



COMMONWEALTH OF PUERTO RICO

**DEFINED BENEFIT PENSION PLAN FOR PARTICIPANTS OF THE
EMPLOYEES' RETIREMENT SYSTEM OF THE GOVERNMENT
OF THE COMMONWEALTH OF PUERTO RICO**

Schedule of Employer Allocations and Schedule of
Pension Amounts by Employer

June 30, 2018

(With Independent Auditors' Report Thereon)

COMMONWEALTH OF PUERTO RICO

**Defined Benefit Pension Plan for Participants of the Employees' Retirement System
of the Government of the Commonwealth of Puerto Rico**

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Independent Auditors' Report

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

We have audited the accompanying schedule of employer allocations of the Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) as of and for the year ended June 30, 2018, and the related notes. We have also audited the total for all entities of the columns titled total pension liability, total deferred outflow of resources, total deferred inflows of resources, and total pension expense (benefit) (specified column totals) included in the accompanying schedule of pension amounts by employer of the Plan as of and for the year ended June 30, 2018, and the related notes.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

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

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



Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and total pension liability, total deferred outflow of resources, total deferred inflows of resources, and total pension expense (benefit) for the total of all participating entities for the Plan as of and for the year ended June 30, 2018, in accordance with U. S. generally accepted accounting principles.

Emphasis of Matter

As further discussed in note 1, effective July 1, 2017 all employers' contributions were eliminated, and the Commonwealth implemented a new "pay-as-you-go" (PayGo) system for the payment of pensions. Our opinions are not modified with respect to this matter.

Other Matter

The supplemental schedules of intra-entity allocations – primary government – excluding blended component units and intra-entity pension amounts – primary government – excluding blended component units on pages 15 and 16 have not been subjected to the auditing procedures applied in the audit of the schedule of employer allocations and the schedule of pension amounts by employer and accordingly, we do not express an opinion or provide any assurance on them.

Restriction on Use

Our report is intended solely for the information and use of management of the Commonwealth of Puerto Rico and its component units and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

San Juan, Puerto Rico
August 12, 2021

Stamp No. E453522 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

COMMONWEALTH OF PUERTO RICO

Defined Benefit Plan for Participants of the Employees' Retirement System
of the Government of the Commonwealth of Puerto Rico

Schedule of Employer Allocations

As of and for the year ended June 30, 2018

Agency Code	Agency Name	For the year ended June 30, 2018		As of June 30, 2018
		Actual benefit payments	Benefit payments for allocation	Employer allocation percentage
various	Commonwealth of Puerto Rico - Primary Government - Excluding blended component units	\$ 977,408,918	957,409,121	71.80051%
	Blended component units:			
115	Corporación de Servicio Centro Médico	24,528,428	24,202,626	1.81507%
203	Autoridad de Edificios Públicos	22,520,894	22,142,173	1.66054%
292	Administración de Seguros de Salud	344,368	302,158	0.02266%
502	Aut de Transporte Maritimo	607,369	589,895	0.04424%
512	Administracion Financiamiento Infraestructura (AFI)	147,039	147,039	0.01103%
	Subtotal for the Commonwealth of Puerto Rico - Primary Government	1,025,557,016	1,004,793,011	75.35405%
	Discretely presented component units:			
163	Fondo del Seguro del Estado	96,126,203	94,596,560	7.09423%
196	Instituto de Cultura Puertorriqueña	3,304,335	3,201,827	0.24012%
201	Autoridad de Acueductos y Alcantarillados	92,200,341	91,086,558	6.83100%
205	Autoridad Metropolitana de Autobuses	13,486,276	13,221,480	0.99154%
206	Autoridad de los Puertos	25,091,538	24,808,085	1.86047%
207	Autoridad de Tierras de P.R.	3,247,963	3,182,805	0.23869%
208	Autoridad de Carreteras	33,117,710	32,696,217	2.45204%
209	Autoridad de Naviera de PR	311,340	311,340	0.02335%
210	Autoridad para el Manejo de los Desperdicios Sólidos	374,742	343,696	0.02578%
211	Administración de Terrenos	2,118,782	2,117,782	0.15882%
212	Corporación del Centro de Bellas Artes, Luis A. Ferré	367,405	344,986	0.02587%
214	Administración de Compensaciones de Accidentes de Auto	12,599,116	12,505,659	0.93786%
217	Corporación de las Artes Musicales	410,305	380,482	0.02853%
219	Banco Gubernamental de Fomento	6,624,235	6,539,166	0.49040%
219a	Turísticas, Educativas, Médicas y de Control Ambiental (AFICA)	52,538	39,841	0.00299%
219c	Sub-Fondo Desarrollo Turismo (TDF)	26,157	7,111	0.00053%
221	Corporación para el Desarrollo de Comercios y Exportaciones	2,581,882	2,548,939	0.19116%
222	Compañía de Fomento Industrial (PRIDCO)	15,123,763	14,898,824	1.11733%
223	Compañía de Desarrollo Coop. de P.R.	46,004	46,004	0.00345%
224	Compañía de Turismo	5,782,413	5,736,614	0.43022%
227	Corporación del Centro Cardiovascular	1,430,209	1,344,496	0.10083%
228	Crop. Sup. Y Seg. Coop. (COSSEC)	545,093	506,211	0.03796%
229	Corporación Azucarera de PR (Land Authority)	2,573,345	2,569,345	0.19269%
235	Autoridad de Conservación y Desarrollo de Culebra	17,037	6,300	0.00047%
241	Administración de Servicios y Desarrollo Agropecuario	8,770,581	8,657,327	0.64925%
245	Banco de Desarrollo Economico (EDB)	1,111,204	1,106,949	0.08302%
249	Corporación para la Difusión Pública	1,197,111	1,163,251	0.08724%
270	Corporación de Seguros Agrícolas	113,137	105,519	0.00791%
271	Fideicomiso Institucional de la Guardia Nacional	46,006	46,006	0.00345%
272	Escuela de Artes Plásticas	329,716	234,466	0.01758%
293	Consejo de Educación Superior	105,225	61,007	0.00458%
295	Corporación Conservatorio de Música	540,933	540,933	0.04057%
507	Comisión Energía de PR	18,900	18,900	0.00142%
511	Administracion Financiamiento Vivienda (AFV)	3,698,171	3,661,639	0.27460%
	Total	\$ 1,359,046,729	1,333,429,336	100.00000%

See accompanying notes to schedule of employer allocations and schedule of pension amounts by employer.

COMMONWEALTH OF PUERTO RICO

Defined Benefit Plan for Participants of the Employees' Retirement System
of the Government of the Commonwealth of Puerto Rico

Schedule of Pension Amounts by Employer

As of and for the year ended June 30, 2018

Agency Code	Agency Name	Total pension liability as of June 30, 2018	Deferred outflows of resources		Deferred inflows of resources			Pension expense			
			Changes in Proportion	Total deferred outflows of resources	Differences between actual and expected experience	Changes of assumptions	Changes in Proportion	Total deferred inflows of resources	Proportionate share of pension expense	Net amortization from changes in proportion	Total pension expense
various	Commonwealth of Puerto Rico - Primary Government - Excluding blended component units:	\$ 17,583,600,749	17,255,748	17,255,748	531,818,653	576,603,337	148,941,475	1,257,363,465	(601,616,998)	(26,337,149)	(627,954,147)
115	Corporación de Servicio Centro Médico	444,501,001	-	-	13,444,000	14,576,125	4,797,651	32,817,776	(15,208,453)	(959,530)	(16,167,983)
203	Autoridad de Edificios Públicos	406,659,098	11,801,907	11,801,907	12,299,466	13,335,209	-	25,634,675	(13,913,705)	2,360,382	(11,553,323)
292	Administración de Seguros de Salud	5,549,379	368,180	368,180	167,842	181,976	-	349,818	(189,870)	73,636	(116,234)
502	Aut de Transporte Marítimo	10,833,904	-	-	327,673	355,267	704,132	1,387,072	(370,678)	(140,826)	(511,504)
512	Administración Financiamiento Infraestructura (AFI)	2,700,491	151,483	151,483	81,677	88,555	-	170,232	(92,396)	30,297	(62,099)
	Subtotal for the Commonwealth of Puerto Rico - Primary Government	18,453,844,622	29,577,318	29,577,318	558,139,311	605,140,469	154,443,258	1,317,723,038	(631,392,100)	(24,973,190)	(656,365,290)
	Discretely presented component units:										
163	Fondo del Seguro del Estado	1,737,343,112	85,941,693	85,941,693	52,546,204	56,971,143	-	109,517,347	(59,442,611)	17,188,339	(42,254,272)
196	Instituto de Cultura Puertorriqueña	58,804,169	866,397	866,397	1,778,541	1,928,313	-	3,706,854	(2,011,965)	173,279	(1,838,686)
201	Autoridad de Acueductos y Alcantarillados	1,672,879,058	4,019,955	4,019,955	50,596,479	54,857,231	-	105,453,710	(57,236,995)	803,991	(56,433,004)
205	Autoridad Metropolitana de Autobuses	242,823,282	-	-	7,344,227	7,962,687	9,005,059	24,311,973	(8,308,117)	(1,801,012)	(10,109,129)
206	Autoridad de los Puertos	455,620,750	4,014,284	4,014,284	13,780,318	14,940,765	-	28,721,083	(15,588,911)	802,857	(14,786,054)
207	Autoridad de Tierras de P.R.	58,454,814	-	-	1,767,975	1,916,857	957,772	4,642,604	(2,000,012)	(191,555)	(2,191,567)
208	Autoridad de Carreteras	600,492,739	9,999,077	9,999,077	18,161,993	19,691,423	-	37,853,416	(20,545,657)	1,999,816	(18,545,841)
209	Autoridad de Naviera de PR	5,718,013	99,552	99,552	172,942	187,506	-	360,448	(195,640)	19,910	(175,730)
210	Autoridad para el Manejo de los Desperdicios Sólidos	6,312,258	-	-	190,915	206,992	477,021	874,928	(215,972)	(95,404)	(311,376)
211	Administración de Terrenos	38,894,797	952,219	952,219	1,176,379	1,275,442	-	2,451,821	(1,330,772)	190,444	(1,140,328)
212	Corporación del Centro de Bellas Artes, Luis A. Ferré	6,335,950	467,459	467,459	191,632	207,769	-	399,401	(216,782)	93,492	(123,290)
214	Administración de Compensaciones de Accidentes de Auto	229,676,645	8,410,976	8,410,976	6,946,605	7,531,581	-	14,478,186	(7,858,309)	1,682,195	(6,176,114)
217	Corporación de las Artes Musicales	6,987,863	141,554	141,554	211,349	229,147	-	440,496	(239,087)	28,311	(210,776)

COMMONWEALTH OF PUERTO RICO

Defined Benefit Plan for Participants of the Employees' Retirement System
of the Government of the Commonwealth of Puerto Rico

Schedule of Pension Amounts by Employer

As of and for the year ended June 30, 2018

Agency Code	Agency Name	Total pension liability as of June 30, 2018	Deferred outflows of resources		Deferred inflows of resources			Pension expense			
			Changes in Proportion	Total deferred outflows of resources	Differences between actual and expected experience	Changes of assumptions	Changes in Proportion	Total deferred inflows of resources	Proportionate share of pension expense	Net amortization from changes in proportion	Total pension expense
219	Banco Gubernamental de Fomento	\$ 120,097,126	9,710,386	9,710,386	3,632,356	3,938,238	-	7,570,594	(4,109,083)	1,942,077	(2,167,006)
219a	Autoridad para el Financiamiento de Facilidades Industriales, Turísticas, Educativas, Médicas y de Control Ambiental (AFICA)	731,713	34,048	34,048	22,131	23,994	-	46,125	(25,035)	6,810	(18,225)
219c	Sub-Fondo Desarrollo Turismo (TDF)	130,599	7,424	7,424	3,950	4,283	-	8,233	(4,468)	1,485	(2,983)
221	Corporación para el Desarrollo de Comercios y Exportaciones	46,813,347	768,580	768,580	1,415,877	1,535,108	-	2,950,985	(1,601,703)	153,716	(1,447,987)
222	Compañía de Fomento Industrial (PRIDCO)	273,629,075	12,459,277	12,459,277	8,275,953	8,972,874	-	17,248,827	(9,362,127)	2,491,856	(6,870,271)
223	Compañía de Desarrollo Coop. de P.R.	844,901	-	-	25,554	27,706	316,236	369,496	(28,908)	(63,247)	(92,155)
224	Compañía de Turismo	105,357,603	124,809	124,809	3,186,557	3,454,898	-	6,641,455	(3,604,775)	24,962	(3,579,813)
227	Corporación del Centro Cardiovascular	24,692,768	832,942	832,942	746,836	809,728	-	1,556,564	(844,855)	166,589	(678,266)
228	Crop. Sup. Y Seg. Coop. (COSSEC)	9,296,979	672,627	672,627	281,189	304,868	-	586,057	(318,093)	134,526	(183,567)
229	Corporación Azucarera de PR (Land Authority)	47,188,120	-	-	1,427,212	1,547,398	3,799,454	6,774,064	(1,614,526)	(759,891)	(2,374,417)
235	Autoridad de Conservación y Desarrollo de Culebra	115,705	-	-	3,500	3,794	5,632	12,926	(3,959)	(1,126)	(5,085)
241	Administración de Servicios y Desarrollo Agropecuario	158,998,884	-	-	4,808,945	5,213,909	2,696,463	12,719,317	(5,440,093)	(539,293)	(5,979,386)
245	Banco de Desarrollo Economico (EDB)	20,330,023	1,208,772	1,208,772	614,885	666,664	-	1,281,549	(695,585)	241,755	(453,830)
249	Corporación para la Difusión Pública	21,364,055	974,511	974,511	646,159	700,572	-	1,346,731	(730,964)	194,902	(536,062)
270	Corporación de Seguros Agrícolas	1,937,943	-	-	58,613	63,549	75,026	197,188	(66,306)	(15,005)	(81,311)
271	Fideicomiso Institucional de la Guardia Nacional	844,938	24,956	24,956	25,555	27,707	-	53,262	(28,909)	4,991	(23,918)
272	Escuela de Artes Plásticas	4,306,160	79,642	79,642	130,240	141,208	-	271,448	(147,334)	15,928	(131,406)
293	Consejo de Educación Superior	1,120,443	-	-	33,888	36,742	2,299	72,929	(38,336)	(460)	(38,796)
295	Corporación Conservatorio de Música	9,934,677	253,147	253,147	300,476	325,779	-	626,255	(339,912)	50,629	(289,283)
507	Comisión Energía de PR	347,114	-	-	10,499	11,383	4,175	26,057	(11,876)	(835)	(12,711)
511	Administración Financiamiento Vivienda (AFV)	67,248,992	140,790	140,790	2,033,956	2,205,236	-	4,239,192	(2,300,902)	28,158	(2,272,744)
	Total	\$ 24,489,519,237	171,782,395	171,782,395	740,689,201	803,062,963	171,782,395	1,715,534,559	(837,900,679)	-	(837,900,679)

See accompanying notes to schedule of employer allocations and schedule of pension amounts by employer.

COMMONWEALTH OF PUERTO RICO

Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico

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

June 30, 2018

(1) Plan Description and Basis of Presentation

The Defined Benefit Pension Plan for Participants of the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the Commonwealth) (the Plan) was created pursuant to Act No. 447 on May 15, 1951, as amended (Act No. 447) to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities. Prior to the effect of Act No. 106 of August 23, 2017 (Act No. 106-2017) the Plan was administered by the Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the System). Effective July 1, 2017, all employer contributions were eliminated pursuant to Act No. 106-2017 and the Commonwealth implemented a "pay-as-you-go" (PayGo) system for the payment of pensions. Also pursuant to Act No. 106-2017, the System was required to liquidate its assets and transfer the net proceeds to the Department of Treasury of the Commonwealth to pay pension benefits.

As a result of the implementation of the PayGo system, the Plan does not meet the criteria in paragraph 4 of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, to be considered a plan that is administered through a trust or equivalent arrangement and, therefore, is required to apply the guidance in GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Under the guidance of GASB Statement No. 73, the Commonwealth and its component units are considered to be one employer, and are classified for financial reporting purposes as a single-employer defined benefit pension plan. Therefore, the accompanying schedule of employer allocations and the schedule of pension amounts by employer (collectively, the Schedules) present the pension amounts attributable to the Commonwealth reporting entity (i.e., the Commonwealth and its component units).

The Schedules present amounts that are considered elements of the financial statements of the Commonwealth or its component units. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the Commonwealth or its component units.

The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Commonwealth to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

(2) Pension Benefits

The benefits provided to the Plan participants are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval, or by court decision.

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

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).

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June 30, 2018

- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013. Also, Act No. 3 of April 4, 2013 (Act No. 3 of 2013) froze all retirement benefits accrued through June 30, 2013 under the defined benefit program and, thereafter, all future benefits accrued under the defined contribution formula used for the System 2000 program participants.

(a) Service Retirement Eligibility Requirements

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

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

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

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

COMMONWEALTH OF PUERTO RICO

**Defined Benefit Pension Plan for Participants of the Employees' Retirement System
of the Government of the Commonwealth of Puerto Rico**

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

June 30, 2018

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

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

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

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

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

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

(b) Compulsory Retirement

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

(c) Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the Defined Contribution Hybrid Contribution Account at the time of retirement, plus, for Act No. 447 and

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Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the Defined Contribution Hybrid Contribution Account is \$10,000 or less, it shall be paid as a lump sum instead of as an annuity. For System 2000 participants this service retirement annuity benefit is not available.

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

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

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is re-calculated at SSRA as 1.5% of average compensation up to \$6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of \$6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre-July 1, 2013 contributions; the contributions to the Defined Contribution Hybrid Contribution Account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is re-calculated at SSRA as 1% of average compensation up to \$6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to \$6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of \$6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of \$6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

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

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

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

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

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

(d) Special Benefits

(1) Minimum Benefits

- Past Ad hoc Increases

The legislature, from time to time, increases pensions for certain retirees as described in Act No. 124 approved on June 8, 1973 and Act No. 23 approved on September 23, 1983.

- Minimum Benefits for Members who Retired before July 1, 2013 (Act No. 156 of 2004, Act No. 35 of 2007, and Act No. 3 of 2013).

The minimum monthly lifetime income for members who retired or become disabled before July 1, 2013 is \$500 per month effective July 1, 2013 (\$400 per month effective July 1, 2007 and \$300 per month up to June 30, 2007).

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- 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.

(2) *Cost-of-Living Adjustments (COLA) to Pension Benefits*

The Legislature, from time to time, increased 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 No. 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 No. 35 of 2007). In addition, effective July 1, 2008, any retired or disabled member that was receiving a monthly annuity on or before January 1, 2004 less than \$1,250 per month received an increase of up to 3% without exceeding the limit of \$1,250 per month (Act No. 35 of 2007).

(3) *Special "Bonus" Benefits*

- Christmas Bonus (Act No. 144, as Amended by Act No. 3)

An annual bonus of \$200 for each retiree, beneficiary, and disabled member paid in December provided the member retired prior to July 1, 2013.

- Medication Bonus (Act No. 155, as Amended by Act No. 3)

An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the member retired prior to July 1, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries.

(3) **Allocation Methodology**

GASB Statement No. 73 requires that the primary government and the component units that provide pensions through the same defined benefit pension plan of its primary government, recognize their proportionate share of the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense (benefit). The employer allocation percentage presented in the accompanying schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratio of each participating entity's actual benefit payments for allocation to the aggregate total of benefit payments for allocation paid by all participating entities during the year ending on the measurement date. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of pension amounts by employer may result in immaterial differences. The difference between the actual benefits payments column and the benefits payments for allocation in the accompanying schedule of employer allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.

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(4) Total Pension Liability and Actuarial Information

The total pension liability was approximately \$24.5 billion as of June 30, 2018. The total pension liability as of June 30, 2018 was determined by an actuarial valuation as of July 1, 2017 which was rolled forward to June 30, 2018 (measurement date as of June 30, 2018).

(a) Actuarial Methods and Assumptions

The actuarial valuation used the following actuarial assumptions applied to all periods in the measurement period.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the Commonwealth. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality

The mortality tables used in the June 30, 2018 actuarial valuation were as follows:

— *Pre-retirement Mortality*

For general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. For members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year and projected forward using MP-2018 on a generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date.

100% of deaths while in active service are assumed to be occupational for members covered under Act 127.

— *Post-retirement Healthy Mortality*

Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

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— *Post-retirement Disabled Mortality*

Rates which vary by gender are assumed for disabled retirees based on a study of the Plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP-1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2018 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Other Assumptions as of June 30, 2018

Actuarial cost method	Entry age normal
Inflation rate	Not applicable
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2021 as a result of Act No. 3-2017, four-year extension of Act No. 66-2014, and the current general economy.

(b) Sensitivity of the Total Pension Liability to Changes in the Discount Rate

The following presents the total pension liability calculated using the discount rate of 3.87%, as well as what it would be if it were calculated using the discount rate of 1-percentage point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate (dollars in thousands):

	<u>1% decrease (2.87%)</u>	<u>Current discount rate (3.87%)</u>	<u>1% increase (4.87%)</u>
Total pension liability	\$ (27,867,177,370)	(24,489,519,237)	(21,748,529,473)

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

The following presents a summary of changes in the deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2018:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred inflows of resources:						
Difference between expected and actual experience	2018	6 years	—	888,827,041	148,137,840	740,689,201
Changes of assumptions	2018	6 years	—	963,675,556	160,612,593	803,062,963
Total			\$ —	<u>1,852,502,597</u>	<u>308,750,433</u>	<u>1,543,752,164</u>

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Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions at June 30, 2018 will be recognized in pension expense (benefit) in future years as follows:

	Amount
Year ending June 30:	
2019	\$ (308,750,433)
2020	(308,750,433)
2021	(308,750,433)
2022	(308,750,433)
2023	(308,750,432)
Total	\$ (1,543,752,164)

The previous amounts do not include employer specific deferred outflows and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 6 years for 2018.

(6) Pension Expense (Benefit)

The components of allocable pension expense (benefit) for the year ended June 30, 2018 are as follows:

	Amount
Service cost	\$ 72,731,967
Interest on total pension liability	931,059,441
Effect of plan changes	(1,532,941,654)
Recognition (amortization) of deferred inflows/outflows of resources:	
Difference between expected and actual experience	(148,137,840)
Changes of assumptions	(160,612,593)
Pension expense (benefit)	\$ (837,900,679)

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Supplemental Schedule of Intra-entity Allocations

Primary Government - Excluding Blended Component Units (Unaudited)

June 30, 2018

Agency Code	Agency Name	For the year ended June 30, 2018		As of July 1, 2018
		Actual benefit payments	Benefit payments for allocation	Employer allocation percentage
various	Commonwealth of Puerto Rico - Primary Government - Excluding blended component units - other agencies	\$ 904,541,994	886,162,059	66.45737%
101	Senado de Puerto Rico	4,301,905	4,268,745	0.32013%
103	Cámara de Representantes de P.R.	3,273,528	3,242,677	0.24318%
114	Oficina del Contralor	6,183,753	6,021,596	0.45159%
135	Departamento de Hacienda	38,468,268	38,033,547	2.85231%
135a	Loteria Tradicional	2,765,602	2,607,521	0.19555%
135b	Loteria Electronica (Lotto)	204,607	7,007	0.00053%
168	Departamento de la Vivienda	9,627,177	9,419,945	0.70645%
237	Departamento de Desarrollo Económico	1,248,929	1,163,139	0.08723%
242	Oficina de Etica Gubernamental	488,220	452,913	0.03397%
243	Instituto de Ciencias Forenses	1,599,171	1,555,189	0.11663%
250	Independiente	11,094	8,600	0.00064%
262	Oficina de Preservación Histórica (ICP)	192,194	192,194	0.01441%
264	Oficina de Servicios Legislativos	913,407	892,118	0.06690%
265	Superintendencia del Capitolio	566,327	565,327	0.04240%
266	Administración de Vivienda Pública	2,779,276	2,670,998	0.20031%
296	Junta de Gobierno Servicio 911	243,467	145,547	0.01092%
	Total	\$ 977,408,918	957,409,121	71.80051%

See accompanying notes to supplemental schedules and independent auditors' report.

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Defined Benefit Plan for Participants of the Employees' Retirement System
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Supplemental Schedule of Intra-entity Pension Amounts

Primary Government - Excluding Blended Component Units (Unaudited)

June 30, 2018

Agency Code	Agency Name	Total pension liability as of June 30, 2018	Deferred outflows of resources		Deferred inflows of resources			Pension expense			
			Changes in Proportion	Total deferred outflows of resources	Differences between actual and expected experience	Changes of assumptions	Changes in Proportion	Total deferred inflows of resources	Proportionate share of pension expense	Net amortization from changes in proportion	Total pension expense
various	Commonwealth of Puerto Rico - Primary Government - Excluding blended component units - other agencies	\$ 16,275,090,226	-	-	492,242,554	533,694,518	147,432,948	1,173,370,020	(556,846,750)	(29,486,596)	(586,333,346)
101	Senado de Puerto Rico	78,398,990	-	-	2,371,189	2,570,868	583,835	5,525,892	(2,682,395)	(116,767)	(2,799,162)
103	Cámara de Representantes de P.R.	59,554,412	1,012,820	1,012,820	1,801,232	1,952,915	-	3,754,147	(2,037,634)	202,564	(1,835,070)
114	Oficina del Contralor Departamento de	110,591,530	1,331,287	1,331,287	3,344,858	3,626,529	-	6,971,387	(3,783,852)	266,258	(3,517,594)
135	Hacienda	698,517,165	9,885,513	9,885,513	21,126,757	22,905,850	-	44,032,607	(23,899,530)	1,977,103	(21,922,427)
135a	Lotería Tradicional	47,889,254	-	-	1,448,418	1,570,390	899,657	3,918,465	(1,638,515)	(179,932)	(1,818,447)
135b	Lotería Electrónica (Lotto)	128,689	-	-	3,892	4,220	11,002	19,114	(4,403)	(2,200)	(6,603)
168	Departamento de la Vivienda	173,004,986	313,953	313,953	5,232,562	5,673,198	-	10,905,760	(5,919,308)	62,791	(5,856,517)
237	Departamento de Desarrollo Económico	21,361,998	1,195,774	1,195,774	646,097	700,505	-	1,346,602	(730,894)	239,155	(491,739)
242	Oficina de Ética Gubernamental	8,318,117	447,982	447,982	251,583	272,769	-	524,352	(284,602)	89,597	(195,005)
243	Instituto de Ciencias Forenses	28,562,317	101,528	101,528	863,872	936,619	-	1,800,491	(977,250)	20,306	(956,944)
250	Fiscal Especial Independiente	157,946	-	-	4,777	5,179	14,033	23,989	(5,404)	(2,807)	(8,211)
262	Oficina de Preservación Histórica (ICP)	3,529,800	197,401	197,401	106,759	115,750	-	222,509	(120,771)	39,480	(81,291)
264	Oficina de Servicios Legislativos	16,384,476	583,656	583,656	495,551	537,282	-	1,032,833	(560,589)	116,731	(443,858)
265	Superintendencia del Capitolio	10,382,692	353,193	353,193	314,026	340,470	-	654,496	(355,240)	70,639	(284,601)
266	Administración de Vivienda Pública	49,055,061	1,692,939	1,692,939	1,483,678	1,608,619	-	3,092,297	(1,678,402)	338,588	(1,339,814)
296	Junta de Gobierno Servicio 911	2,673,090	139,702	139,702	80,848	87,656	-	168,504	(91,459)	27,941	(63,518)
	Total	\$ 17,583,600,749	17,255,748	17,255,748	531,818,653	576,603,337	148,941,475	1,257,363,465	(601,616,998)	(26,337,149)	(627,954,147)

See accompanying notes to supplemental schedules and independent auditors' report.

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Notes to Supplemental Schedules of Intra-entity Allocations and Intra-entity Pension Amounts –
Primary Government – Excluding Blended Component Units

June 30, 2018

The accompanying supplemental schedules of intra-entity allocations and intra-entity pension amounts are provided to assist in allocating the pension amounts that will be reported by the Primary Government of the Commonwealth of Puerto Rico with respect to its agencies and departments. For this purpose, the employer allocation percentage presented in the accompanying supplemental schedule of intra-entity allocations, and that have been applied to the amounts presented in the accompanying supplemental schedule of intra-entity pension amounts is based on the ratio of actual benefit payments for allocation by each agency or department to the aggregate total of benefit payments for allocation paid by all participating entities during the year ended on the measurement date. The difference between the benefits payments column and the benefits payments for allocation in the accompanying supplemental schedule of intra-entity allocations represents lump-sum distributions of accumulated benefits that were not considered for allocation purposes.