

PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

June 30, 2007 Actuarial Valuation Report

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July 10, 2009

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

Dear Mr. Mayol:

This report presents the results of the actuarial valuation of the Puerto Rico Government Employees Retirement System (PRGERS) as of June 30, 2007. Section I contains highlights of the valuation including a general discussion and comments on the various schedules included in the report. The subsequent Sections contain schedules summarizing the underlying calculations, asset information, participant data, plan benefits and actuarial assumptions and methods.

Purpose

The main purposes of this report are:

- to provide the Annual Required Contribution and Annual Pension Cost for the Fiscal Year ending June 30, 2008 based on relevant Statements of the Government Accounting Standards Board (GASB);
- to review the experience under the plan since the previous valuation;
- to present information pertaining to the operation of the plan for inclusion in financial statements; and
- to assess the relative funded position of the plan.

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

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

Adjustment for events subsequent to June 30, 2007

No adjustment was made in the results of this valuation to reflect the significant adverse investment market experience since June 30, 2007 since this valuation is intended to reflect the status quo of PRGERS at that date based on what was then known and what were reasonable expectations at that time. Nor was any adjustment made to reflect proceeds from Pension Obligation Bonds issued subsequent to June 30, 2007.

Data Reliance

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

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

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Future Measurements

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

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

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

Certification

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

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

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July 10, 2009
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Qualifications

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

Respectfully submitted,

MILLIMAN, INC.



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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION I – SUMMARY

A. Summary of Principal Results of June 30, 2007 Actuarial Valuation (*\$ amounts in thousands*)

	<u>Basic System Pension Benefits only</u>	<u>System Administered Pension Benefits only</u>	<u>GASB 25 & 27 Accounting (Basic System and System Administered Pension Benefits)</u>	<u>GASB 45 Accounting (Other Postemployment Benefits)</u>
Actuarial Accrued Liability	\$14,596,875	\$2,172,637	\$16,769,512	\$1,556,809
Actuarial Value of Assets	<u>2,891,501</u>	<u>0</u>	<u>2,891,501</u>	<u>0</u>
Unfunded Actuarial Accrued Liability	11,705,374	2,172,637	13,878,011	1,556,809
 Normal Cost				
(A) Gross Normal Cost	347,973	17,995	365,968	22,368
(B) Expected Member Contributions	342,276	0	342,276	0
(C) Administrative Expenses	<u>34,250</u>	<u>0</u>	<u>34,250</u>	<u>0</u>
(D) Net Employer Normal Cost	39,947	17,995	57,942	22,368
(D) = (A) – (B) + (C)				
 Annual Required Contribution (ARC)				
(A) Normal Cost	39,947	17,995	57,942	22,368
(B) Amortization of Unfunded Liability	<u>955,907</u>	<u>177,426</u>	<u>1,133,333</u>	<u>88,282</u>
(C) ARC	995,854	195,421	1,191,275	110,650
(A) + (B)				
 Employer Contributions (<i>estimated</i>)	 393,854	 187,430	 581,285	 87,500

A discussion of the benefits included in the respective Actuarial Accrued Liability begins on page 3 of this section. Please see page 16 for an allocation of Actuarial Accrued Liability by Pension Law and System Entity.

(Numbers shown may not add due to rounding.)

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION I – SUMMARY

June 30, 2007
Valuation

Participant Data

Active Members

Number	171,103
Average Salary	\$24,818
Total Annual Salary	\$4,246,409,000

Retirees

Number	69,573
Average Monthly Basic System Benefit	\$917
Average Monthly System Administered Benefit (pension)	\$94

Disabled Members

Number	17,708
Average Monthly Basic System Benefit	\$385
Average Monthly System Administered Benefit (pension)	\$151

Beneficiaries

Number	11,669
Average Monthly Basic System Benefit	\$243
Average Monthly System Administered Benefit (pension)	\$23

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SECTION I – SUMMARY

B. General Discussion

Basic System Benefits

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

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

These benefits will be referred to as the “Basic System Benefits” throughout this report. Basic System Benefits for members of System 2000 consist of the accumulated member contribution account. The contributions required by statute to fund the basic system benefits listed above total 17.55% of payroll, comprising 8.275% from members and 9.275% from employers. These contribution rates are not actuarially determined.

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

System Administered Benefits

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

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

System 2000 participants do not receive any System Administered Benefits other than the additional benefits due to death and disability specified in Act 127.

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SECTION I – SUMMARY

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

Other Benefits

The disability benefits provided by a private insurance long term disability program to active members of System 2000 who voluntarily elect to enroll are not considered to be a Basic System Benefit nor a System Administered Benefit for purposes of the actuarial valuation since these benefits are financed solely by employees. As a result, these benefits are not reflected in this report. (Please see Management’s Discussion and Analysis on page 9 of the System’s June 30, 2007 Basic Financial Statements.)

Moreover, this report does not address the guarantee insurance reserve for life insurance on loans to plan members. (Please see Notes to Basic Financial Statements on page 15 and Statements of Plan Net Assets on page 12 of the System’s June 30, 2007 Basic Financial Statements.)

Experience Study

The complete set of actuarial assumptions used in the June 30, 2005 valuation was not available, nor was the June 30, 2005 census data as edited for use by the prior actuary in the June 30, 2005 valuation.

We were provided with June 30, 2003, June 30, 2005, and June 30, 2007 census data files by the System. We analyzed the demographic experience over the two 2-year periods (four years total) to develop new actuarial assumptions for termination and retirement. Experience data regarding mortality and disability among active members was not available to develop actuarial assumptions based on PRGERS experience alone. Therefore, we utilized the RP-2000 mortality tables for active General Employees and Mayors. For members covered under Act 127, the RP-2000 Employee Mortality Rates with blue collar adjustments is assumed. Generational projection is applied to anticipate future mortality improvements. The actuarially assumed disability rates are 75% of the 1987 Commissioners Group Disability Table. Higher disability rates are assumed for members covered under Act 127.

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SECTION I – SUMMARY

Post-retirement mortality experience was studied for healthy retirees and beneficiaries. Gender specific mortality rates were developed based on the plan's experience from 2003 to 2007. Generational projection is applied to anticipate future mortality improvements. Please refer to section IX for sample base-year rates. Post-retirement mortality experience for disabled retirees was not statistically significant enough to develop assumptions based on PRGERS experience only. The post-retirement mortality assumption for disabled retirees uses the RP-2000 disabled mortality tables, without projection.

In addition, several ancillary assumptions such as the probability of marriage and spouse age difference assumptions were developed. All assumptions were reviewed with PRGERS staff for reasonableness and are documented in Section IX. A summary of the June 30, 2007 census data files, as edited for use in the valuation, is presented in Section VII.

GASB Accounting Information

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

Since the prior valuation, Governmental Accounting Standards Board Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB 45) has been released and is effective for Phase 1 entities (total annual revenues of over \$100 million for the first fiscal year beginning after June 15, 1999) for fiscal years beginning after December 15, 2006.

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

Basic System Benefits Information alone

We have performed a June 30, 2007 actuarial valuation of the Basic System Benefits alone and have prepared accounting results for them based on GASB 25 and 27 rules.

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SECTION I – SUMMARY

The FY 2007-8 Annual Required Contribution (ARC) for the Basic System Benefits only based on GASB 25 and 27 rules would be \$995.9 million. The ARC represents the portion of the cost of PRGERS' Basic System Benefits that employers should pay in order for PRGERS to be actuarially funded in accordance with GASB's required minimum parameters. The actual employer contributions are based on the statutory funding requirement, which is 9.275% of payroll and which is not actuarially determined. Employer contributions for Basic System Benefits are estimated to be \$393.9 million for FY 2007-08, which is less than the ARC by \$602.0 million.

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

As shown in Subsection C of Section IV, PRGERS has Unfunded Actuarial Accrued Liabilities (UAAL) of \$11,705.4 million on behalf of Basic System Benefits, which should be amortized over a period not to exceed 30 years in accordance with GASB 25 and 27 rules. Based on the current statutory member and employer funding requirements, the UAAL is expected to grow indefinitely into the future instead of being amortized. Effectively, this means that the statutory member and employer contributions to PRGERS are not adequate to fund PRGERS' Basic System Benefits. Instead, PRGERS is being disfunded. As a result, it is likely that the future scheduled contributions equal to the statutory funding requirement will not be adequate to accumulate sufficient assets to make future benefit payments when due.

GASB 25 and 27 Accounting Information for Basic plus System Administered Benefits

We have performed a June 30, 2007 actuarial valuation of the Basic System Benefits and the System Administered Benefits (excluding the Medical Insurance Plan Contribution, which will be discussed separately under GASB 45 below) and have prepared accounting results under GASB 25 for the financial statements of the System and under GASB 27 for the Commonwealth of Puerto Rico's financial statements. The System Administered Benefits are financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico and contributions from municipalities and public corporations.

The FY 2007-08 employer ARC under GASB 25 and 27 for these combined benefits is \$1,191.3 million. The estimated FY 2007-08 combined employer contributions are only

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SECTION I – SUMMARY

\$581.3 million, which is \$610.0 million less than the ARC. This includes the Basic System Benefits and the System Administered Benefits (excluding the Medical Insurance Plan Contribution). As shown in Subsection B of Section V, the Unfunded Actuarial Accrued Liability for these combined benefits is \$13,878.0 million. As noted above, it is likely that the future scheduled contributions equal to the statutory funding requirements will not be adequate to accumulate sufficient assets to make future benefit payments when due.

GASB 45 Accounting Information

We have performed a June 30, 2007 actuarial valuation of the Medical Insurance Plan Contribution and have prepared accounting results for the Commonwealth of Puerto Rico's financial statements under GASB 45. This benefit has not been previously valued. (Note that the Medication Bonus has been included in the GASB 25 and 27 results as a Pension Benefit because members can receive the bonus without submitting documentation to substantiate medication expenses.)

The FY 2007-8 ARC for the Medical Insurance Plan Contribution under GASB 45 is \$110.7 million.

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico. Since this is an Other Postemployment Benefit that is not funded in advance, the ARC for this benefit has been calculated based on an assumed investment return rate of 4.0%, instead of the 7.5% rate used for the Pension Benefits. As shown in Subsection B of Section VI, the Unfunded Actuarial Accrued Liability on a GASB 45 basis for this benefit is \$1,566.8 million.

Allocation of Actuarial Accrued Liability

Subsection A of Section III shows the Actuarial Accrued Liability as of June 30, 2007 by Pension Law (Act 447, Act 1, and System 2000) within each System Entity (Government, Public Corporation, and County).

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SECTION I – SUMMARY

Cash Flow Projection for Basic System Benefits

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

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

We recommend that the statutory funding requirements be significantly increased in excess of the recent employer contribution rate increase to 9.275% in light of:

- the expected negative net cash flows;
- the forecast decrease in funded status; and,
- the Annual Required Contribution based on GASB 25 and 27.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION I – SUMMARY

C. Discussion of Supporting Exhibits

System Assets

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

Subsection A summarizes the Market Value of Assets as of June 30, 2007, including the additional amounts due to the contribution receivables, if any.

Subsection B summarizes the reconciliation of the Market Value of Assets from June 30, 2006 to June 30, 2007.

Subsection C summarizes the development of the Actuarial Value of Assets as of June 30, 2007. The Actuarial Value of Assets is equal to the Market Value of Assets.

Subsection D develops an estimated rate of return on plan assets for the previous plan year. The estimated rate of return from June 30, 2006 to June 30, 2007 was 18.2% on the Market Value of Assets.

Subsection E summarizes the historical estimated rate of return on plan assets on a market value basis.

The asset information used for the valuation was taken from financial statements provided by PRGERS as of June 30, 2007.

Management Information

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

Subsection A shows the allocation of Actuarial Accrued Liability as of June 30, 2007 for Basic System Benefits by Pension Law (Act 447, Act 1, and System 2000) within each System Entity (Government, Public Corporation, and County).

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SECTION I – SUMMARY

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

Basic System Benefits Information

Section IV summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution for just the Basic System Benefits under GASB 25 and 27 for the fiscal year ending June 30, 2008 (please see Subsection B of Section I for a description of the benefits included in this valuation).

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2007.

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

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

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

GASB 25 and 27 Accounting Information

Section V summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution and Annual Pension Cost under GASB 25 and 27 for the fiscal year ending June 30, 2008 (please see Subsection B of Section I for a description of the benefits included in these valuation results). Results are shown in total for GASB 25 and 27, with the Actuarial Accrued Liability and Employer Normal Cost presented for the underlying Basic System Benefits and for the underlying System Administered Benefits that are included in this valuation.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION I – SUMMARY

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2007 and Employer Normal Cost as of December 31, 2007.

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

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

Subsection D shows a seven-year history of the ARC and the percentage contributed. This schedule is required by GASB Statements No. 25 and 27. The FY 2007-08 contribution percentage assumes that employer contributions for Basic System Benefits will remain at the statutory level of 9.275% of payroll and that employer contributions for the applicable System Administered Benefits will be the anticipated pay-as-you-go payments as reported by the System. The amounts shown for the fiscal year ending June 30, 2007 and earlier are from the audited financial statements for the System and for the Commonwealth of Puerto Rico. As indicated on the exhibit, we restated the ARC for FY 2005-06 and FY2006-07 based on information available in the June 30, 2005 valuation report prepared by Buck Consultants. Based on our understanding of prior valuations, the ARCs for FY 2003-04 and 2004-05 do not include the liability for any System Administered Benefits, and the Actual Employer Contributions for FY 2001-02 through FY 2004-05 do not include contributions for the System Administered Benefits.

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

Schedule F summarizes information used to determine the Annual Required Contribution for the fiscal year ending June 30, 2008.

GASB 45 Accounting Information

Section VI summarizes the Actuarial Accrued Liability and the development of the Annual Required Contribution for the fiscal year ending June 30, 2008 for the Medical Insurance Plan Contribution.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION I – SUMMARY

Subsection A summarizes the development of the Actuarial Accrued Liability as of June 30, 2007 and Employer Normal Cost as of December 31, 2007.

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

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

Census Data

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

Summary of Principal Plan Provisions

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

Actuarial Assumptions and Methods

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

A. Market Value of Assets as of June 30, 2007

1. Assets	
Cash	\$ 310,308,000
Corporate Bonds	96,879,000
Government Bonds	52,760,000
Stocks	1,693,144,000
Private Equity Investments	47,784,000
Total Loans to Plan Members	577,314,000
Accounts Receivable	137,264,000
Capital Assets	8,476,000
Other Assets	<u>7,371,000</u>
Total	\$ 2,931,300,000
2. Total Liabilities	\$ 39,799,000
3. Market Value of Assets as of June 30, 2007: (1) - (2)	\$ 2,891,501,000

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

B. Reconciliation of Market Value of Assets from June 30, 2006 to June 30, 2007

1. Market Value of Assets as of June 30, 2006	\$	2,541,331,000
2. Additions		
a. Contributions		
Employer Contributions	\$	374,394,000
Member Contributions		338,791,000
Early Retirement Programs		69,097,000
Appropriations for Special Laws		<u>17,000,000</u>
Total Contributions	\$	799,282,000
b. Investment Income		
Interest Income	\$	68,231,000
Dividend Income		14,494,000
Net Appreciation of Investments		364,185,000
Insurance Premiums		2,441,000
Other Income		17,431,000
Investment Related Expenses		<u>(12,940,000)</u>
Net Investment Income	\$	453,842,000
Total Additions	\$	1,253,124,000
3. Decreases		
Refund of Member Contributions	\$	33,305,000
Annuities, Death Benefits, and Special Law Benefits		831,658,000
Insurance Claims		2,118,000
Administrative Expenses		<u>35,873,000</u>
Total	\$	902,954,000
4. Net Increase (Decrease) in Market Value of Assets	\$	350,170,000
5. Market Value of Assets as of June 30, 2007	\$	2,891,501,000

C. Development of Actuarial Value of Assets as of June 30, 2007

The Actuarial Value of Assets as of June 30, 2007 is equal to the Market Value of Assets as of June 30, 2007 of \$2,891,501,000.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

D. Estimated Annual Rate of Return for year ending June 30, 2007

	<u>Market Value</u>
1. Value of Assets as of June 30, 2006	\$ 2,541,331,000
2. Total Contributions	799,282,000
3. Benefit Payments and Expenses	902,954,000
4. Value of Assets as of June 30, 2007	2,891,501,000
5. Non-Investment Increment: (2) - (3)	(103,672,000)
6. Investment Increment: (4) - (1) - (5)	453,842,000
7. Time Weighted Value: (1) +.5 * (5)	2,489,495,000
8. Estimated Annual Rate of Return: (6) / (7)	18.23%

E. Estimated Historical Rates of Return

<u>Plan Year Ending</u>	<u>Market Value</u>
June 30, 2007	18.23%
June 30, 2006	13.88%
June 30, 2005	12.35%
June 30, 2004	16.58%
June 30, 2003	2.95%
5-year Compounded Annual Return	12.67%

Prior year returns were calculated by Milliman using the methodology in Section D above, based on asset amounts and cash flows shown in PRGERS audited financial statements.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION III - MANAGEMENT INFORMATION

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

	<u>Basic System Benefits</u>	<u>System Administered Benefits</u>	<u>Basic System and System Administered Benefits</u>	<u>GASB 45 Benefits</u>
Government				
Act 447	7,732,758,000	1,193,553,000	8,926,311,000	896,968,000
Act 1	1,063,890,000	153,705,000	1,217,595,000	124,242,000
System 2000	<u>288,688,000</u>	<u>131,379,000</u>	<u>420,067,000</u>	<u>0</u>
	9,085,336,000	1,478,637,000	10,563,973,000	1,021,210,000
Corporation				
Act 447	3,667,807,000	433,618,000	4,101,425,000	287,145,000
Act 1	290,172,000	13,294,000	303,466,000	23,598,000
System 2000	<u>83,058,000</u>	<u>0</u>	<u>83,058,000</u>	<u>0</u>
	4,041,037,000	446,912,000	4,487,949,000	310,743,000
Counties				
Act 447	1,093,962,000	204,427,000	1,298,389,000	179,844,000
Act 1	293,752,000	30,942,000	324,694,000	45,011,000
System 2000	<u>82,786,000</u>	<u>11,718,000</u>	<u>94,504,000</u>	<u>0</u>
	1,470,500,000	247,087,000	1,717,587,000	224,855,000
Total				
Act 447	12,494,527,000	1,831,598,000	14,326,125,000	1,363,957,000
Act 1	1,647,814,000	197,941,000	1,845,755,000	192,851,000
System 2000	<u>454,532,000</u>	<u>143,098,000</u>	<u>597,630,000</u>	<u>0</u>
	14,596,873,000	2,172,637,000	16,769,510,000	1,556,808,000

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION III - MANAGEMENT INFORMATION

B. Projected Cash Flows for Basic System Benefits

Plan Year <u>Ending</u>	Estimated <u>Payroll</u>	Estimated Member and Employer <u>Contributions</u>	Estimated Benefit Payments and Administrative <u>Expenses</u>	Net <u>Cash Flow</u>
6/30/2008	4,246,000,000	745,000,000	1,008,000,000	(263,000,000)
6/30/2009	4,352,000,000	764,000,000	1,020,000,000	(256,000,000)
6/30/2010	4,461,000,000	783,000,000	1,038,000,000	(255,000,000)
6/30/2011	4,573,000,000	803,000,000	1,062,000,000	(259,000,000)
6/30/2012	4,687,000,000	823,000,000	1,089,000,000	(266,000,000)
6/30/2013	4,804,000,000	843,000,000	1,119,000,000	(276,000,000)
6/30/2014	4,924,000,000	864,000,000	1,153,000,000	(289,000,000)
6/30/2015	5,047,000,000	886,000,000	1,193,000,000	(307,000,000)
6/30/2016	5,173,000,000	908,000,000	1,232,000,000	(324,000,000)
6/30/2017	5,302,000,000	931,000,000	1,277,000,000	(346,000,000)
6/30/2018	5,435,000,000	954,000,000	1,323,000,000	(369,000,000)

Notes:

- Estimated Payroll is assumed to grow 2.5% annually.
- Member and Employer Contributions were estimated to be 17.55% of Estimated Payroll for plan year ending 06/30/2008 and each year thereafter.
- The Estimated Benefit Payments do not include amounts expected to be made to future participants, such as:
 - refund of contributions to terminated nonvested participants,
 - disability benefits,
 - death benefits,
 - retirement benefits due to service purchase,
 and thus are slightly understated.
- Administrative Expenses are assumed to grow 2.5% annually.
- Contributions on behalf of and benefit payments to members of System 2000 are included in the table above

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

A. Development of Actuarial Accrued Liability as of June 30, 2007

1. Projected Benefits Payable to Retirees and Beneficiaries	
Retirees	\$ 7,496,967,000
Disabled Members	702,511,000
Beneficiaries	<u>283,854,000</u>
Total	\$ 8,483,332,000
2. Projected Benefits for Vested Terminated Members	407,095,000
3. Actuarial Accrued Liability for Active Members	5,706,448,000
4. Total Actuarial Accrued Liability: (1) + (2) + (3)	\$ 14,596,875,000

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

B. Development of Employer Normal Cost Payable as of December 31, 2007

1. Total Normal Cost as of June 30, 2007	\$ 335,615,000
2. Expected Member Contributions	\$ 342,276,000
3. Load for Administrative Expenses:	\$ 34,250,000
4. Total Employer Normal Cost as of December 31, 2007: (1) * (1.075 ^ 0.5) - (2) + (3)	\$ 39,947,000

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IV - BASIC SYSTEM BENEFITS INFORMATION

C. Development of Unfunded Actuarial Accrued Liability and Amortization Payment Payable as of December 31, 2007

1. Actuarial Accrued Liability as of June 30, 2007	\$ 14,596,875,000
2. Actuarial Value of Assets as of June 30, 2007	\$ 2,891,501,000
3. Unfunded Actuarial Accrued Liability as of June 30, 2007: (1) - (2)	\$ 11,705,374,000
4. Amortization Period in years	30
5. Amortization Factor at beginning of year	12.6962
6. Amortization Amount Payable as of December 31, 2007: [(3) / (5)] * (1.075 ^ 0.5)	\$ 955,907,000

D. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2007	\$ 39,947,000
2. Amortization Payment as of December 31, 2007	\$ 955,907,000
3. Annual Required Contribution*: (1) + (2)	\$ 995,854,000

* Assumes payments made throughout the year.

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

A. Benefit Obligations

	<u>Basic System Benefits</u>	<u>System Administered Benefits</u>	<u>Total</u>
1. Projected Benefits Payable to Retirees and Beneficiaries:			
Retirees	\$ 7,496,967,000	\$ 1,154,205,000	\$ 8,651,172,000
Disabled Members	702,511,000	342,813,000	1,045,324,000
Beneficiaries	<u>283,854,000</u>	<u>73,223,000</u>	<u>357,077,000</u>
Total	\$ 8,483,332,000	\$ 1,570,241,000	\$ 10,053,573,000
2. Projected Benefits Payable to Vested Terminated Members:	\$ 407,095,000	\$ 59,079,000	\$ 466,174,000
3. Actuarial Accrued Liability for Active Members	\$ 5,706,448,000	\$ 543,317,000	\$ 6,249,765,000
4. Actuarial Accrued Liability as of June 30, 2007 (1) + (2) + (3)	\$ 14,596,875,000	\$ 2,172,637,000	\$ 16,769,512,000
5. Gross Normal Cost as of December 31, 2007	\$ 347,973,000	\$ 17,995,000	\$ 365,968,000
6. Expected Member Contributions	\$ 342,276,000	\$ 0	\$ 342,276,000
7. Administrative Expenses	\$ 34,250,000	\$ 0	\$ 34,250,000
8. Net Employer Normal Cost as of December 31, 2007 (5) - (6) + (7)	\$ 39,947,000	\$ 17,995,000	\$ 57,942,000

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

B. Development of Unfunded Accrued Liability and Amortization Payment Payable as of December 31, 2007

1. Accrued Liability as of June 30, 2007	\$ 16,769,512,000
2. Actuarial Value of Assets as of June 30, 2007	\$ 2,891,501,000
3. Unfunded Accrued Liability as of June 30, 2007 (1) - (2):	\$ 13,878,011,000
4. Amortization Period in years	30
5. Amortization Factor at beginning of year	12.6962
6. Amortization Amount Payable as of December 31, 2007: [(3) / (5)] * (1.075 ^ 0.5)	\$ 1,133,333,000

C. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2007	\$ 57,942,000
2. Amortization Payment as of December 31, 2007	\$ 1,133,333,000
3. Annual Required Contribution*: (1) + (2)	\$ 1,191,275,000

* Assumes payments made throughout the year.

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

D. Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Actual Employer Contribution</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2008 *	\$581,285,000	\$1,191,275,000	48.80%*
2007 **	566,524,000	816,472,000	69.39
2006 **	559,198,000	816,472,000	68.49
2005	374,823,000	578,387,000	64.80
2004	330,336,000	578,387,000	57.11
2003	330,404,000	802,536,000	41.17
2002	308,228,000	802,536,000	38.41

* Actual Employer Contribution for the year ended June 30, 2008 assumes:
 - contribution of 9.275% of expected payroll for the Basic System Benefits, plus
 - contribution of \$139.9 million for Special Law pension benefits, plus
 - contribution of \$47.5 million for early retirement incentives.

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

** Annual Required Contribution for the years ended June 30, 2007 and June 30, 2006 is restated to remove the offset of employer contributions on behalf of System 2000 members that was applied to the normal cost, and to include the Special Law Benefits. Actual Employer Contributions are restated to include receipts for Special Law pension benefits and early retirement incentives. These adjustments were made to allow for better comparability between the results of the current and the prior valuation.

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

E. Schedule of Funding Progress

	(a)	(b)	(c)=(b)-(a)	(d)=(a)/(b)	(e)	(f)=(c)/(e)
Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Annual Salary	Unfunded Liability as a % of Annual Salary
6/30/2007	\$2,891,501,000	\$16,769,512,000	\$13,878,011,000	17.2%	\$4,246,409,000	326.8%
6/30/2006	2,541,331,000	-----	-----	<i>not determined</i>	-----	-----
6/30/2005 *	2,327,871,000	13,969,000,000	11,641,129,000	16.7%	4,125,866,000	282.2%
6/30/2004	2,141,442,000	-----	-----	<i>not determined</i>	-----	-----
6/30/2003	1,947,402,000	11,191,357,000	9,243,955,000	17.4%	3,334,441,000	277.2%
6/30/2002	1,979,677,000	-----	-----	<i>not determined</i>	-----	-----

* Accrued liability for June 30, 2005 is restated to include the Special Law benefits. This adjustment was made to allow for better comparability between the results of the current and the prior valuation.

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION V - GASB 25 AND 27 ACCOUNTING INFORMATION

F. Additional Information

The following information was used to determine the Annual Required Contribution for the fiscal year ending June 30, 2008. The ARC is for the Basic System Benefits and selected System Administered Benefits. See Section I for more information.

Valuation Date:	June 30, 2007
Actuarial Cost Method:	Projected unit credit cost method; with straight proration based on service to decrement
Amortization method:	30 years closed, level dollar
Remaining Amortization Period:	30 years
Asset valuation method:	Market Value of Assets
Assumptions:	
Investment rate of return	7.5%
Projected Salary Increases	3.0% (no increases in 2009-10 and 2010-11)
Projected Payroll Growth	2.5%
Inflation	2.5%
Cost of Living Adjustments	0.99% annual COLA to approximate 3% triennial increases (COLA is only applied to members covered under Act 127 who become disabled or die in the line of duty).

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION VI - GASB 45 ACCOUNTING INFORMATION

A. Benefit Obligations

1. Projected Benefits Payable to Retirees and Beneficiaries:		
Retirees	\$	822,019,000
Disabled Members		165,681,000
Beneficiaries		<u>0</u>
Total	\$	987,700,000
2. Projected Benefits Payable to Vested Terminated Members:	\$	45,344,000
3. Actuarial Accrued Liability for Active Members	\$	523,764,000
4. Total Actuarial Accrued Liability as of June 30, 2007	\$	1,556,809,000
5. Total Employer Normal Cost as of December 31, 2007	\$	22,368,000

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION VI - GASB 45 ACCOUNTING INFORMATION

B. Development of Unfunded Actuarial Accrued Liability and Amortization Payment Payable as of December 31, 2007

1. Actuarial Accrued Liability as of June 30, 2007	\$ 1,556,809,000
2. Actuarial Value of Assets as of June 30, 2007	\$ 0
3. Unfunded Actuarial Accrued Liability as of June 30, 2007: (1) - (2)	\$ 1,556,809,000
4. Amortization Period in years	30
5. Amortization Factor at beginning of year	17.9837
6. Amortization Amount Payable as of December 31, 2007: [(3) / (5)] * (1.04 ^ 0.5)	\$ 88,282,000

C. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2007	\$ 22,368,000
2. Amortization Payment as of December 31, 2007	\$ 88,282,000
3. Annual Required Contribution*: (1) + (2)	\$ 110,650,000

* Assumes payments made throughout the year.

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION VII - CENSUS DATA

A. Summary of Member Data as of June 30, 2007

	Act 447	Act 1	System 2000	Total
Active Members				
Count	46,062	58,337	66,704	171,103
Average Age	51.7	44.4	38.1	43.9
Average Salary	\$29,266	\$25,176	\$21,433	\$24,818
Average Creditable Service	18.3	11.4	4.1	10.4
Retired Members				
Count	68,598	975	N/A	69,573
Average Age	68.5	69.1	N/A	68.5
Average Monthly Basic System Benefit	\$923	\$479	N/A	\$917
Average Monthly System Administered Benefit	\$94	\$83	N/A	\$94
Disabled Members				
Count	16,611	1,097	N/A	17,708
Average Age	66.6	58.3	N/A	66.1
Average Monthly Basic System Benefit	\$383	\$410	N/A	\$385
Average Monthly System Administered Benefit	\$155	\$95	N/A	\$151
Beneficiaries in payment				
Count	11,634	35	N/A	11,669
Average Age	69.6	50.2	N/A	69.5
Average Monthly Basic System Benefit	\$242	\$542	N/A	\$243
Average Monthly System Administered Benefit	\$23	\$0	N/A	\$23

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION VIII – SUMMARY OF PRINCIPAL PLAN PROVISIONS **AS OF JUNE 30, 2007**

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

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

Act 447 of 1952 as amended

1. Type of Plan

The System is a contributory, defined benefit plan.

2. Effective Date

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

3. Eligibility for Membership

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

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

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

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.
- c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).
- e. Municipality: The Municipality of San Juan (Article 1-104).
- f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality that has elected to participate in the System (Articles 1-104 and 1-110).
- g. Employee: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).
- h. Creditable Service: The years and months of plan participation, during which contribution have been made, beginning on the later of date of hire or January 1, 1952 and ending on date of separation from service. For purposes of calculating Creditable Service, the following schedule shall apply:

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

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

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

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who previously received a refund of Accumulated Contributions at separation. (Article 1-106)

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

- i. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).
- j. Average Compensation: The average of the 3 highest years (36 highest months) of compensation that the participant has received for Creditable Service (Article 1-104).
- k. Contributions: The amount deducted from the compensation of a Member and the employer (Section 781).
- l. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.

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- m. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member with regular interest (Article 1-104).
- n. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system’s experience and in accordance with the recommendations of the actuary.
- o. Social Security Retirement Age (SSRA): The Social Security Retirement Age varies based on the year of birth as indicated in the table below.

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

- 5. Coordination with Social Security: Except for police, mayors and employees of the Agricultural Extension Service of the U.P.R participants may elect to coordinate coverage under the System with Federal Social Security by selecting the lower of two contribution options. Those participants selecting Option (1), the Coordination Plan, are subject to a benefit recalculation upon attainment of Social Security Retirement Age. Those participants selecting Option (2), the Supplementation Plan, will continue to receive the same benefits for life, without any adjustments at SSRA. At any time up to retirement, participants may change from Option (1) to Option (2) by making a contribution including interest to the System, retroactive to the later of

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

6. Retirement Benefits

a. Retirement due to age and service

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

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

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

b. Retirement because of Merit

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

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

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

c. Special Mayor Benefit

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

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

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

7. Termination Benefits

a. Lump Sum Withdrawal

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

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

b. Deferred Retirement

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

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

c. Special Mayor Benefit

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

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

8. Death Benefits

a. Occupational Death Benefit

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

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

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

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

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b. Pre-retirement Death Benefit

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

Benefit: The benefit is as follows:

- (i) While in active service, the benefit equals a refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Article 2-113).
- (ii) While not in active service, the benefit equals a refund of Accumulated Contributions.

c. High-Risk Death Benefit under Act 127

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

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

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

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

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

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

d. Special Police Death Benefit

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

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

e. Post-retirement Death Benefit

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

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

- (i) For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60% if the retiree was not covered under Title 11 of the Social Security Act, or 50% (30% prior to January 1, 2004) if the retiree was covered at the moment of death under Title 11 of the Social Security Act, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children (Act 105 of 1969 as amended). If in the Coordination Plan, the benefit to the surviving spouse does not begin until the spouse's attainment of age 60 and the surviving spouse must have been married to the member for at least 10 years to be eligible for this benefit. The increase in the percentage from 30% to 50% if in the Coordination Plan is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 158 of 2003).
- (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement

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

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

Benefit: For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60%, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. This benefit is retroactive and the spouse surviving do not have age requirement and can not be re-married. (Law 169)

9. Disability Benefits

a. Non-occupational Disability

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

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

For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of Average Compensation up to \$6,600 multiplied by years of Creditable Service up to 20 years, plus 1.5% of Average Compensation up to \$6,600 multiplied by years of Creditable Service in excess of 20 years, plus 1.5% of Average Compensation in excess of \$6,600 multiplied by years of Creditable Service up to 20 years, plus 2.0% of Average Compensation in excess of \$6,600 multiplied by years of Creditable Service in excess of 20 years. The Average

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Compensation and years of Creditable Service are determined as of the date of disability. In no event will the benefit determined be less than the Minimum Benefit.

b. Occupational Disability

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

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

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

c. High Risk Disability under Act 127

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

Benefit: 100% of Salary as of date of disability, payable as an annuity. If the member dies while still disabled, this annuity benefit continues to his beneficiaries. Beneficiaries include the surviving spouse and/or disabled children (for life), non-disabled children until age 18 (age 25 if pursuing studies), and the parents if no other beneficiaries. Effective July 1, 1996 and subsequently every three years, the disability benefit is increased by 3% provided that the member

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(or beneficiary) had been receiving payments for at least three years. (Act 127 of 1958 as amended) The cost of these benefits is paid by the General Fund.

10. Minimum Benefits

- a. Past Ad hoc Increases: The legislature, from time to time, increases pensions for certain retirees as described in Act 124 approved on June 8, 1973 and Act 23 approved on September 23, 1983. The benefits are paid 50% by the General Fund and 50% by the System.
- b. Current Minimum Benefit: The minimum monthly lifetime income for members who retire or become disabled is \$400 per month effective July 1, 2007 (\$300 per month up to June 30, 2007). The increase in the minimum monthly benefit from \$200 per month to \$300 per month is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. The increase in the minimum monthly benefit from \$300 per month to \$400 per month is to be paid by the System for former government employees or by the public enterprise or municipality for their former employees. (Act 156 of 2003 and Act 35 of 2007.)
- c. Current Minimum Benefit for Police: All police who retire or become disabled and who normally would receive under \$1,000 per month shall receive an increased monthly amount equal to the smaller of \$200 and the difference between \$1,000 and the normal benefit amount. This increase also applied to retired police. The General Fund will pay for these increased benefits. (Act 208 of 2000)
- d. Coordination Plan Minimum Benefit: A minimum monthly benefit is payable upon attainment of SSRA such that the benefit, when added to the Social Security Benefit, is not less than the benefit payable prior to SSRA.

11. Cost-of-Living Adjustments (COLA) to Pension Benefits: The legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act

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35). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month will receive an increase of up to 3% without exceeding the limit of \$1,250 per month (Act 35). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. (Various Acts)

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

13. Special “Bonus” Benefits:

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

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

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

14. Forms of Payment

The basic pension benefits described in the above sections are payable in the form of a cash refund annuity. Optional benefits are provided upon a member’s death to

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the surviving beneficiaries as described in 8.c. In addition, a participant can elect a reversionary annuity (Article 2-105).

15. Contributions

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

Employer Contributions: Employer contributions are 9.275% of Compensation (Article 2-116).

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

17. Changes in Plan Provisions since Prior Valuation

This valuation reflects the adoption of Act 35 on April 24, 2007, Act 195 on December 13, 2007, and Act 7 on February 15, 2008. Even though Act 195 and Act 7 were adopted after the June 30, 2007 valuation date, we have included the impact of their provisions in this valuation. Act 195 allows for a two-year extension of the mandatory retirement for police and firefighters. Act 7 clarifies that the past 3% COLA adjustments are applicable to all retirees.

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Act 1 of 1990 as amended

1. Type of Plan

The System is a contributory, defined benefit plan.

2. Effective Date

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

3. Eligibility for Membership

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

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

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

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4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
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- c. Government of Puerto Rico or Government: The Government of the Commonwealth of Puerto Rico, its departments, divisions, bureaus, offices, agencies and dependencies (Article 1-104).
- d. Public Enterprise: Any government instrumentality of the People of Puerto Rico (Article 1-104).
- e. Municipality: Shall include the Municipality of San Juan (Article 1-104).
- f. Employer: The Government of Puerto Rico, any public enterprise that has elected to participate in the System, or any municipality (Articles 1-104 and 1-110).
- g. Employee: Any officer or employee of the Employer regularly employed on a full time basis (Article 1-104).
- h. Creditable Service: The years and completed months of plan participation, during which contributions have been made, beginning on the later of date of hire and ending on date of separation from service. (Articles 1-106 and 2-109)

Service During a Fiscal Year	Creditable Service Earned
9 months or more	1 year
6 to 8 months	$\frac{3}{4}$ year
3 to 5 months	$\frac{1}{2}$ year
Less than 3 months	None

In general, Creditable Service may be earned for any period of employment during which no contributions were made if Accumulated Contributions for such periods are paid to the System. The same rules hold for rehired employees who

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previously received a refund of Accumulated Contributions at separation. (Article 1-106)

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

- i. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the Fund are based (Article 1-104).
- j. Average Compensation: The average of the 5 highest years of compensation that the participant has received for Creditable Service. If annual compensation in the averaging period exceeds by more than 10% the annual compensation in the immediately preceding year, the compensation in excess of said 10% shall not be included in the calculation of Average Compensation. (Article 2-108)
- k. Contributions: The amount deducted from the compensation of a Member and the employer.(Article 2-116)).
- l. Regular Interest: The interest rate as prescribed by the Board of Trustees (Article 1-104). The rate of 2.50% has always been in effect.
- m. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member with regular interest (Article 1-104).
- n. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary.

5. Retirement Benefits

a. Retirement for years of service

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

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

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b. Retirement for high-risk service

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

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

c. Early retirement

Eligibility: Retirement directly from active service after attainment of age 55 with 25 years of Creditable Service (with Actuarial reduction calculated according to the Actuarial tables adopted by the Board) (Article 2-103).

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

d. Special Mayor Benefit

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

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

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

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6. Termination Benefits

a. Lump Sum Withdrawal

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

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

b. Deferred Retirement

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

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

c. Special Mayor Benefit

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

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

7. Death Benefits

a. Occupational Death Benefit

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

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

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

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

b. Pre-retirement Death Benefit

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

Benefit: The benefit is as follows:

- (i) While in active service, the benefit equals a refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Article 2-113).
- (ii) While not in active service, the benefit equals a refund of Accumulated Contributions.

c. High-Risk Death Benefit under Act 127

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

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

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

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and until age 25 for a non-disabled child who is pursuing studies. (Act 127 of 1958 as amended)

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

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

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

d. Special Police Death Benefit

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

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

e. Post-retirement Death Benefit

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

Benefit: The benefit is as follows:

- (i) For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60% of the Retirement Benefit at time of death, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children (Articles 1-4 Act 105 of 1969).

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

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

Benefit: For those married or with dependent children at the time of death, the lifetime annual income to a widow or widower is equal to 60%, payable for life for a surviving spouse and/or disabled children and payable until age 18 (age 25 if pursuing studies) for non-disabled children. This benefit is retroactive and the spouse surviving can not be re-married. If in the benefit to the surviving spouse does not need to attainment of age 60 and the surviving spouse does not need to be married for 10 years to be eligible for this benefit (Law 169).

8. Disability Benefits

a. Non-occupational Disability

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

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

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b. Occupational Disability

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

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

d. High Risk Disability

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

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

9. Minimum Benefits

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

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- b. Current Minimum Benefit for Police: All police who retire or become disabled and who normally would receive under \$1,000 per month shall receive an increased monthly amount equal to the smaller of \$200 and the difference between \$1,000 and the normal benefit amount. This increase also applied to retired police. The General Fund will pay for these increased benefits. (Act 208 of 2000)
10. Cost-of-Living Adjustments (COLA) to Pension Benefits: The legislature, from time to time, increases pensions by 3% for retired and disabled members. Beneficiaries are not entitled to COLAs granted after the retiree's death. The first increase was granted by Act 10 of 1992. Subsequent 3% increases have been granted every third year since 1992, with the latest 3% increase established on April 24, 2007 and effective July 1, 2007 (retroactive to January 1, 2007) for retired and disabled members that were receiving a monthly benefit on or before January 1, 2004 (Act 35). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month will receive an increase of up to 3% without exceeding the limit of \$1,250 per month (Act 35). The COLAs granted in 1992 to all retirees and in 1998 to retirees who are former government or municipal employees shall be paid by the System. All other COLAs granted in 1995 and later shall be paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees. (Various Acts)
11. Medical Insurance Plan Contribution: A payment of up to \$100 per month to the eligible medical insurance plan selected by the retiree or disabled member. This benefit is paid by the General Fund (Act 483).
12. Special "Bonus" Benefits:
- a. Christmas Bonus: An annual bonus of \$600 for each retiree, beneficiary, and disabled member paid in December. The System pays \$200 per retiree, beneficiary, and disabled member, the General Fund pays \$100 per retiree, beneficiary, and disabled member; and the balance is paid by the General Fund for former government employees or by the public enterprise or municipality for their former employees (Act 144).
- b. Summer Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid in July. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 37).

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

13. Forms of Payment

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

14. Contributions

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

Employer Contributions: Employer contributions are 9.275% of Compensation (Article 2-116).

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

16. Changes in Plan Provisions since Prior Valuation

This valuation reflects the adoption of Act 35 on April 24, 2007, Act 195 on December 13, 2007, and Act 7 on February 15, 2008. Even though Act 195 and Act 7 were adopted after the June 30, 2007 valuation date, we have included the impact of their provisions in this valuation. Act 195 allows for a two-year extension of the mandatory retirement for police and firefighters. Act 7 clarifies that the past 3% COLA adjustment are applicable to all retirees.

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System 2000 – Act 305 of 1999 as amended

1. Type of Plan

The System is a contributory, hybrid defined benefit plan.

2. Effective Date

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

3. Eligibility for Membership

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

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

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Article 1-104).
- b. Compensation: The gross cash compensation, excluding bonuses and overtime, upon which contributions by a Member to the System are based (Article 1-104).

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- c. Retirement Savings Account: The individual retirement account established for each member of System 2000 (Article 1-104). Each member has a nonforfeitable right to the value of his Retirement Savings Account (3-107).
- d. Credits to Retirement Savings Account: The credits to the retirement savings account include (1) any initial transfer balance for transferred participants, (2) contributions of the members to System 2000, and (3) the investment yield for each semester of the fiscal year based on the investment alternatives elected by the member (Article 3-107).
- e. Investment Alternatives: Members can choose to allocate their Retirement Savings Account, in multiples of 10%, to the following investment options. Changes in allocation can be made annually, effective each July 1.
 - i. Fixed income – The yield is equal to the average monthly yield of the Two-Year Constant Maturity Treasuries during each semester of the fiscal year.
 - ii. System's investment portfolio – The yield is equal to 90% (75% prior to July 1, 2004) of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as fees payable to administrators of the portfolio.
 - iii. Other alternatives adopted by the Board of the System.
- f. Normal retirement age: Attainment of age 50 if police officer or fire fighter; otherwise attainment of age 60 (Article 1-104).

5. Benefits

- a. Upon Separation of Service other than due to death or disability: Upon attainment of normal retirement age, the value of the Retirement Savings Program shall be used to purchase an annuity contract. The available forms of payment are described below.
- b. Upon Death (before or after Separation of Service): The value of the member's Retirement Savings Account shall be paid to the member's beneficiary.
- c. Upon Separation of Service due to Disability: The value of the member's Retirement Savings Account shall be paid to the member. In lieu of the lump sum payment, a disabled member may elect any other available form of payment.

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6. Forms of Payment

- a. Normal Form of Payment: If married, annuity purchase after normal retirement age of a joint and 50% survivor annuity where the survivor benefits do not begin until the survivor's attainment of age 60. If single, annuity purchase after normal retirement age of a life annuity.
- b. Optional Forms of Payment: If a member separates from service after normal retirement age, the member may elect a single lump sum payment of the value of the Retirement Savings Account. Any member upon separation from service may elect to rollover the value of the Retirement Savings Account into a qualified retirement plan, an IRA, a non-deductible IRA, or into another government retirement system for service purchases in that system.
- c. Small Lump Sum Payments: If the value of the Retirement Savings Account is less than \$10,000, the member may elect a single lump sum payment of such value.

7. Contributions

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

Employer Contributions: Contributions by employers are 9.275% of each Member's Compensation while an employee. These contributions to the System are to increase the level of System assets, reduce the actuarial deficit, and enable the System to meet its future obligations. (Article 3-105).

8. Changes in Plan Provisions since Prior Valuation

None.

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SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2007

Interest: 7.50% per annum, net of investment expenses, for GASB 25 and 27.
4.00% per annum for GASB 45.

Compensation Increases:

3.0% per year. No compensation increases are assumed for Fiscal Years 2009-10 and 2010-11.

Termination: Withdrawal rates vary by employment category.

Employment Category	Annual Rate of Termination
General Employees	2.0%
Police & Fire	1.6
Mayors	3.0

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

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

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

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

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Act 1 General Employees (includes General Hazardous Employees)		
Age	Service condition	
	10 years	25 years
55 to 57		4.5%
58	5.0%	4.5
59	10.0	8.0
60	10.0	9.0
61	10.0	10.0
62	10.0	13.0
63 to 64	10.0	14.0
65	15.0	50.0
66	15.0	15.0
67	15.0	100.0
68 to 69	15.0	
70	100.0	

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

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

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Act 1 Police & Fire			
Age	Service condition		
	10 years	25 years	30 years
45 to 48			10.0%
49 to 50			15.0
51 to 54			20.0
55 to 56		5.0%	20.0
57		5.0	30.0
58	2.5%	5.0	100.0
59 to 60	10.0	5.0	
61 to 64	10.0	10.0	
65	10.0	50.0	
66 to 69	10.0	10.0	
70	100.0	100.0	

System 2000 Police & Fire			
Age	Service condition		
	10 years	25 years	30 years
45 to 48			9.0%
49			13.5
50		6.3%	13.5
51 to 56		13.5	18.0
57		18.0	27.0
58	2.25%	18.0	27.0
59 to 64	9.0	22.5	27.0
65 to 69	9.0	27.0	31.5
70	100.0	100.0	100.0

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SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2007

Act 447 and Act 1 Mayors			
Age	Service condition		
	8 years	25 years	30 years
45 to 49			10.0%
50 to 53	5.0%		15.0
54	10.0		20.0
55 to 56	10.0	10.0%	20.0
57 to 58	15.0	15.0	20.0
59 to 69	20.0	20.0	20.0
70	100.0	100.0	100.0
System 2000 Mayors			
Age	Any Service		
60 to 66	15.0%		
67	100.0		

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

Adjustment to 1987 CGDT		
Act	Members Covered under Act 127	Other Members
447	100%	75%
1	100%	75%
2000	<ul style="list-style-type: none"> • 100% if more than 10 years from retirement eligibility • 300% if at or past retirement eligibility • Interpolated from 100% to 300% in the 10 years leading up to retirement eligibility 	75%

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

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2007

Pre-retirement Mortality: For General Employees and Mayors, RP-2000 Employee Mortality Rates for males and females projected on a generational basis using Scale AA. For members covered under Act 127, RP-2000 Employee Mortality Rates with blue collar adjustments for males and females, projected on a generational basis using Scale AA.

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

Post-retirement Healthy Mortality: Gender-specific mortality rates were developed based on a study of plan’s experience from 2003 to 2007. Sample rates shown below are as of 2005 and are thereafter projected on a generational basis using Scale AA.

Age	Male	Female
50	0.93%	0.34%
55	0.84	0.51
60	0.96	0.79
65	1.15	0.98
70	1.90	1.63
75	3.33	2.72
80	6.02	4.58
85	10.76	7.92
90	18.61	13.67

Post-retirement Disabled Mortality: RP-2000 Disabled Annuitant Mortality Rates, without projection.

Marriage: 50% of current active members, terminated members and retirees are assumed to be married at retirement with males 4 years older than females. 100% of current active members covered under Act 127 who die in service or become disabled are assumed to have qualifying beneficiaries.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2007

Form of Payment:

Act	Marital Status	Form of Payment
447	Married at retirement	Joint and 60% survivor benefit – Supplementation Joint and 50% survivor benefit - Coordinated
447	Not married at retirement	Modified cash refund (approximated by single life annuity with 3 years certain)
1	Married at retirement	Joint and 60% survivor benefit
1	Not married at retirement	Modified cash refund (approximated by single life annuity with 3 years certain for Police & Fire and 5 years certain for other members)

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

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

Future 3% COLA Adjustments: An annual compound COLA of 0.99% per year is assumed to be granted in the future under Act 127 to disabled members and beneficiaries, to approximate the triennial 3% increases.

Deferred Vested Participants: Census data on deferred vested participants was not available. Total actuarial accrued liabilities have been increased by 3% to approximate the value of the liability on behalf of deferred vested participants.

Service Purchase: Active liabilities on behalf of service retirement are increased by 5% for members of Act 447 to approximate the value of prospective service purchases at retirement.

Administrative Expenses: Average of past two year's expense is added to the normal cost. For the 2007-08 plan year, this amount is \$34,250,000.

Special Data Adjustments: Upon review of the June 30, 2007 census data submitted by PRGERS, we observed several areas where data was missing, inconsistent, or invalid. We reviewed each issue and presented an analysis to PRGERS that consisted of a description of the data issue, a proposed solution, and a brief rationale supporting the

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION IX – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2007

proposed solution. The recommendations were reviewed by PRGERS staff, revised as applicable, and applied to the census data in order to prepare it for use in the valuation. The majority of the data edits and assumptions were applied to the following data items:

- Date of birth
- Date of hire
- Salary
- Entity class
- Agency code
- Coordinated Plan / Supplementation Plan indicator
- Plan Code

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

The disability benefits provided by a private insurance long term disability program to active members of System 2000 who voluntarily elect to enroll are not considered to be a Basic System Benefit nor a System Administered Benefit for purposes of the actuarial valuation since these benefits are financed solely by employees. As a result, these benefits are not reflected in this report. (Please see Management's Discussion and Analysis on page 9 of the System's June 30, 2007 Basic Financial Statements.)

Moreover, this report does not address the guarantee insurance reserve for life insurance on loans to plan members. (Please see Notes to Basic Financial Statements on page 15 and Statements of Plan Net Assets on page 12 of the System's June 30, 2007 Basic Financial Statements.)

Changes in actuarial assumptions since the prior valuation: Demographic assumptions used in this valuation were developed by analyzing the cumulative experience between census data files as of June 30, 2003 and June 30, 2007 provided by the System, and also reflect input from System personnel.

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PUERTO RICO GOVERNMENT EMPLOYEES RETIREMENT SYSTEM

SECTION X – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2007

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

Actuarial Cost Method

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

Asset Valuation Method

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

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