer period due to the time it takes to clear debris and implement repairs. High damage events can be expected to cause financial disruption for 12-24+ months.

Assumptions used for modeling

From PRT's perspective, force majeure events translate into potential reductions in contributions and, in extreme cases, requests for early withdrawals. For a meaningful assessment of potential hurricane impact on PRT sustainability/viability, we begin with the Updated Baseline projection.

[9] Information and narrative compiled with assistance from Microsoft Copilot AI.

The extent of any hurricane impact – particularly as it relates to the unique situation of PRT – is driven by two factors: when a hurricane impacts the island and the severity. Current projections of contributions include expected amounts during fiscal years 2026 through 2032. Since the bulk of the fiscal 2026 amount was deposited during the third quarter of calendar 2025, there are potentially six contributions at risk. With that in mind, the modeling contemplates the following scenarios; in all cases Act 80 contributions through fiscal 2031 are assumed to be made:

Year	Impact Category	Modeling Assumptions
2026	Small	$175M plus Act 80 contribution in FY2027
	Medium	$175M plus Act 80 contribution in FY2027-2028
	High	$175M plus Act 80 contribution in FY2027-2030
2028	Small	$175M plus Act 80 contribution in FY2029
	Medium	$175M plus Act 80 contribution in FY2029-2030
	High	$175M plus Act 80 contribution in FY2029-2032
2030	Small	$175M plus Act 80 contribution in FY2031
	Medium	$175M plus Act 80 contribution in FY2031-2032
	High	$175M plus Act 80 contribution in FY2031-2032; early withdrawals in FY2033-2034

For modeling purposes, small hurricanes are estimated to reduce contributions to the $175 million minimum for one year; medium hurricanes reduce contributions to $175 million for two years; and high-impact hurricanes reduce contributions to $175 million for four years (or, in the case of an assumed event in 2030, two years of reduced contributions followed by early withdrawals requested in fiscal years 2033 and 2034). These simplified assumptions allow for consistent comparisons of timing and severity.

To provide additional empirical context around the small/medium/high damage categories used for modeling potential hurricane impacts on the PRT, it is informative to reference the observed fiscal and economic effects of Hurricanes Irma and Maria in 2017. In addition to the physical disruption and economic contraction caused by these hurricanes, the storms also resulted in material deviations from previously certified revenue projections, requiring substantial downward revisions in subsequent fiscal plans.

Following Hurricanes Irma and Maria, actual tax revenue collections fell significantly below the levels projected just months earlier. In the first full fiscal year after Maria, tax revenues came in more than $800 million (approximately 10%) below pre-hurricane forecasts, including sales tax collections that were roughly 30% below projected levels[10]. Total fiscal-year revenues were estimated to be approximately $1 billion lower than pre-Maria expectations, reflecting widespread business interruption, reduced consumption, and severe infrastructure failure.[10]

These revenue shortfalls aligned with the sharp deterioration observed in macroeconomic indicators. Puerto Rico's Economic Activity Index registered year-over-year declines of 16% to 20% in the immediate months following Irma and Maria, far deeper than any downturn incorporated in pre-storm fiscal models[11]. In addition, large-scale outmigration in the two years

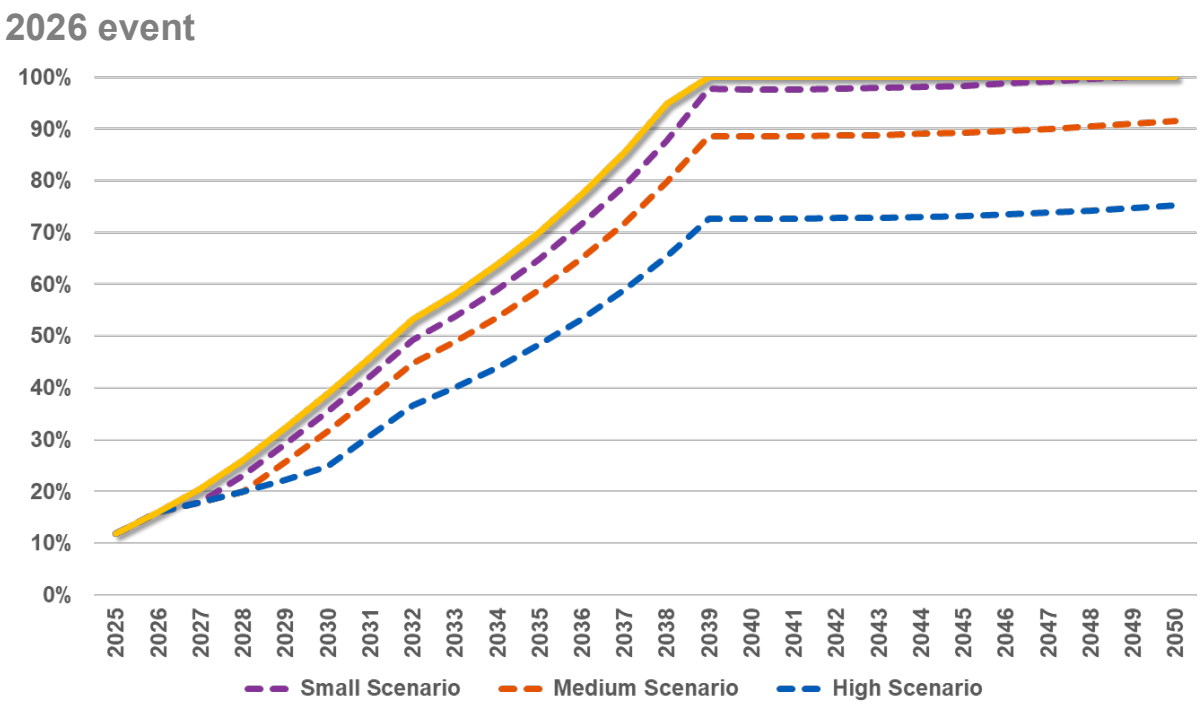
[10] Setser, B. "*The Oversight Board's Latest Fiscal Plan for Puerto Rico Is Still Too Optimistic,"* Council on Foreign Relations (April 19, 2018).
[11] V2A Consulting, *"Puerto Rico Post-2017 Hurricane Season: Update and Revised Outlook,"* (June 21, 2018).

following Maria – estimated at up to 470,000 residents, or 14% of the population – further depressed income and consumption tax bases relative to pre-storm projections.[12] These structural changes required substantial downward revisions to multi-year revenue projections in fiscal plans issued after 2017, including the April 2018 Fiscal Plan, which explicitly acknowledged the necessity of rebuilding the Commonwealth's revenue forecast methodology in light of hurricane-driven economic contraction.[13]

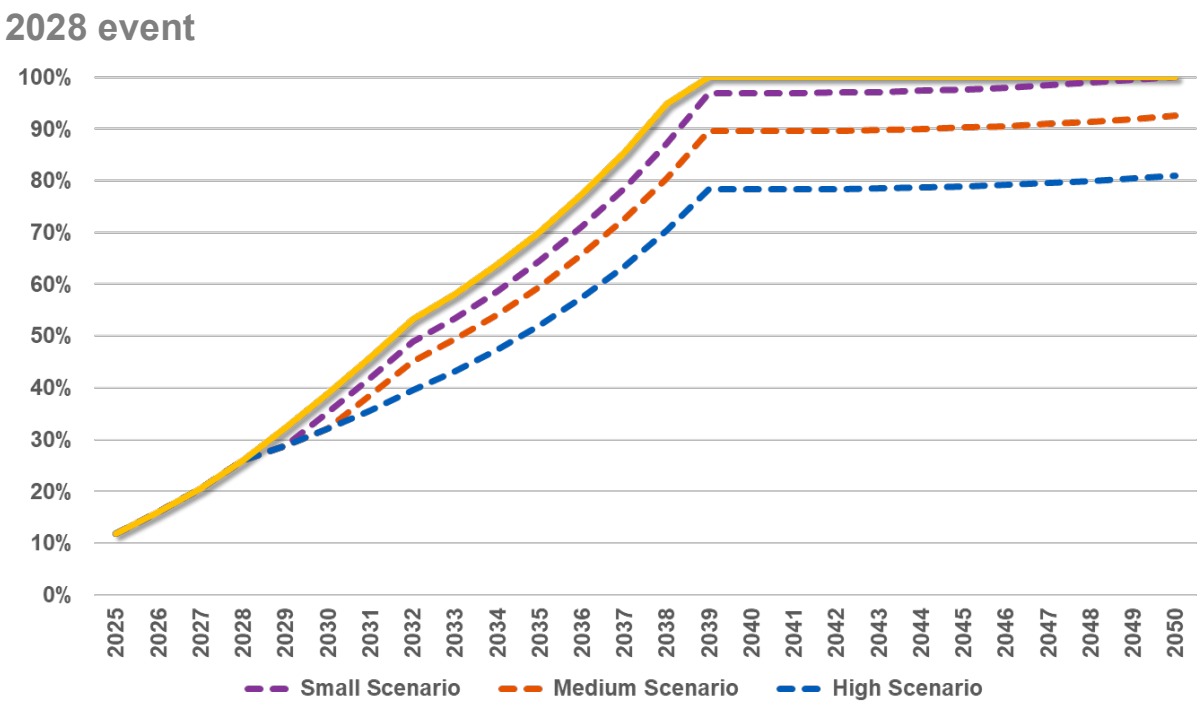
The historical record demonstrates that major hurricanes can generate persistent and material gaps between pre-event revenue expectations and post-event realities. The magnitude of these deviations (particularly following Maria) supports the **classification of Maria** as a **high impact** event for modeling purposes, characterized by long-term impairment to the Commonwealth's revenue-raising capacity.

These findings underscore the importance of incorporating revenue-projection risk into the PRT's forward-looking analysis. Just as reductions in PRT contributions materially weaken long-term funded outcomes, large-scale deviations in Commonwealth revenues following a severe hurricane can compound fiscal stress, increasing the likelihood of early withdrawal requests and reducing the Commonwealth's capacity to meet its contribution obligations under the Guidelines.

[12] Meléndez, E. & Hinojosa, J. *"Estimates of Post-Hurricane Maria Exodus from Puerto Rico,"* (October 1, 2017).
[13] Financial Oversight and Management Board for Puerto Rico. *"New Fiscal Plan for Puerto Rico: Restoring Growth and Prosperity,"* (April 19, 2018).

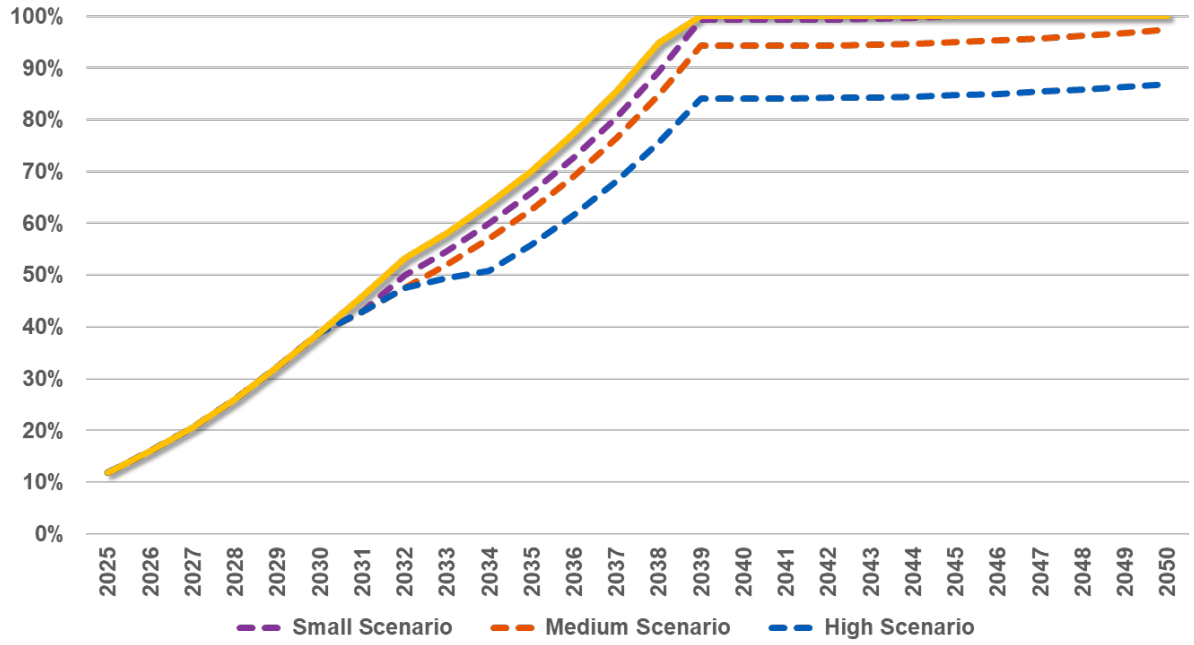


A single 2026 hurricane with a small impact – even occurring towards the beginning of the projection period where the lost contribution would be most valuable – has a minor downward impact on the Trust's projected funded percentage. A single 2026 hurricane of medium impact is projected to prevent the Trust from achieving 100% funding, reaching just short of 90% funded by 2039 and remaining around that level. A single 2026 hurricane categorized as high impact is projected to reduce funding by nearly $3.6 billion and the funding level is projected to plateau at 73%.



A single 2028 hurricane with either a small or medium impact has substantially the same impact on projected funded level as a single 2026 hurricane of similar impact. While the timing is later (and therefore allowing earlier contributions more time to earn investment return), the baseline expected contribution amounts in those years (expected to decrease to $175 million plus the Act 80 contributions in this scenario) are slightly higher, effectively offsetting the timing value. However, a single 2028 hurricane categorized as high impact is assumed to reduce funding by $3.2 billion ($400 million less than the $3.6 billion in the earlier scenario) and the resulting funding level is projected to fall just short of 80% (compared to 73%) and remain there.

2030 event



The later into the contribution schedule that a hurricane event occurs, the less impact on projected funded status of the Trust. Even a single 2030 hurricane categorized as having medium impact shows the Trust is still projected to achieve 95% funding by fiscal 2039. A single 2030 hurricane categorized as high impact – based on the assumptions that both the fiscal 2031 and 2032 contributions to PRT would decrease to $175 million plus the Act 80 contributions and early withdrawals would be requested for the following two fiscal years – is projected to reach 84% and remain around that level.

Summary and additional considerations

Overall, the earlier a major force-majeure event occurs, the more challenging it becomes for the PRT to achieve its long-term goals. Contributions made in the early years have the most time to compound, making disruptions during this period more consequential.

While the analysis models only a single event, multiple storms in close succession could create compounded effects that are even more significant. References to longer-term historical frequency are provided solely to frame the illustrative scenarios and do not imply that future storm patterns, severity, or fiscal impacts will mirror past experience. Accordingly, the modeling does not assume a reduction in future force-majeure risk, nor does it attempt to forecast changes in storm frequency.

Section 5: Deterministic Sensitivity Analysis

Baseline deterministic modeling scenarios

A key element of any risk-related analysis involves studying how results change under various scenario testing, sensitivity testing, and stress testing for risks that could materially alter baseline results when actual experience deviates from assumptions. Two key risks identified and studied in Section 3 materialize when contemplating contribution risk and early withdrawal risk. Three additional quantifiable risks stem from actual investment returns that are different than assumed (in this case, annual portfolio returns of 4.5% per year), the prevailing discount rate environment, and actual mortality experience of pensioners (i.e., living shorter or longer than assumed).

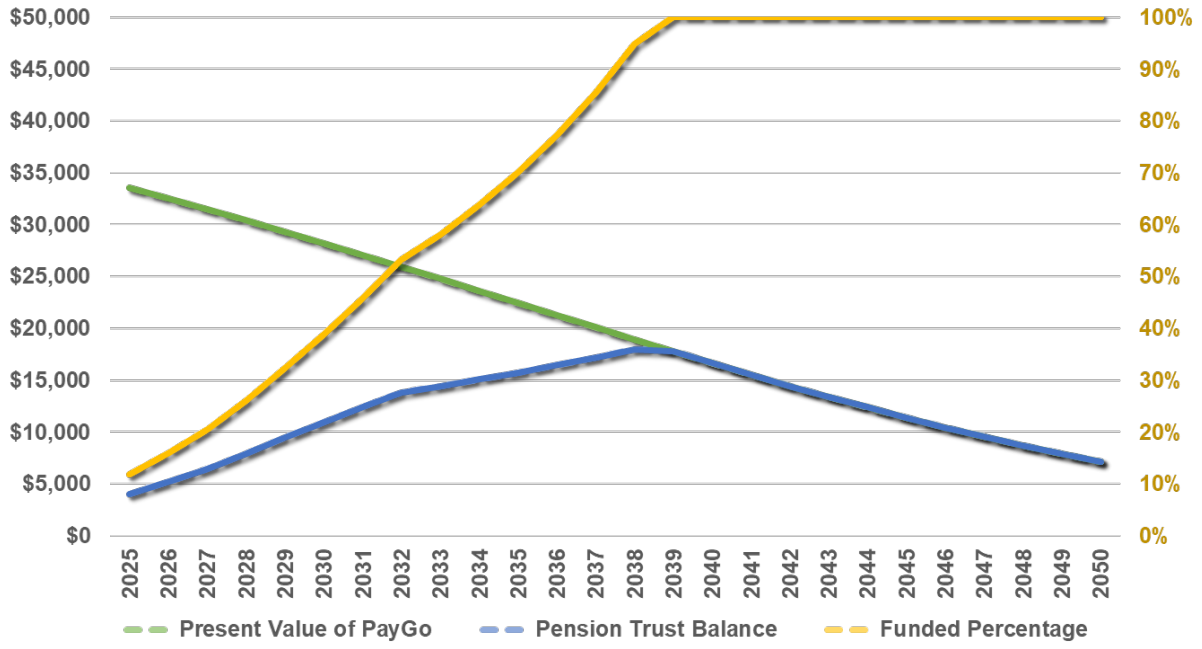
For purposes of assessing the impact of investment returns, discount rates and mortality that deviate from the assumptions, we evaluate several alternative scenarios:

- Baseline – 4.5% investment returns for each future year.
- +1%/−1% returns – 5.5% or 3.5% investment returns for each future year.
- Sustained period of positive/negative returns – three-year period (fiscal 2026 to fiscal 2028) of investment returns of 9% or 0% per year.
- Impact of investment return volatility – four alternative scenarios that each result in a geometric average of 4.5% over a 20-year time horizon with different patterns of interim volatility[14].
  - **Low year-to-year volatility** with **better returns** over the first ten years and **worse returns** over the second ten years.
  - **Low year-to-year volatility** with **worse returns** over the first ten years and **better returns** over the second ten years.
  - **High year-to-year volatility** with **better returns** over the first ten years and **worse returns** over the second ten years.
  - **High year-to-year volatility** with **worse returns** over the first ten years and **better returns** over the second ten years.
- +1%/−1% discount rate – the impact of future 417(e) segment rates different than assumed by evaluating the impact of 6% or 4% discount rates.
- Alternative mortality – two alternative scenarios where pensioners are assumed to live shorter or longer than predicted by the current mortality tables used to develop projected PayGo.
  - Actual rates of mortality that are 10% higher than assumed, equating to retirees and beneficiaries living shorter than assumed.
  - Actual rates of mortality that are 10% lower than assumed, equating to retirees and beneficiaries living longer than assumed.

[14] Detailed year-by-year returns for this scenario are shown in the Appendix

Baseline

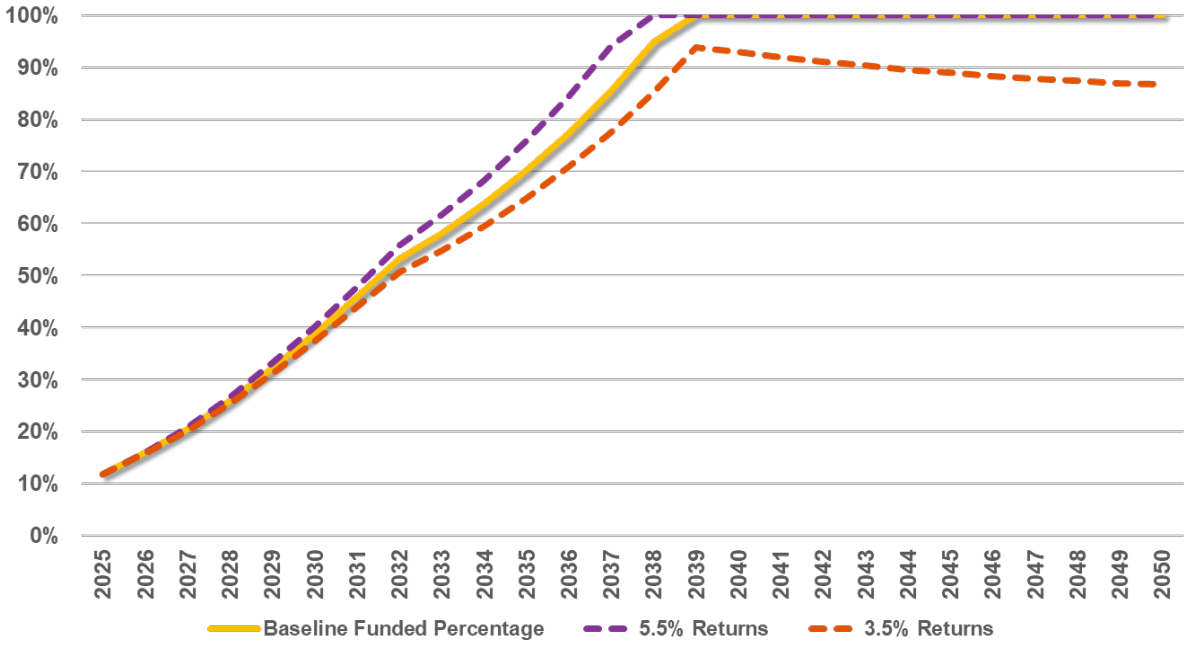
As previously developed in Section 2, the following "combined" chart shows the Updated Baseline projection of PRT balance and funded level from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and portfolio investment returns of 4.5% per year every year.



Under the baseline scenario, PRT assets increase from $4.0 billion as of June 30, 2025, to $13.8 billion as of June 30, 2032, while contributions continue at anticipated levels. Assets then grow with investment returns until anticipated withdrawals begin July 1, 2039. At that point, the present value of projected PayGo is $17.8 billion. As withdrawals occur, both PRT assets and the present value of PayGo are projected to decline in tandem. This relationship between projected PRT balance and present value of PayGo is shown by the Funded Percentage in the graph above, which reached 100% by 2039 and is projected to maintain that level through the end of the projection period under this baseline scenario.

+1%/−1% returns

The following chart shows a projection of PRT funded percentage from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and baseline portfolio investment returns of 4.5% per year every year compared to alternative scenarios of 5.5% and 3.5% returns per year every year, respectively.

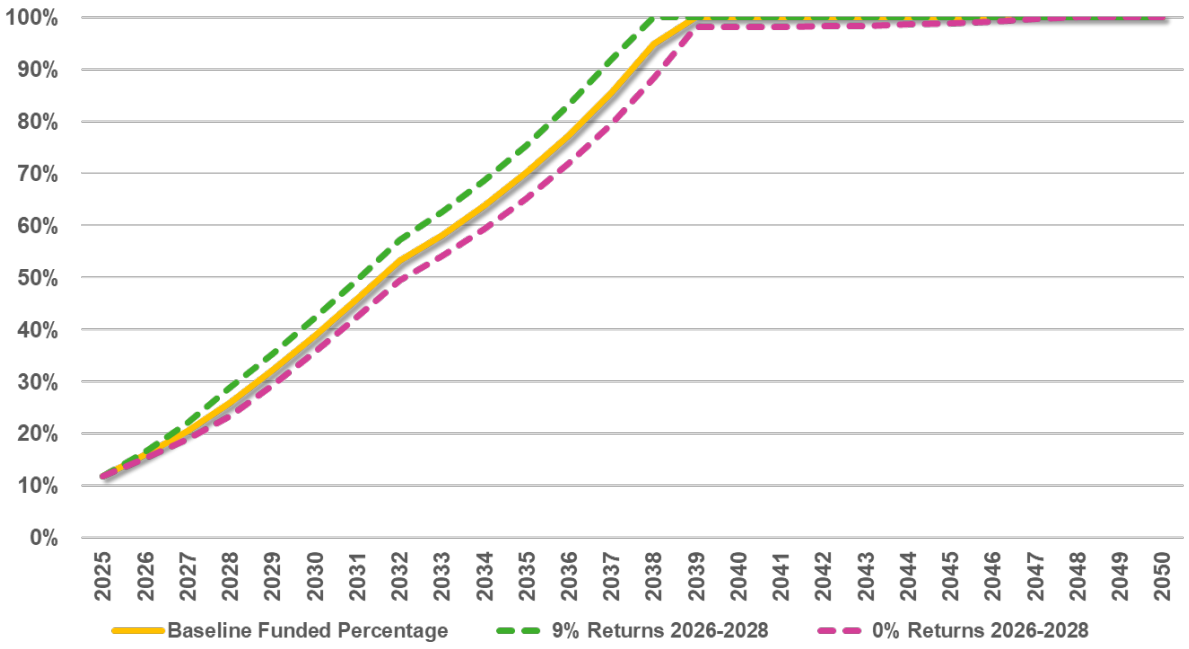


With 5.5% portfolio returns each year – 1% above the assumption – the Trust is projected to be 100% funded by June 30, 2038, one year sooner than under baseline expectations. As such, PayGo withdrawals are assumed to commence one year earlier than under the baseline scenario, which creates marginally more strain on the portfolio. However, because in this scenario investments are assumed to outperform expectations by 1%, the projected funded percentage maintains 100% over the long term.

In contrast, when annual returns are assumed to be 3.5% per year – 1% below the assumption – the projected funded percentage peaks at 94% by June 30, 2039. As portfolio returns continue to underperform in this scenario, the projected funded percentage beyond 2039 continues to decline.

Sustained period of positive/negative returns

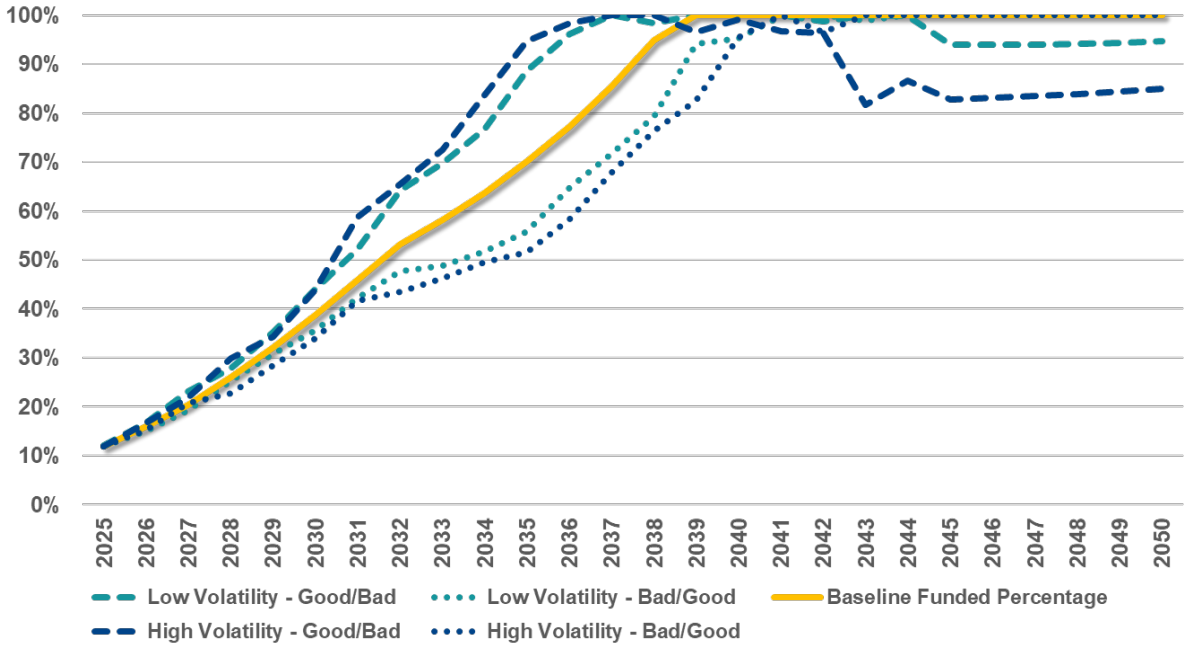
The following chart shows a projection of PRT funded percentage from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and baseline portfolio investment returns of 4.5% per year every year compared to alternative scenarios of 0% and 9% returns for fiscal years 2026-2028.



A three-year period of unusually strong or weak returns has an effect similar in magnitude to a sustained investment gain or loss of 1% relative to the 4.5% assumption in projection years through 2039. However, because the deviation is temporary, the long-term path eventually realigns with the baseline as returns revert to 4.5% beginning in fiscal 2029.

Impact of investment return volatility

The following chart shows a projection of PRT funded percentage from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and baseline portfolio investment returns of 4.5% annually compared to four alternative scenarios that all achieve the 4.5% long-term return assumption with different degrees of annual volatility.

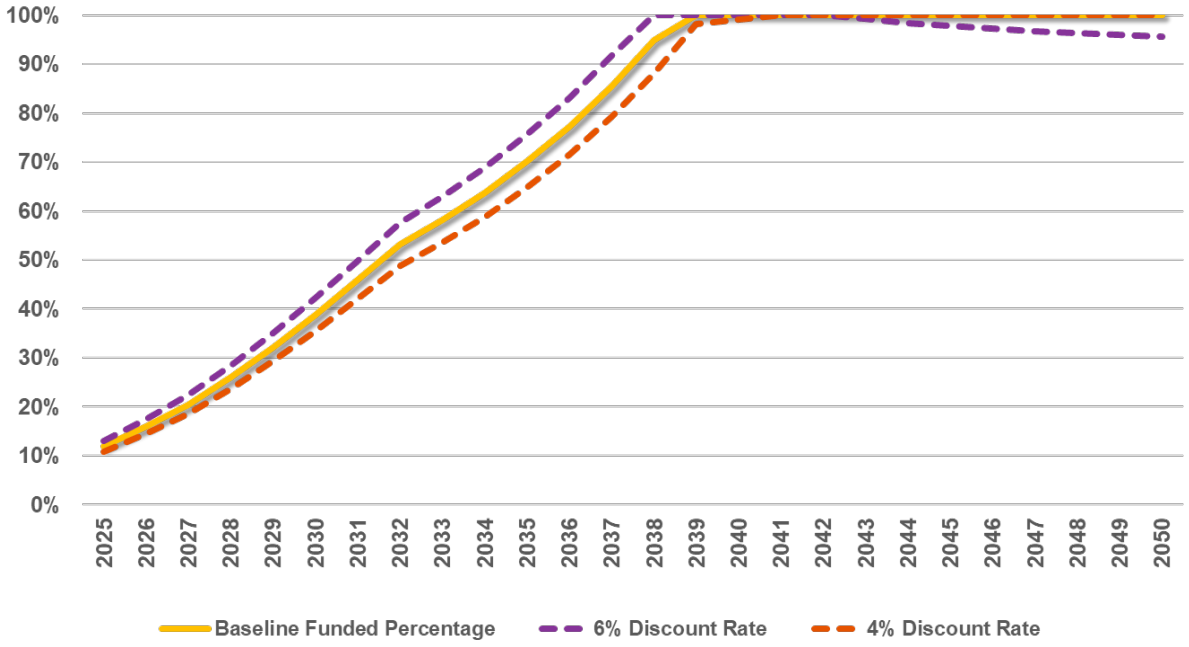


Although all four volatility scenarios produce the same 20-year geometric average return of 4.5%, the **timing** of strong or weak returns meaningfully affects when the Trust is projected to reach full funding and for how long full funding is maintained. Scenarios with stronger early-period returns are projected to reach 100% funding earlier – 2036 in the "high volatility" scenario and 2037 in the "low volatility" scenario. In these instances, PayGo withdrawals are assumed to commence earlier than assumed in the baseline scenario. This additional payout drag on the Trust is exacerbated in these scenarios by primarily underperforming investment returns in fiscal years 2036 to 2045.

In the other two scenarios where underperforming returns occur within the initial 10-year horizon, the funded percentage projection does not attain 100% until several years after the baseline – 2041 in both the "high volatility" and "low volatility" scenarios. When payouts commence in these scenarios, the projected funded percentages range from 83% to 94%, meaning that initial withdrawals are less than the baseline scenarios (and therefore, less payout drag). Combined with overperforming investment returns in fiscal years 2036 to 2045, these scenarios eventually become fully funded for the duration of the projection period.

Impact of different discount rate environment

The following chart shows a projection of PRT funded percentage from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and baseline portfolio investment returns of 4.5% annually compared to two alternative scenarios where the discount rate is 6% (1% higher than assumed) and 4% (1% lower than assumed).

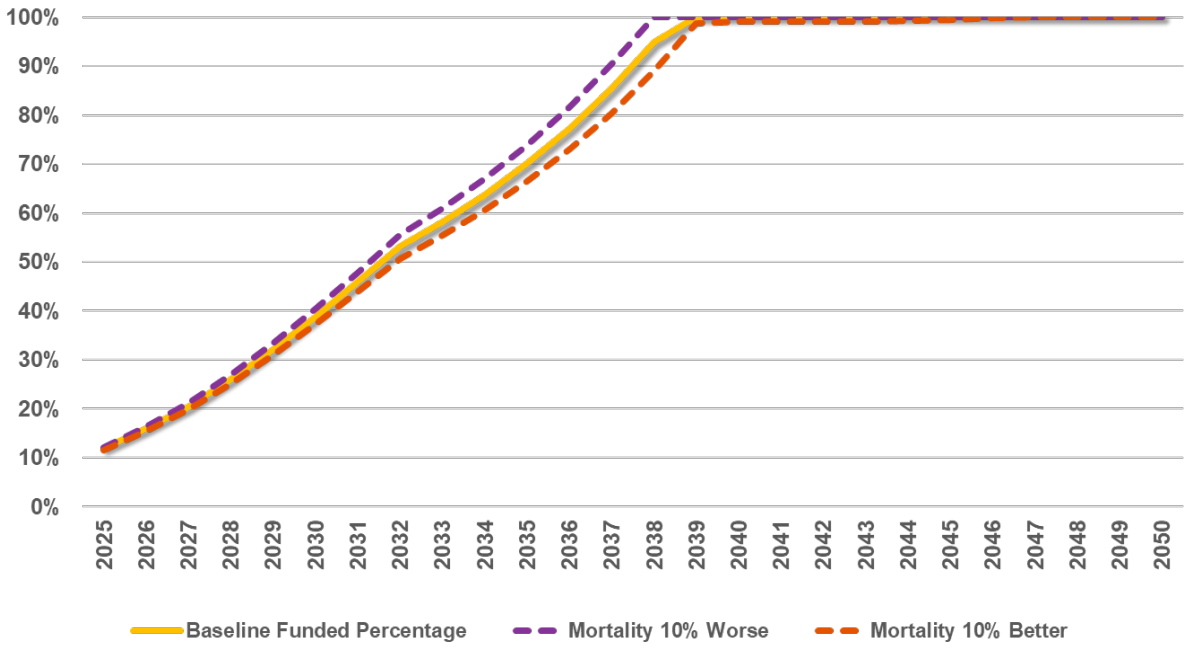


When the discount rate increases to 6%, the present value of future PayGo liabilities decreases, producing a higher projected funded percentage and resulting in full funding by June 30, 2038 – a year sooner than under the baseline scenario. As such, PayGo withdrawals are assumed to commence a year earlier; this earlier drain on assets – in combination with a 150 basis point differential between assumed returns and discount rate – ultimately causes the funded percentage to drop below 100% by fiscal year 2044.

With a lower discount rate of 4%, the present value of future PayGo increases relative to the 5% assumption, but the Trust is still projected to reach full funding by the same year as the baseline scenario. Without the additional strain on assets caused by one additional year of withdrawals, the funded percentage is still projected to remain at 100%, assuming baseline investment returns of 4.5% per year.

Impact of actual emerging mortality

The following chart shows a projection of PRT funded percentage from fiscal years 2025 through 2050 based on all known experience through June 30, 2025, and baseline portfolio investment returns of 4.5% per year every year compared to two alternative scenarios where actual mortality rates of pensioners are 10% worse and 10% better than assumed.



If mortality rates for retirees and beneficiaries are 10% worse (i.e., higher) than the current assumption, projected PayGo decreases over time and, under the baseline scenario, the Trust is projected to reach 100% funding a year earlier. If mortality rates are 10% better (i.e., lower) than assumed, the projected funded percentage is slightly worse than the baseline, although still projected to effectively reach 100% funded by June 30, 2039.

Section 6: Stochastic Modeling

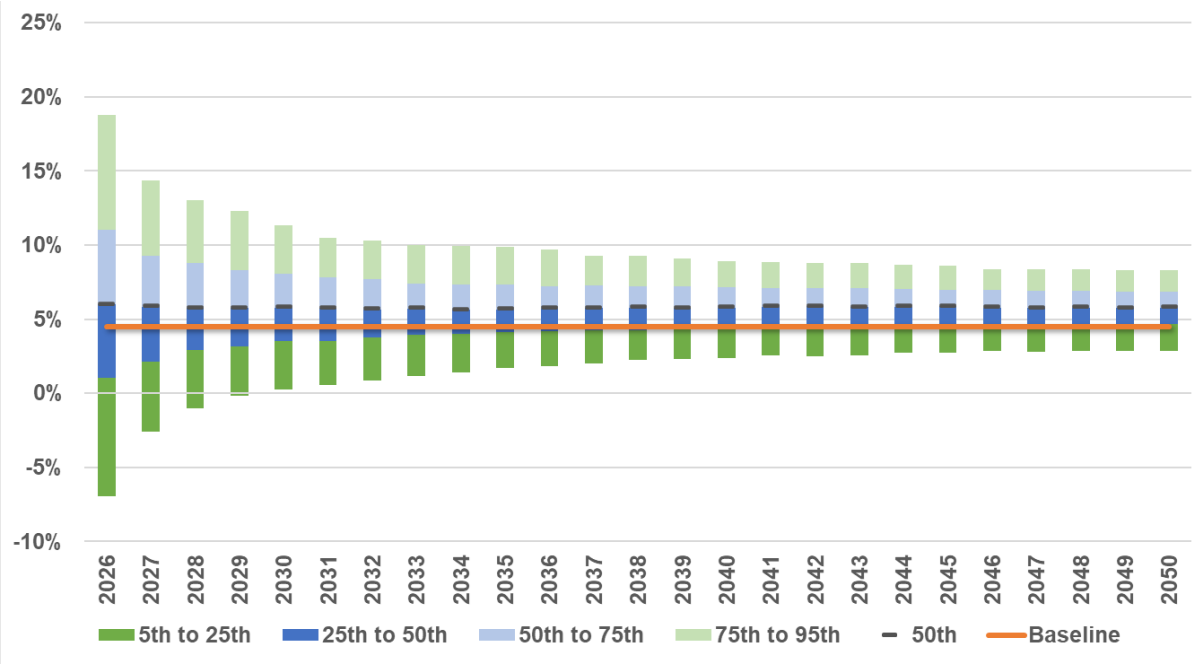
Modeling portfolio returns

For this analysis, we have used the composite 10-year capital market assumptions from the Horizon Survey of Capital Market Assumptions 2025 Edition[15] and the PRT target asset allocation from the Investment Policy Statement dated May 5, 2023. Annual portfolio returns were simulated 1,000 times over many years. The midpoint of expected geometric investment returns over a 15-year time horizon was 5.78% (we estimate a standard deviation over this time horizon of 2.06%). This implies that there is a 50% probability of returns averaging less than 5.78% and a 50% probability of returns averaging more than 5.78% over a 15-year period. The current rate of return assumption of 4.50%, effective with the inception of the PRT, is at approximately the 27th percentile. This implies that there is a 73% probability that the 15-year average rate of return will be 4.50% or more. Below is a breakdown of 10-year capital market assumptions and portfolio allocation target mappings that were the basis of this stochastic analysis:

Asset Classes	Target Allocation[16]	Expected Nominal Return	Expected Risk[17]
US Equity – Large Cap	16.0%	7.67%	16.54%
US Equity – Small/Mid Cap	2.3	8.87	20.44
Non-US Equity – Developed	7.2	8.58	18.20
Non-US Equity – Emerging	2.5	9.96	23.43
US Corporate Bonds – Core	14.5	5.19	6.22
US Corporate Bonds – Long Duration	24.2	5.61	10.74
US Corporate Bonds – High Yield	5.1	6.44	9.77
US Treasuries (Cash Equivalents)	19.6	3.60	1.47
TIPS (Inflation-Protected)	3.1	4.63	6.04
Real Estate	1.5	7.52	16.24
Commodities	3.1	6.20	17.83
Infrastructure	0.9	8.30	14.86
Total Trust:			
Expected Arithmetic Return		5.99%	
Expected Risk[18]		7.56%	
Expected Geometric Return		5.78%	

[15] https://www.horizonactuarial.com/survey-of-capital-market-assumptions
[16] Some target allocations are estimated based upon actual portfolio composition as of September 30, 2025, with normalization back to the Policy targets.
[17] Expected risk is represented by the standard deviation of results.
[18] One-year standard deviation.

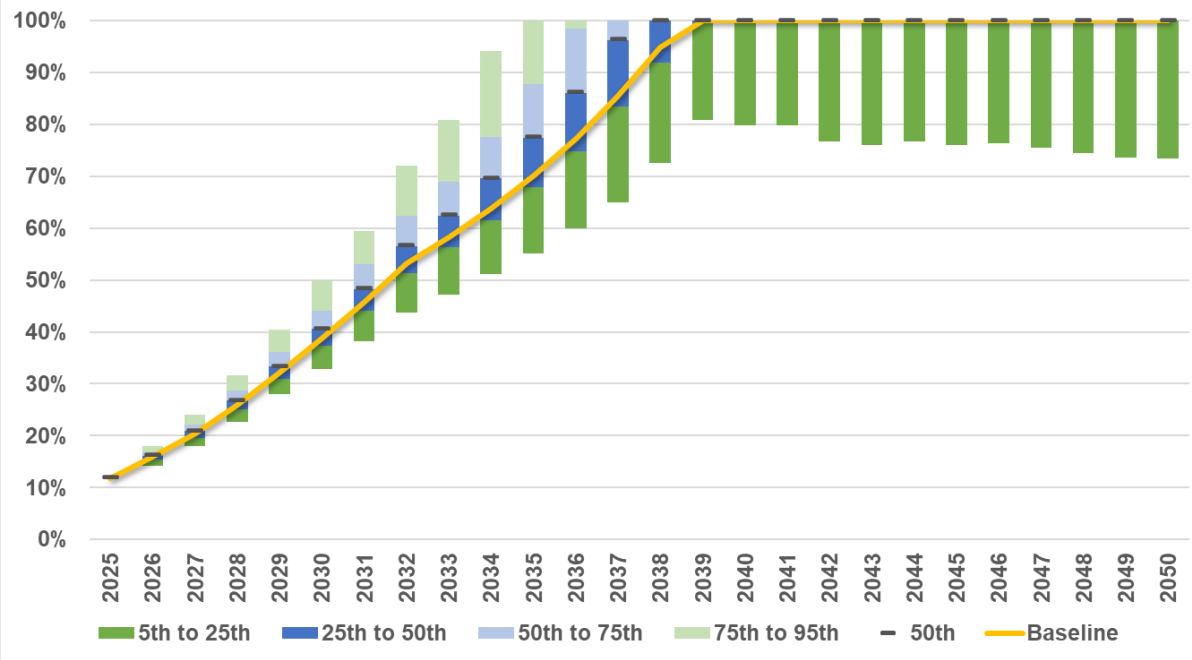
The following graph illustrates the range of stochastically modeled geometric portfolio returns over the projection period.



Percentile cumulative geometric returns are shown above in bars – the dark and light blue portions represent the 25th to 50th and 50th to 75th percentiles; together they represent 50% of outcomes. The dark and light green portions represent the 5th to 25th and 75th to 95th percentiles and each show an additional 20% of outcomes above the 75th percentile and below the 25th percentile. Combined, all four sections illustrate the range of 90% of outcomes. The 50th percentile result is shown as a black dashed line and the 4.5% baseline return assumption is shown as a solid orange line.

Baseline stochastic projection

The 1,000 portfolio return simulations were applied to the Updated Baseline forecast. The following chart shows the stochastically-simulated PRT funded percentage:



Under baseline assumptions (i.e., no reduced contributions or early withdrawals), the median (50th percentile) simulation achieves full funding by June 30, 2038; one year earlier than under the deterministic baseline. This is because more than half of the simulations exceed the 4.5% investment return assumption over the projection period. There is nearly 25% probability that the Trust reaches 100% funded as early as June 30, 2036. By June 30, 2035 (in ten years), there is a 50% probability that the PRT funded ratio will be between 68% to 88%.

Under the baseline expected contribution and withdrawal scenario, investment experience represents a material risk, but even at the 5th percentile, the PRT funded ratio is still projected to exceed 80% by June 30, 2039.

Section 7: Summary

Overall assessment

The analysis presented in this report shows that the Pension Reserve Trust (PRT) continues to be positioned as a critical stabilizing mechanism for Puerto Rico's PayGo pension system, capable of providing meaningful supplemental resources during periods of fiscal strain. Under the Updated Baseline projection – which incorporates all experience through June 30, 2025, including higher-than-expected contributions, stronger investment returns, a higher discount rate environment, and updated PayGo projections – the Trust is projected to achieve a fully funded position by June 30, 2039. This mirrors expectations from the original design despite the introduction of higher PayGo liabilities and shifts in discount rates.

The central conclusion of the study is that the PRT's long-term success is heavily dependent on the consistency of future contributions and the timing of withdrawals, both of which are influenced by the Commonwealth's fiscal capacity. Modeling shows that the structure of future cash flows – rather than investment behavior alone – is the dominant driver of long-term funded outcomes.

Key risks and their impacts

Contribution risk

Contribution risk poses one of the largest threats to sustainability. The Updated Baseline projection assumes contributions consistent with the pre-2024 CFP framework; however, a period of reduced contributions could result in a materially different trajectory.

Deterministic stress tests confirm that even unfavorably timed short periods of constrained contributions can materially reduce the funded percentage because earlier contributions have a disproportionately high compounding impact.

Payout (early withdrawal) risk

The timing and magnitude of withdrawal requests are equally consequential. Under the Trust's governing structure, early withdrawals may be requested beginning July 1, 2032, if certain financial conditions are met. Withdrawal requests beginning in fiscal year 2033 equate to nearly $7 billion through fiscal year 2039 and, when modeled independently from contribution reductions, reduce the funded trajectory to approximately 60%.

When reduced contributions and early withdrawals are considered together, the funded percentage falls further, to roughly 50%, 40%, or 30%, if reduced contributions begin in fiscal 2031, fiscal 2029, or fiscal 2027, respectively, revealing how compounding cash-flow pressures dramatically limit the Trust's ability to accumulate the resources needed to support PayGo after 2039.

Investment risk

Investment performance continues to be a meaningful – but secondary – risk driver relative to contributions and withdrawals. Historical PRT returns have been favorable, with a 7.1% annualized return since inception. Stochastic analysis – based on 1,000 simulations using the average of a broad cross-section of capital market assumptions – demonstrates that, under expected contributions and no early withdrawals, there is a 75% probability that the Trust reaches full funding by 2039. Even under downside investment scenarios, the funded percentage generally remains above 80% – indicating that investment underperformance alone is unlikely to undermine the Trust's mission.

It's worth noting that the Trust's current investment policy targets returns of 4.5% over its investment horizon. This report models – among other things – scenarios where the Trust earns 3.5% and 5.5% returns, or +/− 1% relative to the assumption each year to demonstrate the sensitivity of actual returns that differ from expected. To actually target a higher or lower investment return would require a change in the PRT investment policy.

The following table summarizes the projected funded percentage for 2039 at various future rates of investment return combined with adjustments to contributions and early withdrawals to show relative sensitivities.

Future Annual Returns:	3.5%	4.5%	5.5%	6.5%	7.0% (Industry Median Return)[19]
Baseline (Pre-2024 CFP)	94%	100%	>100%	>100%	>100%
Reduced contributions beginning FY2030	77%	87%	98%	>100%	>100%
Early withdrawals commencing FY2036	64%	74%	85%	98%	>100%
Combined reduced contributions (FY30) & early withdrawals (FY36)	52%	59%	68%	78%	83%
Reflecting 2024 CFP (reduced cont. in FY29 & early withdrawals in FY33)	36%	42%	48%	56%	60%
Reduced contributions in FY27 & early withdrawals starting FY33	27%	31%	36%	41%	44%

Other risks: mortality, discount rates, and force majeure events

Sensitivity testing shows that mortality deviations and discount-rate changes have comparatively modest effects on long-term funding. Pensioners living longer than expected slightly increases the PayGo liability but generally does not alter the projected funding outcome materially under the baseline scenario.

Force majeure events, especially major hurricanes, represent episodic risks that can depress Commonwealth revenues and trigger short-term reductions in contributions or early withdrawals. Modeling indicates that timing and severity matter significantly: an early high-impact hurricane

[19] NASRA Public Fund Survey December 2025

(e.g., in 2026) can reduce the 2039 funded percentage from 100% to around 73%, while a similarly severe event in 2030 has a much smaller impact.

Although these events can be disruptive, their expected frequency – outside extreme multi-event periods such as 2017 – makes them a secondary but still relevant consideration.

Overall conclusions

The results of the deterministic and stochastic modeling converge on several central themes:

- **The PRT can achieve its mission under the Updated Baseline.**
  - With contributions through 2032 and no early withdrawals, the Trust is expected to reach and maintain a 100% funded level by 2039.
- **Contribution and payout risks dominate the Trust's risk profile.**
  - Even moderate contribution shortfalls or early withdrawal activity significantly reduce long-term projected funding.
- **Investment and demographic risks remain meaningful but are not primary threats.**
  - Investment risk materially influences the distribution of outcomes but cannot offset structural cash-flow reductions (like those contemplated in the 2024 CFP, for example).

Taken together, the modeling underscores that the Trust's long-term viability depends overwhelmingly on preserving the intended contribution framework and deferring withdrawals until 2039. Any actions that reinforce these structural protections would materially strengthen the Trust's resilience and its ability to serve as a stable backstop for the PayGo system.

Section 8: Appendix

Volatility scenarios

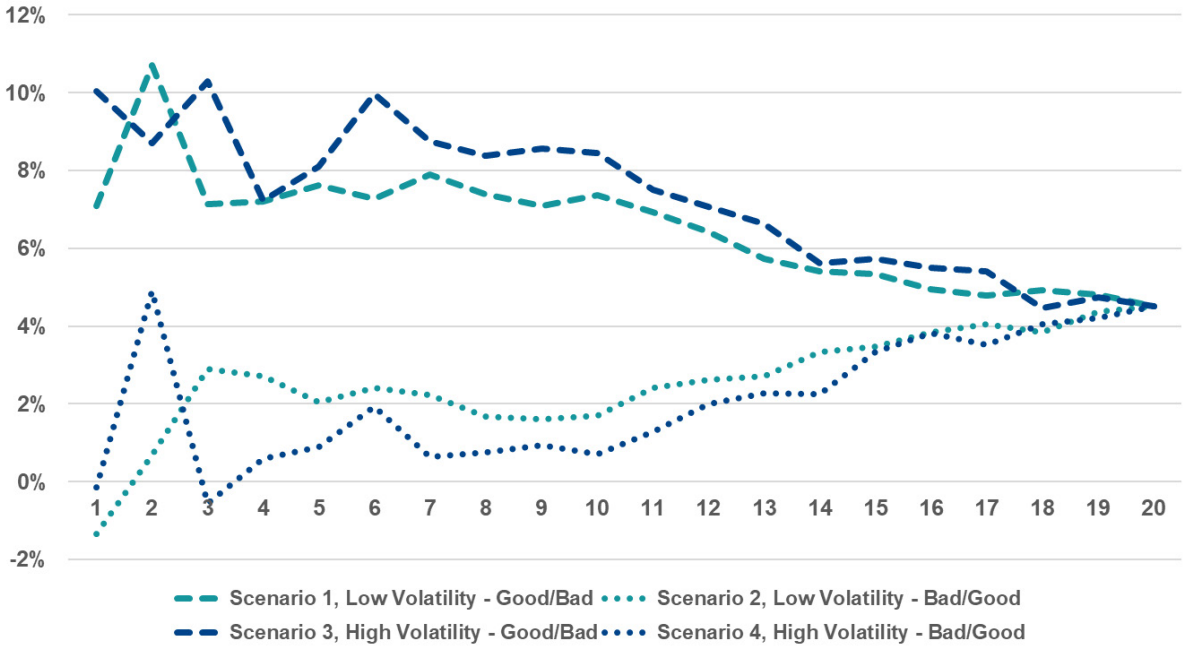
Certain deterministic projection scenarios from Section 5 demonstrate the impact of investment return volatility. For these illustrations four alternative scenarios that each result in a geometric average of 4.5% over a 20-year time horizon with different patterns of interim volatility were modeled.

Two of the four scenarios (Scenarios 1 and 2, shown below) are characterized by relatively **low year-to-year volatility**, having standard deviation of 4.5%. The other two scenarios (Scenarios 3 and 4, shown below) have relatively **high year-to-year volatility**, with standard deviation of 7.1%. Scenarios 1 and 3 reflect **better returns** over the first ten years and **worse returns** over the second ten years, while Scenarios 2 and 4 reverse the pattern of better and worse returns.

	Low year-to-year volatility		High year-to-year volatility	
	Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 4**
Year 1	7.09%	−1.34%	10.04%	−0.14%
Year 2	14.46%	2.74%	7.39%	10.20%
Year 3	0.33%	7.51%	13.52%	−10.61%
Year 4	7.37%	2.15%	−1.41%	4.10%
Year 5	9.32%	−0.58%	11.62%	2.06%
Year 6	5.53%	4.22%	19.78%	7.28%
Year 7	11.73%	1.24%	1.79%	−6.69%
Year 8	3.97%	−2.14%	5.75%	1.58%
Year 9	4.74%	0.96%	10.04%	2.37%
Year 10	9.81%	2.71%	7.39%	−1.41%
Interim Avg.	***7.34%***	***1.71%***	***8.44%***	***0.70%***
Year 11	2.71%	9.81%	−1.41%	7.39%
Year 12	0.96%	4.74%	2.37%	10.04%
Year 13	−2.14%	3.97%	1.58%	5.75%
Year 14	1.24%	11.73%	−6.69%	1.79%
Year 15	4.22%	5.53%	7.28%	19.78%
Year 16	−0.58%	9.32%	2.06%	11.62%
Year 17	2.15%	7.37%	4.10%	−1.41%
Year 18	7.51%	0.33%	−10.61%	13.52%
Year 19	2.74%	14.46%	10.20%	7.39%
Year 20	−1.34%	7.09%	−0.14%	10.04%
Interim Avg.	***1.71%***	***7.34%***	***0.70%***	***8.44%***
All Period Avg.	***4.50%***	***4.50%***	***4.50%***	***4.50%***
All Period SD	***4.50%***	***4.50%***	***7.09%***	***7.09%***

Note: all averages calculated on a geometric basis

The following graph shows the cumulative geometric average for each scenario above, demonstrating how, over time, the averages all converge to the long-term assumption of 4.5%.



Additional contribution and early withdrawal modeling at 6.5% returns

To provide additional context around the impact that alternative investment experience would have using the various contribution and early withdrawal scenarios, the following table illustrates the projected PRT funded percentage at various combinations of reduced contribution and early withdrawal requests, assuming that investment returns are 6.5% per year (i.e., portfolio returns that are 2% more than the current 4.5% investment policy target).

Starting year that early withdrawals could commence	Starting year that contributions could be reduced to $175 million						
	N/A	FY 2032	FY 2031	FY 2030	FY 2029	FY 2028	FY 2027
N/A	100%	100%	100%	100%	100%	89%	79%
FY 2039	100%	100%	100%	100%	90%	80%	71%
FY 2038	100%	100%	100%	91%	82%	72%	64%
FY 2037	100%	99%	91%	83%	74%	65%	58%
FY 2036	98%	92%	85%	78%	69%	60%	53%
FY 2035	92%	87%	80%	73%	64%	56%	49%
FY 2034	86%	81%	75%	68%	60%	52%	45%
FY 2033	82%	77%	71%	64%	56%	48%	41%

Compared to the earlier scenario where returns were 5.5% per year (i.e., +1% above the current 4.5% portfolio target), more combinations of lower contributions and early withdrawals still result in the Trust achieving a 100% funded percentage. However, at the worst combinations of reduced contributions and early withdrawal requests, the Trust is not projected to even attain 50% funded.

Additional caveats

The following caveats apply to the projections, analytics, and conclusions presented in this report. They are intended to clarify the limitations inherent in actuarial modeling and the specific assumptions underlying this study.

Reliance on Data Provided by Others

This analysis is based on data, projections, and other information supplied by the Government of Puerto Rico, the Financial Oversight and Management Board, and their consultants, including projected PayGo payments and Certified Fiscal Plan materials. We did not audit or independently verify these data. The results presented herein are therefore dependent on the accuracy and completeness of the information provided.

Forward-Looking Projections and Uncertainty

All projections in this report are forward-looking and inherently uncertain. Actual future experience may differ significantly from expectations due to economic, demographic, legislative, market, or environmental factors. As noted in the report, projections should be interpreted as indicators of potential trends rather than precise forecasts of future outcomes.

Model and Scenario Limitations

The deterministic and stochastic modeling reflects selected assumptions, methods, and scenario structures appropriate for the intended purpose of the analysis. The results are limited by the model framework and by the specific scenarios chosen. Alternative assumptions or additional scenarios may yield materially different results.

Assumptions on Contributions and Withdrawals

The projections rely heavily on assumptions regarding the level and timing of Commonwealth contributions and the timing of withdrawal requests. As demonstrated in the report, contribution shortfalls or early withdrawal requests materially reduce the Trust's funded trajectory. The analysis assumes contributions and withdrawals occur as described in the scenarios presented.

Investment Return Assumptions and Market Conditions

Investment return assumptions and volatility parameters are based on the 2025 Horizon Survey of Capital Market Assumptions and the PRT's target asset allocation. Actual market conditions – such as returns, volatility, asset correlations, liquidity, or economic shocks – may differ significantly from those assumed, resulting in different outcomes than those modeled.

Discount Rate Methodology

The present value of future PayGo obligations is based on a single discount rate intended to approximate future Internal Revenue Code Section 417(e)(3) segment rates. Because the future level of those rates is unknown, this assumption is a simplification. Changes in interest rate environments could materially affect liability measurements.

Demographic Assumptions

Mortality and other demographic assumptions are based on currently available actuarial tables and projections provided by the Government's actuaries. Actual demographic experience – such as mortality improvement or deterioration – may differ materially from these assumptions.

Legislative, Policy, or Regulatory Changes

This analysis assumes that the statutory and regulatory framework governing the Pension Reserve Trust, including the Deed of Trust and Guidelines, remains unchanged throughout the projection period. Legislative amendments, changes in fiscal policy, or variations in Federal funding (including Medicaid-related provisions) could materially alter projected outcomes.

Force Majeure and Extraordinary Events

Scenario testing includes illustrative hurricane impacts; however, it does not capture all possible catastrophic or extraordinary events. Actual storm patterns, severity, economic disruption, and fiscal impacts may differ materially from those modeled.

Limitations of Funded Percentage as a Sole Metric

While funded percentage is a useful and intuitive measure of the Trust's financial position, it cannot fully represent all financial risks or timing mismatches. Liquidity considerations, statutory withdrawal formulas, and cash-flow constraints also affect the Trust's long-term viability and should be considered when interpreting results.

Professional Judgment

The analysis reflects the professional judgment of the actuaries based on available information, methodologies consistent with generally accepted actuarial principles, and applicable Actuarial Standards of Practice. Different assumptions, methods, or professional judgments may yield different results.

Additional resources:

Supplemental Modeling

Asset and Withdrawal Modeling Presentation