

# **PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

## **June 30, 2023 Actuarial Valuation Report**

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December 13, 2024

Mr. Luis M. Collazo Rodríguez, Esq.  
Administrator  
Puerto Rico Government Employees and  
Judiciary Retirement System Administration  
437 Ponce de León Avenue  
Hato Rey, PR 00918

Dear Mr. Collazo:

This report presents the results of the actuarial valuation of the Puerto Rico Government Employees Retirement System (PRGERS), a cost-sharing multiple employer defined benefit pension plan, as of June 30, 2023. Section I contains highlights of the valuation including a general discussion. The subsequent Sections contain schedules summarizing the underlying calculations, participant data, plan benefits and actuarial assumptions and methods. The final section contains information about risks to the Plan, including considerations for pay-as-you-go financing.

### Purpose

The main purposes of this report are:

- to present information pertaining to the operation of the plan for inclusion in financial statements based on relevant Statements of the Government Accounting Standards Board (GASB); and
- to review the experience under the plan since the previous valuation.

In particular, this valuation provides the change in total pension liability under GASB 73 and the change in total other postemployment benefits (“OPEB”) liability under GASB 75. This valuation does not include the GASB 73 pension expense nor the GASB 75 OPEB expense.

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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. Any distribution of this report should be made in its entirety.

#### Data Reliance

In performing this analysis, we relied on the census data, benefit payment information, and other information (both written and oral) provided by the System. We have not audited or verified the census data, benefit payment information, or other information. To the extent that any of these are inaccurate or incomplete, the results of this valuation may likewise be inaccurate or incomplete.

We did not audit the data used in our analysis, but did review it for reasonableness and consistency. We received input from the System to develop the edited census data for valuation purposes. It is possible that material defects in the data would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

#### Actuarial Assumptions

Actuarial assumptions, including discount rates, mortality tables, and others identified in this report, and actuarial cost methods are adopted by the System. The System is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods, and assumptions used in this valuation are those that have been so adopted and are described in this report. The System is solely responsible for communicating to Milliman any changes required thereto. All costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which, in our professional opinion, are individually reasonable (taking into account the experience of the System

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and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated future experience affecting the System and are expected to have no significant bias.

### Future Measurements

This valuation report is only an estimate of the System's financial condition as of a single date. It can neither predict the System's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of System benefits. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

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; and,
- Changes in the plan provisions or accounting standards.

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 the main purposes of this report as stated herein.

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Actuarial computations presented in this report are for purposes of fulfilling financial accounting requirements under the GASB Statements 73 and 75. The calculations in the enclosed report have been made on a basis consistent with our understanding of the plan provisions described in Section VI 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.

The results shown in this report were developed using models intended for valuations that use standard actuarial techniques. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice.

This valuation reflects the law in effect as of June 30, 2023, as required by GASB accounting. The impact of prospective legislative changes impacting the System, if any, are not reflected.

### Qualifications

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

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, published by the American Academy of Actuaries. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

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Mr. Luis M. Collazo Rodríguez, Esq.  
December 13, 2024  
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Respectfully submitted,



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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

### A. Summary of Principal Results of June 30, 2023 Actuarial Valuation

#### ***GASB 73 Accounting (\$ amounts in thousands)***

	June 30, 2022 <u>Valuation</u>	June 30, 2023 <u>Valuation</u>
Total Pension Liability <sup>1</sup>	\$24,859,725	\$23,335,683

#### ***GASB 75 Accounting (\$ amounts in thousands)***

	June 30, 2022 <u>Valuation</u>	June 30, 2023 <u>Valuation</u>
Total OPEB Liability <sup>1</sup>	\$802,689	\$745,283

Both the pension benefits accounted for under GASB 73 and the OPEB benefits accounted for under GASB 75 are administered on a pay-as-you-go basis.

<sup>1</sup> A discussion of the benefits included in the Total Pension Liability and Total OPEB Liability begins on page 3 of this section.

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION I – SUMMARY**

	July 1, 2021 Census Data <u>Collection</u>	July 1, 2022 Census Data <u>Collection</u>
<b><i>Participant Data</i></b>		
<u>Active Members</u>		
Number	37,439	34,380
Average Salary	\$35,636	\$35,406
Total Annual Salary	\$1,334,172,033	\$1,217,252,004
<u>Terminated Vested Members</u> <sup>1</sup>		
Number	n/a	12,451
Average Monthly Basic System Benefit	n/a	\$585
<u>Retirees</u>		
Number	94,723	95,127
Average Monthly Basic System Benefit	\$1,109	\$1,105
Average Monthly System Administered Benefit	\$71	\$69
<u>Disabled Members</u>		
Number	12,259	11,661
Average Monthly Basic System Benefit	\$414	\$419
Average Monthly System Administered Benefit	\$209	\$207
<u>Beneficiaries</u>		
Number	15,271	15,884
Average Monthly Basic System Benefit	\$392	\$417
Average Monthly System Administered Benefit	\$25	\$24

<sup>1</sup> Effective with the July 1, 2022 census data collection, valuation quality data on terminated vested members was provided by PRGERS.

Basic System Benefit and System Administered Benefit amounts shown above are for pension benefits, including minimum benefits, COLAs, and future benefits to Act 211 retirees, 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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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

### **B. General Discussion**

#### Basic System Benefits

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

- Retirement
- Disability
- Vested withdrawal
- Death
- Nonvested withdrawal (return of contributions)

These benefits will be referred to as the “Basic System Benefits” throughout this report. Prior to Act 106-2017, these benefits were paid from System assets.

For members who retired prior to July 1, 2013, annuity benefits are subject to a \$500 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. For Act 447 and Act 1 members who retire July 1, 2013 or later, the accrued benefits as of June 30, 2013, or date of termination if earlier, are subject to a \$400 monthly minimum.

#### System Administered Benefits

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

- Additional minimum pension benefits
- Ad-hoc cost-of-living adjustments (COLAs) provided in past years
- Additional benefits due to death or disability for reasons specified in Act 127-1958
- Medical insurance plan contribution (if retired prior to July 1, 2013)
- Christmas bonus (if retired prior to July 1, 2013)
- Medication bonus (if retired prior to July 1, 2013)

System 2000 and Act 3 participants, other than those members receiving a disability annuity or receiving benefits under Act 127-1958, do not receive any System Administered Benefits.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

These benefits will be referred to as “System Administered Benefits” throughout this report. Prior to Act 106-2017, these benefits were generally paid from the Commonwealth’s General Fund or by the respective public corporation or municipality on a pay-as-you-go basis.

### Benefits included in Total Pension Liability and Total OPEB Liability

The Total OPEB Liability is for the medical insurance plan contribution benefit. The Total Pension Liability is for the Basic System Benefits and all other System Administered Benefits. Note that the Medication Bonus has been included in the Total Pension Liability because members can receive the bonus without submitting documentation to substantiate medication expenses.

### System Experience since Prior Valuation

Our analysis of System experience between the June 30, 2022 to June 30, 2023 valuations resulted in a liability gain of \$0.04 billion (e.g. – the original June 30, 2022 Total Pension Liability of \$24.86 billion was expected to decrease to \$24.22 billion as of June 30, 2023, and instead decreased to \$24.18 billion, prior to the changes in assumptions and provisions).

Major sources of gains and losses from the June 30, 2022 valuation to the June 30, 2023 valuation are as follows:

1. \$65 million loss on roughly 500 active members who were not included in the June 30, 2022 valuation.
2. \$100 million loss on roughly 800 newly-reported retirees who were not in the prior year census data.
3. \$110 million gain due to demographic experience, including changes in data reported, for continuing actives.
4. \$90 million gain due to changes in data reported for continuing retirees and beneficiaries.
5. \$80 million loss on roughly 2,200 active members who retired during the one-year period.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

### Changes in Plan Provisions since Prior Valuation

There have been no changes in plan provisions since the prior valuation.

### Change in Assumptions since Prior Valuation

In accordance with GASB 73 and GASB 75, the discount rate is based on a bond market index. PRGERS has selected the Bond Buyer General Obligation 20-Bond Municipal Bond Index for this purpose. The index rate and resulting discount rate increased from 3.54% as of June 30, 2022 to 3.65% as of June 30, 2023.

As PRGERS indicated that very few members who retired July 1, 2013 and later (post-Act 3 retirees) have elected a joint & survivor annuity, the assumed form of payment for post-Act 3 retirees who were indicated as married and not entitled to future benefits payable as a result of Act 211 has been revised to a modified cash refund. Previously such retirees were assumed to have a joint and 100% survivor annuity, with a spouse's date of birth imputed based on an assumed age difference of 4 years with males older than females and an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date.

As valuation quality data on terminated vested members was provided by PRGERS effective with the July 1, 2022 census data collection, the 5% load on the GASB 73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants was eliminated.

The Total Pension Liability as of June 30, 2023 decreased by (1) \$0.27 billion due to the increase in the discount rate, (2) \$0.53 billion due to the change in the assumed form of payment for certain current post-Act 3 retirees and (3) \$0.04 billion due to reflecting valuation quality data for individual terminated vested members in lieu of loading the actuarial accrued liability. The Total OPEB Liability as of June 30, 2023 decreased by \$7 million due to the increase in the discount rate.

### Changes in Methods since the Prior Valuation

There have been no changes in methods since the prior valuation.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

### Overview of Recent Significant Changes in Plan Provisions

#### *Modified Eighth Amended Title III Joint Plan of Adjustment*

The Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (“2022 Plan of Adjustment”) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act 127-1958 high risk death and disability benefits for System 2000, Act 3, and Act 106 members in high risk positions, eliminated future cost of living adjustments, including those on the Act 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act 3 members who were not in payment status as of March 15, 2022.

#### *Act 74-2019*

Act 74-2019 (enacted July 25, 2019) changed the retirement eligibility provisions for Public Officers in High Risk Positions. Public Officers in High Risk Positions are eligible to retire directly from active service at age 55 and must retire at age 58 (subject to two potential two-year extensions to age 62 at the member’s request).

#### *Act 106-2017*

Act 106-2017 was enacted on August 23, 2017 and impacted the benefits provided to PRGERS members as follows:

- New employees hired July 1, 2017 or later are participants in a separate defined contribution plan and are not PRGERS members.
- Effective July 1, 2017, current PRGERS members no longer make any contributions to PRGERS. Prospectively, active members participate in a separate defined contribution plan.

In addition to the benefit changes, Act 106-2017 provides that PRGERS will be funded on a pay-as-you-go basis. The following contributions were eliminated by Act 106-2017:

- Act 116-2011 employer contributions – was 15.525% of payroll in 2016-2017 and was scheduled to increase by 1.25% of payroll per year to an ultimate rate of 20.525% of payroll in 2020-2021 and later
- Act 32-2013 Additional Uniform Contribution – was \$776 million in 2016-2017 and projected as \$685 million from 2017-2018 to 2032-2033, with annual recalculations (only of portion of the annual amounts were collected in prior years)

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

- Act 3-2013 Supplemental Contributions – was \$2,000 for each pensioner (including beneficiaries receiving survivor benefits) who was previously benefitting as an Act 447 or Act 1 member while an active employee. The contribution paid for the Medical Insurance Plan Contribution (up to \$1,200 per member), the Christmas Bonus (\$200 per member), and Medication Bonus (\$100 per member) payable to members who retired prior to July 1, 2013. The excess of these Supplemental Contributions remained in the System to pay down the unfunded actuarial accrued liability.

Prior to July 1, 2017, credits to the notional Defined Contribution Hybrid Contribution Account included member contributions and interest credits based on the investment yield of the System's assets as determined by the Board. As discussed above, under Act 106-2017 members no longer contribute to PRGERS. In addition, with the switch to a pay-as-you-go basis for funding benefits, there will be no System assets to generate investment returns, and we have been informed that no future interest credits will be applied to members' Defined Contribution Hybrid Contribution Accounts beginning July 1, 2017 and later.

### *Act 170-2016*

Act 170-2016 amended Act 211-2015 by expanding the eligible group of members to include additional eligible agencies and additional eligible members in all eligible agencies. Act 170-2016 did not change the benefits provided to the member nor does it change the methodology to calculate the cost for the participating employers.

### *Act 211-2015*

Act 211-2015 is an early retirement incentive program that was passed on December 8, 2015. All employers participating in PRGERS (Central Government, Municipalities and Public Corporations) were eligible to apply to participate in Act 211-2015. Qualification was conditioned upon approval by the Office of Management and Budget ("OMB") of the agency's plan to implement such program and its impact on the agency.

Act 211-2015 states that employers who have outstanding debt with PRGERS must enter into a payment plan that includes using a portion of the employer's savings from Act 211-2015 in order to pay the outstanding debt.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

Eligible employees are Act 447 members in PRGERS who have at least 20 years of service at the time of enrollment in the program, and who, except for Police, are not already eligible to retire under Act 447.

Under Act 211-2015, employees who elect to participate in the program will receive a variety of benefits, some of which do not impact PRGERS. The benefits which impact PRGERS are as follows:

1. Contributions to the Defined Contribution Hybrid Program while enrolled in the program equal to 10% of the average compensation as of December 31, 2015, paid in full by the employer until the member reaches age 61. Note that employer contributions will also be paid to the System on this basis. However, all such contributions ceased July 1, 2017 due to Act 106-2017.
2. Upon death while enrolled in the program prior to age 61, participation in the program will end and the death benefits payable to survivors if any will be the same as for an active Act 447 member.
3. Upon attainment of age 61, the employee will begin collecting retirement benefits from PRGERS, with a guarantee at the time of retirement that the retirement benefit will be at least 50% of average compensation as of June 30, 2013 (60% for Puerto Rico Police provided the agency pays for the increase from 50% to 60%). Benefits for Coordination Plan members (which decrease upon attainment of Social Security Retirement Age) can never be less than 50% of average compensation as of June 30, 2013. The agency shall pay an additional contribution to PRGERS to cover the cost of providing this additional minimum benefit.

Note that, although the System commences paying benefits at age 61, the Act 211 electing members are included as retirees in the census data.

### *Fiscal Plan*

The *2024 Fiscal Plan for Puerto Rico* was certified on June 5, 2024 by the Financial Oversight and Management Board (“FOMB”), a body created by the enactment of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). The liabilities presented in this valuation are based on existing law (which includes the 2022 Plan of Adjustment discussed above) only.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION I – SUMMARY

### GASB Pension Accounting Information

Pension accounting results in Section III of this report have been prepared under GASB 73 parameters to determine a Total Pension Liability at the end of the fiscal year. The Total Pension Liability reflects the full amount of the liability, and thus can be significantly volatile from year to year.

### GASB OPEB Accounting Information

OPEB accounting results in Section IV of this report have been prepared under GASB 75 parameters to determine a Total OPEB Liability at the end of the fiscal year. The Total OPEB Liability reflects the full amount of the liability, and thus can be significantly volatile from year to year.

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION II - MANAGEMENT INFORMATION**

**A. Allocation of Liability by Pension Law and System Entity as of June 30, 2023**

	<b><u>GASB 73 Total Pension Liability for:</u></b>			<b>GASB 75</b>
	<b><u>Basic</u></b>	<b><u>System</u></b>	<b><u>Basic System</u></b>	<b><u>Total</u></b>
	<b><u>System</u></b>	<b><u>Administered</u></b>	<b><u>and System</u></b>	<b><u>OPEB</u></b>
	<b><u>Benefits</u></b>	<b><u>Benefits</u></b>	<b><u>Administered</u></b>	<b><u>Liability</u></b>
			<b><u>Benefits</u></b>	
<b>Government</b>				
Act 447	\$11,317,104,463	\$992,356,358	\$12,309,460,821	\$503,835,296
Act 1	2,388,063,531	155,733,697	2,543,797,228	86,433
System 2000 / Act 3	<u>51,967,791</u>	<u>1,668,989</u>	<u>53,636,780</u>	<u>213,432</u>
	13,757,135,785	1,149,759,044	14,906,894,829	504,135,161
<b>Public Corporations</b>				
Act 447	5,135,199,376	349,666,396	5,484,865,772	147,810,568
Act 1	589,783,734	916,655	590,700,389	0
System 2000 / Act 3	<u>17,035,517</u>	<u>121,397</u>	<u>17,156,914</u>	<u>141,030</u>
	5,742,018,627	350,704,448	6,092,723,075	147,951,598
<b>Municipalities</b>				
Act 447	1,620,697,189	179,701,440	1,800,398,629	93,060,859
Act 1	511,820,812	5,106,491	516,927,303	17,456
System 2000 / Act 3	<u>18,432,485</u>	<u>307,076</u>	<u>18,739,561</u>	<u>117,433</u>
	2,150,950,486	185,115,007	2,336,065,493	93,195,748
<b>Total</b>				
Act 447	18,073,001,028	1,521,724,194	19,594,725,222	744,706,723
Act 1	3,489,668,077	161,756,843	3,651,424,920	103,889
System 2000 / Act 3	<u>87,435,793</u>	<u>2,097,462</u>	<u>89,533,255</u>	<u>471,895</u>
	\$21,650,104,898	\$1,685,578,499	\$23,335,683,397	\$745,282,507

System Administered Benefits for System 2000 and Act 3 members are enhanced death and disability benefits for hazardous duty employees covered by Act 127 and the related bonus benefits for these members. GASB 75 benefits are the medical insurance plan contributions for these members.

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION III - GASB 73 ACCOUNTING INFORMATION**

**A. Total Pension Liability**

	<u>June 30, 2022</u>	<u>June 30, 2023</u>
<b>Total Pension Liability</b>		
Total pension liability	\$24,859,724,944	\$23,335,683,397
Covered payroll	1,334,172,033	1,217,252,004
Total pension liability as a % of covered payroll	1863.31%	1917.08%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below and was then projected forward to the measurement date. There have not been significant changes between the current valuation date and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 73. Covered Payroll is as of the valuation date.

**Discount Rate**

Discount rate	3.54%	3.65%
Municipal bond rate *	3.54%	3.65%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

**Other Key Actuarial Assumptions**

Please refer to Section VII of this report for the other actuarial assumptions used.

Valuation date	July 1, 2021	July 1, 2022
Measurement date	June 30, 2022	June 30, 2023
Actuarial cost method	Entry Age Normal	Entry Age Normal

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION III - GASB 73 ACCOUNTING INFORMATION**

**B. GASB 73 Benefit Obligations as of June 30, 2023**

	<u>Basic System Benefits</u>	<u>System Administered Benefits</u>	<u>Total</u>
1. Projected Benefits Payable to Retirees and Beneficiaries			
Retirees	\$15,194,690,459	\$1,120,146,570	\$16,314,837,029
Disabled Members	639,096,601	320,900,928	959,997,529
Beneficiaries	<u>632,915,411</u>	<u>68,319,042</u>	<u>701,234,453</u>
Total	16,466,702,471	1,509,366,540	17,976,069,011
2. Projected Benefits Payable to Terminated Vested Members	1,091,526,443	0	1,091,526,443
3. Actuarial Accrued Liability for Active Members	4,047,404,534	176,211,959	4,223,616,493
4. Return of Contributions due to former Members	44,471,450	0	44,471,450
5. Total Pension Liability as of June 30, 2023: (1) + (2) + (3) + (4)	\$21,650,104,898	\$1,685,578,499	\$23,335,683,397

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

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION III - GASB 73 ACCOUNTING INFORMATION**

**C. Changes in Total Pension Liability**

	<b>Increase (Decrease) Total Pension Liability</b>
Changes in Total Pension Liability	
Balance as of June 30, 2022	\$24,859,724,944
Changes for the year:	
Service cost	19,482,048
Interest on total pension liability	854,189,254
Effect of plan changes	0
Effect of economic/demographic (gains) or losses	(44,468,949)
Effect of assumptions changes or inputs	(840,957,826)
Benefit payments	(1,512,286,074)
Balance as of June 30, 2023	\$23,335,683,397

**D. Sensitivity Analysis**

The following presents the total pension liability of PRGERS, calculated using the discount rate of 3.65%, as well as what the PRGERS's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current rate.

	<b>1% Decrease 2.65%</b>	<b>Current Discount Rate 3.65%</b>	<b>1% Increase 4.65%</b>
Total pension liability	\$26,015,308,438	\$23,335,683,397	\$21,098,025,561

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION IV - GASB 75 ACCOUNTING INFORMATION**

**A. Total OPEB Liability**

	<b><u>June 30, 2022</u></b>	<b><u>June 30, 2023</u></b>
<b>Total OPEB Liability</b>		
Total OPEB liability	\$802,689,035	\$745,282,507
Covered payroll	N/A	N/A
Total OPEB liability as a % of covered payroll	N/A	N/A

The total OPEB liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below and was then projected forward to the measurement date. There have not been significant changes between the current valuation date and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 75.

**Discount Rate**

Discount rate	3.54%	3.65%
Municipal bond rate	3.54%	3.65%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index

**Other Key Actuarial Assumptions**

Please refer to Section VII of this report for the other actuarial assumptions used.

Valuation date	July 1, 2021	July 1, 2022
Measurement date	June 30, 2022	June 30, 2023
Actuarial cost method	Entry Age Normal	Entry Age Normal
Medical trend rate	not applicable	not applicable

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION IV - GASB 75 ACCOUNTING INFORMATION**

**B. GASB 75 Benefit Obligations as of June 30, 2023**

1. Projected Benefits Payable to Retirees and Beneficiaries:	
Retirees	\$656,243,546
Disabled Members	89,038,961
Beneficiaries	<u>0</u>
Total	745,282,507
2. Projected Benefits Payable to Terminated Vested Members:	0
3. Actuarial Accrued Liability for Active Members:	0
4. Total OPEB Liability as of June 30, 2023:	
(1) + (2) + (3)	745,282,507

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

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION IV - GASB 75 ACCOUNTING INFORMATION**

**C. Changes in Total OPEB Liability**

	<b>Increase (Decrease) Total OPEB Liability</b>
Changes in Total OPEB Liability	
Balance as of June 30, 2022	\$802,689,035
Changes for the year:	
Service cost	0
Interest on total OPEB liability	27,132,112
Effect of plan changes	0
Effect of economic/demographic (gains) or losses	(4,904,204)
Effect of assumptions changes or inputs	(6,508,090)
Benefit payments	(73,126,346)
Balance as of June 30, 2023	\$745,282,507

**D. Sensitivity Analysis**

The following presents the total OPEB liability of PRGERS, calculated using the discount rate of 3.65%, as well as what the PRGERS's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current rate.

	<b>1% Decrease 2.65%</b>	<b>Current Discount Rate 3.65%</b>	<b>1% Increase 4.65%</b>
Total OPEB liability	\$808,561,758	\$745,282,507	\$690,615,470

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION V - CENSUS DATA**

**A. Summary of Member Data as of July 1, 2022**

	<b>Act 447</b>	<b>Act 1</b>	<b>System 2000 / Act 3 / Act 106</b>	<b>Total</b>
<b>Active Members</b>				
Count	6,833	27,547	n/a	34,380
Average Age	60.0	54.9	n/a	55.9
Average Salary	\$36,971	\$35,018	n/a	\$35,406
Average Creditable Service	34.7	27.0	n/a	28.5
Average Accumulated Member Contributions	\$59,411	\$50,101	n/a	\$51,951
<b>Terminated Vested Members</b>				
Count	4,712	7,739	n/a	12,451
Average Age	62.2	56.4	n/a	58.6
Average Monthly Basic System Benefit	\$585	\$585	n/a	\$585
<b>Retired Members</b>				
Count	92,790	1,258	1,079	95,127
Average Age	73.0	67.4	68.1	72.9
Average Monthly Basic System Benefit	\$1,117	\$746	\$442	\$1,105
Average Monthly System Administered Benefit	\$72	\$3	\$3	\$69
<b>Disabled Members</b>				
Count	11,565	3	93	11,661
Average Age	74.4	57.7	57.5	74.2
Average Monthly Basic System Benefit	\$418	\$1,018	\$535	\$419
Average Monthly System Administered Benefit	\$208	\$26	\$53	\$207
<b>Beneficiaries in payment</b>				
Count	15,858	11	15	15,884
Average Age	78.1	61.2	60.8	78.1
Average Monthly Basic System Benefit	\$417	\$250	\$447	\$417
Average Monthly System Administered Benefit	\$24	\$7	\$77	\$24

Basic System Benefit and System Administered Benefit amounts shown above are for pension benefits, including minimum benefits, COLAs, and future benefits to Act 211 retirees, 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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## **PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

This summary of plan provisions 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 106-2017 closed participation in PRGERS to new members effective July 1, 2017, and moved prospective accruals for all current active members to a separate defined contribution plan outside of PRGERS. This summary details the provisions under Act 3 of 2013, which was effective July 1, 2013 and under which the benefits to be paid to PRGERS members are determined. Certain provisions are different for the three groups of members who entered PRGERS prior to July 1, 2013 as described below.

- Act 447 members are generally those members hired before April 1, 1990.
- Act 1 members are generally those members hired on or after April 1, 1990 and on or before December 31, 1999.
- System 2000 members are generally those members hired on or after January 1, 2000 and on or before June 30, 2013.

Act 3 members are generally those members hired on or after July 1, 2013 and on or before June 30, 2017.

Act 106 employees are those hired July 1, 2017 and later. As directed by the System, Act 106 employees who started receiving the Act 127-1958 disability benefits (item 9b) and beneficiaries of Act 106 employees who started receiving the Act 127-1958 death benefits (item 8b) on or before March 15, 2022 are included in this valuation.

Act 106-2017 eliminated the prior statutory employer contributions and changed the funding of Systems benefits to pay-as-you-go by the Commonwealth, public corporation or municipality. Prior to July 1, 2017, most benefits were paid from system assets while some benefits were paid by the General Fund, public corporation or municipality.

Subsequent to Act 106-2017, the Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al. (“2022 Plan of Adjustment”) confirmed by the U.S. District Court for the District of Puerto Rico on January 18, 2022, eliminated the Act 127-1958 high risk death and disability benefits for System 2000, Act 3, and Act 106 members in high risk positions, eliminated future cost of living adjustments, including those on the Act 127-1958 benefits, and eliminated all future PRGERS benefits for System 2000 and Act 3 members who were not in payment status as of March 15, 2022.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

### 1. Type of Plan

The System is a contributory, hybrid 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 the 2022 Plan of Adjustment, approved January 18, 2022.

### 3. Eligibility for Membership

Members of the Employees Retirement System of the Government of Puerto Rico and its Instrumentalities include all regular full-time and non-municipal temporary employees who are not contributing to other Retirement Systems (Articles 1-104 and 1-105) and were hired before July 1, 2017 (Act 106-2017). 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 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).

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS**  
**AS OF JUNE 30, 2023**

System 2000 and Act 3 members who were not in payment status as of March 15, 2022 are no longer entitled to PRGERS benefits based on the provisions of the 2022 Plan of Adjustment.

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 for Act 447 members: The years and months of plan participation, during which contributions 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:

Service During a Fiscal Year	Creditable Service Earned
15 days during the same month	1 month

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS**  
**AS OF JUNE 30, 2023**

Service During a Fiscal Year	Creditable Service Earned
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. Creditable Service for Act 1 members: The years and completed months of plan participation, during which contributions have been made, beginning on 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)

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

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

- j. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).
- k. Average Compensation for Act 447 members: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).
- l. Average Compensation for Act 1 members: 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)
- m. Contributions: The amount deducted from the compensation of a Member and the employer (Section 781).
- n. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). Prior to July 1, 2017, the rate was 2.50%. Due to Act 106-2017, regular interest ceased July 1, 2017.
- o. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member prior to July 1, 2013 with Regular Interest (Article 1-104).
- p. 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.

For purposes of converting the Defined Contribution Hybrid Contribution Account to a lifetime annuity, the current factors adopted by the Board are the single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS**  
**AS OF JUNE 30, 2023**

Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female.

- q. Public Officers in High-Risk Positions: The Commonwealth of Puerto Rico Police, the Municipal Police, the Commonwealth Firefighter Corps, the Municipal Firefighter Corps, and the Custody Officers Corps.
- r. 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

- s. 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).
- t. 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).

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

- u. Investment Alternatives for Retirement Savings Account: System 2000 members could choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options prior to July 1, 2013. Changes in allocation could have been 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.
  - v. Defined Contribution Hybrid Contribution Account: The individual account established for each active member as of July 1, 2013 and for each future member thereafter. Each member has a nonforfeitable right to their contributions to the Defined Contribution Hybrid Contribution Account and, for the System 2000 members, the initial transfer of their Retirement Savings Account as of June 30, 2013.
  - w. Credits to Defined Contribution Hybrid Contribution Account: The credits to the Defined Contribution Hybrid Contribution Account include (1) the Retirement Savings Account as of June 30, 2013 for System 2000 members, (2) contributions by all members from July 1, 2013 to June 30, 2017 to PRGERS, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, safekeeping of securities and investment counseling. With the move to pay-as-you-go funding under Act 106-2017, no credits are applied after June 30, 2017.
5. Coordination with Social Security for Act 447 members: 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 (Option 1). 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

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS**  
**AS OF JUNE 30, 2023**

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.

6. Retirement Benefits

- a. Eligibility for Act 447 members: Act 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act 447 members could retire upon (1) attainment of age 55 with 25 years of Creditable Service, (2) attainment of age 58 with 10 years of Credited Service, (3) any age with 30 years of Creditable Service, and (4), for Mayors, attainment of age 50 with 8 years of Creditable Service as a Mayor. In addition, Act 447 members who attained 30 years of Creditable Service by December 31, 2013 would be eligible to retire at any time.

Act 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Creditable Service by December 31, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table with 10 years of Creditable Service.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
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

- b. Eligibility for Act 1 members: Act 1 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act 1 members could retire upon (1) attainment of age 55 with 25 years of Creditable Service, (2) attainment of age 65 with 10 years of Credited Service, and (3) for Mayors, attainment of age 50 with 8 years of Creditable Service as a Mayor.

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS**  
**AS OF JUNE 30, 2023**

Act 1 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of age 65 with 10 years of Creditable Service.

- c. Eligibility for System 2000 members: System 2000 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 60.

System 2000 members who were not eligible to retire as of June 30, 2013 would be eligible to retire upon attainment of the retirement eligibility age shown in the following table.

Date of Birth	Attained Age as of June 30, 2013	Retirement Eligibility Age
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

System 2000 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

- d. Eligibility for Act 3 members: Attainment of age 67.

Act 3 members who were not in payment status as of March 15, 2022 are no longer entitled to future benefits from PRGERS based on the provisions of the 2022 Plan of Adjustment.

- e. Eligibility for Public Officers in High Risk Positions: Public Officers in High Risk Positions are eligible to retire from active service at age 55 and must retire at age 58, regardless of membership law. Two two-year extensions (delaying retirement until age 62) 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. Public Officers in High Risk Positions who terminate employment with a vested benefit prior to age 55 are eligible to retire based on the above provisions for the applicable membership law.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

- f. Benefit: An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act 447 and Act 1 members, the Accrued Benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, the balance in the Defined Contribution Hybrid Contribution Account shall be paid as a lump sum instead of as an annuity.
- g. Accrued Benefit as of June 30, 2013 for Act 447 members: The accrued benefit as of June 30, 2013 shall be determined based on the Average Compensation for Act 447 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act 447 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

If the Act 447 member had at least 30 years of Creditable 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 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 member was at least age 55 as of June 30, 2013) of Average Compensation in excess of \$6,600.

If the Act 447 member had less than 30 years of Creditable Service as of June 30, 2013, and attains 30 years of Creditable 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 Creditable 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 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of Creditable Service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of Creditable Service.

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## **PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

If the Act 447 member had less than 30 years of Creditable Service as of December 31, 2013, the accrued benefit equals 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 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 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.

For Act 447 Mayors with at least 8 years of Creditable Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Creditable Service as a Mayor up to 10 years, plus 1.5% of Highest Compensation as Mayor for each year of non-Mayoral Creditable Service up to 20 years, plus 2.0% of Highest Compensation 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 Compensation as a Mayor.

- h. Accrued Benefit as of June 30, 2013 for Act 1 members: The accrued benefit as of June 30, 2013 shall be determined based on the Average Compensation for Act 1 members, the years of Creditable Service, and the attained age of the member all as of June 30, 2013. For Act 1 Mayors, the Highest Compensation as a Mayor is determined as of June 30, 2013.

If the Act 1 Commonwealth Police or Commonwealth Firefighter had at least 30 years of Creditable 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.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

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For all other Act 1 members, the accrued benefit equals 1.5% of Average Compensation multiplied by years of Creditable Service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act 1 Mayors with at least 8 years of Creditable Service as a mayor, the accrued benefit will not be less than 5% of Highest Compensation as a Mayor for each year of Creditable Service as a Mayor up to 10 years, plus 1.5% of Highest Compensation as Mayor for each year of non-Mayoral Creditable Service up to 20 years, plus 2.0% of Highest Compensation 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 Compensation as a Mayor.

#### 7. Termination Benefits

##### a. Lump Sum Withdrawal

**Eligibility:** A Member is eligible upon termination of service prior to 5 years of service or if the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less.

**Benefit:** The benefit equals a lump sum payment of the balance in the Defined Contribution Hybrid Contribution Account as of the date of the permanent separation of service.

##### b. Deferred Retirement

**Eligibility:** A Member is eligible upon termination of service with 5 or more years of service (10 years of Creditable Service for Act 447 and Act 1 members) prior to the applicable retirement eligibility, provided the member has not taken a lump sum withdrawal of the Accumulated Contributions and the Defined Contribution Hybrid Contribution Account.

**Benefit:** An annuity payable for the lifetime of the member commencing at the applicable retirement eligibility age equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement,

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

plus, for Act 447 and Act 1 members, the Accrued Benefit determined as of June 30, 2013.

#### 8. Death Benefits

##### a. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act 447 and Act 1 members.

##### b. High-Risk Death Benefit under Act 127-1958

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). System 2000, Act 3 and Act 106 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Spouse's Benefit: 50% of the participant's Compensation 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 Compensation 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 Compensation 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. Future COLAs were eliminated effective March 15, 2022. (Act 127 of 1958 as amended)

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

#### c. Post-retirement Death Benefit for Members who retired prior to July 1, 2013

Eligibility: Any retiree or disabled member receiving a monthly benefit who has not elected a reversionary annuity and whose benefits commenced prior to July 1, 2013.

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 annual income to a widow, or widower or dependent children is equal to 60% (50% if in the Coordination Plan - 30% prior to January 1, 2004) of the retirement benefit 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. 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.
- (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. (Article 2-113 and Act 524 of 2004)

#### d. Post-retirement Death Benefit for Members who retired after June 30, 2013

Eligibility: Any retiree or disabled member who began receiving a monthly benefit after June 30, 2013.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the Defined Contribution Hybrid Contribution Account, plus the Accumulated Contributions for Act 447 and Act 1 members, at the time of retirement over the total annuity payments paid to the member and any

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### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

- e. Beneficiaries receiving occupational death benefits as of June 30, 2013 continue to be eligible to receive such benefits.

#### 9. Disability Benefits

##### a. Disability

Eligibility: All members are eligible upon the occurrence of disability.

Benefit: The balance of the Defined Contribution Hybrid Contribution Account payable as lump sum distribution, an immediate annuity or a deferred annuity at the election of the participant. Act 447 and Act 1 members remain eligible to receive the accrued benefit as of June 30, 2013 commencing at the applicable retirement eligibility age.

##### b. High Risk Disability under Act 127-1958

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). System 2000, Act 3 and Act 106 members who were not in payment status as of March 15, 2022 are no longer eligible based on the provisions of the 2022 Plan of Adjustment.

Benefit: 80% (100% for Act 447 members) of Compensation 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. Future COLAs were eliminated effective March 15, 2022. (Act 127 of 1958 as amended)

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

- c. Members who qualified for occupational or non-occupational disability benefits as of June 30, 2013 continue to be eligible to receive such benefits.

#### 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.
- b. Minimum Benefit for members who retired before July 1, 2013: The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007). (Act 156 of 2003, Act 35 of 2007, and Act 3 of 2013.)
- c. Minimum Benefit for Act 447 and Act 1 members who retire July 1, 2013 or later: The minimum monthly accrued benefit as of June 30, 2013, or date of termination if earlier, for Act 447 and Act 1 members who retire July 1, 2013 or later is \$400 per month effective July 1, 2013. The benefit derived from the Defined Contribution Hybrid Contribution Account is added after this minimum benefit is applied.
- 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.

- 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). Future COLAs were eliminated effective March 15, 2022. (Various Acts)

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2023

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 provided the member retired prior to July 1, 2013. (Act 483 as amended by Act 3)

13. Special “Bonus” Benefits:

- a. Christmas Bonus: An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013. (Act 144 as amended by Act 3)
- b. Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. (Act 155 as amended by Act 3)

14. Member Contributions: Not applicable. Eliminated July 1, 2017 by Act 106-2017.

From July 1, 2013 to June 30, 2017, contributions by members were 10% of Compensation. However, for Act 447 Members who selected the Coordination Plan, the member contributions were 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 also have made voluntary additional contributions to their Defined Contribution Hybrid Contribution Account.

Prior to July 1, 2013, contributions by Act 447 Members selecting the Coordination Plan were 5.775% of Compensation up to \$6,600 plus 8.275% of Compensation in excess of \$6,600. Contributions by all other Members were 8.275% of Compensation. System 2000 members may also have made voluntary contributions of up to 1.725% of compensation prior to July 1, 2013.

15. Service Purchase: Prior to July 1, 2013, 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 9.5% per year (6% prior to April 4, 2013)

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

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). Effective July 1, 2013, only veterans may purchase service for time spent under military leave prior to June 30, 2013. In addition, public employees in active military service were permitted to make voluntary contributions to the Defined Contribution Hybrid Contribution Account during the years of military leave prior to July 1, 2017.

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 (12.275% for the 2013-2014 fiscal year plus the employee contribution rate for Public Corporations (currently 10%)) of final salary to the System. The employer contribution rate applied to final salary increases as under Act 116-2011 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 (12.275% for the 2013-2014 fiscal year, increasing to 20.525% in 2020-2021 and thereafter) plus the employee contribution rate (currently 10%) of final salary to the System for five years after retirement.

17. Act 211-2015 Retirement Incentive: Act 211-2015 (enacted December 8, 2015) provided an early retirement incentive program. All employers participating in PRGERS (Central Government, Municipalities and Public Corporations) were eligible to apply to participate in Act 211-2015. Qualification was conditioned upon approval

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS** **AS OF JUNE 30, 2023**

by the Office of Management and Budget (“OMB”) of the agency’s plan to implement such program and its impact on the agency.

Eligible employees are Act 447 members in PRGERS who have at least 20 years of service at the time of enrollment in the program, and who, except for Police, are not already eligible to retire under Act 447. Under Act 211-2015, employees who elect to participate in the program will receive a variety of benefits, some of which do not impact PRGERS. The benefits which impact PRGERS are as follows:

1. Contributions to the Defined Contribution Hybrid Program while enrolled in the program equal to 10% of the average compensation as of December 31, 2015, paid in full by the employer until the member reaches age 61. Note that employer contributions will also be paid to the System on this basis. However, all such contributions ceased July 1, 2017 due to Act 106-2017.
2. Upon death while enrolled in the program prior to age 61, participation in the program will end and the death benefits payable to survivors if any will be the same as for an active Act 447 member.
3. Upon attainment of age 61, the employee will begin collecting retirement benefits from PRGERS, with a guarantee at the time of retirement that the retirement benefit will be at least 50% of average compensation as of June 30, 2013 (60% for Puerto Rico Police provided the agency pays for the increase from 50% to 60%). Benefits for Coordination Plan members (which decrease upon attainment of Social Security Retirement Age) can never be less than 50% of average compensation as of June 30, 2013. The agency shall pay an additional contribution to PRGERS to cover the cost of providing this additional minimum benefit.

Act 170-2016 amended Act 211-2015 by expanding the eligible group of members to include additional eligible agencies and additional eligible members in all eligible agencies.

#### **18. Changes in Plan Provisions since Prior Valuation**

None.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

Municipal Bond Rate: 3.65% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB 73 and GASB 75 discount rate: 3.65% per annum

Compensation Increases: 3.0% per year. No compensation increases are assumed until July 1, 2021 as a result of the Act 3-2017 four year extension of the Act 66-2014 salary freeze and the current general economy. Based on professional judgment and System input.

Defined Contribution Hybrid Contribution Account: No member contributions were made to the Defined Contribution Hybrid Contribution Account after June 30, 2017. Based on the liquidation of System assets and move to pay-as-you-go funding under Act 106-2017, no future interest credits are assumed after June 30, 2017.

Basis for demographic assumptions: The post-retirement healthy and disabled mortality assumptions used in this valuation are based on a study of the plan's experience from 2013 to 2018 and updated expectations regarding future mortality improvement. Most 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. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act 3 pension reforms and were revised based on the new retirement eligibility and expected future experience. The retirement assumption was also revised based on the updated retirement eligibility for Public Officers in High Risk Positions due to Act 74-2019. All assumptions were reviewed with PRGERS staff for reasonableness and are documented in this Section.

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

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

Employment Category	Annual Rate of Termination
Act 447 General Employees under age 58 or less than 10 years of service	2.0%
Act 447 General Employees at least age 58 with at least 10 years of service	0.0
Act 447 Public Officers in High Risk Positions	1.6
Act 1 General Employees	2.0
Act 1 Public Officers in High Risk Positions	1.6

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.

	Act 447	Act 1
Commencement Age	61	65

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

Retirement: Rates of retirement vary by employment category, Act, age and years of Creditable Service, and whether the member was eligible to retire as of June 30, 2013 for Act 447 and Act 1 members.

Act 447 General Employees who were eligible to retire as of June 30, 2013 or attained 30 years of Creditable Service by December 31, 2013			
Age	Service condition		
	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

Act 447 General Employees who were not eligible to retire as of June 30, 2013 and did not attain 30 years of Creditable Service by December 31, 2013		
Age	Year of Retirement Eligibility	
	First	Second and Later
59	20.0%	15.0%
60	25.0	15.0
61 to 69	30.0	15.0
70	100.0	100.0

Act 447 Public Officers in High Risk Positions	
Age	Any Service
55	50.0%
56	15.0
57	15.0
58	100.0

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

Act 1 General Employees who were eligible to retire as of June 30, 2013		
Age	Service condition	
	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

Act 1 General Employees who were not eligible to retire as of June 30, 2013	
Age	Any Service
65	50.0%
66	20.0
67	100.0

Act 1 Public Officers in High Risk Positions	
Age	Any Service
55	40.0%
56	15.0
57	15.0
58	100.0

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

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.

Act	Adjustment to 1987 CGDT	
	Members Covered under Act 127-1958	Other Members
447	100%	75%
1	100%	75%

100% of disabilities occurring while in active service are assumed to be occupational for members covered under Act 127-1958.

Pre-retirement Mortality: For general employees not covered under Act 127-1958, the PubG-2010 employee rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. For members covered under Act 127-1958, the PubS-2010 employee rates for males and females, projected using MP-2021 on a generational basis. 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 127-1958.

Post-retirement Retiree Mortality: The PubG-2010 healthy retiree rates, adjusted by 100% for males and 110% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date. This assumption is also used for beneficiaries prior to the member's death.

Post-retirement Disabled Mortality: The PubG-2010 disabled retiree rates, adjusted by 80% for males and 100% for females, projected using MP-2021 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Beneficiary Mortality: Prior to the retiree's death, beneficiary mortality is assumed to be the same as the post-retirement retiree mortality. For periods after the retiree's death, the PubG-2010(B) contingent survivor rates, adjusted by 110% for males and 120% for females, projected using MP-2021 on a generational basis. As a

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

generational table, it reflects mortality improvements both before and after the measurement date.

Marriage: 100% of current active members covered under Act 127-1958 who die in service or become disabled are assumed to have qualifying beneficiaries receiving the maximum benefits possible, which are approximated by a spouse with males 4 years older than females.

Form of Payment: For future retirees (other than under Act 127-1958), upon disability an immediate lump sum distribution of the Defined Contribution Hybrid Contribution Account plus a modified cash refund of the accrued benefit as of June 30, 2013 commencing at retirement eligibility; otherwise, a modified cash refund.

For future retirees under Act 127-1958, a Joint & 100% Survivor benefit of the Act 127-1958 Disability benefit.

Marital status was provided for retired and disabled members who retired prior to July 1, 2013. For those indicated as married, a joint and survivor annuity was assumed (as shown in the following table), 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 following table). The spouse’s date of birth was imputed based on an assumed age difference of 4 years with males older than females.

Assumed Form of Payment for Members retired before July 1, 2013		
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)

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**PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM**

**SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

Assumed Form of Payment for Members retired before July 1, 2013		
Act	Marital Status	Form of Payment
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)

If marital status was not provided for continuing retirees, the assumed form of payment used in the June 30, 2021 valuation was continued.

The elected form of payment was not provided for members who retired July 1, 2013 and later (post-Act 3 retirees). As PRGERS indicated that very few post-Act 3 retirees have elected a joint & survivor annuity, current post-Act 3 retirees are assumed to have a modified cash refund.

All Act 127-1958 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: 75% of current service and disability retirees who retired before July 1, 2013 are assumed to receive a monthly medical insurance continuation benefit of \$100 per month.

Service Purchase and Data Reporting Issues: Active liabilities for benefits earned prior to June 30, 2013 are increased by 20% for members of Act 447 to approximate the value

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### **SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023**

of service purchases not yet reflected in the census data, true-ups in the frozen accrued benefit upon retirement, and data reporting issues, including members who are reported as participating in Act 1, System 2000, or Act 3 while active but who retire under Act 447.

Return of Contributions to Former Members: As of June 30, 2023, the actual amount is \$44,471,450 as provided by the System for amounts due to former non-vested members and beneficiaries of deceased members.

Census Data Collection Date: July 1, 2022. When information is provided by participant category in this report, the category is determined as of the census data collection date.

Special Data Adjustments: Upon review of the July 1, 2022 census data submitted by PRGERS, we observed several areas where data was missing, inconsistent, or invalid. Based on solutions implemented in prior years as approved by PRGERS, we applied data edits and assumptions to the census data in order to prepare the data for use in the valuation. The majority of the data edits and assumptions were applied to the following data items:

- Date of birth
- Date of hire
- Gender
- Benefit amounts
- Allocation of Basic System Benefits and System Administered Benefits
- Employment Category Code (Police / Fire Code)
- Plan Code (Coordinated / Supplementation option)
- Form of payment and beneficiary characteristics, if applicable
- Benefit commencement date
- Retirement Law
- Identification of employees covered by Act 127-1958
- Agency Code

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 Act 447 and Act 1 active members for whom the System did not provide frozen accrued benefits, accrued benefits as of June 30, 2013 were estimated for Act 447 and Act 1 active members primarily based on the data submitted for the June 30, 2013 and earlier valuations.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2023

The data provided does not provide a method to identify whether a beneficiary is receiving payments due to a participant who retired before or after the enactment of Act 3. All beneficiaries are assumed to be the survivor of a participant who retired prior to the enactment of Act 3.

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 date were assumed to be payable for life. In addition, the current level of benefit for all beneficiaries was assumed to remain constant.

Benefits not valued: The minimum post-retirement death benefit of \$1,000 for retirees without surviving beneficiaries who retired prior to July 1, 2013 is not explicitly valued. The additional liability associated with this benefit is expected to be de minimis.

The special mayor retirement age for Act 447 and Act 1 mayors is not valued. The additional liability due to this reduced retirement age is expected to be de minimis.

#### Changes in actuarial assumptions since the prior valuation:

The GASB 73 and GASB 75 discount rate has increased from 3.54% as of June 30, 2022 to 3.65% as of June 30, 2023.

As PRGERS indicated that very few members who retired July 1, 2013 and later (post-Act 3 retirees) have elected a joint & survivor annuity, the assumed form of payment for post-Act 3 retirees who were indicated as married and not entitled to future benefits payable as a result of Act 211 has been revised to a modified cash refund. Previously such retirees were assumed to have a joint and 100% survivor annuity, with a spouse's date of birth imputed based on an assumed age difference of 4 years with males older than females and an adjustment for the probability the spouse has pre-deceased the retiree as of the valuation date.

As valuation quality data on terminated vested members was provided by PRGERS effective with the July 1, 2022 census data collection, the 5% load on the GASB 73 actuarial accrued liabilities to approximate the value of the liability on behalf of deferred vested participants was eliminated.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VIII – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2023

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 entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Because of Act 106-2017, no future benefits (except for the additional benefits due to death or disability for reasons specified in Act 127-1958) will be earned by PRGERS members. As a result, the GASB 73 Total Pension Liability equals the present value of all non-Act 127-1958 projected benefits. The normal cost only reflects the anticipated future Act 127-1958 benefits.

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## PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

### SECTION VIII – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2023

#### Liability Determination

The results as of June 30, 2023 are based on projecting the System obligations determined as of the census data collection date of July 1, 2022 for one year using roll-forward methods, assuming no liability gains or losses.

#### Changes in actuarial methods since the prior valuation

None.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION IX – RISK DISCLOSURE

The purpose of this section is to identify, assess, and provide illustrations of risks that are significant to the Plan, and in some cases to the Plan's participants.

The results of the actuarial valuation are based on one set of reasonable assumptions. However, it is almost certain that future experience will not exactly match the assumptions. It is therefore important to consider the potential impacts of these likely differences when making decisions that may affect the future financial health of the Plan, or of the Plan's participants.

In addition, as plans mature they typically grow in size and become more material compared to the plan sponsor's overall operations. This increases the potential risk inherent in the long-term financing of the plan. Since pension plans make long-term promises and rely on long-term financing, it is important to consider how mature the Plan is today, and how mature it may become in the future.

Actuarial Standard of Practice No. 51 (ASOP 51) addresses these issues by providing actuaries with guidance for assessing and disclosing the risk associated with measuring pension liabilities and the determination of pension plan contributions. Specifically, it directs the actuary to:

- Identify risks that may be significant to the Plan.
- Assess the risks identified as significant to the Plan. The assessment does not need to include numerical calculations.
- Disclose plan maturity measures and historical information that are significant to understanding the Plan's risks.

ASOP 51 states that if in the actuary's professional judgment, a more detailed assessment would be significantly beneficial in helping the individuals responsible for the Plan to understand the risks identified by the actuary, then the actuary should recommend that such an assessment be performed.

This section uses the framework of ASOP 51 to communicate important information about: significant risks to the Plan and the Plan's maturity.

### **Potential Pay-as-you-go (“paygo”) financing risks**

Operating a retirement system on a paygo basis may be conceptually simple, but can be very difficult in practice when reserves are limited or non-existent. While the valuation of

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION IX – RISK DISCLOSURE

liabilities for financial reporting purposes is conducted on an annual basis in arrears, benefit payments vary continuously and respond instantaneously to emerging events. There are also administrative expenses incurred continuously.

Disbursements will experience natural variation due to emerging demographic experience and can also be greatly impacted by specific management decisions, such as an early retirement incentive program or other workforce reduction.

A major issue that needs to be addressed is determining what the process of budgeting for paygo funding will be. While an expected paygo amount can be set at the time of budgeting for an upcoming fiscal year, disbursements can vary from expectations during the fiscal year.

- If the budget is set based on expected disbursements, in the event of adverse experience during the fiscal year, will additional funds be available?
- Alternately, would the budget request include a margin to provide a buffer against adverse experience?
  - If so, consideration will need to be given to what level of margin should be included. Scenarios such as higher retirement activity and/or lower mortality rates could be modeled to provide a range of potential adverse outcomes.
  - Increased security comes at increased cost, and no specific margin guarantees protection against all circumstances.
- How would the impacts of specific management decisions be handled?
  - For instance, assume that the fiscal year paygo amount appears to be sufficient as of mid-year.
  - Then a reduction in workforce is announced, with an effective date of March 31.
  - In the final three months of the fiscal year, disbursements will be higher than expected as some members will take a refund of contributions upon termination, and other members who are retirement eligible will commence their annuity earlier than they had been expected to do so.

There are certainly many more operational details to be considered. We provide this limited commentary in order to point out that paygo operation is a complex issue that requires careful thought and planning, constant monitoring, and the ability to respond to emerging events quickly.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION IX – RISK DISCLOSURE

### **Benefit Payment Risk**

Definition: This is the potential that members will not receive the full benefit payments promised under current law.

Identification: The system is operated on a pay-as-you-go basis with benefits funded by the Commonwealth, public corporations, and municipalities. The Commonwealth's finances are under the control of the FOMB, a body created by PROMESA.

Assessment: Uncertain. Future revenue sources will be needed in order to finance the benefit payments. Reductions in benefits have been proposed in prior fiscal plans.

### **Inflation Risk**

Definition: This is the potential of a pension to lose purchasing power over time due to inflation.

Identification: The participants of pension plans without fully inflation-indexed benefits are subject to the risk that their purchasing power will be reduced over time due to inflation.

Assessment: Members in this Plan bear all of the inflation risk occurring after retirement.

### **Maturity Risk**

Definition: This is the potential for total plan liabilities to become more heavily weighted toward inactive liabilities over time.

Identification: As a plan matures, benefits accumulate, and the plan membership ages, the plan's liabilities become large relative to its source of contributions. A decline in the sponsor's finances can exacerbate economic shocks to an older, bigger plan. The more mature a plan, the shorter the plan's time horizon, which leads to less time to recover from liability losses.

Assessment: The following table displays certain maturity risk metrics. Over the past 10 years, the percent of the liability attributable to members in pay status has increased as shown in the table below, due primarily to the ratio of active to members in pay status decreasing. The decrease in the ratio of actives to members in pay status in 2022 is due

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION IX – RISK DISCLOSURE

to the 2022 Plan of Adjustment, which resulted in roughly 49,000 System 2000, Act 3, and Act 106 members no longer being eligible for future PRGERS benefits. Further, since the plan is closed to new entrants, it is expected that the maturity level will continue to increase over time.

<u>Valuation Year</u>	<u>Percent of Liability Attributable to Members in Pay Status</u>	<u>Ratio of Actives to Members in Pay Status</u>
2023	77.0%	0.28
2022	76.2%	0.31
2021	72.0%	0.73
2020	71.1%	0.78
2019	71.5%	0.83
2018	71.8%	0.94
2017	64.6%	0.97
2016	64.1%	0.96
2015	67.2%	0.95
2014	66.8%	1.01

### **Retirement Risk**

Definition: This is the potential for participants to retire and receive subsidized benefits more valuable than expected.

Identification: This plan provides for valuable early retirement benefits.

Assessment: If participants retire at earlier ages than anticipated by the actuarial assumptions, it is expected that additional financing will be required.

### **Interest Rate Risk**

Definition: The potential that interest rates will be different than expected.

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# PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

## SECTION IX – RISK DISCLOSURE

Identification: The pension liabilities reported herein have been calculated by computing the present value of expected future benefit payments using the interest rate(s) described in Section VII. If interest rates in future valuations differ from this valuation, future pension liabilities may differ significantly from those presented in this valuation. As a general rule, using a higher interest rate to compute the present value of future benefit payments will result in a lower pension liability, and vice versa.

Assessment: Section III Exhibit D “Sensitivity Analysis” presents the results of re-measuring the Total Pension Liability at discount rates 100 basis points lower and higher than that used in the development of the Total Pension Liability

### **Demographic Risks**

Definition: The potential that mortality or other demographic experience will be different than expected.

Identification: The pension liabilities reported herein have been calculated by assuming that participants will follow patterns of demographic experience (e.g., mortality, withdrawal, disability, retirement, form of payment election, etc.) as described in Section VII. If actual demographic experience or future demographic assumptions are different from what is assumed to occur in this valuation, future pension liabilities may differ significantly from those presented in this valuation.

Assessment: Demographic gain/loss is measured each year as part of the annual valuation process and reported in the GASB 73 reconciliation. Demographic assumptions are updated as needed each year to reflect significant known deviations occurring in the fiscal year in order to minimize short term gains/losses. Demographic assumptions are also updated when periodic experience studies are conducted, with a goal of minimizing gains/losses over the long term.

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