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Towers Perrin

December 17, 1999

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, 1999
2. The Summary of Accounting under GASB Statement #27
3. The Summary of Actuarial Methods and Assumptions as of July 1, 1999
4. The Summary of Plan Provisions as of July 1, 1999

Please let me know if your review raises any questions.

Sincerely,



DFD:shd

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, 1997	July 1, 1998	July 1, 1999
(a) Retirees, beneficiaries, and terminated employees	\$ 41,200,000	\$ 50,500,000	\$ 59,800,000
(b) Current employees:			
▪ Accumulated employee contributions	\$ 9,200,000	\$ 15,000,000	\$ 18,300,000
▪ Employer-financed vested benefits	21,400,000	24,100,000	31,100,000
▪ Employer-financed non-vested benefits	<u>4,700,000</u>	<u>6,000,000</u>	<u>9,000,000</u>
Total	\$ 35,300,000	\$ 45,100,000	\$ 58,400,000
(c) Total pension benefit obligation: (a) + (b)	\$ 76,500,000	\$ 95,600,000	\$ 118,200,000
(d) Net assets available for benefits	57,300,000	67,200,000	73,900,000
(e) Unfunded pension benefit obligation: (c)-(d)	19,200,000	28,400,000	44,300,000

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, 1998

■ Annual Required Contributions (ARC)	\$ 4,536,000
■ Interest on NPO	(1,386,000)
■ ARC Adjustment	<u>2,094,000</u>
■ Total	\$ 5,244,000
■ % of Payroll	23.8%

Net Pension Obligation (NPO) as of June 30, 1998 — Liability/(Asset)

(\$ 16,301,000)

Annual Pension Cost

5,244,000

Total Contributions with Interest

8,193,000

Net Pension Obligation (NPO) as of June 30, 1999 — Liability/(Asset)

(\$19,250,000)

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, 1999

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 Exhibit 4) |
| 4. | Termination | Medium Turnover Table commensurate with anticipated experience (see Exhibit 4) |
| 5. | Disability | 65% of Third Railroad Retirement Table Rates (see Exhibit 4) |
| 6. | Retirement Age | Graded scale of retirement ages commensurate with anticipated experience (see Exhibit 5) |
| 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 |
| 9. | Cost-of-Living Adjustment | 3% every third year |

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

Reliances

In developing the results in this report, Towers Perrin relied on the accuracy and completeness of a substantial amount of information provided by The Retirement System of the Government of Puerto Rico and Its Instrumentalities (the System). The accuracy of the results presented are dependent on the accuracy of this information. Although independent verification of this information was not undertaken, Towers Perrin did review certain of the information for reasonableness and consistency. The information relied upon includes, but is not limited to, the following information:

A census of all active and retired participants as of July 1, 1999:

As of July 1, 1999:

▪ Actives	
– Number	355
– Annual Payroll	\$26,249,992
▪ Retirees	
– Number	195
– Annual Benefit Payments	\$6,478,939
▪ Beneficiaries	
– Number	53
– Annual Benefit Payments	\$658,519

Limitations

This report, along with the data, calculations, and projections contained herein, its accompanying appendices are subject to the following limitations:

- This report and any other summaries, reports or other information (written or oral) including any opinions and conclusions contained herein, are for the internal use of the System, and distribution or disclosure hereof (or reference hereto) to any other party is prohibited without Towers Perrin's prior written consent. No mention of this report, in full otherwise, may be made in any prospectus, proxy statement, offering circular or other similar document.
- Towers Perrin has performed the work assigned and has prepared this report in conformity with its intended utilization by a person technically competent in the areas addressed and for the stated purposes only. Judgement as to the data contained in the report should be made only after studying the report and the projection report in its entirety, as the conclusions reached by review of a section in or sections on an isolated basis may be incorrect. Further, members of Towers Perrin staff are available to explain and/or amplify any matter presented herein, and it is assumed that the user of this report will seek such explanation and/or amplification as to any matter in question.

Commonwealth of Puerto Rico

Puerto Rico Judiciary Retirement System

Summary of Plan Provisions

Plan Provisions as of July 1, ²⁰⁰⁰~~1999~~

1. **Effective Date of Plan.** July 1, 1954. Most recent amendment adopted ~~July 28, 1993~~ ^{April, 28, 1996}.
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~~ ^{last 60/97} 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~~ ^{highest salary}, plus ~~4 1/6%~~ ^{1%} of ~~Final Average Earnings~~ ^{highest salary} 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.

Applied for

for each month of

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His pens. increase as his old salary increases.

ii. **Benefit (2).** The sum of (A) and (B), but in no event to exceed (C):

(a) A. **If served as a judge for 8 years (not necessarily consecutive).** 50% of ~~final~~ *highest* Salary

(b) **If served as a judge for less than 8 years.** 25% of ~~final~~ *highest* Salary

B. ~~4 1/6%~~ *25/60 of 1% of highest salary for each month of* of final Salary times Credited Service in excess of 10 years.

C. ~~75%~~ *if (a) 100% of highest salary* 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~~ *highest salary* 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~~ ^{highest salary} 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 ⁷⁰. There is ~~no~~ mandatory retirement provision.
- b. **Pension Benefit.** The benefits described in 4 above, based on ~~Final Average Earnings~~ ^{highest salary} ~~(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.

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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~~ ^{highest salary} at date of disability, plus 1% of ~~Final Average Earnings~~ ^{highest salary} times Credited Service in excess of 10 years.

Maximum: 50% of ~~Final Average Earnings~~ ^{highest salary} 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 deemed adequate to meet the benefit and administrative costs of the System. Currently employer contributions are equal to 20 % of salary.

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.

14. **Indexation.** Effective January 1, 1999 (and every third year thereafter), all annuities in pay status for at least 3 years will be increased by 3%. (Bill no. 177)
15. **Christmas Gift.** All pensioners and beneficiaries are entitled to a Christmas Gift of \$300 per family group, payable in December of each year (Bill no. 109).