

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

**Actuarial Valuation Report  
as of  
June 30, 2001**

February 4, 2003

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# BUCK CONSULTANTS

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February 4, 2003

Board of Trustees  
*Employees' Retirement System of the Government  
of Puerto Rico and its Instrumentalities*

Ave. Ponce de León #437  
Hato Rey, Puerto Rico 00910

## **June 30, 2001 Actuarial Valuation**

Dear Board Members:

Actuarial valuations of the Employees' Retirement System of the Government of Puerto Rico (also the "Retirement System" or the "System") are prepared periodically at the request of the Retirement System's Administrator:

- To determine the employer contribution required to fund the Retirement System on a sound actuarial basis,
- To provide a summary of the funded status of the System, and
- To present the financial statement disclosure information according to GASB 25 and 27.

The actuarial valuation of the Employees' Retirement System of the Government of Puerto Rico, prepared as of June 30, 2001, has been completed. This report presents the results of the actuarial valuation and the contributions payable by the employer to the Retirement System.

### **Discussion of Valuation Results**

The actuarial valuation as of June 30, 2001 indicates that a total employer contribution rate of 26.19% of payroll is required to meet the employer normal cost and to amortize the unfunded actuarial liability over 25 years from July 1, 2001 as a level percentage of payroll. Based on a total payroll (Law 447 and System 2000) of \$2,549,446,343 as of June 30, 2001, the estimated required actuarial contribution payable by the Government of Puerto Rico would be \$667,700,000.

Actual contributions to the Retirement System are set by legislation of the Government of Puerto Rico. The current employer contribution rate is 9.275% of pay. Therefore, we estimate an additional contribution of 16.915% of pay (approximately \$431 million per year) is recommended for the sound financing of the System. This contribution deficit will continue to deteriorate the financial status of the System. We recommend consideration of a gradual increase in employer contributions to help improve the long-term funding of the Retirement System.

**Funded Status of Retirement System**

Below we present a comparison of the funding ratio of the System as of June 30, 2001 and 2000. The information as of June 30, 2000 is based on the actuarial report prepared by the System's prior actuary. The market value of assets as of June 30, 2001 includes \$701 million as the estimated value of Government holdings in Puerto Rico Telephone Company (PRTC) stock to be contributed to the System.

	(\$ Millions)	
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Actuarial Accrued Liability	\$9,882	\$9,459
Market Value of Assets	<u>\$2,429</u>	<u>\$2,042</u>
Unfunded Actuarial Accrued Liability	\$7,453	\$7,417
<b>Funding Ratio</b>	<b>25%</b>	<b>22%</b>

The funding ratio has increased slightly despite a lower than expected return on the assets of the fund for the year ending June 30, 2001. The asset return was approximately (9.84%) compared to an assumed return of 8.5%. The lower than anticipated return resulted in an asset loss of approximately \$431\* million. The increase in the funding ratio is due primarily to the recognition of the \$701 estimated value of PRTC special stock contribution.

**Accounting Disclosures (GASB 25/27)**

The accounting information required under GASB Statements Nos. 25 and 27 for the fiscal year ending June 30, 2002 is presented in the attached Table I. To the best of our understanding and knowledge, the development of the GASB information follows the methodology used by the prior actuary. Information in the schedules before 2001 is derived from the June 30, 2001 financial statements of the Retirement System. We note the reported contributions paid in the 2001 financial statements appear to include employee contributions. It is our understanding that only employer contributions should be included. As discussed, the Annual Required Contribution (ARC) for the year ending June 30, 2001 (based on the June 30, 2000 actuarial valuation) is not available.

The employer normal cost portion of the ARC includes an offset of \$7,760,452 for anticipated Government contributions with respect to members of System 2000. These contributions are intended to fund non-System 2000 benefits. The System 2000 benefits are funded entirely by member contributions.

\* The fact that this number is equal to the additional employer contribution required in the previous page is purely coincidental.

In order to finalize the Schedule of Employer Contributions, the contributions paid for the year ending June 30, 2002 are needed.

**Valuation Data**

We have prepared the valuation using the System's members data and the financial data provided by the Retirement System. The data for active members covered by the Law 447 plan was reported as of February 28, 2001, while all other data was updated as of June 30, 2001.

The data (Law 447 and System 2000) included active members with missing dates of birth, dates of hire, gender codes and salary information. In addition, some retired members had missing or incorrect dates of birth, gender codes and pension amounts. We have approximated data for all of these members based on average data for members reported with complete information.

Firefighters and police officers were not separately identified on the System 2000 data. We have assumed all System 2000 members are general employees. This assumption should not have a material impact on the results of the study.

Terminated vested members were not reported in the data. However, the Retirement System has reported data for vested pensions payable in fiscal years ending in 2001 and 2002. According to the data reported, for those two years there were approximately 200 new vested pensions payable per year with average monthly pensions of \$225. On this basis we have projected future benefits for terminated vested members and calculated an estimated liability of \$291,321,000 as of June 30, 2001.

Below we provide a summary of the member data used in the actuarial valuation. The information for the June 30, 2000 valuation is based on the prior actuary's report. Disabled retiree information for the June 30, 2000 valuation is not available. Service retiree information for that valuation includes disabled retirees.

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 February 4, 2003

(\$ Thousands)

	<u>June 30, 2001</u> Valuation	<u>June 30, 2000</u> Valuation
<u>Law 447 System</u>		
Actives number	150,551	151,060
Actives annual payroll	\$2,428,862	\$2,463,408
Service retirees number	64,625	70,928
Service retirees annual benefits	\$532,604	\$545,567
Disabled retirees number	11,874	N/A
Disabled retirees annual benefits	\$51,976	N/A
Beneficiaries number	7,643	8,176
Beneficiaries annual benefits	\$23,352	\$27,597
Total inactives number	84,142	79,104
Total inactives annual benefits	\$607,932	\$573,164
<u>System 2000</u>		
Actives number	7,759	1,898
Actives annual payroll	\$120,585	\$18,800
<u>Total Retirement System</u>		
Actives number	158,310	152,958
Actives annual payroll	\$2,549,447	\$2,482,208

**Actuarial Assumptions and Methods, and System Provisions**

The valuation is based on certain actuarial assumptions and methods, including an annual interest rate of 8.5% and salary and total payroll increases of 5% per year. To the best of our knowledge, the valuation is based on the same assumptions and methods utilized in the previous valuation by the prior actuary, except for the following:

- Members purchasing service credits at retirement. The Retirement System reported that approximately 285 members per year purchased additional service at retirement in the fiscal years 2000/2001 and 2001/2002. This number represents approximately 4% of new retirees per year. As discussed at our August 30, 2002 meeting we have assumed that on average, members purchasing service receive 1-1/2 years of service credits. On this basis we have estimated an increase of 5% in the actuarial accrued liability for active members.
- Puerto Rico Government reimbursement for early retirement programs. We understand the Retirement System receives reimbursement from the Government of Puerto Rico for pensions payable to members retiring under special programs in 2001 and 2002. The reimbursement to the System is for the pensions payable to the members until the date they

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would have been eligible to retire without the special program. In addition, the System receives the member and employer contributions for that period that would have been paid if the members had not retired. The System provided us with pension and contribution amounts for 4,777 retired members receiving special early retirement benefits. We estimated an amount of \$128,347,000 as of June 30, 2001 for the Government reimbursement to the System for these retirees. This amount represents a reduction in the actuarial accrued liability of the System.

- Valuation of service incurred disability and death benefits. The prior actuary's valuation report did not state the percentage assumed of service related disability retirements and pre-retirement death benefits. Based on discussions with the System's internal actuary, in the 2001 valuation we have assumed 90% of disability retirements and 50% of death benefits are service related. We suggest the System begin accumulating data to have a more reasonable basis for setting these assumptions.

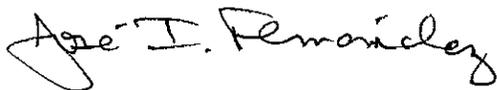
Based on our discussions, we understand that the most recent review of the actual experience of the System was performed nearly ten years ago. We suggest the Board consider undertaking an experience study to evaluate the current assumptions and make modifications, if necessary. A summary of the assumptions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

To our knowledge, there have been no changes in the benefits provided by the Retirement System since the prior valuation. The **Plan Provisions** sections of the report (Tables III, IV and V) summarize the Retirement System benefits.

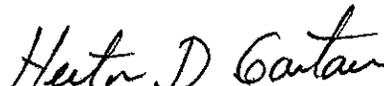
Certification

This actuarial valuation and/or cost determination was prepared and completed by us or under our direct supervision and we acknowledge responsibility for the results. To the best of our knowledge, the results are complete and accurate and, in our opinion, the techniques and assumptions used are reasonable. There is no benefit or expense to be provided by the Retirement System and/or paid from the System's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends that may require a material increase in System costs or required contribution rates have been taken into account in the valuation.

Respectfully submitted,



José I. Fernández  
Principal, Consulting Actuary



Héctor D. Gaitán  
Office Manager & Consulting Actuary

(Dollar amounts in Thousands)

	For the Fiscal Year Ended 06/30/2002
<b>1. Number of Plan Members as of 6/30:</b>	2001
a. Retirees and beneficiaries receiving benefits	84,142
b. Terminated plan members entitled to but not yet receiving benefits	N/A
c. Active plan members	<u>158,310</u>
d. Total	<u>242,452</u>

<b>2. Development of Annual Required Contribution (ARC):</b>	
a. Valuation date	06/30/2001
b. Employer normal cost:	
i. Total normal cost (end of year) <sup>(1)</sup>	\$ 452,451
ii. Expected employee contributions	<u>(228,899)</u>
iii. Employer normal cost <sup>(1)</sup>	\$ 223,552
c. Amortization of UAAL:	
i. Actuarial accrued liability (AAL)	\$ 9,881,481
ii. Actuarial value of assets	<u>(2,428,664)</u>
iii. Unfunded AAL (UAAL)	\$ 7,452,817
iv. Amortization of UAAL	444,114
d. Amortization of NPO (beginning of year) <sup>(2)</sup> :	<u>134,870</u>
e. <b>ARC</b> (Item 2.b.iii. + Item 2.c.iv. + Item 2.d.)	<u><u>\$ 802,536</u></u>

<b>3. Annual Pension Cost and Net Pension Obligation (NPO):</b>	
a. ARC	\$ 802,536
b. Interest on NPO	192,416
c. Adjustment to ARC	<u>(134,870)</u>
d. <b>Annual Pension Cost</b>	\$ 860,082
e. Contributions made	<u>N/A</u>
f. Increase (decrease) in NPO	N/A
g. NPO (beginning of year) <sup>(2)</sup>	<u>2,263,722</u>
h. <b>NPO (end of year)</b>	<u><u>N/A</u></u>

*(2002 Fin. Statement)*  
 293,601 → Apertecia's Payment  
 14,627 → Leyes Especiales  
 308,228 → No Incluye el Instrumento  
 por que

860,082  
 - 308,228

<sup>(1)</sup> Includes offset of \$7,760,452 expected employer contributions with respect to members of System 2000.

<sup>(2)</sup> Net Pension Obligation (NPO) as of June 30, 2000 from prior actuary's valuation report as of that date. NPO as of June 30, 2001 is not available.

2,263,722  
 + 551,854  
\$ 2,815,576

551,854

(Dollar amounts in Thousands)

**4. Schedule of Employer Contributions**

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	(Excess)/ Deficiency
2002	\$ 802,536	N/A	N/A	N/A
2000	890,800	527,400	59%	(363,400)
1999	845,000	491,800	58%	(353,200)

**5. Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Unit Credit (AAL) (b)	Unfunded AAL (not < 0) (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b) - (a)]/(c)
6/30/01	\$ 2,428,664	\$ 9,881,481	\$ 7,452,817	25%	\$ 2,549,446	292%
6/30/00	2,041,800	9,459,300	7,417,500	22%	2,463,400	301%
6/30/99	1,858,000	8,308,000	6,450,000	22%	2,575,000	250%

**6. Additional Information**

Valuation date: June 30, 2001  
 Actuarial cost method: Projected unit credit  
 Amortization method: Level percent of pay  
 Remaining amortization period: 25 years  
 Asset valuation method: Market value  
 Actuarial assumptions:  
     Investment rate of return\* 8.50%  
     Projected salary increases\* 5.00%  
     Cost-of-living adjustments 3% every three years  
  
     \*Includes inflation at 3.50%

Annual Required Contribution for the year ended June 30, 2001 is not available.  
 Information prior to June 30, 2001 is from June 30, 2001 Audited Financial Statements.

**1. Actuarial Cost Method**

Projected Unit Credit.

**2. Interest Rate**

8.50% per annum.

**3. Salary Increases**

5.00% per annum.

**4. Decrements**

- **Pre-Retirement Mortality**

1983 Group Annuity Mortality Table set forward two (2) years.

- **Post-Retirement Mortality**

1983 Group Annuity Mortality Table set forward two (2) years.

- **Post-Retirement Disability Mortality**

Same as regular Post-Retirement Mortality.

- **Permanent Withdrawal from Active Status**

Representative values of the assumed annual rates of withdrawal (per 1,000 members) in active service are set forth in the following table:

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

**(continued)**

- **Retirement**

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

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

- **Disability**

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

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

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

(continued)

5. **Cost of Living Adjustment**  
3% every third year.
6. **Proportion of Participants with Spouses**  
80% of participants assumed to be married, with wives assumed to be four (4) years younger than their husbands.
7. **Service related Pre-Retirement Deaths**  
50% of pre-retirement deaths are assumed to be service related.
8. **Deferred Terminated Vested Liability**  
No data is available on terminated members due deferred vested benefits. We have estimated the liability for this group based on recent experience reported by the System.
9. **Load for Purchase of Service at Retirement**  
The active members' actuarial accrued liabilities have been increased 5% to reflect recent experience on members purchasing service credits at retirement.

**Plan Provisions as of July 1, 1999 (Old Plan)****Notes:**

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

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

**Effective Date:**

January 1, 1952. Most recent amendment adopted and effective July 1, 1989.

**Eligibility:**

All regular full-time employees of the Government of Puerto Rico who are not contributing to other Retirement Systems. Employees include those in the following categories:

- Police of Puerto Rico
- Firefighters of Puerto Rico
- Justices of the Peace of Puerto Rico
- Members and employees of the Legislature
- Officers and employees of the Government of Puerto Rico, public enterprises and municipalities
- Members of the Employees Association of the Commonwealth of Puerto Rico
- Irregular employees fulfilling the requirements of a regular employee

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

(continued)

**Definitions:**

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

---

Credited Service Eligibility

Service During a Fiscal Year	Credited Service
9 months or more	1 year
6-9 months	$\frac{3}{4}$ year
3-6 months	$\frac{1}{2}$ year
Less than 3 months	None

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

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

(continued)

Normal Retirement Pension:

- (a) Participants Eligible. All participants attaining:
- (i) **Benefit (1) – Merit Pension.** Age 55 and 30 years of Credited Service.
  - (ii) **Benefit (2) – Merit Pension.** 30 years of Credited Service.
  - (iii) **Benefit (3).** Age 58 and 10 years of Credited Service.
  - (iv) **Benefit (4).** Age 50 with 8 years of service as a Mayor.
  - (v) **Benefit (5).** Age 50 and 25 years of Credited Service as a member of the Police or Firefighters.
- (b) **Pension Benefit.** Corresponding to eligibility above:
- (i) **Benefit (1).** 75% of Final Average Compensation.
  - (ii) **Benefit (2).** 65% of Final Average Compensation.

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

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

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

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

Maximum: 75% of Final Average Compensation.

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

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

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

(continued)

- (iv) **Benefit (4).** 5% of Maximum Salary times Credited Service as a Mayor up to 10 years, plus 1-1/2% of Maximum Salary times non-mayoral Credited Service up to 20 years, plus 2% of Maximum Salary times non-mayoral Credited Service in excess of 20 years.

Maximum: 90% of Maximum Salary.

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

Maximum: 75% of Final Average Compensation.

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

**Early Retirement Pension:**

(a) **Participants Eligible.**

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

(b) **Pension Benefit.** Corresponding to eligibility above:

- (i) **Benefit (1).** No provision.  
(ii) **Benefit (2).** No provision.  
(iii) **Benefit (3).** Accrued Normal Retirement benefit to early retirement, actuarially reduced for each year payment commences before attainment of age 58. Except for Police, Firefighters, Mayors and those selecting contribution Option (ii), benefit (3) recalculated at age 65 as described above under (b)(iii) of the Normal Retirement Pension section.  
(iv) **Benefit (4).** No provision.  
(v) **Benefit (5).** No provision.

(continued)

**Postponed Retirement Pension:**

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

**Vested Pension:**

- (a) **Participants Eligible:** All participants attaining:
  - (i) **Benefit (1).** No provision.
  - (ii) **Benefit (2).** No provision.
  - (iii) **Benefit (3).**
    - (A) 10 years of Credited Service
    - (B) 25 years of Credited Service
  - (iv) **Benefit (4).** 8 years of service as a Mayor.
  - (v) **Benefit (5).** No provision
- (b) **Vested Pension Benefit.** Corresponding to eligibility above:
  - (i) **Benefit (1).** No provision.
  - (ii) **Benefit (2).** No provision.
  - (iii) **Benefit (3).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of:
    - (A) Age 58. If annual benefit according to formula is less than \$1,500, the lesser of \$180 multiplied by the ratio of Credited Service to 25 years of Credited Service, or an amount needed to increase the annual benefit to \$1,500 shall be added to the benefit.
    - (B) Age 55 (age 50 for Police and Firefighters).
  - (iv) **Benefit (4).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.
  - (v) **Benefit (5).** No provision.

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

(continued)

**Disability Pension:**(a) **Occupational Disability.**(i) **Participants Eligible.**

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

(B) **Benefit (2).** (Law No. 127 of June 27, 1958) Members of the Police or Firefighters, Internal Revenue, Justice Department, or Penal and Correctional agencies certified as disabled in the line of duty and unable to perform the duties of any other position in Government service by the Plan Administrator

(ii) **Disability Benefit.**

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

(B) **Benefit (2).** 100% of final Salary at date of separation of service.

(b) **Nonoccupational Disability.**

(i) **Participants Eligible.** Any participant certified as permanently and totally disabled by two physicians appointed by Plan Administrator; attained 10 years of Credited Service and has not yet attained age 65.

(ii) **Disability Benefit.** 30% of Final Average Earnings at date of separation from service, plus 1% of Final Average Earnings times Credited Service in excess of 10 years.

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

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

(continued)

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

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

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

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

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

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

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

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

(B) **Benefit (2).**

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

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

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

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

(b) **Nonoccupational.**(i) **Beneficiaries Eligible.**

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

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

(continued)

(ii) **Benefits Payable.**

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

**Post-Retirement Death Benefits:**

- (a) **Beneficiaries Eligible.** Beneficiaries of any participant who is:
  - (i) **Benefit (1).** Single with no minor children, or receiving a life annuity as a normal form of payment.
  - (ii) **Benefit (2).** Married or with minor children, and receiving a joint and survivor annuity as normal form of payment. Except for Police and Firefighters, surviving spouse must have attained 60 in order to receive benefit.
  - (iii) **Benefit (3).** Receiving an occupational annuity under Law No. 127 of June 27, 1958, as described above under section (a) of the Disability Pension section above, and who dies as a result of the disability.
- (b) **Benefit.** Corresponding to eligibility above.
  - (i) **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to date of death, payable to designated beneficiary. Minimum benefit - \$500.
  - (ii) **Benefit (2).** 60% of retiree's pension at date of death (30% if covered under Title II of the Social Security Act).
  - (iii) **Benefit (3).** Benefit of 100% of final Salary at date of disability, payable to designated beneficiaries as an annuity.

**Employee Contributions:**

Employee Contributions made be made at one of two levels:

- (a) **Option (i) – Coordination Plan.** 5.775% of Compensation up to \$6,600 plus 8.275% of Compensation in excess of \$6,600.
- (b) **Option (ii) – Supplementation Plan.** 8.275% of all Compensation. This is the only choice available to Police, Firefighters and Mayors.

**(continued)****Employer Contributions:**

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

**Forms of Payment:**

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

Minimum for survivors of Police and retirees under Law No. 127 of June 27, 1958:  
\$180 per month.

- (b) Optional Forms. Reversionary annuity.

**Indexation:**

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

**Christmas Gift**

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

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

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

Effective Date:

April 1, 1990.

Eligibility:

All regular full-time employees of the Government of Puerto Rico who are not contributing to other Retirement Systems. Employees include those in the following categories:

- Police of Puerto Rico
- Firefighters of Puerto Rico
- Justices of the Peace of Puerto Rico
- Members and employees of the Legislature
- Officers and employees of the Government of Puerto Rico, public enterprises and municipalities
- Members of the Employees Association of the Commonwealth of Puerto Rico
- Irregular employees fulfilling the requirements of a regular employee

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

Definitions:

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

(continued)

- (d) **Regular Interest:** the annually compounded interest rate prescribed by the Board of Trustees.
- (e) **Accumulated Contributions:** the sum of all participant contributions, credited and compounded with Regular Interest.
- (f) **Actuarial Equivalent:** the amount of pension payable at a commencement date other than normal retirement or payable to a survivor which may be funded by the total contributions accrued toward a pension payable at normal retirement of the participant. The equivalence is calculated based on annuity and mortality tables adopted by the Board of Trustees and based on actual experience of the System with the recommendations of the actuary.
- (g) **Credited Service:** the years of plan participation during which contributions have been made based on full calendar months of service, beginning on the date of hire and ending on the date of separation from service.

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

**Normal Retirement Pension:**

- (a) **Participants Eligible.** All participants attaining:
  - (i) **Benefit (1).** Age 65 and 10 years of service.
  - (ii) **Benefit (2).** Age 50 with 8 years of service as a Mayor.
  - (iii) **Benefit (3).** *Hazardous Service Pension:* Age 55 and 30 years of Credited Service as a member of the Police or Firefighters.
  - (iv) **Benefit (4).** *Hazardous Service Pension:* 30 years of Credited Service as a member of the Police or Firefighters.
  - (v) **Benefit (5).** Age 50 and 25 years of Credited Service as a member of the Police or Firefighters.
- (b) **Pension Benefit.** Corresponding to eligibility above:
  - (i) **Benefit (1).** 1-1/2% of Final Average Compensation times Credited Service.
  - (ii) **Benefit (2).** 5% of Maximum Salary times Credited Service as a Mayor up to 10 years, plus 1-1/2% of Maximum Salary times non-mayoral Credited Service up to 20 years, plus 2% of Maximum Salary times non-mayoral Credited Service in excess of 20 years.

Maximum: 90% of Maximum Salary.

**(continued)**

- (iii) **Benefit (3).** 75% of Final Average Compensation.
- (iv) **Benefit (4).** 65% of Final Average Compensation.
- (v) **Benefit (5).** 1-1/2% of Final Average Compensation times Credited Service to 20 years, plus 2% of Final Average Compensation times Credited Service in excess of 20 years.

Maximum: 75% if Final Average Compensation.

**Early Retirement Pension:**

- (a) **Participants Eligible.**
  - (i) **Benefit (1).** All participants attaining age 55 and 25 years of Credited Service.
  - (ii) **Benefit (2).** No provision.
  - (iii) **Benefit (3).** No provision.
  - (iv) **Benefit (4).** No provision.
  - (v) **Benefit (5).** No provision
  
- (b) **Pension Benefit.** Corresponding to eligibility above:
  - (i) **Benefit (1).** Accrued Normal Retirement benefit to early retirement, actuarially reduced for each year payment commences before attainment of age 65.
  - (ii) **Benefit (2).** No provision.
  - (iii) **Benefit (3).** No provision.
  - (iv) **Benefit (4).** No provision.
  - (v) **Benefit (5).** No provision.

**Postponed Retirement Pension:**

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

**(continued)****Vested Pension:**

- (a) **Participants Eligible:** All participants attaining:
  - (i) **Benefit (1).** 10 years of Credited Service.
  - (ii) **Benefit (2).** 8 years of service as a Mayor.
  - (iii) **Benefit (3).** No provision.
  - (iv) **Benefit (4).** No provision.
  - (v) **Benefit (5).** 25 years of Credited Service as a member of the Police or Firefighters.
  
- (b) **Vested Pension Benefit.** Corresponding to eligibility above:
  - (i) **Benefit (1).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 65.
  - (ii) **Benefit (2).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.
  - (iii) **Benefit (3).** No provision.
  - (iv) **Benefit (4).** No provision.
  - (v) **Benefit (5).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of age 50.

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

**Disability Pension:**

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

(continued)

(ii) **Disability Benefit.**

- (A) **Benefit (1).** 40% of final Salary at date of separation from service, reduced by Social Security benefits.
- (B) **Benefit (2).** 80% of final Salary at date of separation of service.

(b) **Nonoccupational Disability.**

- (i) **Participants Eligible.** Any participant certified as permanently and totally disabled by physicians appointed by Plan Administrator; attained 10 years of Credited Service.
- (ii) **Disability Benefit.** 25% of Final Average Earnings at date of separation from service, plus 1% of Final Average Earnings times Credited Service in excess of 10 years.

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

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

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

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

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

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

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

(continued)

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

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

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

(B) **Benefit (2).**

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

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

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

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

(b) **Nonoccupational.**

(i) **Beneficiaries Eligible.**

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

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

(iii) **Benefits Payable.**

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

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

**Post-Retirement Death Benefits:**

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

(i) **Benefit (1).** Single with no minor children, or receiving a life annuity as a normal form of payment.

(ii) **Benefit (2).** Married or with minor children, and receiving a joint and survivor annuity as normal form of payment. Except for Police and Firefighters, surviving spouse must have attained 60 in order to receive benefit.

(continued)

- (iii) **Benefit (3).** Receiving an occupational annuity under Law No. 127 of June 27, 1958, as described above under section (a) of the Disability Pension section above.
  
- (b) **Benefit.** Corresponding to eligibility above.
  - (i) **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to death, payable to designated beneficiary. Minimum benefit - \$500.
  - (ii) **Benefit (2).** 60% of retiree's pension at date of death (30% if covered under Title II of the Social Security Act).
  - (iii) **Benefit (3).** Benefit of 80% of final Salary at date of disability, payable to designated beneficiaries as an annuity.

**Minimum Pension:**

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

**Employee Contributions:**

Employee Contributions are 8.275% of all Compensation.

**Employer Contributions:**

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

**Forms of Payment:**

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

Minimum for survivors of Police and retirees under Law No. 127 of June 27, 1958:  
\$180 per month.

- (b) **Optional Forms.** Reversionary annuity.

**Indexation:**

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

**(continued)**

**Christmas Gift**

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

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

**Effective Date:**

January 1, 2000.

**Eligibility:**

The following persons will participate in the plan:

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

The option to transfer in (c) and (d) above is irrevocable.

**Definitions:**

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

**Retirement Savings Account:**

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

**Credits to Retirement Savings Account:**

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

(continued)

**Investment Alternatives:**

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

**Normal Retirement Age:**

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

**Vested Rights:**

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

**Employee Contributions to the Retirement Savings Account:**

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

**Employer Contributions to the System:**

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

**(continued)**

**Forms of Payment:**

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

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

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

**Death Benefit:**

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

**Disability Benefit:**

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