

*Employees' Retirement System of the
Commonwealth of Puerto Rico
and its Instrumentalities*

Actuarial Valuation Report
as of
June 30, 2005

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February 12, 2007

Board of Trustees
*Employees' Retirement System of the Commonwealth
of Puerto Rico and its Instrumentalities*
Ave. Ponce de León #437
Hato Rey, Puerto Rico 00918

Re: **June 30, 2005 Actuarial Valuation**

Dear Board Members:

Actuarial valuations of the Employees' Retirement System of the Commonwealth of Puerto Rico (also the "Retirement System" or the "System") are prepared periodically by Buck Consultants LLC Puerto Rico Branch (also "Buck") at the request of the Retirement System's Administrator in order to:

- Determine the employer contribution required to fund the Retirement System on a sound actuarial basis,
- Provide a summary of the funded status of the System,
- Present the financial statement disclosure information according to GASB 25 and 27, and
- Disclose liabilities related to certain benefit provisions granted by legislation and funded on a pay-as-you-go basis, known as "Special Laws Benefits" which prior to 2003 were included as commitments of the Retirement System

This report presents the results of the actuarial valuation as of *June 30, 2005* which provides the contributions payable by the employer to the Retirement System for the fiscal year ending June 30, 2006. The last valuation performed by Buck was as of *June 30, 2003*.

Discussion of Valuation Results

This actuarial valuation as of June 30, 2005 indicates that a total employer contribution **\$564,217,000** (a rate of 13.68% of total payroll) is required to meet the employer normal cost and to amortize the Unfunded Actuarial Accrued Liability over 21 years from July 1, 2005 as a level percentage of payroll. Subject to the corrections to census data indicated in the "Valuation Data and Changes to Actuarial Methods and System Provisions" section of this report, the System's payroll, as of the valuation date, was estimated at \$4,125,866,000.

Actual contributions to the Retirement System are set by legislation of the Commonwealth of Puerto Rico. The current employer contribution rate is 9.275% of total payroll (which includes the payroll of members who entered the Retirement System after 1999, known as System 2000 members). Therefore, we estimate an additional contribution of 4.41% of payroll on an annual basis (approximately \$182 million for the fiscal year ending June 30, 2006) is recommended for the sound financing of the Retirement System. To the extent that this additional employer contribution is not effected, the financial status of the System will continue to deteriorate.

Since our last valuation in June of 2003, the System's funded ratio has improved from 17% to 19% at June 30, 2005. System's assets have increased from \$1.9 to \$2.3 billion while its actuarial liabilities have increased from \$11.2 to \$12.3 billion dollars, thereby creating an Unfunded Actuarial Accrued Liability of \$9.956 billion dollars as of June 30, 2005.

Funded Status of Retirement System

Below we present a comparison of the funding ratio of the System as of June 30, 2005 and 2003.

	(\$ Millions)	
	<u>June 30, 2005</u>	<u>June 30, 2003</u>
Actuarial Accrued Liability		
Active	\$5,772	\$5,159
Inactive	<u>6,512</u>	<u>6,032</u>
Total	\$12,284	\$11,191
Market Value of Assets	<u>\$2,328</u>	<u>\$1,947</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$9,956	\$9,244
Funding Ratio	19%	17%

The improvement in funding ratio is due to the following reasons:

- i) The annual asset returns (net of investment expenses) for the fiscal years ending June 30, 2004 and 2005 were approximately 14% and 10% respectively, exceeding the expected return of 8.50% per annum.
- ii) A significant reduction in the number of participants reported under Law 447 (excluding System 2000, approximately 12,000 fewer participants were reported) due to improved data collection procedures.

Annual Required Contribution (ARC) and Accounting Disclosures (GASB 25/27)

The development of the Annual Required Contribution (ARC) is presented in Table I. The Annual Required Contribution of \$564,217,000 was developed by adding the Normal Cost (which represents the present value of the pension benefit earned for the valuation year) plus an amortization over 21 years of the Unfunded Actuarial Accrued Liability (the present value of the pension benefit earned which is attributed to past service).

As previously noted, the employer Normal Cost portion of the ARC includes an offset of \$101,255,000 for anticipated Government contributions with respect to members of System 2000. These contributions are intended to fund non-System 2000 benefits. The System 2000 benefits are funded entirely by member contributions.

The Normal Cost is further reduced by \$360,089,000, which represents the expected employee contributions of non-System 2000 participants. In summary, the expected employee contributions of all System participants pay for the entire Normal Cost and leave a small remainder that is used to offset the amortization payment on the Unfunded Actuarial Accrued Liability.

As pointed out in previous valuations, it is worth reiterating that since the bulk of the System's actuarial liabilities rest with the inactive participants, the fact that currently expected employee contributions do exceed the Normal Cost should NOT be taken as sign that the System's strained actuarial status is expected to correct itself any time soon without significant additional employer contributions.

The accounting information required under GASB Statements Nos. 25 and 27 for the fiscal year ending June 30, 2006 is presented in the attached Table I.

Valuation Data and Changes to Actuarial Methods and System Provisions

At the request of the Retirement System Administration, all numbers included herein exclude an array of benefits, the so called "Special Laws Benefits," which prior to 2003 were presented as actuarial obligations of the Retirement System. However, for completeness, the System has requested that those "Special Laws Benefits" liabilities be presented separately in this report.

The financial data employed to develop the Unfunded Liabilities included in this report was obtained from the audited statements for the Commonwealth of Puerto Rico dated March 14, 2006.

For the fiscal year ending June 30, 2005, the quality of the census data improved dramatically from the one provided in previous years. We commend the Retirement System for this effort. However, we have found the following issues with the census data reported:

- The data (Law 447 and System 2000) included some active and inactive members with missing or incorrect dates of birth, dates of hire and salary information. We have approximated data for these members based on average data for members reported with complete information.
- Terminated vested members were not reported in the data. On the basis of vested pension data provided for the June 30, 2001 actuarial valuation we have estimated the projected value of future benefits for terminated vested members as 3.00% of the total Actuarial Accrued Liability.

As indicated above, significant actuarial gains were generated during this valuation because of substantial improvements in the quality of the census data. The System stated that (through the creation of a committee) it undertook the task of evaluating all the data in order to correct as many fields and obvious errors as possible before the census data was given to us. Furthermore, the System in an ongoing effort to correct the data completely has developed an action plan to be implemented immediately in order to achieve this goal by the next valuation. The Retirement System has also informed us that it strongly believes that through the effort of correcting all census data the current deficit should remain at (or decrease from) its current levels.

As pointed out at the introduction of this section, at the request of the System's Administration, the following array of benefits, *which prior to 2003 were included as obligations of the Retirement System, covered under what is known as "Special Laws Benefits," have been removed as System liabilities and, therefore, excluded from the numbers presented in this valuation:*

1. Cost of living increases of 3.00% triennially to present and future retirees.
2. Increases in the minimum benefits payable current retirees and beneficiaries.
3. Increases in the minimum benefits to future retirees.
4. Increases in the joint and survivor benefits (from 30% to 50%)
5. Increase in occupational disability and occupational pre-retirement death benefits.

The "Special Laws Benefits" ("Beneficios de Leyes Especiales") are benefit provisions granted by legislation and funded on a pay-as-you-go basis by certain municipalities and public corporations as well as the Puerto Rican Central Government. The Retirement System Administration has stated that the obligations for these "Special Laws Benefits" are the responsibility of the Government of Puerto Rico, not of the Retirement System Administration.



Finally, in an effort to disclosed all pension liabilities, including those that do not belong to the Retirement System, the table below shows the liabilities with and without the "Special Laws Benefits" as follows:

(\$ Millions)	Without Special Laws Benefits	With Special Laws Benefits
Actuarial Accrued Liability:		
i. Central Government	\$5,823	\$6,582
ii. Public Corporation	5,243	6,002
iii. Municipalities	<u>1,218</u>	<u>1,385</u>
Total	\$12,284	\$13,969
Market Value of Assets	<u>\$2,328</u>	<u>\$2,328</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$9,956	\$11,641
Funding Ratio	19%	17%
Required Employer Contribution	\$564	\$715

Below we provide a summary of the member data used in the actuarial valuation. No information is available for the June 30, 2002 and 2004.

(\$ Thousands)	June 30, 2005 Valuation	June 30, 2003 Valuation	June 30, 2001 Valuation
Law 447 System			
Actives number	124,854	136,610	150,551
Actives annual payroll	\$3,114,927	\$2,895,430	\$2,428,862
Service retirees number	61,953	60,765	64,625
Service retirees annual benefits	\$630,493	\$532,017	\$532,604
Disabled retirees number	17,727	11,590	11,874
Disabled retirees annual benefits	\$87,289	\$49,097	\$51,976
Beneficiaries number	8,653	16,163	7,643
Beneficiaries annual benefits	\$ 16,490	\$106,156	\$23,352
Total inactives number	88,333	88,518	84,142
Total inactives annual benefits	\$734,270	\$687,275	\$607,932

24,854
 50,200
 176,854

23,302.76

3,114,927.00
 1,00,939.00
 4,125,866.00
 124,854
 58,200
 177,054

2,895,430.00
 439,011.00
 3,334,441.00
 136,610
 25,337
 161,947

20,589.70

System 2000

Actives number	52,200	25,337	7,759
Actives annual payroll	\$1,010,939	\$439,011	\$120,585

Total Retirement System

Actives number	177,054	161,947	158,310
Actives annual payroll	\$4,125,866	\$3,334,441	\$2,549,447

System Provisions and Actuarial Assumptions and Methods

The liabilities presented in this report were developed based on the System provisions presented in Tables III, IV and V. To the best of our knowledge, there have been no other changes in the benefits provided by the Retirement System since the prior valuation.

A summary of the assumptions and methods used in the valuation are outlined in the **Assumptions and Methods** section of the report (Table II). Based on our discussions, we understand that the most recent review of the actual experience of the System was performed over ten years ago. We suggest the Board consider undertaking an experience study to evaluate the current assumptions and make modifications, if necessary.

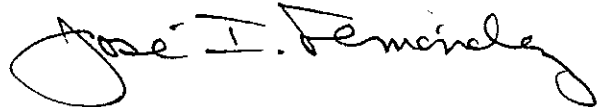
Certification

Subject to the exclusion of benefit provisions requested by the Retirement System Administration and understood to be appropriate by the System as well as its outside auditors and those of the Puerto Rican Government, to the best of our knowledge, this report fairly and accurately presents the liabilities of the System as of June 30, 2005, based solely on the participant data and asset information provided by the Retirement System, and the plan provisions and actuarial assumptions and methods set forth herein.

Respectfully submitted,



Héctor D. Gaitán, FCA, ASA, MAAA
Office Manager & Consulting Actuary



José I. Fernández, ASA, MAAA
Principal, Consulting Actuary

124,954
5,200
177,054

(Dollar amounts in Thousands)

For the Fiscal Year Ended
06/30/2006

1. Number of Plan Members as of 6/30/05:	
a. Retirees and beneficiaries receiving benefits	88,333
b. Terminated plan members entitled to but not yet receiving benefits	N/A
c. Active plan members	177,054
d. Total	<u>265,387</u>
 2. Development of Annual Required Contribution (ARC):	
a. Valuation date	06/30/2005
b. Employer normal cost:	
i. Total normal cost (end of year) ⁽¹⁾	\$ 257,736
ii. Expected employee contributions	<u>(360,089)</u>
iii. Employer normal cost ⁽¹⁾	\$ (102,353)
c. Amortization of UAAL:	
i. Actuarial accrued liability (AAL)	\$ 12,283,865
ii. Actuarial value of assets	<u>(2,327,871)</u>
iii. Unfunded AAL (UAAL)	\$ 9,955,994
iv. Amortization of UAAL	666,570
e. ARC (Item 2.b.iii. + Item 2.c.iv.)	<u>\$ 564,217</u>
 3. Annual Pension Cost and Net Pension Obligation (NPO):	
a. ARC	\$ 564,217
b. Interest on NPO	332,802
c. Adjustment to ARC	<u>(262,137)</u>
d. Annual Pension Cost	\$ 634,882
e. Contributions made	<u>N/A</u>
f. Increase (decrease) in NPO	N/A
g. NPO (beginning of year) ⁽²⁾	<u>3,915,315</u>
h. NPO (end of year)	<u>N/A</u>

⁽¹⁾ Includes offset of \$101,255,000 expected employer contributions with respect to members of System 2000.⁽²⁾ Net Pension Obligation (NPO) as presented in the audited financial statements of the Commonwealth of Puerto Rico as of June 30, 2005. No actuarial valuation was performed as of June 30, 2004.

(Dollar amounts in Thousands)

4. Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	(Excess)/ Deficiency
2006	564,217	N/A	N/A	N/A
2005	578,387	374,823	65%	(203,564)
2004	578,387	330,336	57%	(248,051)
2003	802,536	330,404	41%	(472,132)
2002	802,536	308,228	38%	(494,308)
2000	890,800	549,855	62%	(340,945)
1999	845,000	491,800	58%	(353,200)

5. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Unit Credit (AAL) (b)	Unfunded AAL (not < 0) (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b) - (a)]/(c)
6/30/2005	\$ 2,327,871	\$12,283,865	9,955,994	19%	\$ 4,125,866	241%
6/30/2004	2,141,442	N/A	N/A	N/A	N/A	N/A
6/30/2003	1,947,402	11,191,357	9,243,955	17%	3,334,441	277%
6/30/2002	1,979,677	N/A	N/A	N/A	N/A	N/A
6/30/2001	2,428,664	9,881,481	7,452,817	25%	2,549,446	292%
6/30/2000	2,041,800	9,459,300	7,417,500	22%	2,463,400	301%
6/30/1999	1,858,000	8,308,000	6,450,000	22%	2,575,000	250%

6. Additional Information

Valuation date:	June 30, 2005
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay
Remaining amortization period:	21 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	8.50%
Projected salary increases*	5.00%
Cost-of-living adjustments	None
*Includes inflation at	3.50%

Annual Required Contribution for the year ended June 30, 2001 is not available.

Information prior to June 30, 2001 is from June 30, 2001 Audited Financial Statements.

1. **Actuarial Cost Method**
Projected Unit Credit.
2. **Interest Rate**
8.50% per annum, net of expenses.
3. **Salary Increases**
5.00% per annum.
4. **Decrement**
 - **Pre-Retirement Mortality**
1983 Group Annuity Mortality Table set forward two (2) years.
 - **Post-Retirement Mortality**
1983 Group Annuity Mortality Table set forward two (2) years.
 - **Post-Retirement Disability Mortality**
Same as regular Post-Retirement Mortality.
 - **Permanent Withdrawal from Active Status**
Representative values of the assumed annual rates of withdrawal (per 1,000 members) in active service are set forth in the following table:

Age	Male	Female
15	94.0	94.0
20	71.5	71.5
25	50.0	50.0
30	39.0	39.0
35	32.0	32.0
40	26.5	26.5
45	18.0	18.0
50	8.0	8.0
55	3.0	3.0
60	0.0	0.0

(continued)

- Retirement

The percentage of employees retiring at any given age is presented below:

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

(continued)

- **Disability**

65% of Third Railroad Retirement Table. Representative values of the assumed annual rates of disability (per 1,000 members) in active service are set forth in the following table:

Age	Male	Female
25	1.560	2.340
30	1.560	2.340
35	1.658	2.487
40	1.911	2.867
45	2.568	3.855
50	4.635	6.955
55	8.853	13.280
60	17.940	26.910

90% of disability retirements are assumed to be service incurred.

5 Cost of Living Adjustment

None.

6. Proportion of Participants with Spouses

80% of participants assumed to be married, with wives assumed to be four (4) years younger than their husbands.

7. Service related Pre-Retirement Deaths

50% of pre-retirement deaths are assumed to be service related.

8. Deferred Terminated Vested Liability

No data is available on terminated members due deferred vested benefits. We have estimated the liability for this group by loading by 3.00% the Actuarial Accrued Liability (both active and inactive).

9. Load for Purchase of Service at Retirement

The active members' actuarial accrued liabilities have been increased 5% to reflect recent experience on members purchasing service credits at retirement.

10. Average Investment Return on Participant Accounts – System 2000

It is assumed that the account balances of participants under System 2000 grow at an average rate of 5.61%.

Plan Provisions as of April 1, 1990 (Old Plan)

Notes:

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.

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 Table. Those participants selecting Option (i), the Coordination Plan are subject to a benefit recalculation upon attainment of the Social Security Retirement Age (SSRA). Those selecting option (ii), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (i) to Option (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.

Effective Date:

January 1, 1952.

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
- Firefighters 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.

(continued)

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 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

Service During a Fiscal Year	Credited Service
9 months or more	1 year
6-8 months	¾ year
3-5 months	½ year
Less than 3 months	None

Employees with 15 or more days or 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.

(continued)

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 and Mayors and those selecting contribution Option (ii), benefits (1) and (2) recalculated at age 65 as follows:

1-1/2% 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.

- (iii) **Benefit (3).** 1-1/2% 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.

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

1% of Final Average Compensation up to \$6,600 times Credited Service to 20 years, plus 1-1/2% of Final Average Compensation up to \$6,600 times Credited Service in excess of 20 years, plus 1-1/2% 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.

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.

(continued)

- (iv) **Benefit (4).** 5% of Maximum Salary times Credited Service as a Mayor up to 10 years, plus 1-1/2% 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).** 1-1/2% 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.

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

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 and Mayors and those selecting contribution Option (ii), benefit (3) recalculated at SSRA as described above under (b)(iii) of the Normal Retirement Pension section.
(iv) **Benefit (4).** No provision.
(v) **Benefit (5).** No provision.

(continued)

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 upon attainment of age 58 and 30 years of Credited Service.
- (b) **Pension Benefit.** Benefits as described under the Normal Retirement Pension section above, 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.

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 Benefit.** 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.
 - (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.

(continued)

Disability Pension:(a) **Occupational Disability.**

- (i) **Participants Eligible.** 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.
- (ii) **Disability Benefit.** 50% of final Salary at date of separation from service. (Subject to one (1) year of retroactive payment since the approval date of pension, but not before separation date)

(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.** 1-1/2% 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: 50% of Final Average Earnings at date of separation of service. (Subject to one (1) year of retroactive payment since the approval date of pension, but not before separation date)

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

Pre-retirement Death Benefit:(a) **Occupational.**

- (i) **Beneficiaries Eligible.** The spouse, children or designated beneficiary of a participant who dies from an employment-related cause under the Workmen's Accident Compensation Act.
- (ii) **Benefits Payable.**

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.

(continued)

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) **Nonoccupational.**

(i) **Beneficiaries Eligible.**

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

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

(ii) **Benefits Payable.**

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

Post-Retirement Death Benefits:

(a) **Beneficiaries Eligible.** Beneficiaries of any participant who is:

(i) **Benefit (1).** Single with no minor children, or receiving a life annuity as a 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 60 in order to receive benefit.

(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 - \$250.

(ii) **Benefit (2).** 30% of retiree's pension at date of death.

Employee Contributions:

Employee Contributions made 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.

Employer Contributions:

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

Forms of Payment:

- (a) Normal Form. 30% joint and survivor annuity, payable to spouse or children under age 18 (age 25 if students); life annuity if single.
- (b) Optional Forms. Reversionary annuity.

Indexation:

None.

Plan Provisions as of April 1, 1990 (New Plan)Notes:

The plan provisions 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.

Effective Date:

April 1, 1990.

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
- Firefighters 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.

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 (5) years of Credited Service. If the Compensation for one year included in the averaging period exceeds the average of Compensation in the remaining four (4) years by more than 10%, the amount in excess of 10% shall be excluded in the computation of the Final Average Compensation.
- (c) **Maximum Compensation:** the highest annual salary received during term of Government service.

(continued)

- (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 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 the date of hire and ending on the 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.

Normal Retirement Pension:

- (a) **Participants Eligible.** All participants attaining:
 - (i) **Benefit (1).** Age 65 and 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).** 1-1/2% 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 1-1/2% 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.

(continued)

- (iii) **Benefit (3).** 75% of Final Average Compensation.
- (iv) **Benefit (4).** 65% of Final Average Compensation.
- (v) **Benefit (5).** 1-1/2% 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.

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.

Postponed Retirement Pension:

- (a) **Participants Eligible.** Except for Police, participants may remain in service until any age. For Police, separation from service is compulsory upon attainment of age 58 and 30 years of Credited Service unless continued employment is approved.
- (b) **Pension Benefit.** Benefits as described under the Normal Retirement Pension section above, 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.

(continued)

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 Benefit.** 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.

Disability Pension:

- (a) **Occupational Disability.**
 - (i) **Participants Eligible.** 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.
 - (ii) **Disability Benefit.**
 - (A) **Benefit (1).** 40% of final Salary at date of separation from service, reduced by Social Security benefits.

- (b) **Nonoccupational Disability.**
 - (i) **Participants Eligible.** Any participant certified as permanently and totally disabled by physicians appointed by Plan Administrator; attained 10 years of Credited Service.

(continued)

- (ii) **Disability Benefit.** 1-1/2% 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: 40% of Final Average Earnings at date of separation of service.

Notes: If participant engages in employment, both types of disability pensions shall be reduced by the 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.

Pre-retirement Death Benefit:

(a) **Occupational.**

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

(ii) **Benefits Payable.**

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) **Nonoccupational.**

(i) **Beneficiaries Eligible.**

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

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

(iii) **Benefits Payable.**

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

(continued)

- (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.

Post-Retirement Death Benefits:

- (a) **Beneficiaries Eligible.** Beneficiaries of any participant who is:
 - (i) **Benefit (1).** Single with no minor children, or receiving a life annuity as a 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 60 in order to receive benefit.
- (b) **Benefit.** Corresponding to eligibility above.
 - (i) **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to death, payable to designated beneficiary. Minimum benefit - \$250.
 - (ii) **Benefit (2).** 30% of retiree's pension at date of death.
 - (iii) **Benefit (3).** Benefit of 80% of final Salary at date of disability, payable to designated beneficiaries as an annuity.

Minimum Pension:

No normal, early or vested retirement benefit payable to a retiree, nor any benefit payable to a beneficiary, shall be in an amount less than \$200 per month.

Employee Contributions:

Employee Contributions are 8.275% of all Compensation.

Employer Contributions:

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

Forms of Payment:

- (a) **Normal Form.** 30% joint and survivor annuity, payable to spouse or children under age 18 (age 25 if students); life annuity if single.
- (b) **Optional Forms.** Reversionary annuity.

Indexation:

None.

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

Effective Date:

January 1, 2000.

Eligibility:

The following persons will participate 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 31, 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 31, 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) above is irrevocable.

Definitions:

- (a) **Salary:** Annual salary, excluding bonus and overtime pay.

Retirement Savings Account:

An individual retirement account shall be established for each eligible participant in the plan.

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 participants to the plan.
- (c) Return on investment each economic year based on the Investment Alternatives.

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 investments; 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 90% 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 Alternatives** that may be adopted by the System.

Normal Retirement Age:

All Police and Firefighters on attainment of age 55; other public employees on attainment of age 60.

Vested Rights:

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

Employee Contributions to the Retirement Savings Account:

All participants will contribute 8.275% of their Salary while they are employees. Each participant will be able to contribute, on a voluntary basis, up to an additional 10% of their annual Salary.

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.

Forms of Payment:

On separation from service for any reason, other than death or total and permanent disability, the balance the balance of the Retirement Savings Account will be distributed as follows

- (a) Married Participants: 50% joint and survivor annuity beginning at the Normal Retirement Age.
- (b) Single participants: Life annuity beginning at the 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

Death Benefit:

On a participant's death, the value of the Retirement Savings Account shall be paid to the participant's designated beneficiary.

Disability Benefit:

On a participant's total and permanent disability, the Retirement Savings Account shall be paid to the participant.