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OFICINA DE ESTUDIOS
ACTUARIALES E INVERSIONES

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October 7, 1998

Sr. Andres Barbeito
Administrator
Administracion de los Sistemas
de Retiro de los Empleados del
Gobierno y la Judicatura
Avenue Ponce de Leon #437
esq. Martienzo Cintron, Parada 32 1/2
Hato Rey, Puerto Rico 00940

Dear Andres:

**THE JUDICIARY RETIREMENT SYSTEM OF
THE GOVERNMENT OF PUERTO RICO AND ITS INSTRUMENTALITIES**

Enclosed are the following exhibits relating to our most recent actuarial valuation for the above:

1. The Summary of Pension Benefit Obligations and Market Value of Assets as of July 1, 1998
2. The Summary of Accounting under GASB Statement #27
3. The Summary of Actuarial Methods and Assumptions as of July 1, 1998
4. The Summary of Plan Provisions as of July 1, 1998

Please let me know if your review raises any questions.

Sincerely,


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Enclosures

VIA COURIER

The Judiciary Retirement System of the Government of Puerto Rico and Its Instrumentalities

Summary of Pension Benefit Obligations and Market Value of Assets

	July 1, 1996	July 1, 1997	July 1, 1998
(a) Retirees, beneficiaries, and terminated employees	\$ 33,100,000	\$ 41,200,000	\$ 50,500,000
(b) Current employees:			
Accumulated employee contributions	\$ 12,000,000	\$ 9,200,000	\$ 15,000,000
Employer-financed vested benefits	15,400,000	21,400,000	24,100,000
Employer-financed non-vested benefits	<u>2,600,000</u>	<u>4,700,000</u>	<u>6,000,000</u>
Total	\$ 30,000,000	\$ 35,300,000	\$ 45,100,000
(c) Total pension benefit obligation: (a) + (b)	\$ 63,100,000	\$ 76,500,000	\$ 95,600,000
(d) Net assets available for benefits	50,000,000	57,300,000	67,200,000
(e) Unfunded pension benefit obligation: (c)-(d)	13,100,000	19,200,000	28,400,000

The Judiciary Retirement System of the Government of Puerto Rico and Its Instrumentalities
Summary of Accounting under GASB Statement #27

Annual Pension Cost for Fiscal Year Commencing July 1, 1997

■ Annual Required Contributions (ARC)	\$ 2,782,000
■ Interest on NPO	(1,130,000)
■ ARC Adjustment	<u>1,707,000</u>
■ Total	\$ 3,359,000
■ % of Payroll	18.7%

Net Pension Obligation (NPO) as of June 30, 1997 — Liability/(Asset)

Annual Pension Cost	3,359,000
Total Contributions with Interest	<u>(\$ 6,371,000)</u>
Net Pension Obligation (NPO) as of June 30, 1998 — Liability/(Asset)	(\$ 16,301,000)

Commonwealth of Puerto Rico
Retirement System of the Government of Puerto Rico and Its Instrumentalities

Summary of Actuarial Methods and Assumptions as of July 1, 1998

Actuarial Method

Projected Unit Credit Cost Method

Actuarial Assumptions

- | | | |
|----|---|--|
| 1. | Interest Rate | 8.5% a year |
| 2. | Salary Increases | 5.0% a year |
| 3. | Mortality | GA'51 Mortality Table set forward two years (see table) |
| 4. | Termination | Medium Turnover Table commensurate with anticipated experience (see table) |
| 5. | Disability | 65% of Third Railroad Retirement Table Rates (see table) |
| 6. | Retirement Age | Graded scale of retirement ages commensurate with anticipated experience (see table) |
| 7. | Proportion of Participants with Spouses | 80% of participants assumed to be married, with wives assumed to be four years younger than husbands |
| 8. | Number of Employees Electing Higher Contributions | 15% of retiring employees assumed to pay retroactive contributions at retirement |
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Table of Mortality, Disability and Termination Assumptions

Age	Annual Rate per 1,000 Participants					
	Mortality		Disability		Termination	
	Male	Female	Male	Female	Male	Female
15 - 19	0.595	0.517	1.560	2.340	85.0	85.0
20 - 24	0.724	0.595	1.560	2.340	62.0	62.0
25 - 29	0.935	0.724	1.560	2.340	45.0	45.0
30 - 34	1.281	0.935	1.586	2.382	36.5	36.5
35 - 39	1.849	1.281	1.729	2.594	30.0	30.0
40 - 44	3.147	1.849	2.067	3.101	25.0	25.0
45 - 49	5.807	3.147	3.237	4.856	14.0	14.0
50 - 54	9.563	5.807	6.013	9.022	6.0	6.0
55 - 59	14.379	9.563	12.084	18.129	1.0	1.0
60 - 64	22.067	14.379	20.046	30.069	0.0	0.0
65 - 69	35.943	22.067	21.320	31.980	—	—
70 - 74	57.077	35.943	21.320	31.980	—	—
75 - 79	90.946	57.077	21.320	31.980	—	—

M - GA '51 + 2

D - 65% 3RR

T - Medium

Table of Retirement Assumptions

<u>Age</u>	<u>Percentage of Employees at a Given Age Retiring During Year</u>
70	100%
69	10
68	10
67	10
66	10
65	10
64	10
63	10
62	10
61	10
60	25
59	10
58	10
57	10
56	10
55	10
54	4
53	4
52	4
51	4
50	4

Sources of Valuation Data

The participant data for the current valuation was a census, supplied by the Retirement System of the Government of Puerto Rico and Its Instrumentalities, of all participants as of July 1, 1998. Current and prior data, upon review, appeared to be consistent.

As of July 1, 1998:

■ Active		
— Number	373	
— Annual Payroll	\$ 21,993,500	
■ Retirees		
— Number	187	
— Annual Benefit Payments	\$ 5,825,557	
■ Beneficiaries		
— Number	52	
— Annual Benefit Payments	\$ 592,498	

Commonwealth of Puerto Rico

Puerto Rico Judiciary Retirement System

Summary of Plan Provisions

Plan Provisions as of July 1, 1998

1. **Effective Date of Plan.** July 1, 1954. Most recent amendment adopted July 28, 1993.
2. **Eligibility.** All persons holding a position as Justice of the Supreme Court, Judge of the Superior Court or the District Court, or Municipal Judges of the Commonwealth of Puerto Rico.
3. **Definitions.**
 - a. **Salary.** Annual compensation received by a judge for his services in that capacity.
 - b. **Final Average Earnings.** The average of the annual salaries in the last three consecutive years of Credited Service, ending on the earliest of termination, early retirement or normal retirement date. (Effective July 28, 1993, average replaced by highest annual salary as a judge.)
 - c. **Credited Service.** The years and months (where fractional months are counted as full months of service) of plan participation, beginning on Date Credit Begins and ending on date of separation from service. All intervening periods of resignation or expiration of the appointed or elective term are excluded. Periods for which no contributions have been made or for which contributions were refunded are also excluded. However, credit will be granted for refund periods if the participant returns any refunded Accumulated Contributions to the plan.
 - d. **Actuarial Equivalent.** The amount of pension payable at a commencement date other than normal retirement or payable to a survivor which may be funded by the total contributions accrued toward a pension payable at normal retirement of the participant. The equivalence is calculated based on annuity and mortality tables adopted by the Board of Trustees and based on the actual experience of the System with the recommendations of the actuary.
 - e. **Interest Credit.** The annual rate of 2½%, or any other rate recommended by the Board of Trustees, based on the experience of the System.
 - f. **Accumulated Contributions.** The sum of all participant contributions, credited and compounded with Interest Credit.

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Judiciary Retirement System**

g. Date Credit Begins.

- i. **Participants with eight or more years of Credited Service as a judge.** Credit begins on the earlier of the day of appointment as a judge or the day first employed by the Government of Puerto Rico.
- ii. **Participants with less than eight years of Credited Service as a judge.** Credit begins on the day of appointment as a judge.

4. Normal Retirement Pension.

a. Participants Eligible. All participants on the date coinciding with the attainment of:

- i. **Benefit (1).** Age 60 and 10 years of Credited Service; serving as judge with a fixed term of duration.
- ii. **Benefit (2).** Age 60 and 10 years of Credited Service; serving as judge without a fixed term of duration.
- iii. **Benefit (3).**
 - A. 30 years of Credited Service before age 60, 8 of which were in service as a judge or
 - B. Age and Credited Service according to the following table with the last 8 years in service as a judge:

<u>Age</u>	<u>Credited Service</u>
62	20
61	21
60	22
59	23
58	24
57	25
56	26
55	27

b. Pension Benefit. Corresponding to eligibility above:

- i. **Benefit (1).** 25% of Final Average Earnings, plus 4 1/6% of Final Average Earnings times Credited Service in excess of 10 years. (Effective July 28, 1993, percentage increases to 5% for Credited Service in excess of 10 years.)

Maximum: 75% of Final Average Earnings.

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Judiciary Retirement System**

- ii. **Benefit (2).** The sum of (A) and (B), but in no event to exceed (C):
 - A. **If served as a judge for 8 years (not necessarily consecutive).** 50% of final Salary
 - If served as a judge for less than 8 years.** 25% of final Salary
 - B. 4 1/6% of final Salary times Credited Service in excess of 10 years.
 - C. 75% of final Salary.
- iii. **Benefit (3).** 75% of Final Average Earnings.

5. Early Retirement Pension.

- a. **Participants Eligible.** All participants on the date coinciding with the attainment of:
 - i. **Benefit (1).** 20 years of Credited Service before age 60; serving as judge with a fixed term of duration.
 - ii. **Benefit (2).** 20 years of Credited Service before age 60; serving as judge without a fixed term of duration.
 - iii. **Benefit (3).**
 - A. 30 years of Credited Service before age 60, 8 of which were in service as a judge.
 - B. 20 years of Credited Service with the last 8 years in service as a judge.
- b. **Pension Benefit.** Corresponding to eligibility above:
 - i. **Benefit (1).** Accrued Normal Retirement Benefit, based on Final Average Earnings and Credited Service at early retirement, actuarially reduced for each year payment commences before age 60.
 - ii. **Benefit (2).** Accrued Normal Retirement Benefit, based on final Salary and Credited Service at early retirement, with no reduction for early commencement of payment.

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iii. **Benefit (3).** Accrued Normal Retirement Benefit, based on Final Average Earnings at early retirement, adjusted as follows, according to eligibility:

- A. No reduction for early commencement of payment.
- B. Actuarially reduced for each year payment commences before earliest age at which unreduced benefit is first payable, in accordance with 4(a)(iii).

6. **Postponed Retirement Pension.**

- a. **Participants Eligible.** Participants may remain in service until any age. There is no mandatory retirement provision.
- b. **Pension Benefit.** The benefits described in 4 above, based on Final Average Earnings (or final Salary) and Credited Service at postponed retirement date. Payment commences on postponed retirement date.

Any participant not fulfilling eligibility requirements for a pension at separation from service receives a full refund of all Accumulated Contributions.

7. **Vested Pension.**

- a. **Participants Eligible.** All participants who terminate employment after completing 10 or more years of Credited Service.
- b. **Vested Pension Benefit.** Accrued Normal Retirement Benefit to termination date. Payments commence upon attainment of age 60.

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

8. **Disability Pension.**

a **Occupational Disability.**

- i. **Participants Eligible.** Any participant certified as incapable or unable to discharge duties as judge by two physicians appointed by Plan Administrator and receiving compensation under the Workmen's Accident Compensation Act.
- ii. **Disability Benefit.** 50% of final Salary at date of separation from service, reduced by any payments received from the State Insurance Fund under the Workmen's Accident Compensation Act.

**Commonwealth of Puerto Rico
Judiciary Retirement System****b. Nonoccupational Disability.**

- i. **Participants Eligible.** Any participant certified as permanently and totally disabled by two physicians appointed by Plan Administrator, and who has attained 10 years of Credited Service but has not yet attained age 60.
- ii. **Disability Benefit.** 30% of Final Average Earnings at date of disability, plus 1% of Final Average Earnings times Credited Service in excess of 10 years.

Maximum: 50% of Final Average Earnings at date of disability.

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

9. Preretirement Death Benefit.**a. Occupational.**

- i. **Beneficiaries Eligible.** The spouse and children, or designated beneficiary of a participant who dies from an employment-related cause under the Workmen's Accident Compensation Act.
- ii. **Spouse's Benefit.** 50% of participant's final Salary at date of death, payable as an annuity until death or remarriage.
- iii. **Children's Benefit.** An annuity for each child of \$10 per month (\$20 if full orphan) payable to child's age 18 or until completion of studies.

Maximum Family Benefit: 75% of participant's final Salary at date of death.

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

b. Nonoccupational.

- i. **Beneficiaries Eligible.** Beneficiaries of any participant who is:
 - A. **Benefit (1).** Ineligible for survivor benefit 9(b)(ii)(B).
 - B. **Benefit (2).** Married or with children under age 21, and has reached attainment of age 60 and 22 years of Credited Service.

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- ii. **Benefits.** Corresponding to eligibility above:
 - A. **Benefit (1).** Benefit payable to designated beneficiary equal to a refund of Accumulated Contributions, plus a lump sum benefit of 100% of final Salary at date of death.
 - B. **Benefit (2).** Benefit equal to 60% of the pension that would have been payable had the participant retired on the date of death.

- 10. **Postretirement Death Benefit.**
 - a. **Beneficiaries Eligible.**
 - A. **Benefit (1).** Single with no minor children, or receiving a life annuity as normal form of payment.
 - B. **Benefit (2).** Married, or with eligible dependents, and receiving joint and survivor annuity as normal form of payment.
 - b. **Benefits.** Corresponding to eligibility above:
 - A. **Benefit (1).** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to date of death, payable to designated beneficiary. Minimum benefit — \$500.
 - B. **Benefit (2).** Lump sum benefit of \$500 payable to designated beneficiary in addition to survivor portion of annuity.

- 11. **Employee Contributions.** All participants are required to make contributions to the Plan equal to 8.0% of Salary throughout active service.

- 12. **Employer Contributions.** The amounts contributed by the Government which, when combined with participant contributions, interest and other income to the System, are adequate to meet the benefit and administrative costs of the System.

- 13. **Forms of Payment.**
 - a. **Normal Form.** 60% joint and survivor annuity, payable to spouse and children under age 21; life annuity if single.
 - b. **Optional Forms.** Reversionary annuity.