PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

June 30, 2012 Actuarial Valuation Report

Milliman

1550 Liberty Ridge Drive
Suite 200
Wayne, PA 19087-5572

Tel +1 610 687.5644
Fax +1 610.687.4236

www.milliman.com

July 31, 2013

Mr. Héctor M. Mayol Kauffman
Administrator
Puerto Rico Government Employees and
Judiciary Retirement System Administration
437 Ponce de León Avenue
Hato Rey, PR 00918

Dear Mr. Mayol:

This report presents the results of the final actuarial valuation of the Puerto Rico Government Employees Retirement System (PRGERS) as of June 30, 2012. Section I contains highlights of the valuation including a general discussion and comments on the various schedules included in the report. The subsequent Sections contain schedules summarizing the underlying calculations, asset information, participant data, plan benefits and actuarial assumptions and methods.

Purpose

The main purposes of this report are:

- to provide the Annual Required Contribution, Annual Pension Cost, and Annual Other Postemployment Benefit (OPEB) Cost for the Fiscal Year ending June 30, 2013 based on relevant Statements of the Government Accounting Standards Board (GASB);
- to review the experience under the plan since the previous valuation;
- to present information pertaining to the operation of the plan for inclusion in financial statements; and
- to assess the relative funded position of the plan.

The use of this report for purposes other than those stated above may not be appropriate and should be reviewed with Milliman.

The report was prepared solely to provide assistance to the Commonwealth of Puerto Rico Government Employees Retirement System for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning PRGERS' operations, and uses PRGERS' data, which Milliman has not audited. Milliman and PRGERS do not intend to benefit and assume no duty or liability to other parties who receive this report. Milliman and PRGERS recommend that any third party recipient of this report be aided by its own actuary or other qualified professional when reviewing the Milliman report.

Data Reliance

In performing this analysis, we relied on the census data, asset information, and other information (both written and oral) provided by the System. This information includes, but is not limited to, plan documents and summaries, participant data, and financial statements. As is our usual practice, we have not audited the information provided to us, but have reviewed it for general reasonableness. Our review of the data shows it to be reasonably consistent and comparable with data used in prior valuations. Because the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or inaccurate.

Future Measurements

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as the following:

- Plan experience differing from the actuarial assumptions;
- Future changes in the actuarial assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes in the plan's funded status); and,
- Changes in the plan provisions or accounting standards.

Specifically, this report does not include any of the pension reform changes included in Act 3 enacted on April 4, 2013.

Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such measurements.

Certification

We hereby certify that, to the best of our knowledge, this report is complete and accurate and all costs and liabilities were determined in conformance with generally accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting recommendations of the American Academy of Actuaries and are based on actuarial assumptions and methods adopted by the System. All of the actuarial assumptions were developed by Milliman in consultation with PRGERS. We believe that the actuarial assumptions and methods used in this actuarial valuation are reasonable for valuing the benefits provided under the plan.

Actuarial computations presented in this report are for purposes of fulfilling financial accounting requirements under the GASB Statements 25, 27, and 45. The calculations in the enclosed report have been made on a basis consistent with our understanding of the plan provisions described in Section VIII of this report, and of the applicable GASB Statements. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Qualifications

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

We are members of the Society of Actuaries and meet the qualification standards of the American Academy of Actuaries to render this actuarial opinion.

Respectfully submitted,

By: Glenn D. Bowen, F.S.A.
Member American Academy of Actuaries

Timothy J. Nugent, F.S.A.
Member American Academy of Actuaries

Katherine A. Warren, F.S.A.
Member American Academy of Actuaries

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A. Summary of Principal Results of June 30, 2012 Actuarial Valuation *($ amounts in thousands)*

	Basic System Pension Benefits only	System Administered Pension Benefits only	GASB 25 & 27 Accounting (Basic System and System Administered Pension Benefits)	GASB 45 Accounting (Other Postemployment Benefits)
Actuarial Accrued Liability [1]	$24,491,662	$3,154,124	$27,645,786	$2,120,970
Actuarial Value of Assets	1,236,873	0	1,236,873	0
Unfunded Actuarial Accrued Liability	23,254,789	3,154,124	26,408,913	2,120,970
Employer Normal Cost [2]	160,539	25,726	186,265	32,412
as a percent of payroll	4.50%	0.72%	5.22%	0.91%
Annual Required Contribution (ARC)	1,927,444	265,377	2,192,821	154,999
as a percent of payroll	53.99%	7.43%	61.42%	4.34%
Annual Pension / OPEB Cost [3]	N/A	N/A	2,035,682	150,544
as a percent of payroll	N/A	N/A	57.02%	4.22%
Employer Contributions *(estimated)*	423,169	217,976	641,145	112,987
as a percent of payroll	11.85%	6.11%	17.96%	3.16%
Portion of ARC not covered *(estimated)*	1,504,275	47,401	1,551,676	42,012
as a percent of payroll	42.14%	1.32%	43.46%	1.18%

[1] A discussion of the benefits included in the respective Actuarial Accrued Liability begins on page 4 of this section. Please see page 25 for an allocation of Actuarial Accrued Liability by Pension Law and System Entity.
[2] Employer Normal Cost and all subsequent annual amounts are on behalf of the July 1, 2012 to June 30, 2013 fiscal year.
[3] Determined as if PRGERS were a single employer plan instead of a cost-sharing multiple employer plan. See page 11 for more information.

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	June 30, 2011 Valuation	June 30, 2012 Valuation
GASB 25 & 27 Accounting ($ amounts in thousands)		
Actuarial Accrued Liability	$25,457,354	$27,645,786
Actuarial Value of Assets	1,723,811	1,236,873
Unfunded Actuarial Accrued Liability	23,733,543	26,408,913
Employer Normal Cost	180,376	186,265
as a percent of payroll	4.92%	5.22%
Annual Required Contribution		
for upcoming fiscal year	2,019,467	2,192,821
as a percent of payroll	55.08%	61.42%
GASB 45 Accounting ($ amounts in thousands)		
Actuarial Accrued Liability	$1,758,389	$2,120,970
Actuarial Value of Assets	0	0
Unfunded Actuarial Accrued Liability	1,758,389	2,120,970
Employer Normal Cost	25,773	32,412
as a percent of payroll	0.70%	0.91%
Annual Required Contribution		
for upcoming fiscal year	133,654	154,999
as a percent of payroll	3.64%	4.34%

A discussion of the benefits included in the respective Actuarial Accrued Liability begins on page 4 of this section.

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	June 30, 2011 Valuation	June 30, 2012 Valuation
Participant Data		
Active Members		
Number	135,972	134,566
Average Salary	$26,964	$26,532
Total Annual Salary	$3,666,402,000	$3,570,339,000
Retirees		
Number	83,416	87,465
Average Monthly Basic System Benefit	$1,043	$1,019
Average Monthly System Administered Benefit	$107	$89
Disabled Members		
Number	16,670	16,571
Average Monthly Basic System Benefit	$434	$423
Average Monthly System Administered Benefit	$114	$131
Beneficiaries		
Number	13,105	13,825
Average Monthly Basic System Benefit	$290	$216
Average Monthly System Administered Benefit	$17	$103

Basic System Benefit and System Administered Benefit amounts shown above are for pension benefits, including minimum benefits and COLAs, and excludes benefits payable at a later date to Law 70 Section 4B retirees. Special Law "bonus" benefits are not reflected.

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B. General Discussion

Basic System Benefits

As summarized in Section VIII, the Puerto Rico Government Employees Retirement System (PRGERS) provides benefits to Act 447 and Act 1 members, or their beneficiaries, upon:

- Retirement
- Disability
- Vested withdrawal
- Death
- Nonvested withdrawal (return of contributions)
- Christmas bonus ($200)

These benefits will be referred to as the "Basic System Benefits" throughout this report. Basic System Benefits for members of System 2000 consist of the accumulated member contribution account and annuity benefits as a result of disability. The contributions required by statute to fund the basic system benefits listed above total 19.55% of payroll for the 2012-2013 fiscal year, comprising 8.275% from members and 11.275% from employers. These contribution rates are not actuarially determined. Statutory funding requirements in future years will increase under Law 116 (see pg. 8).

Annuity benefits are subject to a $400 monthly minimum. The amount in excess of $200 and less than $300 is a System Administered Benefit (see below) for all employees. The amount in excess of $300 and less than $400 is a System Administered Benefit for Public Corporation and Municipality employees.

System Administered Benefits

Also summarized in Section VIII are benefits granted under a series of special laws that are administered by PRGERS, including:

- Additional minimum pension benefits
- Additional minimum death benefits
- Ad-hoc cost-of-living adjustments (COLAs) provided in past years
- Additional benefits due to death or disability for reasons specified in Act 127
- Medical insurance plan contribution
- Summer bonus
- Medication bonus
- Christmas bonus ($400)

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System 2000 participants, other than those members receiving a disability annuity or receiving benefits under Act 127, do not receive any System Administered Benefits.

These benefits are funded on a pay-as-you-go basis from the General Fund or specific entity of the Commonwealth of Puerto Rico and will be referred to as "System Administered Benefits" throughout this report. These benefits are not an obligation of the PRGERS assets.

Other Benefits

This report does not address the guarantee insurance reserve for life insurance on loans to plan members. (Please see Notes to Basic Financial Statements on page 38 and Statements of Plan Net Assets on page 12 of the System's June 30, 2011 Basic Financial Statements.)

System Experience since Prior Valuation

The approximate actual rate of return since the prior valuation was 22.31% for 2011-2012. This significant asset gain decreased the System's unfunded actuarial accrued liability. This rate of return is determined on a net asset basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (approximately $3 billion), the net asset return is significant larger than the return on a gross asset basis.

Our analysis of System experience from June 30, 2011 to June 30, 2012 resulted in a liability gain of $0.6 billion for Basic System Benefits (e.g. – the original June 30, 2011 liability of $22.5 billion was expected to increase to $23.1 billion as of June 30, 2012, and instead stayed constant at $22.5 billion prior to the changes in assumptions made as of June 30, 2012).

Major sources of gains and losses from the June 30, 2011 valuation are as follows:

1. $80 million loss on new entrants.
2. $60 million loss on roughly 750 "pop-up" retirees who were not in the June 30, 2011 census data.
3. $10 million loss on retiree and beneficiary mortality.
4. $100 million loss due to completion of contribution history and recalculation of historic interest credits for active System 2000 members.

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5. $340 million gain on retiree and beneficiary data changes. This change is primarily due to a reallocation of benefits from Basic System Benefits to System Administered Benefits.
6. $40 million gain on roughly 5,700 active members who retired during the one-year period.
7. $190 million gain on continuing active members due to salary increases less than anticipated (basically there were no increases in salary year over year).
8. $60 million gain on continuing active members due to other data changes.
9. $130 million gain from active members terminating employment.

Further discussion is warranted on Items 2, 5, and 6.

For Item 2, the entire $60 million is not a loss to the extent that these new retirees were included in the deferred vested liability on June 30, 2011. However, we cannot determine what portion of the 750 retirees emerged from deferred vested status since deferred vested census data is not available and the deferred vested liability is developed by placing a loading assumption on the Act 447 and Act 1 liabilities to account for deferred vested members.

For Item 5, due to a System data clean-up, the total benefit amounts reported on the census data were consistent year over year, however the allocation between the Basic System Benefit amounts and the System Administered Benefit amounts changed, with the former decreasing and the latter increasing. Thus a gain on the liability for Basic System Benefits generates a loss on the liability for System Administered Benefits.

For Item 6, the retirement gain is the net result of the employers paying the pension benefits directly to Law 70 Section 4B retirees for a temporary period, which more than offsets the significant liability loss due to more retirements than anticipated and the enhanced benefits granted to Law 70 Section 4B retirees. Please also see Accounting Issues under Law 70 on page 10 for further discussion.

Changes in Assumptions since Prior Valuation

Investment Return

This valuation reflects a decrease in the interest rate assumption for GASB 25 & 27 purposes from 6.4% per year to 6.0% per year. The 6.0% assumption reflects the asset allocation for the non-loan portion of the portfolio that was adopted by the Board during November 2011 as shown below and Milliman's capital market assumptions as of June 30, 2012. In addition, the assumption reflects that loans to members comprise approximately 15% of the portfolio and, as provided by the System, have an approximate return of 9.6%.

Asset Class	Target Allocation
Domestic Equity	25%
International Equity	10%
Fixed Income	55%
Cash	10%

Please note that this new interest rate assumption of 6.0% per year is less than the debt service on most of the Pension Obligation Bonds (over 90% based on the outstanding balance of $3 billion as of June 30, 2012). The debt service on the Pension Obligation Bonds ranges from 5.85% to 6.55%.

This valuation also reflects a decrease in the interest rate assumption for GASB 45 purposes from 4.0% per year to 3.2% per year. The 3.2% assumption reflects Milliman's capital market assumptions as of June 30, 2012 and assumes that the Commonwealth's General Fund (the assets used to pay the GASB 45 benefits) is investment approximately in 50% cash and 50% short-term bonds.

Postretirement Mortality

The postretirement mortality assumption was revised based on an experience study covering the period from July 1, 2007 through June 30, 2012. The assumption for healthy lives was revised from plan specific mortality tables to rates based on standard industry mortality tables. For healthy lives, the postretirement mortality assumption was revised to 92% and 95% of the rates from the UP-1994 mortality table for males and females, respectively, projected on a generational basis using Scale AA. For disabled lives, the postretirement mortality assumption was revised to 105% and 115% of the rates from the UP-1994 mortality table for males and females, respectively.

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Impact

The decrease in the interest rate assumption and the revised postretirement mortality assumption increased the Actuarial Accrued Liability as of June 30, 2012 for Basic System Benefits by $1.94 billion, from $22.55 billion to $24.49 billion, or by 8.6%. The increase in the ARC for Basic System Benefits was $126.3 million or 7.0%.

For GASB 25 and 27 accounting, the decrease in the interest rate assumption and the revised postretirement mortality assumption increased the Actuarial Accrued Liability as of June 30, 2012 by $2.21 billion, from $25.44 billion to $27.65 billion, or by 8.7%. The increase in the ARC was $139.9 million or 6.8%.

For GASB 45 accounting, the decrease in the interest rate assumption and the revised postretirement mortality assumption increased the Actuarial Accrued Liability as of June 30, 2012 by $0.33 billion, from $1.79 billion to $2.12 billion, or by 18.4%. The increase in the ARC was $16.9 million or 12.2%.

Changes in Plan Provisions since Prior Valuation

Since the System has not established a long term disability insurance program for active members of System 2000, this valuation reflects that the Act 1 style disability provisions are provided to active members of System 2000 until such long term disability insurance program is established.

This valuation also reflects a correction in the normal retirement age for System 2000 police officers and firefighters to age 55 instead of age 50. The withdrawal and retirement rates for System 2000 police officers and firefighters were modified for this correction.

Law 116

During the 2010-2011 fiscal year, Law 116 was enacted which increased employer contributions from the prior 9.275% of compensation to 10.275% of compensation effective July 1, 2011. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 20.525% effective July 1, 2020.

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Law 70

During the 2010-2011 fiscal year, Law 70 provided for an early retirement incentive. Additional window periods occurred through December 31, 2012. The Law provided benefits to retirees under the three sections discussed below.

Section 4A

Under Section 4A of Law 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth).

Section 4B

Under Section 4B of Law 70, active members who had at least 15 years of service, but less than 30 years of service, were able to retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporations for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The System will pay the benefit after this time period. While the General Fund / Public Corporation is paying the pension benefit directly to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year, with future increases under Law 116) of final salary to the System. Public Corporations also pay the 8.275% employee contribution rate to the System.

Section 4C

Under Section 4C of Law 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six-months of salary (paid by the Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year, with future increases under Law 116) plus the 8.275% employee contribution rate of final salary to the System for five years after retirement.

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Additional Law 70 Retirees

The census data used in this valuation reflects the 6,107 Law 70 retirees reported as of January 4, 2013. (The January 4, 2013 file contained 6,166 records, but 59 retirees were listed twice.) We understand that there are approximately 1,000 to 2,000 additional retirees under Law 70 that are being processed and have not yet been reported to us.

Accounting Issues

For Law 70 Section 4B retirees, this valuation reflects that the System will be responsible for paying pension benefits at a specified future date for each retiree. Because the employers are temporarily making pension payments directly to the Section 4B retirees and the payments are not passing through the System, these temporary payments are not considered System Administered Benefits and thus are not included in this valuation.

The appropriate accounting for these temporary benefits is on the financial statements of each employer who is making payments directly to Law 70 Section 4B retirees during the temporary period. The accounting requirements are set forth in GASB 47, the standard that relates to Termination Benefits. If the employer is already preparing a GASB 45 valuation for other postemployment benefits, the termination benefits can be included in that valuation and consolidated with the underlying GASB 45 results.

Early Retirement Incentive Contributions

The early retirement incentive contributions are reflected in the System's financial statements in the year of the incentive even though these contributions are typically scheduled to be paid by the employer to the System over many years. As directed by the System, the actual employer contributions for GASB 25 & 27 accounting reflect early retirement incentive contributions on an accrual basis to match the amounts shown in the System's financial statements.

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GASB Accounting Information

Basic System Benefits and System Administered Benefits have been valued under Governmental Accounting Standards Board Statement No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*" (GASB 25) and Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers*" (GASB 27). The Medical Insurance Plan Contribution has been valued under Governmental Accounting Standards Board Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB 45).

Accounting results under GASB 25, 27, and 45 are presented in Sections IV, V and VI of this report and are discussed below.

Net Pension/OPEB Obligation and Annual Pension/OPEB Cost

As requested, this report includes the determination of the Net Pension Obligation under GASB 25 and 27 and the Net Other Postemployment Benefit (OPEB) Obligation under GASB 45 as of June 30, 2012. We have also determined the Annual Pension Cost and the Annual OPEB Cost for the 2012-2013 fiscal year. These amounts were determined as if PRGERS were a single employer plan instead of a cost sharing multiple employer plan.

We note that as a cost-sharing multiple employer plan, PRGERS is not required to report a Net Pension Obligation nor a Net OPEB Obligation. In accordance with paragraph 19 of GASB 27 and paragraph 23 of GASB 45, the employers that participate in the plan should recognize annual pension/OPEB expenditures/expense equal to their contractually required contributions to the plan. The employers do not have an Annual Required Contribution (ARC), a Net Pension Obligation or a Net OPEB Obligation. (PRGERS reports an ARC for the system as a whole, not separate ARCs for the individual employers.) Any difference between contributions required and contributions made would produce a pension/OPEB liability or asset at the employer level.

Basic System Benefits Information

We have performed a June 30, 2012 actuarial valuation of the Basic System Benefits alone and have prepared accounting results for them based on GASB 25 and 27 rules.

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The FY 2012-2013 Annual Required Contribution (ARC) for the Basic System Benefits only based on GASB 25 and 27 rules would be $1.927 billion. The ARC represents the portion of the cost of PRGERS' Basic System Benefits that employers should pay in order for PRGERS to be actuarially funded in accordance with GASB's required minimum parameters. The actual employer contributions are based on the statutory funding requirement, which is 11.275% of payroll for the 2012-2013 fiscal year and which is not actuarially determined. Contributions for early retirement incentive programs, including Law 70, are also included. Employer contributions for Basic System Benefits are estimated to be $423.2 million for FY 2012-2013, which is less than the ARC by $1.504 billion.

Note the above ARC has been reduced to reflect the fact that active members contribute 8.275% of pay to the system. The ARC represents the additional contributions required from employers.

As shown in Subsection C of Section IV, PRGERS has Unfunded Actuarial Accrued Liabilities (UAAL) of $23.3 billion on behalf of Basic System Benefits, which should be amortized over a period not to exceed 30 years in accordance with GASB 25 and 27 rules. Based on the current statutory member and employer funding requirements, the UAAL is expected to grow indefinitely into the future instead of being amortized. Effectively, this means that the statutory member and employer contributions to PRGERS are not adequate to fund PRGERS' Basic System Benefits. Instead, ***PRGERS is being rapidly disfunded***. As a result, the future scheduled contributions arising from the statutory funding requirement will not be adequate to accumulate sufficient assets to make future benefit payments when due.

GASB 25 and 27 Accounting Information

We have performed a June 30, 2012 actuarial valuation of the Basic System Benefits and the System Administered Benefits (excluding the Medical Insurance Plan Contribution, which will be discussed separately under GASB 45 below) and have prepared accounting results under GASB 25 for the financial statements of the System and under GASB 27 for the Commonwealth of Puerto Rico's financial statements. The System Administered Benefits are financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico and contributions from municipalities and public corporations.

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The FY 2012-2013 employer ARC under GASB 25 and 27 for these combined benefits is $2.193 billion. The estimated FY 2012-2013 combined employer contributions are only $641.1 million, which is $1.552 billion less than the ARC. This includes the Basic System Benefits and the System Administered Benefits (excluding the Medical Insurance Plan Contribution). The FY 2012-2013 Annual Pension Cost under GASB 27 is $2.036 billion.

As shown in Subsection B of Section V, the Unfunded Actuarial Accrued Liability for these combined benefits is $26.4 billion. As noted above, future scheduled contributions arising from the statutory funding requirements will not be adequate to accumulate sufficient assets to make future benefit payments when due.

GASB 45 Accounting Information

We have performed a June 30, 2012 actuarial valuation of the Medical Insurance Plan Contribution and have prepared accounting results for the Commonwealth of Puerto Rico's financial statements under GASB 45. (Note that the Medication Bonus has been included in the GASB 25 and 27 results as a Pension Benefit because members can receive the bonus without submitting documentation to substantiate medication expenses.)

The FY 2012-2013 ARC for the Medical Insurance Plan Contribution under GASB 45 is $155.0 million.

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico. Since this is an Other Postemployment Benefit that is not funded in advance, the ARC for this benefit has been calculated based on an assumed investment return rate of 3.2%, instead of the 6.0% rate used for the Pension Benefits. As shown in Subsection B of Section VI, the Unfunded Actuarial Accrued Liability on a GASB 45 basis for this benefit is $2.1 billion.

Allocation of Actuarial Accrued Liability

Subsection A of Section III shows the Actuarial Accrued Liability as of June 30, 2012 by Pension Law (Act 447, Act 1, and System 2000) within each System Entity (Government, Public Corporation, and Municipality).

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Cash Flow Projection for Basic System Benefits

PRGERS is a mature retirement system with a significant retiree population. Based on the current statutory funding requirements, the annual benefit payments and administrative expenses paid by the system are significantly larger than the member and employer contributions made to the system. Thus investment income must be used to cover this negative cash flow. As a result, system assets can be expected to decline as negative cash flow (contributions less benefit payments) exceeds expected investment income. PRGERS' liabilities for the Basic System Benefits will continue to increase significantly over time as Act 447 and Act 1 employees approach retirement. Thus the funded status can also be expected to decline, based on the actuarial assumptions used to prepare this actuarial valuation.

The table shown in Subsection C of Section III provides a simplified illustration of the expected negative net cash flows over the next 10 years. Annual payroll growth of 2.5% is assumed, as future members are assumed to replace current members who terminate or retire. (Note, we did not attempt to include in the expected benefit payments any benefit payments attributable to new members in preparing this table. Members who join PRGERS in the future will generate some cash outflow during the next 10 years due to refunds of their contributions, death and disability benefits, and immediate annuities due to service purchases, etc. We expect that these amounts will be relatively modest and they have not been included in the results shown. Doing so would increase the expected negative net cash flow.)

While Law 116 increased employer contributions, we recommend that the statutory funding requirements be further significantly increased in light of:

- ***the expected negative net cash flows which are expected to exhaust net System assets in FY 2014-2015 (assuming the investment return assumption of 6.0% is met);***
- ***the expected negative net cash flows which are expected to exhaust gross System assets in FY 2018-2019 (assuming the investment return assumption of 6.0% is met)***
- ***the forecast decrease in funded status;***
- ***the market value of assets as of June 30, 2012 which is significantly less than the Accumulated Member Contributions for active members as of June 30, 2012; and,***
- ***the Annual Required Contribution based on GASB 25 and 27.***

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Note that in the period from FY 2014-2015 to FY 2018-2019, benefits are expected to be paid with pension obligation bond proceeds, i.e. – borrowed money. Once gross assets are exhausted there would be no System assets remaining to pay pension benefits to members, to refund member balances, nor to pay debt service to bondholders.

We note that Act 3, enacted on April 4, 2013, provided for significant pension reforms to counter the imminent expected asset exhaustion. This valuation does not reflect the provisions of Act 3.

SECTION I – SUMMARY

C. Discussion of Supporting Exhibits

System Assets

Section II summarizes the plan assets taken into account in the preparation of the GASB 27 Employer Accounting results for PRGERS.

Subsection A summarizes the Market Value of Assets as of June 30, 2012, including the additional amounts due to the contribution receivables, if any.

Subsection B summarizes the reconciliation of the Market Value of Assets from June 30, 2011 to June 30, 2012.

Subsection C summarizes the development of the Actuarial Value of Assets as of June 30, 2012. The Actuarial Value of Assets is equal to the Market Value of Assets.

Subsection D develops an estimated rate of return on plan assets for the previous plan year. The estimated rate of return from June 30, 2011 to June 30, 2012 was 22.31% on the Market Value of Assets. This rate of return is determined on a net asset basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (approximately $3 billion), the net asset return is significant larger than the return on a gross asset basis. This exhibit also develops an estimated rate of return on a gross asset basis (e.g. net assets plus the liability for Pension Obligation Bond proceeds).

Subsection E summarizes the historical estimated rates of return on plan assets on a market value basis on both gross and net asset bases. Prior year returns were calculated by Milliman using the methodology in Subsection D, based on the asset amounts and cash flows shown in PRGERS audited financial statements.

The asset information used for the valuation was taken from financial statements provided by PRGERS as of June 30, 2012.

Management Information

Section III presents additional information that has been derived from the valuation process.

SECTION I – SUMMARY

Subsection A shows the allocation of Actuarial Accrued Liability as of June 30, 2012 for Basic System Benefits by Pension Law (Act 447, Act 1, and System 2000) within each System Entity (Government, Public Corporation, and Municipality).

Subsection B shows the allocation of the Accumulated Member Contributions with interest for active members as of June 30, 2012 by Pension Law (Act 447, Act 1, and System 2000) within each System Entity (Government, Public Corporation, and Municipality).

Subsection C shows a projected cash flow for the current fiscal year and the next ten fiscal years for Basic System Benefits and is illustrative of the expected future decline in funded status. Please see Subsection B of Section I for a description of this projection.

Basic System Benefits Information

Section IV summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution for just the Basic System Benefits under GASB 25 and 27 for the fiscal year ending June 30, 2013 (please see Subsection B of Section I for a description of the benefits included in this valuation).

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2012.

Subsection B summarizes the development of the Employer Normal Cost. The Employer Normal Cost is the total normal cost under the Projected Unit Credit Actuarial Cost Method adjusted for interest to mid-year, increased by expected administrative expenses paid from the fund, and reduced by expected member contributions.

Subsection C summarizes the development of the amortization payment of the Unfunded Actuarial Accrued liability. The amortization period used to calculate the ARC is 30 years from June 30, 2007, with level annual payments. 25 years remain as of June 30, 2012.

Subsection D summarizes the development of the Annual Required Contribution (ARC). The ARC is the sum of the employer normal cost and the amortization payments, adjusted to mid-year to reflect that payments are made throughout the year.

SECTION I – SUMMARY

GASB 25 and 27 Accounting Information

Section V summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution and Annual Pension Cost under GASB 25 and 27 for the fiscal year ending June 30, 2013 (please see Subsection B of Section I for a description of the benefits included in these valuation results). Results are shown in total for GASB 25 and 27, with the Actuarial Accrued Liability and Employer Normal Cost presented for the underlying Basic System Benefits and for the underlying System Administered Benefits that are included in this valuation.

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2012 and Employer Normal Cost as of December 31, 2012.

Subsection B summarizes the development of the amortization payment of the Unfunded Actuarial Accrued liability. The amortization period used to calculate the ARC is 30 years from June 30, 2007 with level annual payments each year. 25 years remain as of June 30, 2012.

Subsection C summarizes the development of the Annual Required Contribution (ARC). The ARC is the sum of the employer normal cost and the amortization payments, adjusted to mid-year to reflect that payments are made throughout the year.

Subsection D summarizes the development of the Net Pension Obligation (NPO) as of June 30, 2012 as if PRGERS were a single employer plan instead of a cost sharing multiple employer plan. The NPO is defined as the cumulative difference between the Annual Pension Cost (APC) and the employer's contribution to the plan, including any pension liability (asset) at transition.

Subsection E summarizes the development of the APC for the fiscal year ending June 30, 2013 as if PRGERS were a single employer plan instead of a cost sharing multiple employer plan. The APC is the amount recognized in the employer's financial statements as the cost of the pension plan and is determined in accordance with GASB Statement No. 27. The APC is equal to the ARC plus interest on the NPO, if any, as of June 30, 2012 less an amortization of this NPO.

Subsection F shows a seven-year history of the ARC and the percentage contributed. This schedule is required by GASB Statements No. 25 and 27. The FY 2012-2013 contribution percentage assumes that the employer contributions for Basic System

SECTION I – SUMMARY

Benefits will be at the statutory level of 11.275% of payroll and include anticipated early retirement incentive contributions and that employer contributions for the applicable System Administered Benefits will be the anticipated pay-as-you-go payments. The amounts shown for the fiscal year ending June 30, 2007 are from the audited financial statements for the System and for the Commonwealth of Puerto Rico. As indicated on the exhibit, we restated the ARC for FY 2006-07 based on information available in the June 30, 2005 valuation report prepared by Buck Consultants.

Subsection G shows a six-year history of the funding progress of the plan. This schedule is required by GASB Statements No. 25 and 27. The amounts shown for the fiscal year ending June 30, 2007 and earlier are from the audited financial statements for the System (adjusted as discussed in the paragraph above).

Schedule H summarizes information used to determine the Annual Required Contribution for the fiscal year ending June 30, 2013.

GASB 45 Accounting Information

Section VI summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution for the fiscal year ending June 30, 2013 for the Medical Insurance Plan Contribution.

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2012 and Employer Normal Cost as of December 31, 2012.

Subsection B summarizes the development of the amortization payment of the Unfunded Actuarial Accrued liability. The amortization period used to calculate the ARC is 30 years from June 30, 2007 with level annual payments each year. 25 years remain as of June 30, 2012.

Subsection C summarizes the development of the Annual Required Contribution (ARC). The ARC is the sum of the employer normal cost and the amortization payments, adjusted to mid-year to reflect that payments are made throughout the year.

Subsection D summarizes the development of the Net OPEB Obligation (NOO) as of June 30, 2012 as if PRGERS were a single employer plan instead of a cost sharing multiple employer plan. The NOO is defined as the cumulative difference between the

SECTION I – SUMMARY

Annual OPEB Cost (AOC) and the employer's contribution to the plan since the adoption of GASB 45.

Subsection E summarizes the development of the AOC for the fiscal year ending June 30, 2012 as if PRGERS were a single employer plan instead of a cost sharing multiple employer plan. The AOC is the amount recognized in the employer's financial statements as the cost of other postemployment benefits and is determined in accordance with GASB Statement No. 45. The AOC is equal to the ARC plus interest on the NOO, if any, as of June 30, 2012 less an amortization of this NOO.

Subsection F shows a six-year history of the ARC and the percentage contributed. This schedule is required by GASB Statements No. 45. The FY 2012-2013 contribution percentage assumes that employer contributions for the Medical Insurance Plan Contribution will be the anticipated pay-as-you-go payments.

Subsection G shows a six-year history of the funding progress of the plan. This schedule is required by GASB Statements No. 45.

Schedule H summarizes information used to determine the Annual Required Contribution for the fiscal year ending June 30, 2013.

Census Data

Section VII summarizes the census data provided by the System and utilized in the preparation of the actuarial valuation. Subsection A provides a profile of active and inactive participants, summarized by pension law. Special data adjustments are discussed in Section IX.

Summary of Principal Plan Provisions

Section VIII summarizes the principal plan provisions as of the valuation date and denotes any changes from the previous valuation.

SECTION I – SUMMARY

Actuarial Assumptions and Methods

Sections IX and X summarize the actuarial assumptions and methods that were utilized in the preparation of this actuarial valuation and denote any changes from the previous valuation.

SECTION II - SYSTEM ASSETS

A. Market Value of Assets as of June 30, 2012

1. Assets		
Cash	$	771,163,000
COFINA Investment		245,339,000
Bonds		1,370,694,000
Stocks		793,330,000
Alternative / Private Equity Investments		57,370,000
Total Loans to Plan Members		955,057,000
Accounts Receivable		238,709,000
Capital Assets		11,668,000
Other Assets		5,375,000
Prepaid Bond Cost		31,077,000
Total	$	4,479,782,000
2. Total Liabilities		
Bonds Payable	$	3,026,593,000
Other Liabilities		216,316,000
Total	$	3,242,909,000
3. Market Value of Assets as of June 30, 2012: (1) - (2)	$	1,236,873,000

SECTION II - SYSTEM ASSETS

B. Reconciliation of Market Value of Assets from June 30, 2011 to June 30, 2012

1. Market Value of Assets as of June 30, 2011	$	1,723,811,000
2. Additions		
a. Contributions		
Employer Contributions	$	390,863,000
Member Contributions		313,417,000
Early Retirement Programs		812,000
Appropriations for Special Laws		191,779,000
Total Contributions	$	896,871,000
b. Investment Income		
Interest Income	$	165,082,000
Dividend Income		2,095,000
Net Appreciation of Investments		27,983,000
COFINA Investment		82,839,000
Other Income		24,727,000
Investment Related Expenses		(5,618,000)
Net Investment Income	$	297,108,000
Total Additions	$	1,193,979,000
3. Decreases		
Refund of Contributions	$	52,228,000
Annuities and Death Benefits		1,184,353,000
Special Law Benefits		191,779,000
Law 70		14,526,000
Administrative Expenses		28,510,000
Other Expenses		18,785,000
Cost of Bonds		190,736,000
Total	$	1,680,917,000
4. Net Increase (Decrease) in Market Value of Assets	$	(486,938,000)
5. Market Value of Assets as of June 30, 2012	$	1,236,873,000

C. Development of Actuarial Value of Assets as of June 30, 2012

The Actuarial Value of Assets as of June 30, 2012 is equal to the Market Value of Assets as of June 30, 2012 of $1,236,873,000.

SECTION II - SYSTEM ASSETS

D. Estimated Annual Rate of Return for year ending June 30, 2012

	Gross Asset Basis	Net Asset Basis
1. Value of Assets as of June 30, 2011	$ 4,727,293,000	$ 1,723,811,000
2. Total Contributions	896,871,000	896,871,000
3. Benefit Payments and Expenses	1,680,917,000	1,680,917,000
4. Value of Assets as of June 30, 2012	4,263,466,000	1,236,873,000
5. Non-Investment Increment: (2) - (3)	(784,046,000)	(784,046,000)
6. Investment Increment: (4) - (1) - (5)	320,219,000	297,108,000
7. Time Weighted Value: (1) +.5 * (5)	4,335,270,000	1,331,788,000
8. Estimated Annual Rate of Return: (6) / (7)	7.39%	22.31%

E. Estimated Historical Rates of Return

Plan Year Ending	Gross Asset Basis	Net Asset Basis
June 30, 2012	7.39%	22.31%
June 30, 2011	16.55%	51.55%
June 30, 2010	10.01%	27.87%
June 30, 2009	-5.57%	-13.23%
June 30, 2008	-1.66%	-2.26%
5-year Compounded Annual Return	5.04%	14.99%

Prior year returns were calculated by Milliman using the methodology in Section D above, based on asset amounts and cash flows shown in prior valuation reports.

The rates of return determined on a gross asset basis are for illustrative purposes only and assume non-investment cash flows are the same as that determined on a net asset basis. Because of the significant amount of Pension Obligation Bond proceeds that are currently invested (approximately $3 billion), the net asset returns are significantly larger than the returns on a gross asset basis.

SECTION III - MANAGEMENT INFORMATION

A. Allocation of Actuarial Accrued Liability by Pension Law and System Entity

	Basic System Benefits	System Administered Benefits	Basic System and System Administered Benefits	GASB 45 Benefits
Government				
Act 447	12,305,494,000	1,629,463,000	13,934,957,000	1,096,311,000
Act 1	2,192,433,000	256,335,000	2,448,768,000	281,752,000
System 2000	621,119,000	195,488,000	816,607,000	18,439,000
	15,119,046,000	2,081,286,000	17,200,332,000	1,396,502,000
Public Corporations				
Act 447	5,873,000,000	649,480,000	6,522,480,000	334,628,000
Act 1	648,895,000	48,972,000	697,867,000	66,573,000
System 2000	205,098,000	2,441,000	207,539,000	4,648,000
	6,726,993,000	700,893,000	7,427,886,000	405,849,000
Municipalities				
Act 447	1,896,390,000	286,778,000	2,183,168,000	216,519,000
Act 1	526,124,000	68,208,000	594,332,000	94,497,000
System 2000	223,108,000	16,959,000	240,067,000	7,603,000
	2,645,622,000	371,945,000	3,017,567,000	318,619,000
Total				
Act 447	20,074,883,000	2,565,720,000	22,640,603,000	1,647,458,000
Act 1	3,367,453,000	373,515,000	3,740,968,000	442,822,000
System 2000	1,049,326,000	214,889,000	1,264,215,000	30,690,000
	24,491,662,000	3,154,124,000	27,645,786,000	2,120,970,000

(Numbers shown may not add due to rounding.)

System Administered Benefits for System 2000 members are enhanced death and disability benefits for hazardous duty employees covered by Act 127 and the related bonus benefits for these members. GASB 45 benefits are the medical insurance plan contributions for these members.

Account balances for members of System 2000 are included in System assets shown in Section II.

SECTION III - MANAGEMENT INFORMATION

B. Accumulated Member Contributions for Active Members as of June 30, 2012

	Contribution Account Balances
Government	
Act 447	693,793,000
Act 1	993,797,000
System 2000	481,289,000
	2,168,879,000
Public Corporations	
Act 447	270,265,000
Act 1	269,915,000
System 2000	159,639,000
	699,819,000
Municipalities	
Act 447	127,140,000
Act 1	231,358,000
System 2000	174,453,000
	532,951,000
Total	
Act 447	1,091,198,000
Act 1	1,495,070,000
System 2000	815,381,000
	3,401,649,000
Market Value of Assets as of June 30, 2012	1,236,873,000

SECTION III - MANAGEMENT INFORMATION

C. Projected Cash Flows for Basic System Benefits (Simplified Illustration)

(Amounts in Millions)

Plan Year Ending	Estimated Payroll	Estimated Member and Employer Contributions	Estimated Benefit Payments and Administrative Expenses	Pension Obligation Bond Debt Service	Net Cash Flow	Estimated Net Plan Assets at Year-End	Estimated Gross Plan Assets at Year-End
06/30/2013	3,570	719	1,364	167	(812)	647	3,684
06/30/2014	3,659	775	1,394	167	(786)	49	3,096
06/30/2015	3,750	832	1,438	167	(773)	(572)	2,486
06/30/2016	3,844	891	1,488	167	(764)	(1,221)	1,850
06/30/2017	3,940	962	1,543	167	(748)	(1,893)	1,191
06/30/2018	4,039	1,036	1,603	167	(734)	(2,590)	507
06/30/2019	4,140	1,113	1,667	167	(721)	(3,316)	(204)
06/30/2020	4,244	1,192	1,737	167	(712)	(4,076)	(949)
06/30/2021	4,350	1,274	1,804	167	(697)	(4,866)	(1,723)
06/30/2022	4,459	1,304	1,868	217	(781)	(5,739)	(2,630)
06/30/2023	4,570	1,334	1,918	234	(818)	(6,685)	(3,630)

Notes:

- Estimated Net and Gross Plan Assets at Year-End assume that the investment return assumption of 6.0% is met.
- Estimated Payroll is assumed to grow 2.5% annually.
- Member Contributions were estimated to be 8.275% of Estimated Payroll each year.
- Employer Contributions were estimated to be 11.275% of Estimated Payroll for FYE 2013, increasing to 20.525% of Estimated Payroll for FYE 2021 and later in accordance with Law 116. Employer contributions include expected payroll-based contributions received by the System on behalf of certain Law 70 retirees during the temporary period when the employers are direc paying the retirees' benefits.
  Employer contributions do not include the temporary pension benefits being paid by employers directly to certain Law 70 retirees.
- The Estimated Benefit Payments do not include amounts expected to be made to future participants, such as:
  - refund of contributions to terminated nonvested participants,
  - disability benefits,
  - death benefits,
  - retirement benefits due to service purchase,

  and thus are slightly understated.
- Administrative Expenses are assumed to grow 2.5% annually.
- Contributions on behalf of and benefit payments to members of System 2000 are included in the table above.

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

A. Development of Actuarial Accrued Liability as of June 30, 2012

1. Projected Benefits Payable to Retirees and Beneficiaries		
Retirees	$	12,519,284,000
Disabled Members		908,758,000
Beneficiaries		338,181,000
Total	$	13,766,223,000
2. Projected Benefits for Vested Terminated Members		1,116,302,000
3. Actuarial Accrued Liability for Active Members		9,609,137,000
4. Total Actuarial Accrued Liability: (1) + (2) + (3)	$	24,491,662,000

The above liabilities are for Basic System Benefits. See Section I for more information.

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

B. Development of Employer Normal Cost Payable as of December 31, 2012

1. Total Normal Cost as of June 30, 2012	$	403,995,000
2. Expected Member Contributions	$	287,150,000
3. Load for Administrative Expenses:	$	31,750,000
4. Total Employer Normal Cost as of December 31, 2012: (1) * (1.06 ^ 0.5) - (2) + (3)	$	160,539,000

The above liabilities are for Basic System Benefits. See Section I for more information.

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

C. Development of Unfunded Actuarial Accrued Liability and Amortization Payment Payable as of December 31, 2012

1. Actuarial Accrued Liability as of June 30, 2012	$	24,491,662,000
2. Actuarial Value of Assets as of June 30, 2012	$	1,236,873,000
3. Unfunded Actuarial Accrued Liability as of June 30, 2012: (1) - (2)	$	23,254,789,000
4. Amortization Period in years		25
5. Amortization Factor at beginning of year		13.5504
6. Amortization Amount Payable as of December 31, 2012: [(3) / (5)] * (1.06 ^ 0.5)	$	1,766,905,000

D. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2012	$	160,539,000
2. Amortization Payment as of December 31, 2012	$	1,766,905,000
3. Annual Required Contribution*: (1) + (2)	$	1,927,444,000

* Assumes payments made throughout the year.

The above liabilities are for Basic System Benefits. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

A. Benefit Obligations

	Basic System Benefits	System Administered Benefits	Total
1. Projected Benefits Payable to Retirees and Beneficiairies:			
Retirees	$ 12,519,284,000	$ 1,687,827,000	$ 14,207,111,000
Disabled Members	908,758,000	414,605,000	1,323,363,000
Beneficiaries	338,181,000	214,614,000	552,795,000
Total	$ 13,766,223,000	$ 2,317,046,000	$ 16,083,269,000
2. Projected Benefits Payable to Vested Terminated Members:	$ 1,116,302,000	$ 139,963,000	$ 1,256,265,000
3. Actuarial Accrued Liability for Active Members	$ 9,609,137,000	$ 697,115,000	$ 10,306,252,000
4. Actuarial Accrued Liability as of June 30, 2012: (1) + (2) + (3)	$ 24,491,662,000	$ 3,154,124,000	$ 27,645,786,000
5. Gross Normal Cost as of December 31, 2012:	$ 415,939,000	$ 25,726,000	$ 441,665,000
6. Expected Member Contributions	$ 287,150,000	$ 0	$ 287,150,000
7. Administrative Expenses	$ 31,750,000	$ 0	$ 31,750,000
8. Net Employer Normal Cost as of December 31, 2012: (5) - (6) + (7)	$ 160,539,000	$ 25,726,000	$ 186,265,000

The above liabilities are for Basic System Benefits and selected System Administered Benefits. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

B. Development of Unfunded Actuarial Accrued Liability and Amortization Payment Payable as of December 31, 2012

1. Actuarial Accrued Liability as of June 30, 2012	$	27,645,786,000
2. Actuarial Value of Assets as of June 30, 2012	$	1,236,873,000
3. Unfunded Actuarial Accrued Liability as of June 30, 2012: (1) - (2)	$	26,408,913,000
4. Amortization Period in years		25
5. Amortization Factor at beginning of year		13.5504
6. Amortization Amount Payable as of December 31, 2012: [(3) / (5)] * (1.06 ^ 0.5)	$	2,006,556,000

C. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2012	$	186,265,000
2. Amortization Payment as of December 31, 2012	$	2,006,556,000
3. Annual Required Contribution*: (1) + (2)	$	2,192,821,000

* Assumes payments made throughout the year.

The above liabilities are for Basic System Benefits and selected System Administered Benefits. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

D. Development of Net Pension Obligation as of June 30, 2012

1. Net Pension Obligation as of June 30, 2011	$	7,308,172,000
2. Annual Pension Cost for Fiscal Year 2011 - 2012	$	1,903,046,000
3. Fiscal Year 2011 - 2012 Employer Contribution	$	589,743,000
4. Net Pension Obligation as of June 30, 2012: (1) + (2) - (3)	$	8,621,475,000

E. Development of Fiscal Year 2012 - 2013 Annual Pension Cost

1. Annual Required Contribution	$	2,192,821,000
2. Interest on Net Pension Obligation as of June 30, 2012	$	517,289,000
3. Adjustment to the Annual Required Contribution	$	674,428,000
4. Fiscal Year 2012 - 2013 Annual Pension Cost: (1) + (2) - (3)	$	2,035,682,000

The above liabilities are for Basic System Benefits and selected System Administered Benefits. See Section I for more information.

The above Net Pension Obligation and Annual Pension Cost are determined as if PRGERS was a single employer plan instead of a cost-sharing multiple employer plan. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

F. Schedule of Employer Contributions

Year Ended June 30	Actual Employer Contribution	Annual Required Contribution	Percent Contributed
2013 *	$641,145,000	$2,192,821,000	29.24%
2012	589,743,000	2,019,467,000	29.20
2011	701,709,000	1,734,979,000	40.44
2010	534,275,000	1,459,774,000	36.60
2009	594,509,000	1,258,695,000	47.23
2008 **	662,500,000	1,191,275,000	55.61
2007 ***	566,524,000	816,472,000	69.39

* Actual Employer Contribution for the year ended June 30, 2013 assumes:
- contribution of 11.275% of expected payroll for the Basic System Benefits, plus
- contribution of $218.0 million for Special Law pension benefits, plus
- contribution of $0.0 million for early retirement incentives.
- contribution of $20.6 million for Law 70 payroll based contributions.

** In the development of the Fiscal Year 2007-2008 Annual Required Contribution the System has adopted a level dollar amortization method with a 30-year period to reflect the closing of the defined benefit plan to new entrants under System 2000 (the Retirement Savings Account Program).

*** Annual Required Contribution for the year ended June 30, 2007 is restated to remove the offset of employer contributions on behalf of System 2000 members that was applied to the normal cost, and to include the Special Law Benefits. Actual Employer Contributions are restated to include receipts for Special Law pension benefits and early retirement incentives. These adjustments were made to allow for better comparability between the results of the later and the earlier valuations.

The above liabilities are for Basic System Benefits and selected System Administered Benefits. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

G. Schedule of Funding Progress

	(a)	(b)	(c)=(b)-(a)	(d)=(a)/(b)	(e)	(f)=(c)/(e)
Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Annual Salary	Unfunded Liability as a % of Annual Salary
06/30/2012	$1,236,873,000	$27,645,786,000	$26,408,913,000	4.5%	$3,570,339,000	739.7%
06/30/2011	1,723,811,000	25,457,354,000	23,733,543,000	6.8%	3,666,402,000	647.3%
06/30/2010	1,667,358,000	21,370,006,000	19,702,648,000	7.8%	3,818,332,000	516.0%
06/30/2009	1,851,223,000	18,943,586,000	17,092,363,000	9.8%	4,292,552,000	398.2%
06/30/2008	2,607,086,000	----------	----------	*not determined*	----------	----------
06/30/2007	2,891,501,000	16,769,512,000	13,878,011,000	17.2%	4,246,409,000	326.8%

The above liabilities are for Basic System Benefits and selected System Administered Benefits. See Section I for more information.

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

H. Additional Information

The following information was used to determine the Annual Required Contribution for the fiscal year ending June 30, 2013. The ARC is for the Basic System Benefits and selected System Administered Benefits. See Section I for more information.

Valuation Date:	June 30, 2012
Actuarial Cost Method:	Projected unit credit cost method; with straight proration based on service to decrement
Amortization method:	30 years closed, level dollar
Remaining Amortization Period:	25 years
Asset valuation method:	Market Value of Assets
Assumptions:	
Investment rate of return	6.0%
Projected Salary Increases	3.0%
Projected Payroll Growth	2.5%
Inflation	2.5%
Cost of Living Adjustments	3% triennial increases (statutory COLA rate) for members covered under Act 127 who become disabled or die in the line of duty.

SECTION VI - GASB 45 ACCOUNTING INFORMATION

A. Benefit Obligations

1. Projected Benefits Payable to Retirees and Beneficiaries:		
Retirees	$	1,174,306,000
Disabled Members		198,919,000
Beneficiaries		0
Total	$	1,373,225,000
2. Projected Benefits Payable to Vested Terminated Members:	$	99,537,000
3. Actuarial Accrued Liability for Active Members	$	648,208,000
4. Total Actuarial Accrued Liability as of June 30, 2012:	$	2,120,970,000
5. Total Employer Normal Cost as of December 31, 2012:	$	32,412,000

The above liabilities are for the Medical Insurance Plan Contribution portion of the System Administered Benefits. See Section I for more information.

SECTION VI - GASB 45 ACCOUNTING INFORMATION

B. Development of Unfunded Actuarial Accrued Liability and Amortization Payment Payable as of December 31, 2012:

1. Actuarial Accrued Liability as of June 30, 2012:	$	2,120,970,000
2. Actuarial Value of Assets as of June 30, 2012:	$	0
3. Unfunded Actuarial Accrued Liability as of June 30, 2012: (1) - (2)	$	2,120,970,000
4. Amortization Period in years		25
5. Amortization Factor at beginning of year		17.5764
6. Amortization Amount Payable as of December 31, 2012: [(3) / (5)] * (1.032 ^ 0.5)	$	122,587,000

C. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2012:	$	32,412,000
2. Amortization Payment as of December 31, 2012:	$	122,587,000
3. Annual Required Contribution*: (1) + (2)	$	154,999,000

* Assumes payments made throughout the year.

The above liabilities are for the Medical Insurance Plan Contribution portion of the System Administered Benefits. See Section I for more information.

SECTION VI - GASB 45 ACCOUNTING INFORMATION

D. Development of Net OPEB Obligation as of June 30, 2012

1. Net OPEB Obligation as of June 30, 2011	$	130,741,000
2. Annual OPEB Cost for Fiscal Year 2011 - 2012	$	130,704,000
3. Fiscal Year 2011 - 2012 Employer Contribution	$	94,688,000
4. Net OPEB Obligation as of June 30, 2012: (1) + (2) - (3)	$	166,757,000

E. Development of Fiscal Year 2012 - 2013 Annual OPEB Cost

1. Annual Required Contribution	$	154,999,000
2. Interest on Net OPEB Obligation as of June 30, 2012	$	5,336,000
3. Adjustment to the Annual Required Contribution	$	9,791,000
4. Fiscal Year 2012 - 2013 Annual OPEB Cost: (1) + (2) - (3)	$	150,544,000

The above liabilities are for the Medical Insurance Plan Contribution portion of the System Administered Benefits. See Section I for more information.

The above Net OPEB Obligation and Annual OPEB Cost are determined as if PRGERS was a single employer plan instead of a cost-sharing multiple employer plan. See Section I for more information.

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F. Schedule of Employer Contributions

Year Ended June 30	Actual Employer Contribution	Annual Required Contribution	Percent Contributed
2013 *	$112,987,000	$154,999,000	72.90%
2012	94,688,000	133,654,000	70.85
2011	93,541,000	129,395,000	72.29
2010	85,460,000	128,294,000	66.61
2009	86,739,000	111,683,000	77.67
2008	79,793,607	110,650,000	72.11

* Actual Employer Contribution for the year ended June 30, 2013 assumes:
- contribution of $112.987 million for Special Law OPEB benefits.

The above liabilities are for the Medical Insurance Plan Contribution portion of the System Administered Benefits. See Section I for more information

SECTION VI - GASB 45 ACCOUNTING INFORMATION

G. Schedule of Funding Progress

	(a)	(b)	(c)=(b)-(a)	(d)=(a)/(b)	(e)	(f)=(c)/(e)
Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Annual Salary	Unfunded Liability as a % of Annual Salary
06/30/2012	$0	$2,120,970,000	$2,120,970,000	0.0%	$3,570,339,000	59.4%
06/30/2011	0	1,758,389,000	1,758,389,000	0.0%	3,666,402,000	48.0%
06/30/2010	0	1,699,373,000	1,699,373,000	0.0%	3,818,332,000	44.5%
06/30/2009	0	1,633,159,000	1,633,159,000	0.0%	4,292,552,000	38.0%
06/30/2008	0	-----	-----	*not determined*	-----	-----
06/30/2007	0	1,556,809,000	1,556,809,000	0.0%	4,246,409,000	36.7%

The above liabilities are for the Medical Insurance Plan Contribution portion of the System Administered Benefits. See Section I for more information.

SECTION VI - GASB 45 ACCOUNTING INFORMATION

H. Additional Information

The following information was used to determine the Annual Required Contribution for the fiscal year ending June 30, 2013. The ARC is for the Basic System Benefits and selected System Administered Benefits. See Section I for more information.

Valuation Date:	June 30, 2012
Actuarial Cost Method:	Projected unit credit cost method; with straight proration based on service to decrement
Amortization method:	30 years closed, level dollar
Remaining Amortization Period:	25 years
Asset valuation method:	not applicable
Assumptions:	
Investment rate of return	3.2%
Projected Salary Increases	not applicable
Projected Payroll Growth	not applicable
Inflation	not applicable
Cost of Living Adjustments	not applicable

SECTION VII - CENSUS DATA

A. Summary of Member Data as of June 30, 2012:

	Act 447	Act 1	System 2000	Total
Active Members				
Count	26,071	46,452	62,043	134,566
Average Age	54.1	48.1	41.1	46.0
Average Salary	$31,127	$27,957	$23,535	$26,532
Average Creditable Service	26.2	17.4	7.2	14.4
Retired Members				
Count	81,692	5,773	N/A	87,465
Average Age	69.1	64.3	N/A	68.8
Average Monthly Basic System Benefit	$1,065	$369	N/A	$1,019
Average Monthly System Administered Benefit	$92	$47	N/A	$89
Disabled Members				
Count	14,882	1,668	21	16,571
Average Age	68.8	63.7	52.9	68.3
Average Monthly Basic System Benefit	$421	$436	$594	$423
Average Monthly System Administered Benefit	$138	$73	$0	$131
Beneficiaries in payment				
Count	13,726	99	N/A	13,825
Average Age	72.4	65.5	N/A	72.4
Average Monthly Basic System Benefit	$216	$289	N/A	$216
Average Monthly System Administered Benefit	$102	$132	N/A	$103

Basic System Benefit and System Administered Benefit amounts shown above are for pension benefits, including minimum benefits and COLAs, and excludes benefits payable at a later date to Law 70 Section 4B retirees. Special Law "bonus" benefits are not reflected.

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

Three main sets of benefit provisions apply to various members of PRGERS depending on the member's date of hire. In general, the benefits under Act 447 of 1951 (as amended) apply to members hired before April 1, 1990. The benefits under Act 1 of 1990 (as amended) apply to members hired on or after April 1, 1990 and on or before December 31, 1999. The benefits under Act 305 of 1999 (as amended), known as System 2000, apply to members hired on or after January 1, 2000.

This summary of plan provisions, with separate descriptions for the three sets of benefits, is intended only to describe the essential features of the plan for valuation purposes. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

Act 447 of 1951 as amended

1. Type of Plan

   The System is a contributory, defined benefit plan.

2. Effective Date

   The System was established in 1951 by Act 447 to be effective January 1, 1952. The plan was last amended under Act 7, approved February 15, 2008.

3. Eligibility for Membership

   Members of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities include all regular full-time employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and who were initially hired full-time prior to April 1, 1990. Employees include those in the following categories:

   - Police of Puerto Rico,
   - Firefighters of Puerto Rico,
   - Elective officers and the employees of the Legislature,
   - Officers and employees of the Government of Puerto Rico,
   - Officers and employees of public enterprises,
   - Officers and employees, including mayors, of the municipalities, and
   - Irregular personnel fulfilling the requirements of regular employee.

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor's aides, gubernatorial appointees of commissions and boards, members of the Legislature, the Controller of Puerto Rico, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman and the Commonwealth Election Board employees (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act 112 of 2004).

4. Definitions

   a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).

   b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.

   c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).

   d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).

   e. Municipality: The Municipality of San Juan (Article 1-104).

   f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Articles 1-104 and 1-110).

   g. Employee: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).

   h. Creditable Service: The years and months of plan participation, during which contribution have been made, beginning on the later of date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

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Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month
2 months and 15 days to 5 months and 14 days	½ year
5 months and 15 days to 8 months and 14 days	¾ year
8 months and 15 days to 12 months	1 year

Note: All of the days have to be during the same month.

Months in which less than 15 days of service are rendered do not count towards Creditable Service. (Article 1-106)

In general, Creditable 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 rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

i. <u>Compensation</u>: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).

j. <u>Average Compensation</u>: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).

k. <u>Contributions</u>: The amount deducted from the compensation of a Member and the employer (Section 781).

l. <u>Regular Interest</u>: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

m. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member with regular interest (Article 1-104).

n. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary.

o. Social Security Retirement Age (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below.

Year of Birth	Social Security Retirement Age
1937 or earlier	65 years
1938	65 years and 2 months
1939	65 years and 4 months
1940	65 years and 6 months
1941	65 years and 8 months
1942	65 years and 10 months
1943 to 1954	66 years
1955	66 years and 2 months
1956	66 years and 4 months
1957	66 years and 6 months
1958	66 years and 8 months
1959	66 years and 10 months
1960 and later	67 years

5. Coordination with Social Security: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R., participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), 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 (1) to Option (2) by making a contribution including interest to the System, retroactive to the later of

July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (2) level. All police, mayors and employees of the Agricultural Extension Service of the U.P.R. are covered under Option (2), the Supplementation Plan. (Article 2-115)

6. Retirement Benefits

a. Retirement due to age and service

Eligibility: Age 55 with 25 years of Creditable Service or Age 58 with 10 years of Creditable Service. Police and Firefighters are also eligible at age 50 with 25 years of Creditable Service. (Article 2-102)

Benefit: 1.5% of Average Compensation multiplied by years of Creditable Service up to 20 years, plus 2% of Average Compensation multiplied by years of Creditable Service in excess of 20 years. Maximum benefit is 75% of Average Compensation. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to $6,600 multiplied by years of Creditable Service up to 20 years, plus 1.5% of Average Compensation up to $6,600 multiplied by years of Creditable Service in excess of 20 years, plus 1.5% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service up to 20 years, plus 2.0% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. In no event will the benefit determined be less than the Minimum Benefit.

b. Retirement because of Merit

Eligibility: 30 years of Creditable Service (Article 2-102)).

Benefit: If retire prior to age 55, 65% of Average Compensation; otherwise, 75% of Average Compensation. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-102)

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of Average Compensation up to $6,600 multiplied by years of Creditable Service, up to 30 years, plus 65% (75% if retire at age 55 or later) of Average Compensation in excess of $6,600. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-102)

c. Special Mayor Benefit

Eligibility: Age 50 with 8 years of creditable service as a Mayor (Article 2-101).

Benefit: 5% of Highest Salary as a Mayor for each year of creditable service as a Mayor up to 10 years, plus 1.5% of Highest Salary as Mayor for each year of non-Mayoral creditable service up to 20 years, plus 2.0% of Highest Salary as Mayor for each year of non-Mayoral creditable service in excess of 20 years. Non-Mayoral creditable service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of Highest Salary as a Mayor. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

d. Compulsory Retirement: All police and firefighters must retire upon attainment of age 58 and 30 years of creditable service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police or the Chief of the Firefighter Corps as applicable. (Article 2-104a amended by Act 22 of 2005 and Act 195 of 2007.)

7. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service (Article 2-114).

Benefit: The benefit equals a refund of Accumulated Contributions. Interest is credited for up to six (6) months after the date of the permanent separation from service. (Article 2-114)

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to age 58 and after 10 years of Creditable Service, provided the member has not taken a lump sum withdrawal (Article 2-101).

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Benefit: The benefit, commencing at age 58 if less than 25 years of creditable service and at age 55 (age 50 for police and firefighters) if 25 or more years of creditable service, is the same as that determined for Retirement for Age and Service (see above) reflecting Average Compensation and Creditable Service at date of termination. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

c. Special Mayor Benefit

Eligibility: A Member is eligible upon termination of service prior to age 50 and after 8 years of Creditable Service as a Mayor, provided the member has not taken a lump sum withdrawal (Article 2-101).

Benefit: The benefit, commencing at age 50, is the same as that determined for Special Mayor Benefit under Retirement (see above) reflecting Highest Salary as a Mayor and Creditable Service at date of termination. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

8. Death Benefits

a. Occupational Death Benefit

Eligibility: The beneficiaries of any active participant who dies from an employment-related cause under the Workmen's Accident Compensation Act (Article 2-112).

Spouse's Benefit: 50% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Article 2-112)

Children's Benefit: $10 ($20 if full orphan) for each child payable monthly until child's age 18 or completion of studies, if later. The maximum family benefit is 100% of the participant's Salary at date of death. (Article 2-112)

Benefit if no spouse or children: Refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Articles 2-112 and 2-113).

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b. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible, provided not eligible for the Occupational Death Benefit (Article 2-113).

Benefit: The benefit is as follows:

(i) While in active service, the benefit equals a refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Article 2-113).

(ii) While not in active service, the benefit equals a refund of Accumulated Contributions.

c. High-Risk Death Benefit under Act 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act 127 of 1958 (as amended).

Spouse's Benefit: 50% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Act 127 of 1958 as amended).

Children's Benefit: 50% of the participant's Salary at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act 127 of 1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 50% of the participant's Salary at date of death, payable as an annuity for life. (Act 127 of 1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. (Act 127 of 1958 as amended)

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The cost of these benefits is paid by the General Fund (Act 127 of 1958 as amended).

d. Special Police Death Benefit

Eligibility: Active police who die for cause not related to service (Act 8 of 1976).

Benefit: An annuity benefit based on the Accumulated Contributions subject to a minimum of $180 per month payable to surviving beneficiaries. Surviving beneficiaries include surviving spouse and dependent children. The benefit shall be reduced in an amount equal to benefits received from any other sources. (Act 8 of 1976 as amended).

e. Post-retirement Death Benefit

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity.

Benefit: The benefit is as follows (Law 105 as amended by Law 4):

(i) For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60% if the retiree was not covered under Title 11 of the Social Security Act, or 50% (30% prior to January 1, 2004) if the retiree was covered at the moment of death under Title 11 of the Social Security Act, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children (Act 105 of 1969 as amended). If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 158 of 2003).

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement

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after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. Either the General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the Accumulated Contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest. (Article 2-113 and Act 524 of 2004)

f. Police Post-retirement Death Benefit

Eligibility: Police retiree receiving a monthly benefit who has not elected a reversionary annuity.

Benefit: For those married or with dependent children at the time of death, the total lifetime annual income to a widow or widower and/or dependent children is equal to 60%, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. This benefit is retroactive and the surviving spouse does not have an age requirement and cannot be re-married. Effective December 29, 2009, the portion of the benefit being paid to a dependent child will increase the portion being paid to the surviving spouse (if any) when the child is no longer considered a dependent. (Law 169, as amended by Act 211 of 2009)

9. Disability Benefits

a. Non-occupational Disability

Eligibility: All members are eligible for Non-occupational Disability upon 10 years of Creditable Service and the occurrence of disability (Article 2-109).

Benefit: 1.5% of Average Compensation multiplied by years of Creditable Service up to 20 years, plus 2% of Average Compensation for each year of creditable service in excess of 20 years (Article 2-109). In no event will the benefit determined be less than the Minimum Benefit.

For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to $6,600 multiplied by years of

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Creditable Service up to 20 years, plus 1.5% of Average Compensation up to $6,600 multiplied by years of Creditable Service in excess of 20 years, plus 1.5% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service up to 20 years, plus 2.0% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service in excess of 20 years. The Average Compensation and years of Creditable Service are determined as of the date of disability. In no event will the benefit determined be less than the Minimum Benefit.

b. Occupational Disability

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act (Article 2-107).

Benefit: 50% of Salary at date of disability (Article 2-107), payable as an annuity. In no event will the benefit determined be less than the Minimum Benefit.

For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to $6,600 multiplied by years of Creditable Service up to 20 years, plus 1.5% of Average Compensation up to $6,600 multiplied by years of Creditable Service in excess of 20 years, plus 1.5% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service up to 20 years, plus 2.0% of Average Compensation in excess of $6,600 multiplied by years of Creditable Service in excess of 20 years. The Average Compensation and years of Creditable Service are determined as of the date of disability. In no event will the benefit determined be less than the Minimum Benefit.

c. High Risk Disability under Act 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act 127 of 1958 (as amended).

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Benefit: 100% of Salary as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. (Act 127 of 1958 as amended) The cost of these benefits is paid by the General Fund.

10. Minimum Benefits

a. Past Ad hoc Increases: The legislature, from time to time, increases pensions for certain retirees as described in Act 124 approved on June 8, 1973 and Act 23 approved on September 23, 1983. The benefits are paid 50% by the General Fund and 50% by the System.

b. Current Minimum Benefit: The minimum monthly lifetime income for members who retire or become disabled is $400 per month effective July 1, 2007 ($300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government employees or by the public enterprise or municipality for their former employees. (Act 156 of 2003 and Act 35 of 2007.)

c. Current Minimum Benefit for Police: All police who retire or become disabled and who normally would receive under $1,000 per month shall receive an increased monthly amount equal to the smaller of $200 and the difference between $1,000 and the normal benefit amount. This increase also applied to retired police. The General Fund will pay for these increased benefits. (Act 208 of 2000)

d. Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

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11. Cost-of-Living Adjustments (COLA) to Pension Benefits: The legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act 35). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act 35). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. (Various Acts)

12. Medical Insurance Plan Contribution: A payment of up to $100 per month to the eligible medical insurance plan selected by the retiree or disabled member. This benefit is paid by the General Fund (Act 483).

13. Special "Bonus" Benefits:

    a. Christmas Bonus: An annual bonus of $600 for each retiree, beneficiary, and disabled member paid in December. The System pays $200 per retiree, beneficiary, and disabled member, the General Fund pays $100 per retiree, beneficiary, and disabled member; and the balance is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 144).

    b. Summer Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member paid in July. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 37).

    c. Medication Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit

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is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 155).

14. Forms of Payment

The basic pension benefits described in the above sections are payable in the form of a cash refund annuity. Optional benefits are provided upon a member's death to the surviving beneficiaries as described in 8.e. In addition, a participant can elect a reversionary annuity (Article 2-105).

15. Contributions

Member Contributions: Contributions by Members selecting the Coordination Plan are 5.775% of Compensation up to $6,600 plus 8.275% of Compensation in excess of $6,600. Contributions by all other Members are 8.275% of Compensation. (Article 2-115)

Employer Contributions: Prior to July 1, 2011, employer contributions were 9.275% of Compensation. Effective July 1, 2011, employer contributions are 10.275% of Compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 20.525% effective July 1, 2020. (Article 2-116 as amended by Law 116 of 2010).

16. Service Purchase: Active members with eligible service from prior employment may elect to purchase service in PRGERS. The cost of the purchase is calculated by applying the PRGERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 6% per year until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Law 10 of 1992, Law 14 of 1981, Law 122 of 2000, Laws 203 and 33 of 2007).

17. Law 70 Retirement Incentive: During the 2010-2011 fiscal year, Law 70 provided for an early retirement incentive. Additional window periods occurred through December 31, 2012. Under Section 4A of Law 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of

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salary (paid by the Commonwealth). Under Section 4B of Law 70, active members who had at least 15 years of service, but less than 30 years of service, were able to retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporations for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The System will pay the benefit after this time period. While the General Fund / Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year) (plus the 8.275% employee contribution rate for Public Corporations) of final salary to the System. The employer contribution rate applied to final salary increases as under Law 116 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C of Law 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six-months of salary (paid by the Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the 8.275% employee contribution rate of final salary to the System for five years after retirement.

18. Changes in Plan Provisions since Prior Valuation

An early retirement incentive as provided under Law 70 was extended until December 31, 2012 (see item 17 above).

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

Act 1 of 1990 as amended

1. Type of Plan

   The System is a contributory, defined benefit plan.

2. Effective Date

   The System was established in 1951 by Act 447 to be effective January 1, 1952. These benefits were established by Act 1 of 1990 effective April 1, 1990. The plan was last amended under Act 7, approved February 15, 2008.

3. Eligibility for Membership

   Members of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities include all regular full-time employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and who were initially hired full-time on or after April 1, 1990 and before January 1, 2000. Employees include those in the following categories:

   - Police of Puerto Rico,
   - Firefighters of Puerto Rico,
   - Elective officers of the People of Puerto Rico and the employees of the Legislature,
   - Officers and employees of the Government of Puerto Rico,
   - Officers and employees of public enterprises,
   - Officers and employees, including mayors, of the municipalities, and
   - Irregular personnel fulfilling the requirements of regular employee.

   Membership is mandatory, except for the Governor of Puerto Rico, Government Secretaries, heads of public agencies and instrumentalities, the Governor’s aides, gubernatorial appointees of commissions and boards, members of the Legislature, the employees of the Agricultural Extension Service of the U.P.R., the Ombudsman, the employees of the Commonwealth Election Board, and the Controller of Puerto Rico (Article 1-105). In addition, membership is optional for eligible employees while working and residing outside the territorial limits of the Commonwealth of Puerto Rico (Act 112 of 2004).

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4. Definitions

   a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).

   b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.

   c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).

   d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).

   e. Municipality: Shall include the Municipality of San Juan (Article 1-104).

   f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality (Articles 1-104 and 1-110).

   g. Employee: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).

   h. Creditable Service: The years and completed months of plan participation, during which contributions have been made, beginning on the later of date of hire and ending on date of separation from service. (Articles 1-106 and 2-109) For purposes of calculating Creditable Service, the following schedule shall apply:

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

   In general, Creditable 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 rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

Creditable Service also includes purchased service, if any (Article 1-106).

i. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).

j. Average Compensation: The average of the last 5 years of compensation that the participant has received for Creditable Service. If annual compensation in the averaging period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)

k. Contributions: The amount deducted from the compensation of a Member and the employer.(Article 2-116)).

l. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.

m. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member with regular interest (Article 1-104).

n. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary.

5. Retirement Benefits

a. Retirement for years of service

Eligibility: Age 65 with 10 years of Creditable Service (Article 2-103).

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

Benefit: 1.5% of Average Compensation multiplied by years of Creditable Service. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-103)

b. Retirement for high-risk service

Eligibility: Police and Firefighters are eligible upon attainment of 30 years of Creditable Service (Article 2-103).

Benefit: If retire prior to age 55, 65% of Average Compensation; otherwise, 75% of Average Compensation. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-103)

c. Early retirement

Eligibility: Retirement directly from active service after attainment of age 55 with 25 years of Creditable Service (Article 2-103).

Benefit: The benefit payable due to retirement for years of service (above), actuarially reduced for each year payment commences prior to age 65. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-103)

d. Special Mayor Benefit

Eligibility: Age 50 with 8 years of creditable service as a Mayor (Article 2-101).

Benefit: 5% of Highest Salary as a Mayor for each year of creditable service as a Mayor up to 10 years, plus 1.5% of Highest Salary as Mayor for each year of non-Mayoral creditable service up to 20 years, plus 2.0% of Highest Salary as Mayor for each year of non-Mayoral creditable service in excess of 20 years. Non-Mayoral creditable service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of Highest Salary as a Mayor. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

e. Compulsory Retirement: All police and firefighters must retire upon attainment of age 58 and 30 years of creditable service. A two year extension may be requested by the member from the Superintendent of the Puerto Rico Police or the Chief of the Firefighter Corps as applicable. (Article 2-104a amended by Act 22 of 2005 and Act 195 of 2007)

6. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service (Article 2-114).

Benefit: The benefit equals a refund of Accumulated Contributions. Interest is credited for up to six months after separation from service. (Article 2-114)

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to age 65 and after 10 years of Creditable Service, provided the member has not taken a lump sum withdrawal (Article 2-103)(section 766d).

Benefit: The benefit, commencing at age 65, is the same as that determined for Retirement for years of service (see above) reflecting Average Compensation and Creditable Service at date of termination. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-103) (section 766d)

c. Special Mayor Benefit

Eligibility: A Member is eligible upon termination of service prior to age 50 and after 8 years of Creditable Service as a Mayor, provided the member has not taken a lump sum withdrawal (Article 2-101).

Benefit: The benefit, commencing at age 50, is the same as that determined for Special Mayor Benefit under Retirement (see above) reflecting Highest Salary as a Mayor and Creditable Service at date of termination. In no event will the benefit determined be less than the Minimum Benefit. (Article 2-101)

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2012

7. Death Benefits

   a. Occupational Death Benefit

   Eligibility: The beneficiaries of any active participant who dies from an employment-related cause under the Workmen's Accident Compensation Act (Article 2-112).

   Spouse's Benefit: 40% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Article 2-112)

   Children's Benefit: $10 ($20 if full orphan) for each child payable monthly until child's age 18 or completion of studies, if later. The maximum family benefit is 100% of the participant's Salary at date of death. (Article 2-112)

   Benefit if no spouse or children: Refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Articles 2-112 and 2-113).

   b. Pre-retirement Death Benefit

   Eligibility: Any current non-retired member is eligible, provided not eligible for the Occupational Death Benefit (Article 2-113).

   Benefit: The benefit is as follows:

   (i) While in active service, the benefit equals a refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Article 2-113).

   (ii) While not in active service, the benefit equals a refund of Accumulated Contributions.

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c. High-Risk Death Benefit under Act 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act 127 of 1958 (as amended).

Spouse's Benefit: 40% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Act 127 of 1958 as amended).

Children's Benefit: 40% of the participant's Salary at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act 127 of 1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 40% of the participant's Salary at date of death, payable as an annuity for life. (Act 127 of 1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. (Act 127 of 1958 as amended)

The cost of these benefits is paid by the General Fund (Act 127 of 1958 as amended)

d. Special Police Death Benefit

Eligibility: Active police who die for cause not related to service (Act 8 of 1976)

Benefit: An annuity benefit based on the Accumulated Contributions subject to a minimum of $180 per month payable to surviving beneficiaries. Surviving beneficiaries include surviving spouse and dependent children. The benefit shall be reduced in an amount equal to benefits received from any other sources. (Act 8 of 1976 as amended).

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e. Post-retirement Death Benefit

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity.

Benefit: The benefit is as follows (Law 105 as amended by Law 4):

(i) For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60% of the Retirement Benefit at time of death, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children.

(ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than $1,000. Either the General Fund for former government employees or the public enterprise or municipality for their former employees pays the difference, up to $250, between (1) the Accumulated Contributions less the lifetime annual income paid and (2) $1,000. The System pays for the rest. (Section 773 and Act 524 of 2004)

f. Police Post-retirement Death Benefit

Eligibility: Police retiree receiving a monthly benefit who has not elected a reversionary annuity.

Benefit: For those married or with dependent children at the time of death, the total lifetime annual income to a widow or widower and/or dependent children is equal to 60%, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. This benefit is retroactive and the surviving spouse cannot be re-married. Effective December 29, 2009, the portion of the benefit being paid to a dependent child will increase the portion being paid to the surviving spouse (if any) when the child is no longer considered a dependent. (Law 169, as amended by Act 211 of 2009).

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8. Disability Benefits

   a. Non-occupational Disability

   Eligibility: All members are eligible for Non-occupational Disability upon 10 years of Creditable Service and the occurrence of disability (Article 2-109).

   Benefit: 1.5% of Average Compensation multiplied by years of Creditable Service up to 20 years, plus 2% of Average Compensation for each year of creditable service in excess of 20 years (Article 2-109). In no event will the benefit determined be less than the Minimum Benefit.

   b. Occupational Disability

   Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act (Article 2-107).

   Benefit: 40% of Salary at date of disability (Article 2-107). In no event will the benefit determined be less than the Minimum Benefit.

   d. High Risk Disability

   Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act 127 of 1958 (as amended).

   Benefit: 80% of Salary as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. (Act 127 of 1958 as amended) The cost of these benefits is paid by the General Fund.

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9. Minimum Benefits

   a. Current Minimum Benefit: The minimum monthly lifetime income for members who retire or become disabled is $400 per month effective July 1, 2007 ($300 per month up to June 30, 2007). The increase in the minimum monthly benefit from $200 per month to $300 per month is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. The increase in the minimum monthly benefit from $300 per month to $400 per month is to be paid by the System for former government employees or by the public enterprise or municipality for their former employees. (Act 156 of 2003 and Act 35 of 2007.)

   b. Current Minimum Benefit for Police: All police who retire or become disabled and who normally would receive under $1,000 per month shall receive an increased monthly amount equal to the smaller of $200 and the difference between $1,000 and the normal benefit amount. This increase also applied to retired police. The General Fund will pay for these increased benefits. (Act 208 of 2000)

10. Cost-of-Living Adjustments (COLA) to Pension Benefits: The legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act 35). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than $1,250 per month received an increase of up to 3% without exceeding the limit of $1,250 per month (Act 35). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. (Various Acts)

11. Medical Insurance Plan Contribution: A payment of up to $100 per month to the eligible medical insurance plan selected by the retiree or disabled member. This benefit is paid by the General Fund (Act 483).

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12. Special "Bonus" Benefits:

    a. Christmas Bonus: An annual bonus of $600 for each retiree, beneficiary, and disabled member paid in December. The System pays $200 per retiree, beneficiary, and disabled member, the General Fund pays $100 per retiree, beneficiary, and disabled member; and the balance is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 144).

    b. Summer Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member paid in July. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 37).

    c. Medication Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 155).

13. Forms of Payment

    The basic pension benefits described in the above sections are payable in the form of a cash refund annuity. Optional benefits are provided upon a member's death to the surviving beneficiaries as described in 7.c. In addition, a participant can elect a reversionary annuity (Article 2-105).

14. Contributions

    Member Contributions: Contributions by Members are 8.275% of Compensation. (Article 2-115)

    Employer Contributions: Prior to July 1, 2011, employer contributions were 9.275% of Compensation. Effective July 1, 2011, employer contributions are 10.275% of Compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 20.525% effective July 1, 2020. (Article 2-116 as amended by Law 116 of 2010).

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15. Service Purchase: Active members with eligible service from prior employment may elect to purchase service in PRGERS. The cost of the purchase is calculated by applying the PRGERS statutory contribution rates to the member's salary during the years of service at the former employer. The amount due to member contributions is accumulated at 6% per year until 6 months after the time of the service purchase request. Any amount not covered by asset transfers from the member's prior pension fund is payable by the member (Law 10 of 1992, Law 14 of 1981, Law 122 of 2000, Laws 203 and 33 of 2007).

16. Law 70 Retirement Incentive: During the 2010-2011 fiscal year, Law 70 provided for an early retirement incentive. Additional window periods occurred through December 31, 2012. Under Section 4A of Law 70, active members could terminate employment immediately and receive a bonus equal to one, three, or six months of salary (paid by the Commonwealth). Under Section 4B of Law 70, active members who had at least 15 years of service, but less than 30 years of service, were able to retire immediately with an enhanced benefit ranging from 37.5% to 50% of salary. This enhanced benefit is paid by the General Fund for government employees and Public Corporations for their employees until the member reaches the later of age 55 or the date the member would have completed 30 years of service had the member continued working. The System will pay the benefit after this time period. While the General Fund / Public Corporation is paying the pension benefit to the member or any surviving beneficiary, the General Fund / Public Corporation will also pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year) (plus the 8.275% employee contribution rate for Public Corporations) of final salary to the System. The employer contribution rate applied to final salary increases as under Law 116 to a rate of 20.525% of payroll in 2020-2021 and thereafter. Under Section 4C of Law 70, active members who had at least 30 years of service could retire immediately and receive a bonus equal to six-months of salary (paid by the Commonwealth). For any active employee who retired under Section 4C, the Public Corporation will pay a contribution equal to the employer contribution rate (11.275% for the 2012-2013 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the 8.275% employee contribution rate of final salary to the System for five years after retirement.

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17. Changes in Plan Provisions since Prior Valuation

An early retirement incentive as provided under Law 70 was extended until December 31, 2012 (see item 16 above).

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System 2000 – Act 305 of 1999 as amended

1. Type of Plan

   The System is a contributory, hybrid defined benefit plan.

2. Effective Date

   Act 305 of 1999 established the benefits known as System 2000 effective January 1, 2000. These benefits were last amended under Act 296, approved September 15, 2004.

3. Eligibility for Membership

   The following members will have their benefits determined under System 2000 (Article 3-101).

   a. Any new employee who enters the System on or after January 1, 2000.
   b. Any prior member of the System who separated from service, received a reimbursement of his contributions to the System, and was subsequently re-employed after December 31, 1999 and again becomes a member of the System.
   c. Any active member of the System as of December 31, 1999 who elected to irrevocably transfer to System 2000.
   d. Any active employee who is a member of an employer retirement system as of December 31, 1999 and after this date becomes a member of this System who elects to irrevocably transfer to System 2000.

4. Definitions

   a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).

   b. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the System are based (Article 1-104).

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c. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Savings Account (Article 3-107).

d. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).

e. Investment Alternatives: Members can choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options. Changes in allocation can be made annually, effective each July 1.
   i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
   ii. System's investment portfolio – The yield is equal to 90% (75% prior to July 1, 2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
   iii. Other alternatives adopted by the Board of the System.

f. Normal retirement age: Attainment of age 55 if police officer or fire fighter; otherwise attainment of age 60 (Article 1-104).

5. Benefits

   a. Upon Separation of Service other than due to death or disability: Upon attainment of normal retirement age, the value of the Retirement Savings Program shall be used to purchase an annuity contract. The available forms of payment are described below.

   b. Upon Death (before or after Separation of Service): The value of the member's Retirement Savings Account shall be paid to the member's beneficiary.

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c. High-Risk Death Benefit under Act 127

Eligibility: Police, firefighters, and other employees in specified high-risk positions who die in the line of work due to reasons specified in Act 127 of 1958 (as amended).

Spouse's Benefit: 40% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Act 127 of 1958 as amended).

Children's Benefit: 40% of the participant's Salary at date of death, payable as an annuity, allocated pro-rata among eligible children. The annuity is payable for life for a disabled child, until age 18 for a non-disabled child not pursuing studies, and until age 25 for a non-disabled child who is pursuing studies. (Act 127 of 1958 as amended)

Benefit if no spouse or children: The parents of the member shall each receive 40% of the participant's Salary at date of death, payable as an annuity for life. (Act 127 of 1958 as amended)

Post-death increases: Effective July 1, 1996 and subsequently every three years, the above death benefits are increased by 3% provided that the beneficiary(ies) had been receiving payments for at least three years. (Act 127 of 1958 as amended)

The cost of these benefits is paid by the General Fund (Act 127 of 1958 as amended).

d. Non-occupational Disability

Eligibility: All members are eligible for Non-occupational Disability upon 10 years of Creditable Service and the occurrence of disability (Article 2-109).

Benefit: 1.5% of Average Compensation multiplied by years of Creditable Service up to 20 years, plus 2% of Average Compensation for each year of creditable service in excess of 20 years (Article 2-109). In no event will the benefit determined be less than $400 per month Minimum Benefit.

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e. Occupational Disability

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act (Article 2-107).

Benefit: 40% of Salary at date of disability (Article 2-107). In no event will the benefit determined be less than the $400 per month Minimum Benefit.

f. High-Risk Disability

Eligibility: Police, firefighters, and other employees in specified high-risk positions who are disabled in the line of work due to reasons specified in Act 127 of 1958 (as amended).

Benefit: 80% of Salary as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member (or beneficiary) had been receiving payments for at least three years. (Act 127 of 1958 as amended) The cost of these benefits is paid by the General Fund.

g. Disability and High-Risk Special Law Benefits

1. Medical Insurance Plan Contribution: A payment of up to $100 per month to the eligible medical insurance plan selected by the retiree or disabled member. This benefit is paid by the General Fund (Act 483).

2. Christmas Bonus: An annual bonus of $600 for each retiree, beneficiary, and disabled member paid in December. The System pays $200 per retiree, beneficiary, and disabled member, the General Fund pays $100 per retiree, beneficiary, and disabled member; and the balance is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 144).

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3. Summer Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member paid in July. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 37).

4. Medication Bonus: An annual bonus of $100 for each retiree, beneficiary, and disabled member to cover health costs paid in July. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 155).

6. Forms of Payment

   a. Normal Form of Payment: If married, annuity purchase after normal retirement age of a joint and 50% survivor annuity where the survivor benefits do not begin until the survivor's attainment of age 60. If single, annuity purchase after normal retirement age of a life annuity.

   b. Optional Forms of Payment: If a member separates from service after normal retirement age, the member may elect a single lump sum payment of the value of the Retirement Savings Account. Any member upon separation from service may elect to rollover the value of the Retirement Savings Account into a qualified retirement plan, an IRA, a non-deductible IRA, or into another government retirement system for service purchases in that system.

   c. Small Lump Sum Payments: If the value of the Retirement Savings Account is less than $10,000, the member may elect a single lump sum payment of such value.

7. Contributions

   Member Contributions: Contributions by Members are 8.275% of Compensation while an employee, with a voluntary contribution of up to 1.725% of Compensation, credited to the Retirement Savings Account (Article 3-104).

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Employer Contributions: Prior to July 1, 2011, employer contributions were 9.275% of Compensation. Effective July 1, 2011, employer contributions are 10.275% of Compensation. For the next four fiscal years effective July 1, employer contributions will increase annually by 1%. For the next five fiscal years, employer contributions will increase annually by 1.25%, reaching an employer contribution rate of 20.525% effective July 1, 2020. These contributions to the System are to increase the level of System assets, reduce the actuarial deficit, and enable the System to meet its future obligations. (Article 3-105 as amended by Law 116).

8. Changes in Plan Provisions since Prior Valuation

Since the System has not established a long term disability insurance program for active members of System 2000, this valuation reflects that the Act 1 style disability provisions are provided to active members of System 2000 until such long term disability insurance program is established. This valuation also reflects a correction in the normal retirement age for police officers and firefighters to age 55 instead of age 50.

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Interest: 6.00% per annum, net of investment expenses, for GASB 25 and 27. (7.50% prior to June 30, 2011 and 6.40% as of June 30, 2011)
3.20% per annum for GASB 45 (4.00% prior to June 30, 2012).

Compensation Increases: 3.0% per year.

System 2000 Retirement Savings Account: Member contributions to the Retirement Savings Account are assumed to be 8.36% of Compensation. Retirement Savings Accounts are assumed to grow using a 4.5% annual investment return.

Termination: Withdrawal rates vary by employment category, age, and service.

Employment Category	Annual Rate of Termination
Act 447 and System 2000 General Employees	2.0%
Act 1 General Employees under age 58 or less than 10 years of service	2.0
Act 1 General Employees age 58 with 10 years of service	5.0
Act 1 General Employees age 59 to 64 with 10 years of service	10.0
Act 447 Police & Fire	1.6
Act 1 Police & Fire under age 58 or less than 10 years of service	1.6
Act 1 Police & Fire age 58 with 10 years of service	2.5
Act 1 Police & Fire age 59 to 64 with 10 years of service	10.0
System 2000 Police & Fire	1.6
Mayors	3.0

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Commencement of benefits for terminated vested members: Future terminated members with a vested benefit are assumed to retire at the ages shown below, or at the attained age on the valuation date if later.

Employment Category	Act 447	Act 1
General Employees	58	65
Police & Fire	58 (50 if 25 years of service)	65 (55 if 25 years of service)
Mayors	50	50

Retirement: Rates of retirement vary by employment category, Act, and by age and years of Creditable Service.

Act 447 General Employees (includes General Hazardous Employees)			
	Service condition		
Age	10 years	25 years	30 years
45 to 49			10.0%
50 to 53			15.0
54			20.0
55 to 57		10.0%	20.0
58	5.0%	10.0	20.0
59 to 64	10.0	15.0	20.0
65 to 69	15.0	15.0	20.0
70	100.0	100.0	100.0

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Act 1 General Employees (includes General Hazardous Employees)		
	Service condition	
Age	10 years	25 years
55 to 57		4.5%
58		4.5
59		8.0
60		9.0
61		10.0
62		13.0
63 to 64		14.0
65	15.0%	50.0
66	15.0	15.0
67	100.0	100.0

System 2000 General Employees		
Age	Non-hazardous	Hazardous
60 to 66	15.0%	12.0%
67	100.0	100.0

Act 447 Police & Fire			
	Service condition		
Age	10 years	25 years	30 years
45 to 48			10.0%
49			15.0
50		7.0%	15.0
51 to 56		15.0	20.0
57		20.0	30.0
58	2.5%	20.0	100.0
59 to 64	10.0	25.0	
65 to 69	10.0	30.0	
70	100.0	100.0	

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Act 1 Police & Fire			
	Service condition		
Age	10 years	25 years	30 years
45 to 48			10.0%
49 to 50			15.0
51 to 54			20.0
55 to 56		5.0%	20.0
57		5.0	30.0
58		5.0	100.0
59 to 60		5.0	
61 to 64		10.0	
65	10.0%	50.0	
66 to 69	10.0	10.0	
70	100.0	100.0	

System 2000 Police & Fire	
Age	Any Service
55	25.0%
56 to 64	20.0
65 to 66	25.0
67	100.0

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Act 447 and Act 1 Mayors			
	Service condition		
Age	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0

System 2000 Mayors	
Age	Any Service
60 to 66	15.0%
67	100.0

Disability: Rates are based on the six month elimination period rates in the 1987 Commissioners Group Disability Table, adjusted as set forth in the table below. Rates of disability cease to apply once a member is eligible for the 65% or 75% of Highest Salary maximum benefit.

	Adjustment to 1987 CGDT	
Act	Members Covered under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	• 100% if more than 10 years from retirement eligibility • 300% if at or past retirement eligibility • Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127. For other members, 90% of disabilities occurring while in active service are assumed to be occupational and 10% are assumed to be non-occupational.

Pre-retirement Mortality: For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127. For other members, 25% of deaths while in active service are assumed to be occupational and 75% are assumed to be non-occupational.

Post-retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of plan's experience from 2007 to 2012 equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females. The rates are projected on a generational basis starting in 1994 using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: Rates which vary by gender are assumed for disabled retirees based on a study of plan's experience from 2007 to 2012 equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. No provision was made for future mortality improvement for disabled retirees.

Marriage: 70% of current active members are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die in service or become disabled are assumed to have qualifying beneficiaries, which are approximated by a spouse with males 4 years older than females.

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Form of Payment:

Act	Marital Status	Form of Payment
447	Married at retirement	Joint and 60% survivor benefit – Supplementation Joint and 50% survivor benefit – Coordinated (30% is Basic System Benefit) (20% is System Administered Benefit)
447	Not married at retirement	Modified cash refund (approximated by single life annuity with 3 years certain)
1	Married at retirement	Joint and 60% survivor benefit
1	Not married at retirement	Modified cash refund (approximated by single life annuity with 3 years certain for Mayors, Police & Fire and 5 years certain for other members)
305 (System 2000) – Not Disabled	Not applicable	Lump sum distribution of Retirement Savings Account Balance at termination
305 (System 2000) - Disabled	Married at retirement	Joint and 60% survivor benefit
305 (System 2000) - Disabled	Not married at retirement	Modified cash refund (approximated by single life annuity with 5 years certain)

Marital status was provided for current retired and disabled members. For those indicated as married, a joint and survivor annuity was assumed (as shown in the table above), with an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date. Those not married were assumed to have a modified cash refund (as shown in the table above). The spouse's date of birth was imputed based on an assumed age difference of 4 years with males older than females.

All Act 127 retirees were assumed to have a joint and 100% survivor benefit regardless of marital status. The survivor was approximated by a spouse with an assumed age difference of 4 years with males older than females. An adjustment was made for the probability the survivor has pre-deceased the retiree as of the valuation date.

Members who terminate employment with a vested benefit are assumed to elect to receive a deferred pension benefit in lieu of a refund of contributions.

No future dependent children were assumed to become beneficiaries.

No surviving spouse is assumed to become re-married.

Medical Insurance Plan Contribution: 85% of future and current service and disability retirees are assumed to receive a monthly medical insurance continuation benefit of $100 per month.

Deferred Vested Participants: Census data on deferred vested participants was not available. The actuarial accrued liabilities for Act 447 and Act 1 members have been increased by 5% to approximate the value of the liability on behalf of deferred vested participants.

Service Purchase and Data Reporting Issues: Active liabilities on behalf of service retirement are increased by 20% for members of Act 447 to approximate the value of prospective service purchases at retirement and data reporting issues, including members who have higher past salaries than provided in the valuation census data, and members who are reported as participating in Act 1 or System 2000 while active but who retire under Act 447.

Administrative Expenses: Average of past two year's administrative expense, rounded up to the nearest $250,000, is added to the normal cost. For the 2012-2013 plan year, this amount is $31,750,000.

Special Data Adjustments: Upon review of the June 30, 2012 census data submitted by PRGERS, we observed several areas where data was missing, inconsistent, or invalid. We reviewed each issue and presented an analysis to PRGERS that consisted of a description of the data issue, a proposed solution, and a brief rationale supporting the proposed solution. The recommendations were reviewed by PRGERS staff, revised as applicable, and applied to the census data in order to prepare it for use in the valuation. The majority of the data edits and assumptions were applied to the following data items:

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

- Date of birth
- Date of hire
- Allocation of Basic System Benefits and System Administered Benefits
- Accumulated Employee Contributions
- Employment Category Code (Police / Fire Code)
- Plan Code (Coordinated / Supplementation option)
- Form of payment
- Entity Class

Credited service is based on the greater of "Years Worked" reported in the valuation census data and the elapsed time from date of hire to the valuation date.

For current disabled retirees and beneficiaries receiving benefits under Act 127, the pension benefits paid by System assets (e.g. the Basic System Benefit) was assumed to be 30% of the total reported pension benefit.

Benefits for current beneficiaries who are under age 23 as of the valuation date were assumed to cease at age 23. Benefits for current beneficiaries who are age 23 or older as of the valuation data were assumed to be payable for life. In addition, the current level of benefit for all beneficiaries was assumed to remain constant.

Adjustment for System 2000 Account Balance Underreporting: On July 18, 2013, the System indicated that System 2000 account balances for active System 2000 members were underreported in the individual census data provided for this valuation by $97,028,000 in the aggregate. This amount has been explicitly added to the System 2000 Basic System Pension Benefit liability for active members. This amount reflects an additional 718 System 2000 active members, which brings the total System 2000 active member count from 62,043 reflected in the remainder of this report to 62,761.

Benefits not valued: The minimum post-retirement death benefit of $1,000 for retirees without surviving beneficiaries is not explicitly valued. The additional liability associated with this benefit is expected to be de minimis.

Moreover, this report does not address the guarantee insurance reserve for life insurance on loans to plan members. (Please see Notes to Basic Financial Statements on page 38 and Statements of Plan Net Assets on page 12 of the System's June 30, 2010 Basic Financial Statements.)

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2012

Basis for demographic assumptions: The post-retirement healthy and disabled mortality assumptions used in this valuation are based on a study of plan's experience from 2007 to 2012. All other demographic assumptions used in this valuation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007. All assumptions were reviewed with PRGERS staff for reasonableness and are documented above.

Changes in actuarial assumptions since the prior valuation: The interest rate assumption for GASB 25 & 27 accounting purposes was decreased from 6.4% to 6.0%. The interest rate assumption for GASB 45 accounting purposes was decreased from 4.0% to 3.2%. In addition, the postretirement mortality assumptions for healthy and disabled lives were revised based on a study of the plan's experience from 2007 to 2012.

The withdrawal and retirement rates for System 2000 police and fire members were also revised with the correction in the normal retirement age from age 50 to age 55.

SECTION X – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2012

The ultimate cost of a pension plan is the excess of actual benefits and administrative expenses paid over actual net investment return on plan assets during the plan's existence until the last payment has been made to the last participant. The plan's "actuarial cost method" determines the expected incidence of actuarial costs by allocating portions of the ultimate cost to each plan year. The cost method is thus a budgeting tool to help to ensure that the plan will be adequately and systematically funded and accounted for. There are several commonly-used cost methods which differ in how much of the ultimate cost is assigned to each prior and future year. Therefore, the pattern of annual contributions and accounting expense varies with the choice of cost method. Annual contributions and accounting expense are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

Actuarial Cost Method

The plan's actuarial cost method is the projected unit credit method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The projected benefit is attributed to each year of service using straight proration based on projected service to each assumed retirement age. The 65% or 75% of Average Compensation benefit is prorated over a maximum of 30 years. The plan's normal cost is the sum of the present value of the portion of each active participant's projected benefit attributable to the current year of service. The plan's accrued liability is the sum of (a) the present value of the portion of each active participant's projected benefit attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Asset Valuation Method

The Actuarial Value of Assets is equal to the Market Value of Assets.

Changes in actuarial methods since the prior valuation

None.