

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

Actuarial Valuation Report
as of
June 30, 2003

(REVISED)

December 22, 2004

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Mellon

Human Resources & Investor Solutions

December 22, 2004

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, 2003 Actuarial Valuation (Revised)

Dear Board Members:

This revised actuarial report as of June 30, 2003 supersedes our original report dated October 12, 2004 to reflect changes in the census data, actuarial methodologies, and System provisions, as requested by the Retirement System Administration. See section titled "Valuation Data and Changes to Actuarial Methods and System Provisions" of this revised report for further information.

Actuarial valuations of the Employees' Retirement System of the Government of Puerto Rico (also the "Retirement System" or the "System") are prepared periodically by Mellon Human Resources & Investor Solutions (also "Mellon" or "Mellon HR&IS") at the request of the Retirement System's Administrator in order to:

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

This revised report presents the results of the actuarial valuation as of *June 30, 2003* which provides the contributions payable by the employer to the Retirement System for the fiscal year ending June 30, 2004. The last valuation performed by Mellon HR&IS was as of *June 30, 2001*.

Discussion of Valuation Results

This revised actuarial valuation as of June 30, 2003 indicates that a total employer contribution **\$578,387,000** (a rate of 17.3% of payroll) is required to meet the employer normal cost and to amortize the Unfunded Actuarial Accrued Liability over 23 years from July 1, 2003 as a level percentage of payroll. Subject to the corrections to census data indicated in the "Valuation Data and Changes to Actuarial Methods and System Provisions" section of this report, the System's payroll, as of the valuation date, was estimated at \$3,334,441,000 and it does include System 2000 salaries.

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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 8.03% of payroll on an annual basis (approximately \$268 million for this fiscal year) is recommended for the sound financing of the System. This contribution deficit will continue to deteriorate the financial status of the System.

Since our last valuation in June of 2001, System's assets have decreased from \$2.4 to \$1.9 billion while its liabilities have increased from \$9.9 to \$11.2 billion dollars, which sends a clear message about the critical financial status of the Retirement System. We call on the Government of Puerto Rico to increase meaningfully and without delay the funded status of the System to avoid a catastrophic situation in the near future.

Funded Status of Retirement System

Below we present a comparison of the funding ratio of the System as of June 30, 2003 and 2001.

	(\$ Millions)	
	<u>June 30, 2003</u>	<u>June 30, 2001</u>
Actuarial Accrued Liability		
Active	\$5,159	\$3,658
Inactive	<u>6,032</u>	<u>6,224</u>
Total	\$11,191	\$9,882
Market Value of Assets	<u>\$1,947</u>	<u>\$2,429</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$9,244	\$7,453
Funding Ratio	17%	25%

The annual asset returns (net of investment expenses) for the fiscal years ending June 30, 2002, and 2003 were approximately (12.98%) and 2.95% respectively. Since June 30, 2000 assets have decreased and average of 6.89% per annum. This contrasts with an annual assumed investment return on assets of 8.50%. The aggregate asset losses generated by the difference between the expected 8.50% rate and actual returns for the three-year period ending on June 30, 2003 added up to approximately 1.046 billion.

Despite the fact that this valuation reflects fewer System benefits than those reflected in previous ones, the funding ratio (Market Value of Assets over Actuarial Accrued Liability) decreased from 25% as of June 30, 2001 to 17% at June 30, 2003. This decrease in funding ratio was due to several factors including, as indicated above, a lower than expected asset return, an increase in the average salary from \$16,104 in 2001 (when we last performed the actuarial valuation of the System) to \$20,590 in this valuation (an actual salary increase of approximately 13% annually versus the 5.00% expected), and employer contributions lower than those actuarially recommended.

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

The development of the Annual Required Contribution (ARC) is presented in Table I. The Annual Required Contribution of \$578,387,000 was developed by adding the Normal Cost (which represents the present value of the pension benefit earned for the valuation year) plus an amortization over 23 years of the Unfunded Actuarial Accrued Liability (the present value of the pension benefit earned which is attributed to past service).

The employer Normal Cost portion of the ARC includes an offset of \$44,223,000 for anticipated Government contributions with respect to members of System 2000. These contributions are intended to fund non-System 2000 benefits. The System 2000 benefits are funded entirely by member contributions.

The Normal Cost is further reduced by \$290,155,000, which represents the expected employee contributions of non-System 2000 participants. In summary, the expected employee contributions of all System participants pay for the entire Normal Cost and leave a small remainder that is used to offset the amortization payment on the Unfunded Actuarial Accrued Liability.

It is important to emphasize that since the bulk of the System's actuarial liabilities rest with the inactive participants, the fact that currently expected employee contributions do exceed the Normal Cost should NOT be taken as sign that the System's strained actuarial status is expected to correct itself any time soon without significant additional employer contributions.

The accounting information required under GASB Statements Nos. 25 and 27 for the fiscal year ending June 30, 2004 is presented in the attached Table I. Information in the schedules before 2001 is derived from the June 30, 2001 financial statements of the Retirement System. The Annual Required Contribution (ARC) for the year ending June 30, 2001 (based on the June 30, 2000 actuarial valuation) is not available.

Valuation Data and Changes to Actuarial Methods and System Provisions

At the request of the Retirement System Administration, the valuation data employed to perform this actuarial valuation was revised from our original report dated October 12, 2004 to reflect corrections in the applicability of the Law 447 and Law 001 formulas to a large segment of the participant population as well as to exclude an array of benefits, which were previously included in the System's actuarial obligations. The financial data presented herein was obtained from audited statements dated September 26, 2003, copy of which was provided by the Retirement System.

Despite the fact that the census data has been revised, we have found the following issues with such data:

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- The data (Law 447 and System 2000) included many active members with missing or incorrect dates of birth, dates of hire and salary information. In addition, a significant number of retired members had missing or incorrect dates of birth and retirement. We have approximated data for all of these members based on average data for members reported with complete information.
- Several active members under Law 447 and Law 001 were not separately identified on the census file. However, the data identified members with a coordinated or supplemented benefit. For these participants, we have assumed that those coded with a coordinated or supplemented benefit were members of the old Law 447 plan formula. For the remaining participants we determined the applicable law based on the date of employment.
- Terminated vested members were not reported in the data. On the basis of vested pension data provided for the June 30, 2001 actuarial valuation we have estimated the projected value of future benefits for terminated vested members as 3.00% of the total Actuarial Accrued Liability.

We strongly recommend that the System make an attempt to collect accurate and complete census data in order to more accurately reflect the Retirement System liabilities.

In addition, at the request of the System's Administration, the following array of benefits, which in past valuations were included as obligations of the Retirement System, covered under what is known as "Special Laws Benefits," have been removed as System liabilities and, therefore, excluded from this valuation:

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

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

The Administration has also indicated that the omission of these Special Laws Benefits from this valuation have been discussed with the System's external auditors as well as the auditors of the Government of Puerto Rico and that both auditors have agreed to the propriety of this action. The System Administration also pointed out that the auditors understand and believe that despite the elimination from the System's liabilities of the array of benefits enumerated above, there shall be no GASB 25 and 27 compliance issues for either the Retirement System or the Government of Puerto Rico.

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Finally, the Retirement System Administration has requested that this valuation reflect ONLY AND EXCLUSIVELY the benefit provisions applicable to the Retirement System, not those of the Puerto Rican Government.

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. No information is available for the June 30, 2002 valuation.

(\$ Thousands)

	June 30, 2003 Valuation	June 30, 2001 Valuation	June 30, 2000 Valuation
<u>Law 447 System</u>			
Actives number	136,610	150,551	151,060
Actives annual payroll	\$2,895,430	\$2,428,862	\$2,463,408
Service retirees number	60,765	64,625	70,928
Service retirees annual benefits	\$532,017	\$532,604	\$545,567
Disabled retirees number	11,590	11,874	N/A
Disabled retirees annual benefits	\$49,097	\$51,976	N/A
Beneficiaries number	16,163	7,643	8,176
Beneficiaries annual benefits	\$106,156	\$23,352	\$27,597
Total inactives number	88,518	84,142	79,104
Total inactives annual benefits	\$687,275	\$607,932	\$573,164
<u>System 2000</u>			
Actives number	25,337	7,759	1,898
Actives annual payroll	\$439,011	\$120,585	\$18,800
<u>Total Retirement System</u>			
Actives number	161,947	158,310	152,958
Actives annual payroll	\$3,334,441	\$2,549,447	\$2,482,208

System Provisions and Actuarial Assumptions and Methods

The revised liabilities presented in this report were developed based on the System provisions presented in Tables III, IV and V that exclude certain benefit obligations valued as System's liabilities in the past but which at the request of the System's Administration have been left out for this revised valuation, as indicated above. To the best of our knowledge, there have been no other changes in the benefits provided by the Retirement System since the prior valuation.

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

Certification

Subject to the revision in benefit provisions requested by the Retirement System Administration and understood to be appropriate by the System as well as its outside auditors and those of the Puerto Rican Government, to the best of our knowledge, this report fairly and accurately presents the liabilities of the System as of June 30, 2003, based solely on the participant data and asset information provided by the Retirement System, and the plan provisions and actuarial assumptions and methods set forth herein.

Respectfully submitted,

Héctor D. Gaitán

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(Dollar amounts in Thousands)

For the Fiscal Year Ended
06/30/2004

1. Number of Plan Members:	
a. Retirees and beneficiaries receiving benefits	88,518
b. Terminated plan members entitled to but not yet receiving benefits	N/A
c. Active plan members	<u>161,947</u>
d. Total	<u>250,465</u>
2. Development of Annual Required Contribution (ARC):	
a. Valuation date	06/30/2003
b. Employer normal cost:	
i. Total normal cost (end of year) ⁽¹⁾	\$ 286,917
ii. Expected employee contributions	<u>(290,155)</u>
iii. Employer normal cost ⁽¹⁾	\$ (3,238)
c. Amortization of UAAL:	
i. Actuarial accrued liability (AAL)	\$ 11,191,357
ii. Actuarial value of assets	<u>(1,947,402)</u>
iii. Unfunded AAL (UAAL)	\$ 9,243,955
iv. Amortization of UAAL (23 yrs.)	<u>581,625</u>
d. ARC (Item 2.b.iii. + Item 2.c.iv.)	<u>\$ 578,387</u>
3. Annual Pension Cost and Net Pension Obligation (NPO):	
a. ARC	\$ 578,387
b. Interest on NPO	284,347
c. Adjustment to ARC	<u>(210,482)</u>
d. Annual Pension Cost	\$ 652,252
e. Contributions made	<u>N/A</u>
f. Increase (decrease) in NPO	N/A
g. NPO (beginning of year) ⁽²⁾	<u>3,345,254</u>
h. NPO (end of year)	<u>N/A</u>

⁽¹⁾ Includes offset of \$44,223,000 expected employer contributions with respect to members of System 2000.

⁽²⁾ Net Pension Obligation (NPO) as presented in the audited financial statements of the Commonwealth of Puerto Rico as of June 30, 2003. No actuarial valuation was performed as of June 30, 2002.

(Dollar amounts in Thousands)

4. Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Employer Contribution Made	Percentage Contributed	(Excess)/ Deficiency
2004	578,387	N/A	N/A	
2003	802,536	330,404	41%	(472,132)
2002	802,536	308,228	38%	(494,308)
2000	890,800	549,855	62%	(340,945)
1999	845,000	491,800	58%	(353,200)

5. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Unit Credit (AAL) (b)	Unfunded AAL (not < 0) (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b) - (a)]/(c)
6/30/03	\$ 1,947,402	\$11,191,357	9,243,955	17%	\$ 3,334,441	277%
6/30/02	1,979,677	N/A	N/A	N/A	N/A	N/A
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, 2003
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay
Remaining amortization period:	23 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	8.50%
Projected salary increases*	5.00%
Cost-of-living adjustments	None
*Includes inflation at	3.50%

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

Information prior to June 30, 2001 is from the System's June 30, 2001 Audited Financial Statements.

1. **Actuarial Cost Method**
Projected Unit Credit.
2. **Interest Rate**
8.50% per annum, net of expenses.
3. **Salary Increases**
5.00% per annum.
4. **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:

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

(continued)

- **Retirement**

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

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

(continued)

- **Disability**

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

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

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

5 Cost of Living Adjustment

None.

6. Proportion of Participants with Spouses

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

7. Service related Pre-Retirement Deaths

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

8. Deferred Terminated Vested Liability

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

9. Load for Purchase of Service at Retirement

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

10. Average Investment Return on Participant Accounts – System 2000

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

Plan Provisions as of 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 upon attainment of the Social Security Retirement Age (SSRA). Those selecting option (ii), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (i) to Option (ii) by making a contribution including interest to the System, retroactive to the earlier of July 1, 1968 or the date of plan entry, that will bring their career Accumulated Contributions to the Option (ii) level.

Effective Date:

January 1, 1952.

Eligibility:

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

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

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

(continued)

Definitions:

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

Credited Service Eligibility

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

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

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

(continued)

Normal Retirement Pension:

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

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

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

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

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

- (iii) **Benefit (3).** 1-1/2% of Final Average Compensation times Credited Service to 20 years, plus 2% of Final Average Compensation times Credited Service in excess of 20 years. 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 and Mayors and those selecting contribution Option (ii), benefit (3) recalculated at SSRA as follows:

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

(continued)

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.

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

(continued)

Postponed Retirement Pension:

- (a) **Participants Eligible.** Except for Police and Firefighters, participants may remain in service until any age. For Police and Firefighters, separation from service is compulsory upon attainment of age 55 and 30 years of Credited Service.
- (b) **Pension Benefit.** Benefits as described under the Normal Retirement Pension section above, based on Final Average Earnings (or final Salary) and Credited Service at postponed retirement date. Payment commences on postponed retirement date. If a member of the Police or Firefighters reaches mandatory retirement without earning 10 years of Credited Service, he shall receive a full refund of all Accumulated Contributions.

Vested Pension:

- (a) **Participants Eligible:** All participants attaining:
 - (i) **Benefit (1).** No provision.
 - (ii) **Benefit (2).** No provision.
 - (iii) **Benefit (3).**
 - (A) 10 years of Credited Service
 - (B) 25 years of Credited Service
 - (iv) **Benefit (4).** 8 years of service as a Mayor.
 - (v) **Benefit (5).** No provision
- (b) **Vested Pension Benefit.** Corresponding to eligibility above:
 - (i) **Benefit (1).** No provision.
 - (ii) **Benefit (2).** No provision.
 - (iii) **Benefit (3).** Accrued Normal Retirement benefit to termination date. Payments commence upon attainment of:
 - (A) Age 58. 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.

(continued)

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 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.** 1-1/2% of Final Average Compensation times Credited Service to 20 years plus 2% of Final Average Compensation times Credited Service in excess of 20 years.

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

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 - \$750.
 - (ii) **Benefit (2).** 30% of retiree's pension at date of death (50% 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.

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 non-police personnel 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:
\$200 per month.

- (b) Optional Forms. Reversionary annuity.

Indexation:

None.

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.

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- (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 upon attainment of age 55 and 30 years of Credited Service unless continued employment is approved.
- (b) **Pension Benefit.** Benefits as described under the Normal Retirement Pension section above, based on Final Average Earnings (or final Salary) and Credited Service at postponed retirement date. Payment commences on postponed retirement date. If a member of the Police or Firefighters reaches mandatory retirement without earning 10

(continued)

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).** 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.

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- (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.

(continued)

- (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.
- (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 - \$750.
 - (ii) **Benefit (2).** 30% of retiree's pension at date of death (50% 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 non-Police personnel 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.

(continued)

Indexation:

None.

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

Effective Date:

January 1, 2000.

Eligibility:

The following persons will participate in the plan:

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

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

Definitions:

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

Retirement Savings Account:

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

Credits to Retirement Savings Account:

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

(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.

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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.