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Towers Perrin

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January 4, 2001

Sr. Jaime Garcia
Interim Administrator
Administracion de los Sistemas
de Retiro de los Empleados del
Gobierno y la Judicatura
Avenue Ponce de Leon #437
esq. Martienzo Cintron, Parada 32 1/2
Hato Rey, Puerto Rico 00940

Dear Sr. Garcia:

**THE EMPLOYEES RETIREMENT SYSTEM OF
THE GOVERNMENT OF PUERTO RICO & ITS INSTRUMENTALITIES**

Enclosed are the following exhibits relating to our actuarial valuation for the above:

1. The Summary of Actuarial Accrued Liability and Market Value of Assets as of July 1, 2000
2. The Summary of Accounting under GASB Statement #27
3. The Summary of Actuarial Methods and Assumptions as of July 1, 2000
4. The Summary of Plan Provisions as of July 1, 2000.

Please let me know if your review raises any questions.

Sincerely,

DFD:shd

Enclosures

VIA COURIER

The Employees Retirement System of the Government of Puerto Rico & Its Instrumentalities

Summary of Actuarial Accrued Liability and Market Value of Assets

	July 1, 1998	July 1, 1999	July 1, 2000
(a) Actuarial Accrued Liability			
Retirees, beneficiaries, and terminated employees	\$ 4,151,300,000	\$ 4,357,100,000	\$ 5,613,300,000 ✓
Current employees:			
▪ Accumulated employee contributions	\$ 1,532,800,000	\$ 1,799,400,000	\$ 1,707,500,000
▪ Employer-financed vested benefits	1,823,400,000	2,105,400,000	2,116,000,000
▪ Employer-financed non-vested benefits	<u>130,900,000</u>	<u>46,300,000</u>	<u>22,500,000</u>
▪ Total	\$ 3,487,100,000	\$ 3,951,100,000	\$ 3,846,000,000 ✓
Total actuarial accrued liability	\$ 7,638,400,000	\$ 8,308,200,000	\$ 9,459,300,000
(b) Net assets available for benefits	1,675,400,000	1,857,500,000	2,041,800,000
(c) Unfunded actuarial accrued liability	5,963,000,000	6,450,700,000	7,417,500,000 ✓

The Employees Retirement System of the Government of Puerto Rico & Its Instrumentalities

Summary of Accounting under GASB Statement #27

de A/R del 2001. Muestra lo encurram.

Annual Pension Cost for Fiscal Year Commencing July 1, 1999

■ Annual Required Contributions (ARC)	\$ 890,849,000	
■ Interest on NPO	170,854,333	⇒ 170,854,333 ⇒ (NPO del año anterior * .05)
■ ARC Adjustment	(258,177,000)	↳ Rate of double currency
■ Total	\$ 803,526,000	↳ Incluye el Normal cost
■ % of Payroll	31.2%	↳ Incluye el Amortization

NPO del 1999

[2,010,051,000] * .075 = 170,854,333

→ ste ARC a 1999 del año por

(NPO del año anterior * .05)

(258,177,000)

\$ 803,526,000

31.2%

Net Pension Obligation (NPO) as of June 30, 1999 — Liability/(Asset)

\$ 2,010,051,000

Annual Pension Cost

803,526,000

Total Contributions with Interest

549,855,000

Total de Contribuciones presentadas en lo Estad Fin.

⇒ multiplicad [8.5 - 3.5] = 5%

Liability/(Asset)

\$2,263,722,000

Infla

Infla

Infla

entre lo Aportaciones Realizadas vs Aportaciones que debero ser.

890,849,000

- 258,177,000

\$ 632,672,000

⇒ Total de contribuciones que el

Patrono tendria que haber

pagado en el año 1999-2000.

\$ 632,672,000

\$ 170,854,000

\$ 803,526,000

ARC adjustment to offset approximately the amount included in the ARC for amortization of the past contribution deficiencies.

The Employees Retirement System of the Government of Puerto Rico & Its Instrumentalities

Summary of Actuarial Methods and Assumptions as of July 1, 2000

Actuarial Method

Projected Unit Credit Cost Method

Actuarial Assumptions

1.	Interest Rate	8.5% a year
2.	Salary Increases	5.0% a year
3.	Mortality	GAM'83 Mortality Table set forward two years (see Table A)
4.	Termination	Medium Turnover Table commensurate with anticipated experience (see Table A)
5.	Disability	65% of Third Railroad Retirement Table Rates (see Table A)
6.	Retirement Age	Graded scale of retirement ages commensurate with anticipated experience (see Table B)
7.	Proportion of Participants with Spouses	80% of participants assumed to be married, with wives assumed to be four years younger than husbands
8.	Number of Employees Electing Higher Contributions	15% of retiring employees assumed to pay retroactive contributions at retirement
9.	Cost-of-Living Adjustment	3% every third year

Table of Mortality, Disability and Termination Assumptions at Select Ages

Age	Annual Rate per 1,000 Participants Mortality*		Disability		Termination	
	Male	Female	Male	Female	Male	Female
15	0.343	0.159	1.560	2.340	94.0	94.0
20	0.408	0.212	1.560	2.340	71.5	71.5
25	0.513	0.284	1.560	2.340	50.0	50.0
30	0.687	0.388	1.560	2.340	39.0	39.0
35	0.966	0.536	1.658	2.487	32.0	32.0
40	1.527	0.775	1.911	2.867	26.5	26.5
45	2.790	1.237	2.568	3.855	18.0	18.0
50	4.755	1.949	4.635	6.955	8.0	8.0
55	7.139	3.103	8.853	13.280	3.0	3.0
60	11.133	5.210	17.940	26.910	0.0	0.0
65	19.804	8.681	-	-	-	-
70	33.370	16.160	-	-	-	-
75	54.758	30.672	-	-	-	-

M - GAM'83 + 2

D - 65% 3RR

T - Medium

*Effective with the July 1, 2000 actuarial valuation, assumed mortality was changed to the 1983 GAM table set forward 2 years.

Table of Retirement Assumptions

Percentage of Employees at a Given Age Retiring During Year

Age	Regular Employees	Police and Firefighters
70	100%	
69	38	
68	36	
67	34	
66	32	
65	30	
64	28	
63	26	
62	50	100%
61	24	5
60	22	5
59	20	5
58	18	50
57	16	4
56	14	4
55	12	80
54	10	2
53	8	2
52	6	2
51	4	2
50	2	80

Reliances

In developing the results in this report, Towers Perrin relied on the accuracy and completeness of a substantial amount of information provided by The Retirement System of the Government of Puerto Rico and Its Instrumentalities (the System). The accuracy of the results presented are dependent on the accuracy of this information. Although independent verification of this information was not undertaken, Towers Perrin did review certain of the information for reasonableness and consistency.

The information relied upon includes, but is not limited to, a data file of demographic data pertaining to active and inactive participants in the System as of March 30, 2000. On review certain data was incomplete, inaccurate or not as appropriate as desired. In consultation with representatives of the System the following adjustments and assumptions were made which, in the aggregate, are not considered to produce material biases in the results of the study:

Actives Participants

- Dates of birth were invalid or missing for approximately 8,400 employees. A July 1, 1957 data was assumed for the affected employees.
- Dates of hire were invalid or missing for approximately 4,800 employees. A date of hire of July 1, 1987 was assumed for the affected employees.
- Gender code was missing or invalid for approximately 12,400 employees. A male gender was assumed.

Retired Participants and Beneficiaries

- The date of birth of 10 retired participants has never been collected or documented by the System. In 1987 this continuously declining number of participants were assumed to be age 57 (i.e. a fixed date of birth of July 1, 1930). (The current age is assumed to be age 69.)
- Gender code was missing or invalid for approximately 2610 retired participants. A male gender code was assumed.
- The annual benefit amount was missing or invalid for approximately 125 retired participants or their beneficiaries. An annual pension benefit of \$2,400 was assumed.
- Effective January 1, 2000 all new hires are covered by the provisions of the new System 2000. As of July 1, 2000 we were informed that there were 1,898 participants in the new System with total monthly pay of \$1,566,640. No individual records were provided for these participants. The actuarial accrued liability for their benefits was estimated to be \$0.5 million. ✓

Terminated Vested Participants

- No records are maintained of those employees that leave the System with non-forfeitable (vested) benefits. The liability for these non-forfeitable benefits is approximated as 3% of the total actuarial accrued liability. (It is our understanding that the vast majority of early leavers withdraw their own contributions at termination and consequently forfeit any System-provided benefits.)

As of March 30, 2000:

■ Actives		
-- Number		151,060
-- Annual Payroll		\$2,463,408,339
■ Retirees		
-- Number		70,928
-- Annual Benefit Payments		\$545,566,796
■ Beneficiaries		
-- Number		8,176
-- Annual Benefit Payments		\$27,597,160

Limitations

This report, along with the data, calculations, and projections contained herein, its accompanying appendices are subject to the following limitations:

- This report and any other summaries, reports or other information (written or oral) including any opinions and conclusions contained herein, are for the internal use of the System, and distribution or disclosure hereof (or reference hereto) to any other party is prohibited without Towers Perrin's prior written consent. No mention of this report, in full otherwise, may be made in any prospectus, proxy statement, offering circular or other similar document.
- Towers Perrin has performed the work assigned and has prepared this report in conformity with its intended utilization by a person technically competent in the areas addressed and for the stated purposes only. Judgement as to the data contained in the report should be made only after studying the report and the projection report in its entirety, as the conclusions reached by review of a section in or sections on an isolated basis may be incorrect. Further, members of Towers Perrin staff are available to explain and/or amplify any matter presented herein, and it is assumed that the user of this report will seek such explanation and/or amplification as to any matter in question.

Commonwealth of Puerto Rico

Employees Retirement System of the Government of Puerto Rico and its Instrumentalities

Summary of Plan Provisions

Plan Provisions as of July 1, 1999 (Old Plan)

Note: The plan provisions in this summary shall affect only those regular full-time employees hired on or before March 31, 1990, or those attaining permanent status before that date.

General Note: Participants may elect to coordinate coverage under the Plan with Federal Social Security by selecting the lower of two contribution options. These options are described in detail at the end of this Summary. Those participants selecting Option (i), the Coordination Plan, are subject to a benefit recalculation at age 65. Those selecting Option (ii), the Supplementation Plan, will continue to receive the pre-age 65 benefits for life. At any time up to retirement, participants may change from Option (i) to (ii) by making a contribution including interest to the System, retroactive to the earlier of July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (ii) level.

1. **Effective Date.** January 1, 1952. Most recent amendment adopted and effective July 1, 1989.
2. **Eligibility.** All regular full time employees of the Government of Puerto Rico who are not contributing to other Retirement Systems. Employees include those in the following categories:
 - Police of Puerto Rico
 - Justices of the Peace of Puerto Rico
 - Members and employees of the Legislature
 - Officers and employees of the Government of Puerto Rico, public enterprises and municipalities
 - Members of the Employees Association of the Commonwealth of Puerto Rico
 - Irregular employees fulfilling the requirements of a regular employee

Participation is mandatory, except for members of the Legislature, Government Secretaries, Heads of Agencies and Public Instrumentalities, Assistants to the Governor, the Controller of Puerto Rico, gubernatorial Board and Committee appointees and Experimental Service Station employees.

Commonwealth of Puerto Rico Employees Retirement System

3. Definitions.

- a. **Compensation.** Annual salary, excluding bonus and overtime pay.
- b. **Final Average Compensation.** The average of the highest annual rates of Compensation during any three years of Credited Service.
- c. **Maximum Compensation.** The highest annual salary received during term of Government service.
- d. **Regular Interest.** The annually compounded interest rate prescribed by the Board of Trustees.
- e. **Accumulated Contributions.** The sum of all participant contributions, credited and compounded with Regular Interest.
- f. **Actuarial Equivalent.** The amount of pension payable at a commencement date other than normal retirement or payable to a survivor which may be funded by the total contributions accrued toward a pension payable at normal retirement of the participant. The equivalence is calculated based on annuity and mortality tables adopted by the Board of Trustees and based on the actual experience of the System with the recommendations of the actuary.
- g. **Credited Service.** The years and months of plan participation, during which contributions have been made, beginning on the later of date of hire or Effective Date and ending on date of separation from service. For the purposes of calculating Credited Service, the following schedule shall apply:

Credited Service Eligibility

<i>Service During a Fiscal Year</i>	<i>Credited Service</i>
9 months or more	1 year
6 – 9 months	3/4 year
3 – 6 months	1/2 year
Less than 3 months	None

Commonwealth of Puerto Rico Employees Retirement System

Employees with 15 or more days of service in one month shall be credited with one month of Credited Service.

In general, Credited Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rule holds for rehired employees who previously received a refund of Accumulated Contributions at separation.

4. Normal Retirement Pension.

a. Participants Eligible. All participants attaining:

- i. **Benefit (1) - Merit Pension.** Age 55 and 30 years of Credited Service
- ii. **Benefit (2) - Merit Pension.** 30 years of Credited Service
- iii. **Benefit (3).** Age 58 and 10 years of Credited Service
- iv. **Benefit (4).** Age 50 with 8 years of service as a Mayor
- v. **Benefit (5).** Age 50 and 25 years of Credited Service as a member of the Police or Firefighters

b. Pension Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** 75% of Final Average Compensation.
- ii. **Benefit (2).** 65% of Final Average Compensation.

Note: Except for Police, Firefighters and those selecting contribution Option (ii), benefits (1) and (2) recalculated at age 65 as follows:

1½% of Final Average Compensation up to \$6,600 times Credited Service plus

- (1) 75% of Final Average Compensation in excess of \$6,600
- (2) 65% of Final Average Compensation in excess of \$6,600.

**Commonwealth of Puerto Rico
Employees Retirement System**

- iii. **Benefit (3).** 1½% of Final Average Compensation times Credited Service to 20 years, plus 2% of Final Average Compensation times Credited Service in excess of 20 years. If annual benefit according to formula is less than \$1,500, the lesser of \$180 or an amount needed to increase the annual benefit to \$1,500 shall be added to the benefit.

Maximum: 75% of Final Average Compensation.

Note: Except for Police, Firefighters, Mayors and those selecting contribution Option (ii), benefit (3) recalculated at age 65 as follows:

1% of Final Average Compensation up to \$6,600 times Credited Service to 20 years, plus 1½% of Final Average Compensation up to \$6,600 times Credited Service in excess of 20 years, plus 1½% of Final Average Compensation in excess of \$6,600 times Credited Service to 20 years, plus 2% of Final Average Compensation in excess of \$6,600 times Credited Service in excess of 20 years, plus \$180 or the portion thereof which was added to the benefit computed prior to age 65.

Minimum for recalculated benefits (1), (2) and (3): The amount which, when added to the Social Security benefit, is not less than the pre-age 65 benefit.

- iv. **Benefit (4).** 5% of Maximum Salary times Credited Service as a Mayor up to 10 years, plus 1½% of Maximum Salary times non-mayoral Credited Service up to 20 years, plus 2% of Maximum Salary times non-mayoral Credited Service in excess of 20 years.

Maximum: 90% of Maximum Salary.

- v. **Benefit (5).** 1½% of Final Average Compensation times Credited Service to 20 years, plus 2% of Final Average Compensation times Credited Service in excess of 20 years. If annual benefit according to formula is less than \$1,500, the lesser of \$180 or an amount needed to increase the annual benefit to \$1,500 shall be added to the benefit.

Maximum: 75% of Final Average Compensation.

Minimum for all benefits described above: \$200 per month.

**Commonwealth of Puerto Rico
Employees Retirement System****5. Early Retirement Pension.****a. Participants Eligible.**

- i. **Benefit (1).** No provision.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).** All participants attaining age 55 and 25 years of Credited Service.
- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** No provision.

b. Pension Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** No provision.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).** Accrued Normal Retirement benefit to early retirement, actuarially reduced for each year payment commences before attainment of age 58.

Except for Police, Firefighters and those selecting contribution Option (ii), benefit (3) recalculated at age 65 as described in 4(b)(iii).

- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** No provision.

6. Postponed Retirement Pension.

- a. **Participants Eligible.** Except for Police and Firefighters, participants may remain in service until any age. For Police and Firefighters, separation from service is compulsory at age 62.
- b. **Pension Benefit.** Benefits described in 4, based on Final Average Earnings (or final Salary) and Credited Service at postponed retirement date. Payment commences on postponed retirement date. If a member of the Police or Firefighters reaches mandatory retirement without earning 10 years of Credited Service, he shall receive a full refund of all Accumulated Contributions.

**Commonwealth of Puerto Rico
Employees Retirement System****7. Vested Pension.****a. Participants Eligible.** All participants attaining:

- i. **Benefit (1).** No provision.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).**
 - A. 10 years of Credited Service
 - B. 25 years of Credited Service
- iv. **Benefit (4).** 8 years of service as a Mayor.
- v. **Benefit (5).** No provision.

b. Vested Pension Benefits. Corresponding to eligibility above:

- i. **Benefit (1).** No provision.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of:
 - A. Age 58. If annual benefit according to formula is less than \$1,500, the lesser of \$180 multiplied by the ratio of Credited Service to 25 years of Credited Service, or an amount needed to increase the annual benefit to \$1,500 shall be added to the benefit.
 - B. Age 55 (age 50 for Police and Firefighters).
- iv. **Benefit (4).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.
- v. **Benefit (5).** No provision.

No benefit is payable if the participant receives a refund of his Accumulated Contributions.

**Commonwealth of Puerto Rico
Employees Retirement System****8. Disability Pension.****a. Occupational Disability.****i. Participants Eligible.**

- A. **Benefit (1).** Any participant certified as disabled and unable to perform the duties of any position in Government service by two physicians appointed by Plan Administrator; receiving compensation under the Workmen's Accident Compensation Act.
- B. **Benefit (2).** (Law no. 127 of June 27, 1958) Members of the Police or Firefighters, Internal Revenue, Justice Department, or Penal and Correctional agencies certified as disabled in the line of duty and unable to perform the duties of any other position in Government service by the Plan Administrator.

ii. Disability Benefit.

- A. **Benefit (1).** 50% of final Salary at date of separation from service.
- B. **Benefit (2).** 100% of final Salary at date of separation of service.

b. Nonoccupational Disability.

- i. **Participants Eligible.** Any participant certified as permanently and totally disabled by two physicians appointed by Plan Administrator; attained 10 years of Credited Service and has not yet attained age 65.
- ii. **Disability Benefit.** 30% of Final Average Earnings at date of separation from service, plus 1% of Final Average Earnings times Credited Service in excess of 10 years.

Maximum: 50% of Final Average Earnings at date of separation from service.

Note: If participant engages in employment, both types of disability pension shall be reduced an amount by which the disability pension plus employment income exceeds Compensation at the date of disability.

**Commonwealth of Puerto Rico
Employees Retirement System****9. Preretirement Death Benefit.****a. Occupational.****i. Beneficiaries Eligible.**

- A. Benefit (1).** The spouse, children or designated beneficiary of a participant who dies from an employment-related cause under the Workmen's Accident Compensation Act.
- B. Benefit (2).** (Law no. 127 of June 27, 1958) The spouse, children or designated beneficiary of members of the Police or Firefighters, Internal Revenue, Justice Department, Tribunales, Department of Natural Resources, or Penal and Correctional agencies who die in the line of duty.

ii. Benefits Payable.**A. Benefit (1).**

Spouse's Benefit. 50% of participant's final Compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit. An annuity for each child of \$10 per month (\$20 if full orphan) payable to child's age 18 (age 25 if student).

Maximum Family Benefit. 100% of participant's final Salary at date of death.

If no spouse nor children: Benefit payable to designated beneficiary equal to a refund of Accumulated Contributions, plus a lump sum benefit of 100% of final Compensation at date of death.

B. Benefit (2).

Spouse's Benefit. 50% of final Salary at date of death, payable as an annuity.

Children's Benefit. 50% of final Salary at date of death, payable as an annuity and shared in equal amounts.

If no spouse nor children: Full benefit of 100% of final Salary is payable to designated beneficiary (divided equally if more than one).

Upon death of any beneficiary, the share of the deceased beneficiary will be redistributed among the remaining beneficiaries.

**Commonwealth of Puerto Rico
Employees Retirement System****b. Nonoccupational.****i. Beneficiaries Eligible.**

A. **Benefit (1).** All participants

B. **Benefit (2).** (Law no. 8 of February 18, 1976) Members of the Police.

ii. Benefits Payable.

A. **Benefit (1).** Benefit payable to designated beneficiary equal to a refund of Accumulated Contributions, plus a lump sum benefit of 100% of final Compensation at date of death.

B. **Benefit (2).** Benefit payable to surviving spouse and dependent children based on Accumulated Contributions (minimum: \$180 per month) in the form of an annuity. Benefit shall be reduced in an amount equal to benefits received from any other sources.

10. Postretirement Death Benefit.**a. Beneficiaries Eligible.** Beneficiaries of any participant who is:

- i. **Benefit (1).** Single with no minor children, or receiving a life annuity as normal form of payment.
- ii. **Benefit (2).** Married or with minor children, and receiving a joint and survivor annuity as normal form of payment. Except for Police and Firefighters, surviving spouse must have attained age 60 in order to receive benefit.
- iii. **Benefit (3).** Receiving an occupational annuity under Law no. 127 of June 27, 1958 as described in 8(a), and who dies as a result of the disability.

b. Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to date of death, payable to designated beneficiary. Minimum benefit — \$500.
- ii. **Benefit (2).** 60% of retiree's pension at date of death (30% if covered under Title II of the Social Security Act).
- iii. **Benefit (3).** Benefit of 100% of final Salary at date of disability, payable to designated beneficiaries as an annuity.

**Commonwealth of Puerto Rico
Employees Retirement System**

11. **Employee Contributions.** Contributions may be made at one of two levels:
 - a. **Option (i) — Coordination Plan.** 5.775% of Compensation up to \$6,600 plus 8.275% of Compensation in excess of \$6,600.
 - b. **Option (ii) — Supplementation Plan.** 8.275% of all Compensation. This is the only choice available to Police, Firefighters and Mayors.

12. **Employer Contributions.** 9.275% of all Compensation, contributed by the Government to the System concurrently with employee contributions.

13. **Forms of Payment.**
 - a. **Normal Form.** 30% (60% for Police and those retired under Law no. 127 of June 27, 1958 who die for reasons unrelated to their disability) joint and survivor annuity, payable to spouse or children under age 18 (age 25 if students); life annuity if single.

Minimum for survivors of Police and retirees under Law no. 127 of June 27, 1958: \$180 per month.
 - b. **Optional Forms.** Reversionary annuity.

14. **Indexation.** Effective January 1, 1992 (and every third year thereafter subject to approval by the Legislature), all annuities in pay status for at least 3 years will be increased by 3%. Most recent increase was granted January 1, 1998 (Bill no. 221).

15. **Christmas Gift.** All pensioners and beneficiaries are entitled to a Christmas Gift of \$300 per family group, payable in December of each year (Bill no. 109).

Commonwealth of Puerto Rico

Employees Retirement System of the Government of Puerto Rico and its Instrumentalities

Summary of Plan Provisions

Plan Provisions as of July 1, 1999 (New Plan)

Note: The plan provisions described in this summary shall affect only those regular full-time employees hired on or after April 1, 1990, or those attaining permanent status after that date.

1. **Effective Date.** April 1, 1990.

2. **Eligibility.** All regular full time employees of the Government of Puerto Rico who are not contributing to other Retirement Systems. Employees include those in the following categories:
 - Police of Puerto Rico
 - Justices of the Peace of Puerto Rico
 - Members and employees of the Legislature
 - Officers and employees of the Government of Puerto Rico, public enterprises and municipalities
 - Members of the Employees Association of the Commonwealth of Puerto Rico
 - Irregular employees fulfilling the requirements of a regular employee

Participation is mandatory, except for members of the Legislature, Government Secretaries, Heads of Agencies and Public Instrumentalities, Assistants to the Governor, the Controller of Puerto Rico, gubernatorial Board and Committee appointees and Experimental Service Station employees.

**Commonwealth of Puerto Rico
Employees Retirement System****3. Definitions.**

- a. **Compensation.** Annual salary, excluding bonus and overtime pay.
- b. **Final Average Compensation.** The average of the annual rates of Compensation during the final five years of Credited Service. If the Compensation for any one year included in the averaging period exceeds the average of Compensation in the remaining four years by more than 10%, the amount in excess of 10% shall be excluded in the computation of Final Average Compensation.
- c. **Maximum Compensation.** The highest annual salary received during the term in Government service.
- d. **Regular Interest.** The annually compounded interest rate prescribed by the Board of Trustees.
- e. **Accumulated Contributions.** The sum of all participant contributions, credited and compounded with Regular Interest.
- f. **Actuarial Equivalent.** The amount of pension payable at a commencement date other than normal retirement or payable to a survivor which may be funded by the total contributions accrued toward a pension payable at normal retirement of the participant. The equivalence is calculated based on annuity and mortality tables adopted by the Board of Trustees and based on the actual experience of the System with the recommendations of the actuary.
- g. **Credited Service.** The years of plan participation during which contributions have been made based on full calendar months of service, beginning on date of hire and ending on date of separation from service.

In general, Credited Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rule holds for rehired employees who previously received a refund of Accumulated Contributions at separation.

**Commonwealth of Puerto Rico
Employees Retirement System****4. Normal Retirement Pension.****a. Participants Eligible.** All participants attaining:

- i. **Benefit (1).** Age 65 with 10 years of service.
- ii. **Benefit (2).** Age 50 with 8 years of service as a Mayor.
- iii. **Benefit (3).** *Hazardous Service Pension:* Age 55 and 30 years of Credited Service as a member of the Police or Firefighters.
- iv. **Benefit (4).** *Hazardous Service Pension:* 30 years of Credited Service as a member of the Police or Firefighters.
- v. **Benefit (5).** Age 50 and 25 years of Credited Service as a member of the Police or Firefighters.

b. Pension Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** 1½% of Final Average Compensation times Credited Service.
- ii. **Benefit (2).** 5% of Maximum Salary times Credited Service as a Mayor up to 10 years, plus 1½% of Maximum Salary times non-mayoral Credited Service up to 20 years, plus 2% of Maximum Salary times non-mayoral Credited Service in excess of 20 years.

Maximum: 90% of Maximum Salary.

- iii. **Benefit (3).** 75% of Final Average Compensation.
- iv. **Benefit (4).** 65% of Final Average Compensation.
- v. **Benefit (5).** 1½% of Final Average Compensation times Credited Service to 20 years, plus 2% of Final Average Compensation times Credited Service in excess of 20 years.

Maximum: 75% of Final Average Compensation.

**Commonwealth of Puerto Rico
Employees Retirement System****5. Early Retirement Pension.****a. Participants Eligible.**

- i. **Benefit (1).** All participants attaining age 55 and 25 years of Credited Service.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).** No provision.
- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** No provision.

b. Pension Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** Accrued Normal Retirement benefit to early retirement, actuarially reduced for each year payment commences before attainment of age 65.
- ii. **Benefit (2).** No provision.
- iii. **Benefit (3).** No provision.
- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** No provision.

6. Postponed Retirement Pension.

- a. **Participants Eligible.** Except for Police and Firefighters, participants may remain in service until any age. For Police and Firefighters, up to December 31, 1993, separation from service is compulsory at age 62 unless continued employment is approved. No continuation for officers shall be permitted in any event beyond age 65.
- b. **Pension Benefit.** Benefits described in 4, based on Final Average Compensation (or final Salary) and Credited Service at postponed retirement date. Payment commences on postponed retirement date. If a member of the Police or Firefighters reaches mandatory retirement without earning 10 years of Credited Service, he or she shall receive a full refund of all Accumulated Contributions.

**Commonwealth of Puerto Rico
Employees Retirement System****7. Vested Pension.****a. Participants Eligible.** All participants attaining:

- i. **Benefit (1).** 10 years of Credited Service.
- ii. **Benefit (2).** 8 years of service as a Mayor.
- iii. **Benefit (3).** No provision.
- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** 25 years of Credited Service as a member of the Police or Firefighters.

b. Vested Pension Benefits. Corresponding to eligibility above:

- i. **Benefit (1).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 65.
- ii. **Benefit (2).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.
- iii. **Benefit (3).** No provision.
- iv. **Benefit (4).** No provision.
- v. **Benefit (5).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.

No benefit is payable if the participant receives a refund of his Accumulated Contributions.

8. Disability Pension.**a. Occupational Disability.****i. Participants Eligible.**

- A. **Benefit (1).** Any participant certified as disabled and unable to perform the duties of any position in Government service by physicians appointed by the Plan Administrator; receiving compensation under the Workmen's Accident Compensation Act.

**Commonwealth of Puerto Rico
Employees Retirement System**

B. **Benefit (2).** (Law no. 127 of June 27, 1958) Members of the Police or Firefighters, Internal Revenue, Justice Department, or Penal and Correctional agencies certified as disabled in the line of duty and unable to perform the duties of any other position in Government service by the Plan Administrator; eligible for compensation under the Workmen's Accident Compensation Act.

ii. **Disability Benefit.**

A. **Benefit (1).** 40% of final Salary at date of separation from service, reduced by Social Security benefits.

B. **Benefit (2).** 80% of final Salary at date of separation of service.

b. **Nonoccupational Disability.**

i. **Participants Eligible.** Any participant certified as permanently and totally disabled by physicians appointed by Plan Administrator and attained 10 years of Credited Service.

ii. **Disability Benefit.** 25% of Final Average Compensation at date of separation from service, plus 1% of Final Average Compensation times Credited Service in excess of 10 years.

Maximum: 40% of Final Average Compensation at date of separation from service.

Notes: If participant engages in employment, both types of disability pension shall be reduced an amount by which the disability pension plus employment income exceeds Compensation at the date of disability. Such disability pension shall be payable for one year only after the date of the participant's reemployment.

If for any reason the disabled participant refuses to submit to periodic reexamination, his annuity will be discontinued.

9. **Preretirement Death Benefit.**

a. **Occupational.**

i. **Beneficiaries Eligible.**

A. **Benefit (1).** The spouse, children or designated beneficiary of a participant who dies from an employment-related cause under the Workmen's Accident Compensation Act.

**Commonwealth of Puerto Rico
Employees Retirement System**

B. **Benefit (2).** (Law no. 127 of June 27, 1958) The spouse, children or designated beneficiary of members of the Police or Firefighters, Internal Revenue, Justice Department, Tribunales, Department of Natural Resources, or Penal and Correctional agencies who die in the line of duty.

ii. **Benefits Payable.**

A. **Benefit (1).**

Spouse's Benefit. 40% of participant's final Compensation at date of death, payable as an annuity until death or remarriage.

Children's Benefit. An annuity for each child of \$10 per month (\$20 if full orphan) payable to child's age 18 (age 25 if student).

Maximum Family Benefit: 100% of participant's final Salary at date of death.

If no spouse nor children: Benefit payable to designated beneficiary equal to a refund of Accumulated Contributions, plus a lump sum benefit of 100% of final Compensation at date of death.

B. **Benefit (2).**

Spouse's Benefit. 40% of final Salary at date of death, payable as an annuity.

Children's Benefit. 40% of final Salary at date of death, payable as an annuity and shared in equal amounts.

If no spouse nor children: Full benefit of 80% of final Salary is payable to designated beneficiary (divided equally if more than one).

Upon death of any beneficiary, the share of the deceased beneficiary will be redistributed among the remaining beneficiaries.

b. **Nonoccupational.**

i. **Beneficiaries Eligible.**

A. **Benefit (1).** All participants.

B. **Benefit (2).** (Law no. 8 of February 18, 1976) Members of the Police.

**Commonwealth of Puerto Rico
Employees Retirement System****ii. Benefits Payable.**

- A. **Benefit (1).** Benefit payable to designated beneficiary equal to a refund of Accumulated Contributions, plus a lump sum benefit of 100% of final Compensation at date of death.
- B. **Benefit (2).** Benefit payable to surviving spouse and dependent children based on Accumulated Contributions (minimum: \$180 per month) in the form of an annuity. Benefit shall be reduced in an amount equal to benefits received from any other sources.

10. Postretirement Death Benefit.**a. Beneficiaries Eligible.** Beneficiaries of any participant who is:

- i. **Benefit (1).** Single with no minor children, or receiving a life annuity as normal form of payment.
- ii. **Benefit (2).** Married or with minor children, and receiving a joint and survivor annuity as normal form of payment. Except for Police and Firefighters, surviving spouse must have attained age 60 in order to receive benefit.
- iii. **Benefit (3).** Receiving an occupational annuity under Law no. 127 of June 27, 1958 as described in 8(a), and who dies as a result of the disability.

b. Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to date of death, payable to designated beneficiary. Minimum benefit — \$500.
- ii. **Benefit (2).** 60% of retiree's pension at date of death (30% if covered under Title II of the Social Security Act.)
- iii. **Benefit (3).** Benefit of 80% of final Salary at date of disability, payable to designated beneficiaries as an annuity.

**Commonwealth of Puerto Rico
Employees Retirement System**

11. **Minimum Pension.** No normal, early or vested retirement benefit payable to a retiree, nor any benefit payable to a beneficiary, shall be an amount less than \$200 per month.
12. **Employee Contributions.** 8.275% of all Compensation.
13. **Employer Contributions.** 9.275% of all Compensation, contributed by the Government to the System concurrently with employee contributions.
14. **Forms of Payment.**
 - a. **Normal Form.** 30% (60% for Police and those retired under Law no. 127 of June 27, 1958 who die for reasons unrelated to their disability) joint and survivor annuity, payable to spouse or children under age 18 (age 25 if students); life annuity if single.

Minimum for survivors of Police and retirees under Law no. 127 of June 27, 1958: \$180 per month.
 - b. **Optional Forms.** Reversionary annuity.
15. **Indexation.** Effective January 1, 1992 (and every third year thereafter subject to approval by the Legislature), all annuities in pay status for at least 3 years will be increased by 3%. Most recent increase was granted January 1, 1998 (Bill no. 221).
16. **Christmas Gift.** All pensioners and beneficiaries are entitled to a Christmas Gift of \$300 per family group, payable in December of each year (Bill no. 109).

**The Employees Retirement System of the Government
of Puerto Rico & its Instrumentalities**

Summary of Plan Provisions as of January 1, 2000 (System 2000)

1. **Effective Date.** January 1, 2000

2. **Eligibility.** The following persons will participants in the plan:
 - a. Any new employee that enters the System for the first time on or after the Effective Date
 - b. Any person that was a participant of the System before the Effective Date and that separated from service before, on or after such date and received a reimbursement of their contributions to the System.
 - c. Any person that is currently an employee and participant of the System as of December 31st 1999 and that exercises the option to transfer to the new plan.
 - d. Any person that is currently an employee and a member of the pension system of any employer as of December 31st 1999 and before this date becomes a member of the System and exercises the option to transfer to the new plan

The option to transfer in c. and d. is irrevocable.

3. **Definitions.**
 - a. **Salary.** Annual salary, excluding bonus and overtime pay

4. **Retirement Savings Account.** An individual retirement account shall be established for each eligible participant in the plan

5. **Credits to Retirement Savings Account.**
 - a. In the case of those participants that exercise the option to transfer, the Initial Transfer Balance to the Retirement Savings Account
 - b. Contributions of the participant to the plan
 - c. Return on investment each economic year based on the Investment Alternatives

6. Investment Alternatives

- a. All new participants may select once an economic year and in multiples of 10% the investments applicable to the participants' Retirement Savings Account as described below.
- b. The participants may change in multiples of 10% the investment, applicable to the participant's Retirement Savings Account once every economic year.
- c. The Investment Alternatives
 - i. Fixed Income: The return equal to the monthly average yield over each semester of every economic year of the 2-year (constant) U.S. Treasury Notes
 - ii. Investment Portfolio of the System: The return equal 75% of the return on the System's investment portfolio during each semester of each economic year, less management fees of the portfolio managers.
 - iii. Such other additional alternatives that may be adopted by the system

7. Normal Retirement Age

All police and firefighters on attaining age 55; other public employers on attaining age 60.

8. Vested Rights

All participants will have a nonforfeitable right to the value of their own Retirement Savings Account.

- 9. Employee Contributions to the Retirement Savings Account** All participants will contribute 8.275% of their Salary while they are employees. In addition, each participant will be able to contribute, in addition, up to 10% of their annual Salary

- 10. Employer Contributions to the System.** Each employer will contribute 9.275% of a participant's Salary to the System. These contributions will be deposited in the System to fulfill future obligations of the System.

- 11. Forms of Payment.** On separation from service for any reason other than death or total and permanent disability, the balance of the Retirement Savings Account will be distributed as follows:

- a. Married Participant: 50% joint and survivor annuity beginning at Normal Retirement Age
- b. Single Participant: Life annuity beginning at Normal Retirement Age.

If, however, the value of the Retirement Savings Account is less than \$10,000 such amount will be paid in a lump sum.

December 2000

12. **Death Benefit:** On a participant's death, the value of the Retirement Savings Account shall be paid to the participant's designated beneficiary.
13. **Disability Benefit:** On a participant's total and permanent disability, the Retirement Savings Account shall be paid to the participant.

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