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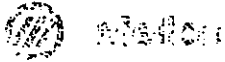
*The Judiciary Retirement System of the
Government of Puerto Rico
and its Instrumentalities*

Actuarial Valuation Report
as of
June 30, 2003

February 16, 2005

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February 16, 2005

Board of Trustees
*The Judiciary Retirement System of the Government
of Puerto Rico and its Instrumentalities*
Ave. Ponce de León #437
Hato Rey, Puerto Rico 00910

June 30, 2003 Actuarial Valuation

Dear Board Members:

Actuarial valuations of the Judiciary Retirement System of Puerto Rico (also the "Retirement System" or the "System") are prepared on an annual basis:

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

The annual actuarial valuation of the Judiciary Retirement System of Puerto Rico, prepared as of June 30, 2003, has been completed. This report presents the results of the actuarial valuation and the contributions payable by the employer to the Retirement System.

Discussion of Valuation Results

The actuarial valuation as of June 30, 2003 indicates that a total employer contribution rate of 33.87% of payroll is required to meet the employer normal cost and to amortize the unfunded actuarial liability over 23 years from July 1, 2003 as a level percentage of payroll. Based on a total payroll of \$25,711,003 as of June 30, 2003, the estimated required actuarial contribution payable by the Government of Puerto Rico would be \$8,707,337.

The actual contributions to the Retirement System are set by legislation of the Government of Puerto Rico. It is our understanding that the current employer contribution rate is 21.53% of salary. Therefore, we estimate an additional contribution of 12.34% of pay (approximately \$3.2 million per year) is recommended for the sound financing of the System. This contribution deficit will continue to deteriorate the financial status of the Retirement System. We recommend consideration of a gradual increase in employer contributions and/or evaluation of Plan benefits in order to help improve the long-term funding of the System.

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Funded Status of Retirement System

Below we present a comparison of the funding ratio of the System as of June 30, 2003 and 2001. The market value of assets as of June 30, 2003 was obtained from the System's audited statements (dated September 26, 2003).

	Funding Ratio Comparison	
	<u>June 30, 2003</u>	<u>June 30, 2001</u>
Actuarial Accrued Liability	\$166,732,009	\$162,186,168
Market Value of Assets	<u>\$61,781,000</u>	<u>\$70,083,000</u>
Unfunded Actuarial Accrued Liability	\$104,951,009	\$92,103,168
Funding Ratio	37.1%	43.2%

The funding ratio has decreased over 6% due mostly to the two-years benefit accumulation, the decrease in assets and employer contributions lower than those actuarially recommended. The annual asset returns for the fiscal years ending June 30, 2002, and 2003 were approximately (12.72%) and 4.45% respectively. Since June 30, 2000 assets have decreased and average of 7.60% per annum. This contrasts with an annual assumed investment return on assets of 8.50%. The aggregate asset losses generated by the difference between the expected 8.50% rate and actual returns for the three-year period ending on June 30, 2003 added up to approximately \$34 million.

Accounting Disclosures (GASB 25/27)

The accounting information required under GASB Statements Nos. 25 and 27 for the fiscal year ending June 30, 2004 is presented in the attached Table I. Information in the schedules before 2001 is derived from the June 30, 2001 financial statements of the Retirement System. We note the reported contributions paid reported for those years on the financial statements appear to include employee contributions. It is our understanding that only employer contributions should be included.

Actuarial Assumptions and Methods, and System Provisions

The valuation is based on actuarial assumptions and methods presented on Table II, including an annual interest rate of 8.5% and salary and total payroll increases of 5.0% per year.

At the request of the System's Administration, the benefit of cost of living increases of 3.00% triennially to present and future retirees, which in past valuations was included as an actuarial obligation of the Retirement System, *has been removed as System liabilities and, therefore, excluded from this valuation.* According to the System, this benefit is granted by legislation and funded on a pay-as-you-go basis by the Puerto Rican Central Government. The Retirement System Administration has stated that this obligation is responsibility of the Government of Puerto Rico, not of the Judiciary Retirement System.

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

In addition, as indicated by the System's Administration, according to the Legal Department of the System, those judges retired from the Supreme Court will receive benefit increases according to the salary increases received by active judges. This benefit has been incorporated to the total liabilities on this valuation. To the best of our knowledge, there have been no other changes in the benefits provided by the Retirement System since the prior valuation. The Plan Provisions sections of the report (Table III) summarize the Retirement System benefits.

Based on our discussions, we understand that the most recent review of the actual experience of the System was performed nearly ten years ago. We suggest the Board consider undertaking an experience study to evaluate the current assumptions and make modifications, if necessary.

Valuation Data

We have prepared the valuation using the System's members data and the financial data provided by the Retirement System. Below we provide a summary of the member data used in the actuarial valuation.

	<u>June 30, 2003</u> <u>Valuation</u>	<u>June 30, 2001</u> <u>Valuation</u>
Actives number	336	359
Actives - annual payroll	\$25,711,003	\$26,700,000
Retirees number	250	224
Retirees - annual benefits	\$9,373,618	\$7,887,742
Beneficiaries number	57	57
Beneficiaries - annual benefits	\$742,676	\$742,676
Deferred vested number	31	31
Deferred vested - annual benefits	\$809,006	\$809,006
Total inactives number	338	312
Total inactives annual benefits	\$10,116,294*	\$8,630,418*

* Excluding benefits of deferred vested employees.

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Certification

Subject to the revision in benefit provisions requested by the Retirement System Administration to the best of our knowledge, the results are complete and accurate and, in our opinion, the techniques and assumptions used are reasonable. There is no benefit or expense to be provided by the Retirement System and/or paid from the System's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. To the best of our ability, all known events or trends that may require a material increase in System costs or required contribution rates have been taken into account in the valuation.

Respectfully submitted,



Héctor D. Gaitán, FCA, ASA, MAAA
Office Manager & Consulting Actuary

ACCOUNTING DISCLOSURES (GASB 25/27)

TABLE I

	For Fiscal Year Ended 06/30/04
1. Number of Plan Members as of 6/30:	
a. Retirees and beneficiaries receiving benefits	2003
b. Terminated plan members entitled to but not yet receiving benefits	307
c. Active plan members	31
d. Total	<u>336</u> 674
2. Development of Annual Required Contribution (ARC):	
a. Valuation date	6/30/03
b. Employer normal cost:	
i. Total normal cost (end of year)	\$ 4,330,529
ii. Expected employee contributions	<u>(2,228,905)</u>
iii. Employer normal cost	\$ 2,101,624
c. Amortization of UAAL:	
i. Actuarial accrued liability (AAL)	\$ 166,732,009
ii. Actuarial value of assets	<u>(61,781,000)</u>
iii. Unfunded AAL (UAAL)	\$ 104,951,009
iv. Amortization of UAAL	6,605,713
d. ARC (Item 2.b.iii. + Item 2.c.iv.)	<u>\$ 8,707,337</u>
3. Annual Pension Cost and Net Pension Obligation (NPO):	
a. ARC	\$ 8,707,337
b. Interest on NPO	(1,261,825)
c. Adjustment to ARC	<u>934,358</u>
d. Annual Pension Cost	\$ 8,379,870
e. Contributions made	N/A
f. Increase (decrease) in NPO	N/A
g. NPO (beginning of year) ⁽¹⁾	<u>(14,845,000)</u>
h. NPO (end of year)	<u>N/A</u>

⁽¹⁾ Net Pension Obligation (NPO) as presented in the audited financial statements of the Commonwealth of Puerto Rico as of June 30, 2003. No actuarial valuation was performed as of June 30, 2002.

ACCOUNTING DISCLOSURES (GASB 25/27)

TABLE I
(continued)

4. Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Contribution Made	Percentage Contributed	(Excess)/ Deficiency
2004	\$ 8,707,337	N/A	N/A	N/A
2003	6,891,708	\$ 5,536,000	80%	\$ (1,355,708)
2002	6,891,708	5,412,000	79%	(1,479,708)
2000	9,216,000	7,300,000	79%	(1,916,000)
1999	4,500,000	7,900,000	176%	3,400,000

5. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Unit Credit (AAL) (b)	Unfunded AAL (not < 0) (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b) - (a)]/(c)
6/30/03	\$ 61,781,000	\$ 166,732,009	\$ 104,951,009	37%	\$25,711,000	408%
6/30/02	60,438,000	N/A	N/A	N/A	N/A	N/A
6/30/01	70,083,000	162,186,168	92,103,168	43%	26,700,000	345%
6/30/00	82,800,000	135,800,000	53,000,000	61%	25,700,000	206%
6/30/99	73,900,000	118,200,000	44,300,000	63%	26,300,000	168%

6. Additional Information

Valuation date:	June 30, 2003
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay
Remaining amortization period:	23 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	8.50% per annum
Projected salary increases*	5.00% per annum
Cost-of-living adjustments	N/A
*Includes inflation at	3.50% per annum

Annual Required Contribution for the year ended June 30, 2001 and 2003 is not available.
Information prior to June 30, 2001 is from June 30, 2001 Audited Financial Statements.

ACTUARIAL ASSUMPTIONS AND METHODS

Table II

1. **Actuarial Cost Method**

Projected Unit Credit, with straight proration based on service to event.

2. **Interest Rate**

8.50% per annum.

3. **Salary Increases**

5.00% per annum.

4. **Decrements**

- **Pre-Retirement Mortality**

1983 Group Annuity Mortality Table set forward two (2) years. It was further assumed that 50% of deaths are occupational and 50% non-occupational.

- **Post-Retirement Mortality**

1983 Group Annuity Mortality Table set forward two (2) years.

- **Post-Retirement Disability Mortality**

Same as regular Post-Retirement Mortality.

- **Permanent Withdrawal from Active Status**

Medium Turnover Table commensurate with anticipated experience. Representative values of the assumed annual rates of withdrawal (per 1,000 members) in active service are set forth in the following table:

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

ACTUARIAL ASSUMPTIONS AND METHODS

Table II

(continued)

- Retirement

Graded scale of retirement ages commensurate with anticipated experience. The percentage of employees retiring at any given age is presented below:

Age	Percent Retiring
50	4%
51	4
52	4
53	4
54	4
55	10
56	10
57	10
58	10
59	10
60	25
61	10
62	10
63	10
64	10
65	10
66	10
67	10
68	10
69	10
70	100

- Disability

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

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

ACTUARIAL ASSUMPTIONS AND METHODS

Table II

(continued)

5. **Cost of Living Adjustment**

None

6. **Proportion of Participants with Spouses**

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

7. **Term as Judge**

Supreme Court judges are assumed to serve with unlimited terms. All other judges are assumed to have a fixed term of duration.

Plan Provisions as of July 1, 2001

Effective Date:

January 1, 1954. Most recent amendment adopted April 28, 1996.

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.

Definitions:

- (a) **Salary:** Annual compensation received by a judge for his services in that capacity.
- (b) **Highest Earnings:** the highest annual salary received as a judge.
- (c) **Credited Service:** the years and months (where fractional months are counted as full months of service) of plan participation, beginning of 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 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.
- (g) **Date Credit Begins:** (i) for 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, or (ii) for participants with **less than eight years** of Credited Service as a judge, Credit begins on the day of appointment as a judge.

SUMMARY OF PLAN PROVISIONS

Table III

(continued)

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 a judge with a fixed term of duration.
 - (ii) **Benefit (2).** Age 60 and 10 year of Credited Service; serving as a 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 Highest Earnings, plus 5% of Highest Earnings times Credited Service in excess of 10 years, to a maximum of 75% of Highest Earnings.
 - (ii) **Benefit (2).**
 - (A) **If served as a judge for 8 years (not necessarily consecutive).** 50% of Highest Earnings, plus 5% of Highest Earnings for each year of Credited Service in excess of 10 years, to a maximum of 100% of Highest Earnings.
 - (B) **If served as a judge for less than 8 years.** 25% of Highest Earnings, plus 5% of Highest Earnings for each year of Credited Service in excess of 10 years, to a maximum of 75% of Highest Earnings.
 - (iii) **Benefit (3).** 75 % of Final Average Earnings.

SUMMARY OF PLAN PROVISIONS

Table III

(continued)

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 a judge with a fixed term of duration.
 - (ii) **Benefit (2).** 20 years of Credited Service before age 60; serving as a 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 Highest 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.
 - (iii) **Benefit (3).** Accrued Normal Retirement Benefit, based on Highest 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 the earliest age at which unreduced benefit is first payable, in accordance with eligibility for Benefit (3) – item (a)(iii) – of the Normal Retirement Pension section above.

Postponed Retirement Pension:

- (a) **Participants Eligible.** Participants may remain in service until age 70.
- (b) **Pension Benefit.** The benefits described under the Normal Retirement Pension section above, based on Highest Earnings 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.

SUMMARY OF PLAN PROVISIONS

Table III

(continued)

Vested Pension:

- (a) **Participants Eligible.** All participants who terminate employment after completing 10 or more years of Credited Service.
- (b) **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 Accumulated Contributions.

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 the 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.
- (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.
Disability Benefit. 30% of Highest Earnings at date of disability, plus 1% of Highest Earnings times Credited Service in excess of 10 years, to a maximum of 50% of Highest Earnings at date of disability.

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

Pre-retirement 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.

SUMMARY OF PLAN PROVISIONS

Table III

(continued)

- (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 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 under section (ii)(B) below.
 - (B) **Benefit (2).** Married or with children under age 21, and has reached attainment of age 60 and 22 years of Credited Service.
 - (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.

Post-Retirement Death Benefits:

- (a) **Beneficiaries Eligible.** Designated beneficiary of a single participant with no minor children or a participant receiving a life annuity as the normal form of payment.
- (b) **Benefit.** Refund of Accumulated Contributions at retirement in excess of total pension payments received prior to date of death to designated beneficiary, with a minimum benefit of \$500.

Employee Contributions:

All participants are required to make contributions to the Plan equal to 8.00% of Salary throughout active service.

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. Currently, employer contributions are equal to 21.53% of Salary.

SUMMARY OF PLAN PROVISIONS

Table III

(continued)

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.

Indexation:

None.

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).

Supreme Court Judges Benefit Adjustment:

Judges retired from the Supreme Court receive benefit increases according to the salary increases received by active judges.