



**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF  
THE COMMONWEALTH OF PUERTO RICO**

Schedules of Employer Allocations and Schedules of  
Pension Amounts by Employer

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF  
THE COMMONWEALTH OF PUERTO RICO**

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## **Independent Auditors' Report**

Retirement Board of the Government of Puerto Rico  
Employees' Retirement System of the Government of the  
Commonwealth of Puerto Rico:

We have audited the accompanying schedules of employer allocations of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) as of and for the years ended June 30, 2014 and 2013, and the related notes. We have also audited the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended June 30, 2014, and the column titled net pension liability (specified column total) included in the accompanying schedule of pension amounts by employer of the System as of June 30, 2013 and the related notes.

### **Management's Responsibility for the Schedules**

Management is responsible for the preparation and fair presentation of these schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on the schedules of employer allocations and the specified column totals included in the schedules of pension amounts by employer based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules of employer allocations and specified column totals included in the schedules of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



### **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2014, and the employer allocations and net pension liability for the total of all participating entities for the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico as of and for the year ended June 30, 2013 in accordance with U. S. generally accepted accounting principles.

### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2014, and our report thereon, dated June 1, 2016, expressed an unmodified opinion on those financial statements.

### **Restriction on Use**

Our report is intended solely for the information and use of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico, the Retirement Board of the Government of Puerto Rico, the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico employers, and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

*KPMG LLP*

San Juan, Puerto Rico  
May 11, 2018

Stamp No. E316977 of the Puerto Rico  
Society of Certified Public Accountants  
was affixed to the record copy of this report.



**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT  
OF THE COMMONWEALTH OF PUERTO RICO**

Schedules of Employer Allocations

Years ended June 30, 2014 and 2013

Agency code	Agency name	Fiscal year ending June 30, 2014							Fiscal year ending June 30, 2013			
		Actual employer contributions	Employer contributions for proportionate share	Proportionate share	NPL subject to allocation June 30, 2014	Contractual payables as of June 30, 2014	Net Pension liability (NPL) June 30, 2014	Proportionate share	Actual employer contributions	Employer contributions for proportionate share	Proportionate share	Net pension liability (NPL) June 30, 2013
301	Adjuntas	\$ 338,967	\$ 290,914	0.04790 %	\$ 14,395,849	\$ —	\$ 14,395,849	0.04776 %	\$ 268,925	268,925	0.04298 %	\$ 12,130,551
302	Aguada	948,114	787,507	0.12966	38,969,665	—	38,969,665	0.12930	723,577	723,577	0.11563	32,638,845
303	Aguadilla	1,759,739	1,468,300	0.24174	72,658,607	—	72,658,607	0.24108	1,336,667	1,336,667	0.21361	60,293,866
304	Aguas Buenas	376,447	315,975	0.05202	15,635,991	—	15,635,991	0.05188	291,202	291,202	0.04654	13,135,431
305	Albionito	587,065	491,596	0.08094	24,326,548	—	24,326,548	0.08071	450,474	450,474	0.07199	20,319,832
306	Añasco	417,936	349,750	0.05758	17,307,309	—	17,307,309	0.05743	325,675	325,675	0.05205	14,690,427
307	Arecibo	2,387,044	1,971,840	0.32465	97,576,167	—	97,576,167	0.32376	1,910,262	1,910,262	0.30527	86,167,387
308	Arroyo	512,915	420,887	0.06929	20,826,530	—	20,826,530	0.06910	379,658	379,658	0.06067	17,125,470
309	Barceloneta	1,509,332	1,208,767	0.19901	59,815,663	—	59,815,663	0.19847	1,147,402	1,147,402	0.18336	51,756,605
310	Barraquitas	625,088	526,086	0.08662	26,033,285	—	26,033,285	0.08638	531,087	531,087	0.08487	23,956,095
311	Bayamón	2,851,273	2,464,180	0.40571	121,939,547	—	121,939,547	0.40459	2,351,877	2,351,877	0.37585	106,087,614
312	Cabo Rojo	1,377,404	1,145,407	0.18858	56,680,285	—	56,680,285	0.18806	1,040,553	1,040,553	0.16629	46,936,897
313	Caques	4,520,621	3,666,835	0.60372	181,452,720	—	181,452,720	0.60206	5,936,316	3,753,458	0.59983	169,309,593
314	Camuy	592,295	493,767	0.08129	24,433,979	—	24,433,979	0.08107	488,114	488,114	0.07800	22,017,647
315	Carolina	5,838,637	4,865,508	0.80107	240,768,891	—	240,768,891	0.79887	4,668,912	4,668,912	0.74613	210,603,532
316	Cataño	1,903,945	1,524,825	0.25105	75,455,737	—	75,455,737	0.25036	1,473,984	1,473,984	0.23555	66,487,920
317	Cayey	810,729	692,992	0.11410	34,292,579	—	34,292,579	0.11378	635,853	635,853	0.10161	28,681,806
318	Ceiba	596,997	493,232	0.08121	24,407,514	—	24,407,514	0.08098	451,524	451,524	0.07216	20,367,199
319	Ciales	586,205	470,534	0.07747	23,284,277	—	23,284,277	0.07726	456,535	456,535	0.07296	20,593,213
320	Cidra	1,336,656	1,092,651	0.17990	54,069,672	—	54,069,672	0.17940	1,018,679	1,018,679	0.16295	45,950,203
321	Coamo	585,547	493,767	0.08129	24,433,969	—	24,433,969	0.08107	463,424	463,424	0.07406	20,903,965
322	Comerio	509,501	426,182	0.07017	21,089,529	—	21,089,529	0.06997	397,440	397,440	0.06351	17,927,595
323	Corozal	468,816	389,398	0.06411	19,269,309	—	19,269,309	0.06394	365,593	365,593	0.05843	16,491,038
324	Culebra	259,606	218,421	0.03596	10,808,543	—	10,808,543	0.03586	192,223	192,223	0.03072	8,670,731
325	Dorado	1,085,764	889,372	0.14643	44,010,433	—	44,010,433	0.14603	813,233	813,233	0.12996	36,683,026
326	Fajardo	739,724	625,118	0.10292	30,933,851	—	30,933,851	0.10264	583,902	583,902	0.09331	26,338,457
327	Guánica	494,630	402,502	0.06627	19,917,750	—	19,917,750	0.06609	341,896	341,897	0.05464	15,422,142
328	Guayama	1,156,140	925,677	0.15241	45,806,995	—	45,806,995	0.15199	875,465	875,465	0.13991	39,490,163
329	Guayamilla	481,843	388,240	0.06392	19,211,999	—	19,211,999	0.06374	446,787	446,787	0.07140	20,153,482
330	Guayanabo	6,585,307	5,459,536	0.89884	270,154,377	—	270,154,377	0.89637	4,969,320	4,969,320	0.79413	224,154,243
331	Guayabo	662,036	538,866	0.08872	26,665,684	—	26,665,684	0.08848	532,158	532,158	0.08504	24,004,376
332	Hatillo	1,137,715	921,893	0.15178	45,619,747	—	45,619,747	0.15137	875,630	875,630	0.13993	39,497,606
333	Hormigueros	673,594	560,258	0.09224	27,724,269	—	27,724,269	0.09199	514,142	514,142	0.08216	23,191,734
334	Humacao	2,013,005	1,659,595	0.27324	82,124,794	—	82,124,794	0.27249	1,546,365	1,546,365	0.24712	69,752,847
335	Isabela	795,217	672,012	0.11064	33,254,427	—	33,254,427	0.11034	608,254	608,254	0.09720	27,436,907
336	Jayuya	319,021	267,572	0.04405	13,240,761	—	13,240,761	0.04393	251,672	251,672	0.04022	11,352,314
337	Juana Díaz	717,497	593,801	0.09776	29,384,152	—	29,384,152	0.09750	531,136	531,136	0.08488	23,958,280
338	Juncos	633,233	523,428	0.08618	25,901,740	—	25,901,740	0.08594	489,461	489,461	0.07822	22,078,422
339	Lajas	673,335	551,628	0.09082	27,297,245	—	27,297,245	0.09057	593,313	593,313	0.09482	26,762,958
340	Lares	711,573	601,785	0.09908	29,779,257	—	29,779,257	0.09881	523,645	523,645	0.08368	23,620,379
341	Las Marías	468,474	391,299	0.06442	19,363,347	—	19,363,347	0.06425	360,425	360,425	0.05760	16,257,922
342	Las Piedras	786,720	641,037	0.10554	31,721,625	—	31,721,625	0.10525	620,773	620,773	0.09920	28,001,611
343	Loíza	567,481	458,258	0.07545	22,676,818	—	22,676,818	0.07524	490,835	490,835	0.07844	22,140,403
344	Luquillo	480,933	408,576	0.06727	20,218,337	—	20,218,337	0.06708	350,566	350,566	0.05602	15,813,186
345	Manatí	1,342,686	1,085,841	0.17878	53,732,648	—	53,732,648	0.17828	1,053,763	1,053,763	0.16840	47,532,734
346	Maricao	344,782	292,976	0.04824	14,497,859	—	14,497,859	0.04810	297,244	297,244	0.04750	13,407,995
347	Maunabo	549,365	464,969	0.07655	23,008,925	—	23,008,925	0.07634	471,263	471,263	0.07531	21,257,554
348	Mayagüez	1,984,008	1,700,961	0.28005	84,171,785	—	84,171,785	0.27928	1,635,260	1,635,260	0.26133	73,762,714
349	Moca	778,630	621,592	0.10234	30,759,378	—	30,759,378	0.10206	582,502	582,502	0.09309	26,275,279
350	Morovis	733,855	627,860	0.10337	31,069,528	—	31,069,528	0.10309	712,164	712,164	0.11381	32,124,017
351	Naguabo	547,877	440,850	0.07258	21,815,400	—	21,815,400	0.07238	411,573	411,573	0.06577	18,565,090
352	Naranjito	708,089	583,637	0.09609	28,881,185	—	28,881,185	0.09583	548,941	548,941	0.08773	24,761,435
353	Orocovis	328,469	271,015	0.04462	13,411,126	—	13,411,126	0.04450	252,616	252,616	0.04037	11,394,907
354	Patlillas	777,703	628,588	0.10349	31,105,559	—	31,105,559	0.10321	624,710	624,710	0.09983	28,179,177
355	Peñuelas	782,743	660,898	0.10881	32,704,437	—	32,704,437	0.10851	557,823	557,823	0.08914	25,162,090
356	Ponce	7,350,795	5,961,307	0.98148	294,994,338	—	294,994,338	0.97878	5,437,619	5,437,619	0.86897	245,276,096
357	Quebradillas	546,171	465,254	0.07680	23,023,040	—	23,023,040	0.07639	407,743	407,743	0.06516	18,592,344
358	Rincón	528,005	438,642	0.07222	21,706,115	—	21,706,115	0.07202	420,327	420,327	0.06717	18,959,969
359	Río Grande	1,069,194	882,489	0.14529	43,669,826	—	43,669,826	0.14490	854,827	854,827	0.13661	38,559,198
360	Sabana Grande	602,800	498,192	0.08202	24,652,937	—	24,652,937	0.08180	455,659	455,659	0.07282	20,553,689

**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT  
OF THE COMMONWEALTH OF PUERTO RICO**

Schedules of Employer Allocations  
Years ended June 30, 2014 and 2013

Agency code	Agency name	Fiscal year ending June 30, 2014							Fiscal year ending June 30, 2013			
		Actual employer contributions	Employer contributions for allocation proportionate share	Contribution allocation percentage proportionate share	NPL subject to allocation June 30, 2014	Contractual payables as of June 30, 2014	Net Pension liability (NPL) June 30, 2014	Proportionate share	Actual employer contributions	Employer contributions for proportionate share	Proportionate share	Net pension liability (NPL) June 30, 2013
361	Salinas	\$ 711,903	\$ 597,116	0.09831 %	\$ 29,548,198	\$ —	29,548,198	0.09804 %	\$ 549,475	549,475	0.08781 %	\$ 24,785,531
362	San Germán	1,011,962	846,842	0.13943	41,905,819	—	41,905,819	0.13904	802,817	802,817	0.12830	36,213,164
363	San Juan	26,866,696	22,531,858	3.70969	1,114,985,347	—	1,114,985,347	3.69950	21,395,182	21,395,182	3.41910	965,085,926
364	San Lorenzo	457,103	367,089	0.06044	18,165,314	—	18,165,314	0.06027	359,779	359,779	0.05750	16,228,760
365	San Sebastián	811,658	701,007	0.11542	34,689,199	—	34,689,199	0.11510	650,165	650,165	0.10390	29,327,361
366	Sanita Isabel	477,659	405,228	0.06672	20,052,622	—	20,052,622	0.06653	382,796	382,796	0.06117	17,267,006
367	Toa Alta	879,986	741,619	0.12210	36,698,917	—	36,698,917	0.12177	654,685	654,685	0.10462	29,531,272
368	Toa Baja	2,061,658	1,668,641	0.27473	82,572,427	—	82,572,427	0.27397	1,848,684	1,848,684	0.29543	83,389,748
369	Trujillo Alto	1,342,526	1,101,191	0.18130	54,492,247	—	54,492,247	0.18080	1,060,558	1,060,558	0.16948	47,839,248
370	Utuado	813,033	681,314	0.11217	33,714,714	—	33,714,714	0.11186	655,703	655,703	0.10479	29,577,203
371	Vega Alta	793,178	659,355	0.10856	32,628,084	—	32,628,084	0.10826	617,811	617,811	0.09873	27,867,975
372	Vega Baja	1,149,986	952,747	0.15686	47,146,514	—	47,146,514	0.15643	921,434	921,434	0.14725	41,563,715
373	Vieques	721,997	602,488	0.09919	29,814,032	—	29,814,032	0.09892	503,723	503,723	0.08050	22,721,747
374	Villalba	541,730	433,077	0.07130	21,430,726	—	21,430,726	0.07111	404,077	404,077	0.06457	18,226,934
375	Yabucoa	643,033	541,098	0.08909	26,776,159	—	26,776,159	0.08884	456,078	456,078	0.07288	20,572,590
376	Yauco	932,002	758,283	0.12485	37,523,513	—	37,523,513	0.12450	812,054	812,054	0.12977	36,629,850
377	Florida	483,660	373,407	0.06148	18,477,964	—	18,477,964	0.06131	406,582	406,582	0.06497	18,339,830
378	Canóvanas	1,227,651	1,009,302	0.16617	49,945,144	—	49,945,144	0.16572	976,559	976,559	0.15606	44,050,243
379	Ponce Muelle	108,792	89,659	0.01476	4,436,774	—	4,436,774	0.01472	85,247	85,247	0.01362	3,845,271
413	Corporación para el Desarrollo del Cine de P.R.	14,373	14,373	0.00237	711,231	—	711,231	0.00236	17,221	17,221	0.00275	776,791
502	Aut de Transporte Marítimo	957,581	892,353	0.14692	44,157,959	229,423	44,387,382	0.14728	1,069,404	1,069,404	0.17090	48,238,260
506	Metropistas	7,318	5,888	0.00097	291,385	—	291,385	0.00097	5,233	5,233	0.00084	236,044
	<b>Total</b>	<b>\$ 713,813,113</b>	<b>\$ 607,378,006</b>	<b>100.00000 %</b>	<b>\$ 30,056,003,000</b>	<b>\$ 82,848,000</b>	<b>\$ 30,138,851,000</b>	<b>100.00000 %</b>	<b>\$ 628,647,031</b>	<b>625,754,703</b>	<b>100.00000 %</b>	<b>\$ 28,226,311,000</b>

See accompanying independent auditors' report.







**EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT  
OF THE COMMONWEALTH OF PUERTO RICO**  
Schedules of Pension Amounts by Employer  
As of and for the years ended June 30, 2014 and 2013

Agency Code	Agency Name	Deferred outflows of resources – June 30, 2014					Deferred inflows of resources – June 30, 2014					Pension expense Year ended June 30, 2014				
		Net pension liability		Differences between expected and actual experience	Changes of assumptions	Changes in proportion	Total deferred outflows of resources	Differences between expected and actual experience	Changes of assumptions	Net difference between projected and actual investments earnings on pension plan investments	Changes in proportion	Total deferred inflows of resources	Proportionate share of allocable plan pension expense	Pension expense related to specific liabilities of individual employers	Net amortization of deferred amounts from changes in proportion	Total pension expense
		Total NPL June 30, 2013	Total NPL June 30, 2014													
379	Ponce Maile	\$ 3,845,271	4,436,774	6,806	151,204	277,600	435,610	—	—	28,033	—	28,033	256,652	—	36,067	292,719
413	Corporación para el Desarrollo del Cine de P.R.	776,791	711,231	1,091	24,238	—	25,329	—	—	4,494	—	100,091	41,142	—	(17,568)	23,574
502	Aut de Transporte Marítimo	48,238,260	44,387,382	68,090	1,512,706	—	1,580,796	—	—	280,452	—	6,044,294	2,567,652	—	(997,450)	1,570,202
506	Metropistas	236,044	291,385	447	9,930	32,517	42,894	—	—	1,841	—	1,841	16,856	—	4,749	21,605
	Total	\$ 28,226,311,000	30,138,851,000	46,232,571	1,027,121,143	728,914,599	1,802,268,313	—	—	190,425,786	728,914,605	919,340,391	1,743,425,072	—	—	1,743,425,072

See accompanying independent auditors' report.

## **EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO**

Notes to Schedules of Employer Allocations and Schedules of Pension Amounts by Employer

June 30, 2014 and 2013

### **(1) Plan Description**

The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The System's governance is vested in an eleven-member Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. Pursuant to Act No. 106 of August 23, 2017, the Board was substituted by the Retirement Board of the Government of Puerto Rico. The System is a cost-sharing, multiple-employer pension plan administered by the Puerto Rico Government and Judiciary Retirement System Administration (the Administration).

The System administers different benefit structures pursuant to Act No. 447, as amended, including a cost-sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on a member's date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73 Commonwealth agencies, 78 municipalities, and 55 public corporations, including the System) are covered by the System. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporation at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies and instrumentalities, among others.

The benefits provided to members of the System are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3), in conjunction with other recent funding and design changes, provided for a comprehensive reform of the System. The Commonwealth does not guarantee benefits at retirement age.

Certain provisions are different for the three groups of members who entered the System prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990.
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by the System. Future benefit payments will be paid from the same pool of assets.

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*Service Retirement Benefits*

The following summary of service retirement benefits is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

Retirement Eligibility Requirements:

- (1) *Eligibility for Act No. 447 Members* – Act No. 447 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5), for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who attained 30 years of credited service by December 31, 2013 are eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

- (2) *Eligibility for Act No. 1 Members* – Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

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- (3) *Eligibility for System 2000 Members* – System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

<u>Date of birth</u>	<u>Attained age as of June 30, 2013</u>	<u>Retirement eligibility age</u>
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

- (4) *Eligibility for Members Hired after June 30, 2013* – Attainment of age 58 if a Public Officer in a High Risk Position and attainment of age 67 otherwise.

**Service Retirement Annuity Benefits:**

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity.

- (1) *Accrued Benefit as of June 30, 2013 for Act No. 447 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting to coordinate with social security (the Coordination Plan), the benefit is re-calculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600.

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If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. 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 credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. 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 credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited 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.

For Act No. 447 Mayors with at least 8 years of credited service as a mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

- (2) *Accrued Benefit as of June 30, 2013 for Act No. 1 Members* – The accrued benefit as of June 30, 2013 shall be determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 member is a police officer or firefighter with at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

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For Act No. 1 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non-Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

*Compulsory Retirement*

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

Minimum Benefit for Members who Retired before July 1, 2013 (Act No. 156 of 2003, Act No. 35 of 2007, and Act No. 3): The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013.

*Contributions*

The contribution requirement to the System is established by Commonwealth law and is not actuarially determined. The following are the member and employer contributions:

*(1) Member Contributions*

Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2013-2014 fiscal year and 8.5% of compensation up to \$6,600 plus 10% of compensation in excess of \$6,600 during the 2014-2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

*(2) Employer Contributions (Article 2-116, as Amended by Law No. 116 of 2010 and Act No. 3)*

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% of compensation. For the five fiscal years thereafter, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

*(3) Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3)*

Effective July 1, 2013, the System will receive a supplemental contribution of \$2,000 (of which \$800 corresponds to the pension plan and \$1,200 corresponds to the post employment healthcare benefits plan) each fiscal year for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without own treasuries employees or by certain public corporations with own treasuries or municipalities for their former employees.

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*(4) Additional Uniform Contribution (Act No. 32, as Amended)*

The additional uniform contribution will be certified by the external actuary of the System each fiscal year from 2014-2015 through 2032-2033 as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below \$1 billion. The additional uniform contribution is to be paid by the Commonwealth's General Fund, public corporations with own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015 and 2016 was \$120 million, payable at end of each fiscal year. The additional uniform contribution determined for fiscal year 2016-2017 is \$596 million, payable at the end of the fiscal year.

**(2) Basis of Presentation**

The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of the System or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the System or the participating employers. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the System to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

**(3) Allocation Methodology and Reconciliation to Financial Statements**

Effective July 1, 2014, the System employers were required to adopt Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statement No. 68).

GASB Statement No. 68 requires participating employers in the System to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension. The employer allocation percentages presented in the schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratio of the contributions of an individual employer to total contributions to the System, as defined, during the years ended June 30, 2014 and 2013.

The current year employer contributions for the System employers used in the schedule of employer allocations is a component of the System pension trust fund financial statements contained in the System's Basic Financial Statements. A reconciliation of total contributions presented in the schedule of employer allocations and additions from the employer contributions for the System pursuant to its statements of changes in fiduciary net position for the years ended June 30, 2014 and 2013 is as follows:

	<b>2014</b>	<b>2013</b>
Contributions per schedule of employer allocations	\$ 607,378,006	625,754,700
Reconciling items:		
Early retirement incentives	69,283,111	2,892,331
Collected additional uniform contribution (Act 32 of 2013)	37,152,000	—
Total contributions per audited financial statements	\$ 713,813,117	628,647,031



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The employer's proportion of the System's net pension liability was based on the actual required contributions of each of the participating employers that reflect each employer's projected long-term contribution effort. The contributions that reflect each employer's projected long-term contribution effort included in the proportionate share calculation are: 1) Act No. 116 of 2010 statutory payroll-based contribution, 2) Act No. 3 of 2013 supplemental contribution, and 3) other special law contributions. Other contributions to the System that do not reflect an employer's projected long-term contribution effort, such as contributions that separately finance specific liabilities of an individual employer to the System (i.e. local employer early retirement incentives), are excluded from the proportionate share calculation.

In addition, the collected additional uniform contribution required by Act No. 32 of 2013 (AUC), which is a contribution that reflects each employer's projected long-term contribution effort, was excluded from the proportionate share calculation because its collectability from various employers, including the Commonwealth, is uncertain. Exclusion of such amounts prevents an overallocation of GASB Statement No. 68 amounts to the employers who have paid their AUC (or are expected to do so) and an underallocation of GASB Statement No. 68 amounts to the employers who have not paid their AUC (or are not expected to do so).

**(4) Collective Net Pension Liability and Actuarial Information**

**(a) Components of Net Pension Liability**

The components of the net pension liability of the participating employers for the System as of June 30, 2014 and July 1, 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Total pension liability	\$ 30,219,517,000	28,941,368,000
Plan fiduciary net position	80,666,000	715,057,000
Net pension liability	\$ 30,138,851,000	28,226,311,000
Plan fiduciary net position as a percentage of the total pension liability	0.27 %	2.47 %

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**(b) Actuarial Assumptions**

The total pension liability as of June 30, 2014 (the measurement date) was determined by an actuarial valuation as of July 1, 2013 that was rolled forward to June 30, 2014 and assuming no gains or losses. This actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.5%
Salary increases:	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

The mortality tables used in the June 30, 2014 actuarial valuation were as follows:

- Pre-retirement Mortality – For general employees not covered under Act No. 127, RP-2000 Employee Mortality Rates are assumed for males and females projected on a generational basis using Scale AA. For members covered under Act No. 127, RP-2000 Employee Mortality Rates are assumed 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 only for members covered under Act No. 127.
- Post-retirement Healthy Mortality – Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the 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 the 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.

Most other demographic assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

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The long-term expected rate of return on pension benefits investments was determined in accordance with the asset allocation of the portfolio that was adopted by the System's Board during December 2013 and the actuary's capital market assumptions as of June 30, 2014. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.75% as of June 30, 2014 was slightly higher than debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per annum.

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the System's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on the System's financial condition for the benefits provided through the pension programs. The following was the Board's adopted asset allocation policy as of June 30, 2014:

	<b>Target allocation</b>	<b>Long-term expected rate of return</b>
Asset class:		
Domestic equity	25 %	6.8 %
International equity	10	7.6
Fixed income	64	3.9
Cash	1	2.9
Total	100 %	

The long-term expected rate of return on pension benefits investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The asset basis for the date of depletion projection is the System's fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, the System's fiduciary net position was projected to be exhausted in the fiscal year 2015.

The System's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate was 4.29% and 4.63% as of June 30, 2014 and July 1, 2013, respectively.

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The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

**(c) Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate**

The following presents the collective net pension liability of the participating employers as of June 30, 2014, calculated using the discount rate of 4.29%, as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower (3.29%) or 1-percentage-point higher (5.29%) than the current rate:

	<b>2014</b>		
	<b>At 1% decrease (3.29%)</b>	<b>At current discount rate (4.29%)</b>	<b>At 1% increase (5.29%)</b>
Net pension liability	\$ 34,191,176,000	30,138,851,000	26,783,118,000

**(5) Collective Deferred Outflows of Resources and Deferred Inflows of Resources**

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2014:

	<b>Year of deferral</b>	<b>Amortization period</b>	<b>Beginning of year balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>End of year balance</b>
Deferred outflows of resources:						
Changes of assumptions	2014	7 years	\$ —	1,198,308,000	171,186,857	1,027,121,143
Difference between expected and actual experience	2014	7 years	—	53,938,000	7,705,429	46,232,571
Total			\$ —	1,252,246,000	178,892,286	1,073,353,714
Deferred inflows of resources:						
Difference between projected and actual earnings on pension plan investments	2014	5 years	\$ —	238,032,232	47,606,446	190,425,786

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Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2014 will be recognized in pension expense as follows:

	<b>Amount</b>
Year ending June 30:	
2015	\$ 131,285,840
2016	131,285,840
2017	131,285,840
2018	131,285,838
2019	178,892,286
Thereafter	178,892,284
Total	\$ 882,927,928

**(6) Pension Expense**

The components of allocable pension expense, which exclude amounts attributable to employer paid member contributions and pension expense related to specific liabilities of individual employers, for the System employers for the year ending June 30, 2014 are as follows:

	<b>Amount</b>
Service cost	\$ 419,183,000
Interest on total pension liability	1,321,478,000
Member contributions	(359,862,000)
Administrative expense	29,530,000
Other expenses	26,584,000
Interest on bonds payable	192,947,000
Expected investment return net of investment expenses	(17,720,768)
Recognition of deferred inflows/outflows of resources:	
Amortization of assumption changes or inputs	171,186,857
Amortization of differences between expected and actual experience	7,705,429
Amortization of projected versus actual investment earnings on pension plan investments	(47,606,446)
Pension expense	\$ 1,743,425,072