

PUERTO RICO JUDICIARY RETIREMENT SYSTEM

June 30, 2015 Actuarial Valuation Report

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November 14, 2016

Mr. Pedro R. Ortiz Cortés
Administrator
Puerto Rico Judiciary Retirement System
437 Ponce de León Avenue, 15th Floor
Hato Rey, PR 00917-3711

Dear Mr. Ortiz:

This report presents the results of the actuarial valuation of the Puerto Rico Judiciary Retirement System (PRJRS), a single employer defined benefit pension plan, as of June 30, 2015. Section I contains highlights of the valuation including a general discussion. The subsequent Sections contain schedules summarizing the underlying calculations, asset information, participant data, plan benefits and actuarial assumptions and methods.

Purpose

The main purposes of this report are:

- to present information pertaining to the operation of the plan for inclusion in financial statements based on relevant Statements of the Government Accounting Standards Board (GASB);
- to review the experience under the plan since the previous valuation; and
- to assess the relative funded position of the plan.

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

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

Data Reliance

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

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

The asset information used for the valuation was taken from unaudited financial statements provided by PRJRS as of June 30, 2015 and is subject to change upon audit.

Future Measurements

This valuation report is only an estimate of the System's financial condition as of a single date. It can neither predict the System's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of System benefits. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

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

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

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

Certification

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

Actuarial computations presented in this report are for purposes of fulfilling financial accounting requirements under the GASB Statements 45 and 67. The calculations in the enclosed report have been made on a basis consistent with our understanding of the plan provisions described in Section VI of this report, and of the applicable GASB Statements. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Qualifications

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

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Mr. Pedro R. Ortiz Cortés
November 14, 2016
Page 4

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

Respectfully submitted,



By Glenn D. Bowen, F.S.A.
Member American Academy of Actuaries



Katherine A. Warren, F.S.A.
Member American Academy of Actuaries

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

TABLE OF CONTENTS

	<u>Page</u>
SECTION I - SUMMARY	1
Subsection A - Summary of Principal Results	1
Subsection B - General Discussion	3
SECTION II - SYSTEM ASSETS	11
Subsection A - Statement of Fiduciary Net Position	11
Subsection B - Statement of Changes in Fiduciary Net Position	12
Subsection C - Estimated Annual Rate of Return	13
Subsection D - Estimated Historical Rates of Return	13
SECTION III - GASB 67 ACCOUNTING INFORMATION	14
Subsection A - Projection to Determine GASB 67 Date of Depletion (if any)	14
Subsection B - Net Pension Liability	17
Subsection C - GASB 67 Benefit Obligations	18
Subsection D - Changes in Net Pension Liability	19
Subsection E - Sensitivity Analysis	19
SECTION IV - GASB 45 ACCOUNTING INFORMATION	20
Subsection A - Benefit Obligations	20
Subsection B - Development of Unfunded Actuarial Accrued Liability and Amortization Payment	21
Subsection C - Development of Annual Required Contribution	21
Subsection D - Development of Net OPEB Obligation	22
Subsection E - Development of Annual OPEB Cost	22
Subsection F - Schedule of Employer Contributions	23
Subsection G - Schedule of Funding Progress	24
Subsection H - Additional Information	25

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

TABLE OF CONTENTS

	<u>Page</u>
SECTION V - CENSUS DATA	26
Subsection A - Reconciliation with Prior Valuation	26
Subsection B - Summary of Active Members	27
Subsection C - Summary of Terminated Vested Members	30
Subsection D - Summary of Retirees	31
Subsection E - Summary of Beneficiaries	32
SECTION VI - SUMMARY OF PRINCIPAL PLAN PROVISIONS	33
SECTION VII - ACTUARIAL ASSUMPTIONS	46
SECTION VIII - ACTUARIAL METHODS	52

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

A. Summary of Principal Results of June 30, 2015 Actuarial Valuation

GASB 67 Accounting (\$ amounts in thousands)

	June 30, 2014 <u>Valuation</u>	June 30, 2015 <u>Valuation</u>
Total Pension Liability ¹	\$504,375	\$585,312
Net Fiduciary Position	46,067	42,729
Net Pension Liability	458,308	542,583

GASB 45 Accounting (\$ amounts in thousands)

	June 30, 2014 <u>Valuation</u>	June 30, 2015 <u>Valuation</u>
Actuarial Accrued Liability ¹	\$6,540	\$6,917
Actuarial Value of Assets	0	0
Unfunded Actuarial Accrued Liability	6,540	6,917
Employer Normal Cost as a percent of payroll	261 0.82%	260 0.81%
Annual Required Contribution for upcoming fiscal year as a percent of payroll	847 2.67%	923 2.89%

¹ A discussion of the benefits included in the Total Pension Liability and Actuarial Accrued Liability begins on page 3 of this section.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

	July 1, 2013 Census Data <u>Collection</u>	July 1, 2014 Census Data <u>Collection</u>
<i>Participant Data</i>		
<u>Active Members</u>		
Number	364	365
Average Salary	\$87,106	\$87,445
Total Annual Salary	\$31,706,608	\$31,917,416
<u>Retirees</u>		
Number	372	372
Average Monthly Basic System Benefit	\$4,418	\$4,568
Average Monthly System Administered Benefit	\$224	\$319
<u>Disabled Members</u>		
Number	0	0
Average Monthly Basic System Benefit	n/a	n/a
Average Monthly System Administered Benefit	n/a	n/a
<u>Beneficiaries</u>		
Number	58	59
Average Monthly Basic System Benefit	\$1,690	\$1,634
Average Monthly System Administered Benefit	\$104	\$92
<u>Terminated Vested Members</u>		
Number	59*	41*
Average Monthly Basic System Benefit (for those assumed to receive an annuity)	\$3,531	\$3,491

* Terminated vested members include both (a) members due a deferred annuity benefit (31 as of July 1, 2013 and 22 as of July 1, 2014) and (b) members who are due a refund of member and, if applicable, employer contributions (28 as of July 1, 2013 and 19 as of July 1, 2014). Former active members who are not vested in PRJRS but are covered by another Puerto Rico government system are assumed to be due both their member and employer contributions with interest.

Basic System Benefit and System Administered Benefit amounts shown above are for pension benefits, including COLAs, and are as of the respective valuation date. Special Law "bonus" benefits are not reflected.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

B. General Discussion

Basic System Benefits

As summarized in Section VI, the Puerto Rico Judiciary Retirement System (PRJRS) provides benefits to members, or their beneficiaries, upon:

- Retirement
- Disability
- Vested withdrawal
- Death
- Nonvested withdrawal (return of contributions)
- Christmas bonus (\$150) (if hired before December 24, 2013)

These benefits will be referred to as the “Basic System Benefits” throughout this report. The statutory funding requirement for these benefits as of the June 30, 2015 valuation date totals 38.34% of payroll, comprising 8.0% member and 30.34% employer contributions. The employer contribution rate was increased from 20.0% to 30.34% of payroll as of July 1, 2008. These contribution rates are not actuarially determined.

System Administered Benefits

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

- Additional minimum death benefit (if hired before July 1, 2014)
- Cost-of-living adjustments (COLAs)
- Medical insurance plan contribution
- Medication bonus (if hired before December 24, 2013)
- Christmas bonus (\$450) (if hired before December 24, 2013)

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

Other Contributions

In addition to the payroll-based contributions described under Basic System Benefits above, Section 17 of Act 162-2013 (discussed further below in this section) provides for the following:

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

“In order to make up the cash flow deficit, the System shall request an actuarial study to determine the amount of the additional contribution that the Government would be required to make to the System to prevent the value of the projected gross assets of the System from falling below twenty million dollars (\$20,000,000.00) during any subsequent fiscal year.”

The annual additional contribution under Section 17 of Act 162 is \$13.5 million for the period from FY 2016-2017 to FY 2045-2046, PLUS, a past due payment of \$23.7 million payable in FY 2016-2017 on behalf of unpaid contributions from prior years (for a total of \$37.2 million payable in FY 2016-2017).

System Experience since Prior Valuation

The approximate actual rate of return since the prior valuation was 2.08% for 2014-2015. The investment return assumption for the 2014-2015 fiscal year was 5.35%. The asset loss due to investment performance that was less than expected served to increase the System’s net pension liability.

Our analysis of System experience from June 30, 2014 to June 30, 2015 resulted in a liability gain of \$7 million (e.g. – the June 30, 2014 Total Pension Liability of \$504 million was expected to increase to \$520 million as of June 30, 2015, and instead increased to \$513 million, prior to assumption changes).

Major sources of gains and losses are as follows:

1. \$1 million loss on new entrants and rehires
2. \$3 million loss on termination and retirement activity
3. \$7 million gain on continuing retirees and beneficiaries due to mortality experience and data updates
4. \$2 million gain on PRGERS retirees previously reported as PRJRS retirees
5. \$4 million gain due to updated prior government service amounts

Changes in Assumptions since Prior Valuation

This valuation reflects an increase in the investment return assumption from 5.35% per year to 5.50% per year. The 5.50% assumption reflects the asset allocation that was adopted by the Board during October 2014 as shown in the following table and Milliman’s capital market assumptions as of June 30, 2015.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

Asset Class	Target Allocation
Domestic Equity	18%
International Equity	7%
Fixed Income	74%
Cash	1%

Under the prior GASB 25/27, the investment return assumption was used to discount all projected Basic System Pension Benefits and System Administered Pension Benefits to determine the Actuarial Accrued Liability. Under GASB 67, the investment return assumption is an input that is used in the calculation of the single equivalent interest rate that is used to discount these benefits to determine the Total Pension Liability. GASB 67 also requires that the plan sponsor select a municipal bond index for use in developing the single equivalent interest rate. The index selected by PRJRS is the Bond Buyer General Obligation 20-Bond Municipal Bond Index. The index rate decreased from 4.29% as of June 30, 2014 to 3.80% as of June 30, 2015.

As a result of the increase in the investment return assumption, the assumed investment return on the Hybrid Program Contribution Accounts (80% of the net investment return assumption) was increased from 4.28% to 4.40%.

This valuation reflects an increase in the interest rate assumption for GASB 45 purposes from 3.10% per year to 3.20% per year. The 3.20% assumption reflects Milliman's capital market assumptions as of June 30, 2015, reflects the expected benefit payment period, and assumes that the Commonwealth's General Fund (the assets used to pay the GASB 45 benefits) is invested approximately in 75% cash and 25% short-term bonds.

The pre-retirement mortality rates were updated from the RP-2000 Employee Mortality Rates to the RP-2014 Employee Mortality Rates (both with white collar adjustments), which were published by the Society of Actuaries in October 2014. The post-retirement healthy mortality rates were updated from the RP-2000 Healthy Annuitant Mortality Rates to the RP-2014 Healthy Annuitant Mortality Rates (both with white collar adjustments), which were published by the Society of Actuaries in October 2014. The disability mortality rates were updated from the RP-2000 Disabled Annuitant Mortality Rates to the RP-2014 Disabled Annuitant Mortality Rates, which were published by the Society of Actuaries in October 2014.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

For active members and healthy retirees the projected mortality improvement scale was updated from Scale AA to Scale MP-2015, which was published by the Society of Actuaries in October 2015. Projected mortality improvement was implemented for disabled retirees using Scale MP-2015.

This valuation also reflects a salary freeze until July 1, 2017 due to Act 66.

Changes in Methods since the Prior Valuation

There have not been any changes in methods since the prior valuation.

Changes in Plan Provisions since the Prior Valuation

There were not any changes in plan provisions made during the 2014-2015 plan year.

Overview of Recent Significant Changes in Plan Provisions

Act 162 (enacted December 24, 2013) proposed benefit changes for all members of PRJRS. Based on the Puerto Rico Supreme Court decision (dated February 21, 2014), many changes were struck down. A summary of the changes that passed Supreme Court review follows below based on the member's date of hire.

Members hired on or before December 23, 2013

There are no changes that impact these members.

Members hired from December 24, 2013 to June 30, 2014

Members hired from December 24, 2013 to June 30, 2014 have the same benefits as members hired earlier, with the following exceptions:

- Maximum pension benefit is 60% of highest salary received as a judge.
- 10% member contribution rate.
- The Christmas bonus, summer bonus, and medication bonus are eliminated.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

Members hired on or after July 1, 2014

Members hired on or after July 1, 2014 will be covered by a hybrid plan with defined benefit (DB) and defined contribution (DC) components.

The primary provisions of the DB component are as follows.

- DB accrued benefit of 1.5% of the last 5-year final average earnings for each year of service.
- Only judicial service counts towards service; prior government service is not included and cannot be transferred.
- Normal retirement age of 65 with 12 years of service.
- Early retirement age of 55 with 12 years of service, with an actuarial reduction of the DB accrued benefit if benefits commence early.
- Deferred vested benefit after 12 years of service with benefits commencing at normal retirement age, provided member has not taken a lump sum withdrawal of DC component. Benefits may begin at early retirement age but would be reduced as specified above.
- The monthly DB component benefit will be paid as a single life annuity.

The primary provisions of the DC component are as follows.

- Member contributions of 12% of pay.
- The member contributions are credited to a notional account each year.
- Normal retirement age of 65 with 12 years of service.
- Early retirement age of 55 with 12 years of service.
- Members who separate from employment with less than 12 years of service would receive their notional account as a lump sum.
- Members who separate from employment with 12 or more years of service would receive their benefit in the form of a mandatory annuity.
 - Members who separate at or after early or normal retirement age would receive an immediate annuity.
 - Members who separate prior to early retirement age for reasons other than disability would receive a deferred annuity commencing at early or normal retirement age, with interest credits continuing to accrue to the account during the deferral period.
 - The mandatory annuity would be in the form of a “modified cash refund” of the member’s notional account balance - which means that if the accumulated annuity payments at the time of post-retirement death are

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

less than the account balance at the time of retirement, then the beneficiary would receive the remainder of the account balance.

The death and disability benefits for these members are as follows.

- Beneficiaries of members who die while actively employed would receive a lump sum payment of the members' accumulated account balance at the time of death. No monthly benefit would be payable.
- Upon disability after 5 years of service and before age 65, the disability benefit, payable immediately, equals the smaller of (1) 33% of last 5-year final average compensation or (2) the sum of the DB accrued benefit (without reduction for early commencement) and the annuity derived from an immediate annuitization of the DC notional account.

GASB Pension Accounting Information

GASB has recently issued two new statements: Statement No. 67, "*Financial Reporting for Pension Plans*" (GASB 67), and Statement No. 68, "*Accounting and Financial Reporting for Pensions*" (GASB 68). GASB 67 and 68 replace the prior GASB 25 and 27 respectively. The effective date of GASB 67 (which applies to financial reporting on a plan basis) was the fiscal year ending June 30, 2014. The effective date of GASB 68 (which applies to financial reporting by contributing employers) is the fiscal year ending June 30, 2015.

Pension accounting results in Section III of this report have been prepared under GASB 67 parameters to determine a Total Pension Liability at the end of the fiscal year. The Net Fiduciary Position is then subtracted to arrive at the Net Pension Liability at the end of the fiscal year. The Net Pension Liability reflects the full amount of the unfunded liability, and thus can be significantly volatile from year to year.

GASB OPEB Accounting Information

Accounting results for the Medical Insurance Plan Contribution in Section IV of this report are calculated under Governmental Accounting Standards Board Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" (GASB 45). (Note that the Medication Bonus has been included in the GASB 67 results as a Pension Benefit because members can receive the bonus without submitting documentation to substantiate medication expenses.)

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

There are no member or employer contributions on behalf of the Medical Insurance Plan Contribution. This benefit is financed on a pay-as-you-go basis from the General Fund of the Commonwealth of Puerto Rico. Since this benefit is not funded in advance, the ARC for this benefit has been calculated based on an assumed investment return rate of 3.20% based on the asset allocation of the Commonwealth's general assets that are used to pay this benefit.

Note that GASB issued GASB 75 in June 2015 which makes changes to GASB 45 similar to how GASB 25/27 were updated by GASB 67/68. GASB 75 is effective beginning with the 2017-2018 fiscal year, unless earlier adoption occurs.

GASB 67 Projection to Determine Date of Depletion (if any)

GASB 67 requires that a projection be performed for the System to determine a date of depletion, if any, and the resulting effective discount rate. This complex projection is used to determine the point at which the System is expected to deplete assets per GASB 67. The analysis includes a projection of member and employer contributions, benefit payments, and administrative expenses attributable to current members. Amounts attributable to members hired in the future are excluded except to the extent that employer contributions exceed the cost of benefits for those future members. *Because the date of depletion projection does not incorporate all projected cash inflows to and outflows from the System, the results will differ from those in a comprehensive cash flow projection that models all inflows and outflows. In other words, the GASB 67 date of depletion is not the same as the date that the System would be expected to exhaust assets.*

Once a depletion date has been determined, it is used as an input in the determination of the accounting liability as follows:

- The present value of all future benefits for GASB 67 accounting purposes is determined as follows:
 - For projected benefit payments occurring prior to the date of depletion, the discount rate is based on the System's expected return on assets.
 - For projected benefit payments occurring after the date of depletion, the discount rate is based on a tax-free municipal bond index.
- Based on the resulting present value of all future benefits for GASB 67 accounting purposes, a single equivalent interest rate can be imputed that yields the same present value.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION I – SUMMARY

Subsection A of Section III shows the results of the GASB 67 date of depletion projection as of the end of the fiscal year, which then generates the discount rate used in the determination of the Total Pension Liability. As directed by the System, the date of depletion projection does not include any amounts from the additional contribution required by Section 17 of Act 162-2013 beyond the \$11.6 million receivable included in the market value of assets as of June 30, 2015.

Cash Flow Projection for Basic System Benefits

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

Note that increases in member contribution rates under the hybrid plan in Act 162 (new members) would not accrue to the System, rather they would serve to increase the ultimate annuity benefits to be paid upon retirement (or the refund to be paid for members who separate with less than 12 years of service or who die in active service). However, our understanding of the intent of the reform is that hybrid plan member contributions would not be placed in segregated accounts but rather would be available to pay benefits to current retirees if necessary. Increasing the member contribution rate would make more assets available to pay benefits to current retirees if necessary, but would also increase the amount of "catch-up" needed to ultimately generate enough future dollars to back member accounts with actual assets. We note that while commingling hybrid plan member assets with DB plan assets has occurred in PRGERS since the implementation of System 2000, this reform for PRJRS reflects an active decision to implement a hybrid plan but to not segregate member accounts.

Even reflecting the Act 162 benefit changes that were upheld by the Supreme Court decision, if the additional contributions under Section 17 are not made, PRJRS will continue being rapidly disfunded and assets will be exhausted before the end of the decade.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

A. Statement of Fiduciary Net Position

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Assets		
Cash and cash equivalents	\$5,688,000	\$4,797,000
Receivables and prepaid expenses	484,000	12,824,000
Investments:		
Bonds	22,729,000	32,225,000
Stocks	36,399,000	11,369,000
Total loans to plan members	542,000	477,000
Other assets	<u>0</u>	<u>0</u>
Total investments	59,670,000	44,071,000
Invested securities lending cash collateral	827,000	1,393,000
Capital assets	<u>0</u>	<u>0</u>
Total assets	\$66,669,000	\$63,085,000
Liabilities		
Securities lending cash collateral	\$827,000	\$1,393,000
Due to Employees Retirement System	19,122,000	16,133,000
Other liabilities	<u>653,000</u>	<u>2,830,000</u>
Total liabilities	\$20,602,000	\$20,356,000
Net position restricted for pensions	\$46,067,000	\$42,729,000

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

B. Statement of Changes in Fiduciary Net Position

June 30, 2015

Additions	
a. Contributions	
Employer Contributions	\$22,178,000
Member Contributions	3,676,000
Appropriations for Special Laws	<u>1,759,000</u>
Total Contributions	\$27,613,000
b. Investment Income	
Interest Income	\$761,000
Dividend Income	0
Net Appreciation of Investments	138,000
Other Income	16,000
Investment Related Expenses	<u>0</u>
Net Investment Income	\$915,000
Total Additions	\$28,528,000
Deductions	
Refund of Contributions	\$4,000
Annuities and Death Benefits	21,371,000
Special Law Benefits	1,759,000
Administrative Expenses	486,000
Other Expenses	<u>8,246,000</u>
Total deductions	\$31,866,000
Net Increase (Decrease)	(\$3,338,000)
Net position restricted for pensions	
Beginning of year (June 30, 2014)	46,067,000
End of year (June 30, 2015)	\$42,729,000

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION II - SYSTEM ASSETS

C. Estimated Annual Rate of Return for year ending June 30, 2015

	<u>Market Value</u>
1. Value of Assets as of June 30, 2014	\$46,067,000
2. Total Contributions	27,613,000
3. Benefit Payments and Expenses	31,866,000
4. Value of Assets as of June 30, 2015	42,729,000
5. Non-Investment Increment: (2) - (3)	(4,253,000)
6. Investment Increment: (4) - (1) - (5)	915,000
7. Time Weighted Value: (1) +.5 * (5)	43,940,500
8. Estimated Annual Rate of Return: (6) / (7)	2.08%

D. Estimated Historical Rates of Return

<u>Plan Year Ending</u>	<u>Market Value</u>
June 30, 2015	2.08%
June 30, 2014	23.95%
June 30, 2013	12.08%
June 30, 2012	2.87%
June 30, 2011	27.22%
5-year Compounded Annual Return	13.16%

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III – GASB 67 ACCOUNTING INFORMATION

A. Projection to Determine GASB 67 Date of Depletion (if any)

The projection was determined on a deterministic basis and reflects the following:

- Projected investment income is based on the June 30, 2015 investment return assumption of 5.50% per year.
- All demographic assumptions are assumed to be met in future years (i.e. – no gains or losses from demographic sources are expected to occur).
- Employer contributions in each future year are calculated as follows:
 - The employer contributions attributable to members who were active as of the valuation date were calculated based on 30.34% of the payroll for those members.
 - The employer contribution rate to the System on behalf of future hires exceeds the net employer normal cost rate (on entry age normal cost method basis with a 5.50% investment return assumption) by 19.44% of payroll, which is thus available to be applied toward benefits for existing members. This excess employer contribution rate was determined as follows:
 - Based on the projections, the gross normal cost rate for future hires is 22.90% of payroll.
 - With an employee contribution rate of 12.00% of payroll, the net employer normal cost rate for future hires is 10.90% of payroll (22.90% minus 12.00%).
 - With a total employer contribution rate of 30.34%, the portion of the employer contribution based on future hire payroll that can be applied toward benefits for existing members is 19.44% (30.34% minus 10.90%).
- As directed by the System, this projection does not include any amounts from the additional contributions required by Section 17 of Act 162-2013 beyond the \$11.6 million included as a receivable contribution as of June 30, 2015.
- In determining projected employer contributions, the active membership of 365 as of July 1, 2014 was assumed to remain level throughout the projection period (i.e. – members who leave are replaced, but no net new hiring occurs). Please note that projected member contributions, benefit payments, and administrative expenses for future hires are excluded from this projection.
- The new entrant cohort used for projection purposes is based on members hired between June 30, 2013 and June 30, 2014. Salaries for future new entrant cohorts were assumed to be level until the expiration of the Act 66 salary freeze,

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III – GASB 67 ACCOUNTING INFORMATION

and to increase 3% per year thereafter.

- Administrative expenses were assumed to increase 2.5% per year. In each future year, the administrative expenses attributable to current members were determined by applying the ratio of current member payroll to total payroll to the total administrative expenses.

As shown on the following page, the System assets are expected to be exhausted in 2018-2019 under this GASB 67 projection basis.

Accordingly, based on the projected 2018-2019 year of depletion, the investment return of 5.50% per year as of June 30, 2015, and the municipal bond index of 3.80% as of June 30, 2015, the single equivalent interest rate as of June 30, 2015 was determined to be 3.82%. This single equivalent interest rate yields the same present value of all future benefits as using the expected return on plan assets until the 2017-2018 fiscal year and the tax-free municipal bond index beginning with the 2018-2019 fiscal year for the discount rate.

Note that if the \$11.6 million receivable as of June 30, 2015 on behalf of the 2014-2015 additional contribution was excluded, the single equivalent interest rate would decrease by one basis point to 3.81%, which would result in a slightly higher Total Pension Liability.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III – GASB 67 ACCOUNTING INFORMATION

GASB 67 Projection as of June 30, 2015 to determine Date of Depletion (if any)

Fiscal Year Ending	Beginning of Year Assets	Estimated Payroll for Members Active as of the Valuation Date	Estimated Payroll for Members Hired After the Valuation Date	Estimated Employer Contribution	Estimated Contribution from Members Active as of the Valuation Date	Estimated Additional Contribution	Estimated Benefit Payments to Retired and Active Members as of the Valuation Date	Estimated Administrative Expenses for Retired and Active Members as of the Valuation Date	Estimated Investment Income	End of Year Assets
06/30/2016	42,729,000	28,293,000	2,155,000	9,003,000	2,281,000	0	23,675,000	497,000	2,000,000	31,841,000
06/30/2017	31,841,000	26,028,000	4,266,000	8,726,000	2,099,000	0	24,671,000	471,000	1,363,000	18,887,000
06/30/2018	18,887,000	24,575,000	6,479,000	8,716,000	1,983,000	0	25,467,000	445,000	626,000	4,299,000
06/30/2019	4,299,000	22,882,000	8,737,000	8,641,000	1,848,000	0	26,659,000	417,000	0	0
06/30/2020	0	21,377,000	11,354,000	8,693,000	1,727,000	0	27,524,000	386,000	0	0
06/30/2021	0	19,566,000	13,629,000	8,586,000	1,583,000	0	28,583,000	357,000	0	0
06/30/2022	0	18,149,000	16,369,000	8,688,000	1,469,000	0	29,059,000	326,000	0	0
06/30/2023	0	17,023,000	18,667,000	8,794,000	1,377,000	0	29,550,000	303,000	0	0
06/30/2024	0	15,789,000	20,441,000	8,764,000	1,277,000	0	30,211,000	284,000	0	0
06/30/2025	0	14,428,000	22,916,000	8,832,000	1,167,000	0	30,945,000	258,000	0	0
06/30/2026	0	13,063,000	25,260,000	8,874,000	1,056,000	0	31,642,000	233,000	0	0
06/30/2027	0	11,778,000	27,629,000	8,944,000	953,000	0	32,216,000	210,000	0	0
06/30/2028	0	10,503,000	30,050,000	9,028,000	851,000	0	32,717,000	186,000	0	0
06/30/2029	0	9,347,000	32,485,000	9,151,000	758,000	0	33,140,000	165,000	0	0
06/30/2030	0	8,132,000	34,793,000	9,231,000	661,000	0	33,571,000	143,000	0	0
06/30/2031	0	6,937,000	37,339,000	9,363,000	565,000	0	33,891,000	121,000	0	0
06/30/2032	0	5,680,000	39,796,000	9,460,000	463,000	0	34,177,000	99,000	0	0
06/30/2033	0	4,604,000	42,168,000	9,594,000	377,000	0	34,287,000	80,000	0	0
06/30/2034	0	3,642,000	44,595,000	9,774,000	299,000	0	34,254,000	63,000	0	0
06/30/2035	0	2,893,000	46,847,000	9,985,000	239,000	0	34,023,000	50,000	0	0
06/30/2036	0	2,259,000	48,980,000	10,207,000	188,000	0	33,665,000	39,000	0	0
06/30/2037	0	1,670,000	51,070,000	10,435,000	140,000	0	33,206,000	28,000	0	0
06/30/2038	0	1,201,000	53,162,000	10,699,000	101,000	0	32,616,000	20,000	0	0
06/30/2039	0	824,000	55,113,000	10,964,000	69,000	0	31,916,000	14,000	0	0
06/30/2040	0	502,000	57,130,000	11,258,000	42,000	0	31,149,000	8,000	0	0
06/30/2041	0	283,000	59,111,000	11,577,000	24,000	0	30,286,000	5,000	0	0
06/30/2042	0	158,000	60,913,000	11,889,000	13,000	0	29,340,000	3,000	0	0
06/30/2043	0	88,000	62,752,000	12,226,000	7,000	0	28,340,000	1,000	0	0
06/30/2044	0	49,000	64,615,000	12,576,000	4,000	0	27,308,000	1,000	0	0
06/30/2045	0	27,000	66,502,000	12,936,000	2,000	0	26,254,000	0	0	0

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III - GASB 67 ACCOUNTING INFORMATION

B. Net Pension Liability

Net Pension Liability	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Total pension liability	\$504,375,086	\$585,311,619
Fiduciary net position	46,067,000	42,729,000
Net pension liability	458,308,086	542,582,619
Fiduciary net position as a % of total pension liability	9.13%	7.30%
Covered payroll	\$31,706,608	\$31,917,416
Net pension liability as a % of covered payroll	1445.47%	1699.96%

The total pension liability was determined by an actuarial valuation as of July 1, 2014, calculated based on the discount rate and actuarial assumptions as shown in Section VII and was then projected forward to June 30, 2015. There have been no significant changes between the valuation date of July 1, 2014 and the fiscal year end. Any significant changes during this period must be reflected as prescribed by GASB 67. Covered Payroll is as of July 1, 2014.

Discount Rate

The plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the single equivalent rate that results in the same actuarial present value as the long-term expected rate of return applied to benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the municipal bond rate applied to benefit payments, to the extent that the plan's fiduciary net position is not projected to be sufficient.

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Discount rate	4.30%	3.82%
Long-term expected rate of return net of investment expense	5.35%	5.50%
Municipal bond rate *	4.29%	3.80%

* Bond Buyer General Obligation 20-Bond Municipal Bond Index

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III - GASB 67 ACCOUNTING INFORMATION

C. GASB 67 Benefit Obligations as of June 30, 2015

	<u>Basic System Benefits</u>	<u>System Administered Benefits</u>	<u>Total</u>
1. Projected Benefits Payable to Retirees and Beneficiaries			
Retirees	\$279,515,776	\$50,948,066	\$330,463,842
Disabled Members	0	0	0
Beneficiaries	<u>10,262,642</u>	<u>845,500</u>	<u>11,108,142</u>
Total	289,778,418	51,793,566	341,571,984
2. Projected Benefits Payable to Vested Terminated Members	13,936,091	1,962,686	15,898,777
3. Actuarial Accrued Liability for Active Members	200,165,188	27,675,670	227,840,858
4. Total Pension Liability as of June 30, 2015:			
(1) + (2) + (3)	\$503,879,697	\$81,431,922	\$585,311,619

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION III - GASB 67 ACCOUNTING INFORMATION

D. Changes in Net Pension Liability

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of June 30, 2014	\$504,375,086	\$46,067,000	\$458,308,086
Changes for the year:			
Service cost	16,375,329		16,375,329
Interest on total pension liability	21,861,182		21,861,182
Effect of plan changes	0		0
Effect of economic/demographic (gains) or losses	(6,970,510)		(6,970,510)
Effect of assumptions changes or inputs	72,804,532		72,804,532
Benefit payments	(23,134,000)	(23,134,000)	0
Administrative and other expenses		(8,732,000)	8,732,000
Member contributions		3,676,000	(3,676,000)
Net investment income		915,000	(915,000)
Employer contributions		23,937,000	(23,937,000)
Balances as of June 30, 2015	\$585,311,619	\$42,729,000	\$542,582,619

E. Sensitivity Analysis

The following presents the net pension liability of PRJRS, calculated using the discount rate of 3.82%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.82%) or 1 percentage point higher (4.82%) than the current rate.

	1% Decrease 2.82%	Current Discount Rate 3.82%	1% Increase 4.82%
Total pension liability	\$670,182,018	\$585,311,619	\$516,278,446
Fiduciary net position	42,729,000	42,729,000	42,729,000
Net pension liability	627,453,018	542,582,619	473,549,446

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

A. Benefit Obligations

1. Projected Benefits Payable to Retirees and Beneficiaries	
Retirees	\$4,074,672
Disabled Members	0
Beneficiaries	<u>0</u>
Total	4,074,672
2. Projected Benefits Payable to Vested Terminated Members	302,701
2. Actuarial Accrued Liability for Active Members	2,540,008
3. Actuarial Accrued Liability as of June 30, 2015	6,917,381
4. Total Employer Normal Cost as of December 31, 2015	259,951

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

B. Development of Unfunded Accrued Liability and Amortization Payment Payable as of December 31, 2015

1. Actuarial Accrued Liability as of June 30, 2015	\$6,917,381
2. Actuarial Value of Assets as of June 30, 2015	0
3. Unfunded Actuarial Accrued Liability as of June 30, 2015: (1) - (2)	6,917,381
4. Amortization Period in years	11
5. Amortization Factor at beginning of year *	10.6059
6. Amortization Amount Payable as of December 31, 2015: [(3) / (5)] * (1.0320 ^ 0.5)	\$662,573

* Amortization calculated as a level percent of pay increasing 0.0% per year until June 30, 2017 and 3.0% per year thereafter

C. Development of Annual Required Contribution

1. Total Employer Normal Cost as of December 31, 2015	\$259,951
2. Amortization Payment as of December 31, 2015	662,573
3. Annual Required Contribution*: (1) + (2)	922,524

* Assumes payments made throughout the year.

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

D. Development of Net OPEB Obligation as of June 30, 2015

1. Net OPEB Obligation as of June 30, 2014	\$1,702,479
2. Annual OPEB Cost for Fiscal Year 2014 - 2015	744,614
3. Fiscal Year 2014 - 2015 Employer Contribution	307,000
4. Net OPEB Obligation as of June 30, 2015: (1) + (2) - (3)	\$2,140,093

E. Development of Fiscal Year 2015 - 2016 Annual OPEB Cost

1. Annual Required Contribution	\$922,524
2. Interest on Net OPEB Obligation as of June 30, 2015	68,483
3. Adjustment to the Annual Required Contribution	208,240
4. Fiscal Year 2015 - 2016 Annual OPEB Cost: (1) + (2) - (3)	\$782,767

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

F. Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Actual Employer Contribution</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>	<u>Annual OPEB Cost</u>	<u>Percent Contributed</u>
2016	\$357,000	\$922,524	38.70%*	\$782,767	45.61%*
2015	307,000	846,667	36.26	744,614	41.23
2014	302,000	684,120	44.14	617,425	48.91
2013	291,000	642,988	45.26	596,879	48.75
2012	294,000	554,150	53.05	525,147	55.98
2011	253,000	528,615	47.86	510,962	49.51
2010	256,000	488,319	52.42	478,709	53.48

* Percentage contributed for the year ended June 30, 2016 assumes the actual employer contribution is the expected pay-as-you-go amounts for the Medical Insurance Plan Contribution.

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

G. Schedule of Funding Progress

	(a)	(b)	(c)=(b)-(a)	(d)=(a)/(b)	(e)	(f)=(c)/(e)
Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Liability	Funded Ratio	Annual Salary	Unfunded Liability as a % of Annual Salary
06/30/2015	\$0	\$6,917,381	\$6,917,381	0.0%	31,917,416	21.7%
06/30/2014	0	6,540,281	6,540,281	0.0%	31,706,608	20.6%
06/30/2013	0	6,704,736	6,704,736	0.0%	32,137,510	20.9%
06/30/2012	0	6,592,464	6,592,464	0.0%	33,065,960	19.9%
06/30/2011	0	5,810,170	5,810,170	0.0%	31,811,235	18.3%
06/30/2010	0	5,808,213	5,808,213	0.0%	32,060,841	18.1%

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

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION IV - GASB 45 ACCOUNTING INFORMATION

H. Additional Information

The following information was used to determine the Annual Required Contribution for the fiscal year ending June 30, 2016. The ARC is for the Medical Insurance Plan Contribution. See Section I for more information.

Valuation Date:	June 30, 2015
Actuarial Cost Method:	Entry age normal with normal costs as level percent of pay
Amortization method:	30 years closed, level percent of payroll
Remaining Amortization Period:	11 years
Asset valuation method:	Market Value of Assets
Assumptions:	
Investment rate of return	3.20%
Projected Salary Increases	not applicable
Payroll growth	0% until June 30, 2017; 3% thereafter
Inflation	not applicable
Cost of Living Adjustments	not applicable

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

A. Reconciliation with Prior Valuation

	<u>Active</u>	Terminated <u>Vested</u>	Retirees, Disabled Members, and <u>Beneficiaries</u>	<u>Total</u>
Members as of July 1, 2013	364	59	430	853
Changes				
Terminated Vested	(4)	4	0	0
Retired & Disabled	(20)	(4)	24	0
Death	0	0	(26)	(26)
Return/transfer of contributions	0	(11)	0	(11)
Disappeared	0	0	0	0
New or Rehired	25	(7)	3	21
Members as of July 1, 2014	365	41	431	837

As of July 1, 2014, terminated vested members include both (a) 22 members due a deferred annuity benefit and (b) 19 members who are due a refund of member and, if applicable, employer contributions. Former active members who are not vested in PRJRS but are covered by another Puerto Rico government system are assumed to be due both their member and employer contributions with interest.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

B. Summary of Active Members as of July 1, 2014

Number of Male Participants by Age and Service Groups

Age	Years of Credited Service										Total	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	1	5	-	-	-	-	-	-	-	-	-	6
35-39	-	4	4	1	-	-	-	-	-	-	-	9
40-44	-	7	9	7	5	-	-	-	-	-	-	28
45-49	-	4	4	7	8	4	1	-	-	-	-	28
50-54	1	5	2	5	5	11	6	1	-	-	-	36
55-59	-	2	2	6	3	6	3	2	-	-	-	24
60-64	-	2	3	1	4	2	1	1	1	-	-	15
65-69	-	-	2	-	2	2	-	-	-	-	-	6
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Total	2	29	26	27	27	25	11	4	1	-	-	152

Average Compensation of Male Participants by Age and Service Groups

Age	Years of Credited Service										Average	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	69,600	73,600	-	-	-	-	-	-	-	-	-	72,933
35-39	-	83,451	84,603	89,604	-	-	-	-	-	-	-	84,647
40-44	-	91,088	82,936	86,088	92,683	-	-	-	-	-	-	87,503
45-49	-	89,603	84,602	83,888	84,603	93,453	89,604	-	-	-	-	86,581
50-54	89,604	87,681	89,604	95,683	85,603	85,967	88,836	105,000	-	-	-	88,814
55-59	-	89,602	97,302	88,067	94,735	91,336	99,736	97,302	-	-	-	92,843
60-64	-	89,600	94,736	89,604	89,604	97,302	89,604	89,604	105,000	-	-	92,683
65-69	-	-	97,300	-	89,604	89,604	-	-	-	-	-	92,169
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Average	79,602	86,022	87,533	87,995	88,521	89,651	91,948	97,302	105,000	-	-	88,438

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

B. Summary of Active Members as of July 1, 2014

Number of Female Participants by Age and Service Groups

Age	Years of Credited Service										Total	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	4	2	1	-	-	-	-	-	-	-	-	7
35-39	3	10	6	2	-	-	-	-	-	-	-	21
40-44	1	6	11	11	11	1	-	-	-	-	-	41
45-49	-	8	7	8	13	12	3	1	-	-	-	52
50-54	-	5	4	5	3	14	7	3	1	-	-	42
55-59	-	3	1	2	8	6	7	2	-	1	-	30
60-64	-	-	3	4	1	2	1	1	1	1	1	14
65-69	-	-	-	1	1	3	-	1	-	-	-	6
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Total	8	34	33	33	37	38	18	8	2	2	2	213

Average Compensation of Female Participants by Age and Service Groups

Age	Years of Credited Service										Average	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	74,601	69,600	69,600	-	-	-	-	-	-	-	-	72,458
35-39	93,068	83,601	76,268	89,604	-	-	-	-	-	-	-	83,430
40-44	69,600	86,269	81,911	80,511	85,129	69,600	-	-	-	-	-	82,436
45-49	-	84,027	86,746	87,103	90,079	87,553	94,736	89,604	-	-	-	87,918
50-54	-	88,681	84,603	85,603	89,601	87,516	89,603	89,604	89,600	-	-	87,845
55-59	-	89,603	69,600	89,602	84,603	89,604	93,946	87,300	-	89,604	-	88,463
60-64	-	-	110,000	101,151	89,604	79,602	105,000	69,600	89,604	89,604	-	95,516
65-69	-	-	-	89,604	105,000	89,604	-	120,000	-	-	-	97,236
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Average	80,901	84,625	84,044	86,760	87,775	87,134	93,003	90,327	89,602	89,604	89,604	86,736

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

B. Summary of Active Members as of July 1, 2014

Number of All Active Participants by Age and Service Groups

Age	Years of Credited Service										Total	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	5	7	1	-	-	-	-	-	-	-	-	13
35-39	3	14	10	3	-	-	-	-	-	-	-	30
40-44	1	13	20	18	16	1	-	-	-	-	-	69
45-49	-	12	11	15	21	16	4	1	-	-	-	80
50-54	1	10	6	10	8	25	13	4	1	-	-	78
55-59	-	5	3	8	11	12	10	4	-	1	-	54
60-64	-	2	6	5	5	4	2	2	2	1	-	29
65-69	-	-	2	1	3	5	-	1	-	-	-	12
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Total	10	63	59	60	64	63	29	12	3	2	-	365

Average Compensation of All Active Participants by Age and Service Groups

Age	Years of Credited Service										Average	
	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40&Up		
0-24	-	-	-	-	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-	-	-	-	-
30-34	73,601	72,457	69,600	-	-	-	-	-	-	-	-	72,677
35-39	93,068	83,558	79,602	89,604	-	-	-	-	-	-	-	83,795
40-44	69,600	88,864	82,372	82,680	87,490	69,600	-	-	-	-	-	84,492
45-49	-	85,885	85,967	85,603	87,993	89,028	93,453	89,604	-	-	-	87,450
50-54	89,604	88,181	86,270	90,643	87,103	86,834	89,249	93,453	89,600	-	-	88,292
55-59	-	89,602	88,068	88,451	87,366	90,470	95,683	92,301	-	89,604	-	90,410
60-64	-	89,600	102,368	98,842	89,604	88,452	97,302	79,602	97,302	89,604	-	94,050
65-69	-	-	97,300	89,604	94,736	89,604	-	120,000	-	-	-	94,703
70&Up	-	-	-	-	-	-	-	-	-	-	-	-
Average	80,641	85,268	85,582	87,316	88,090	88,133	92,603	92,652	94,735	89,604	-	87,445

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

C. Summary of Terminated Vested Members as of July 1, 2014

<u>Age</u>	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Count</u>	<u>Average Annual Pension Basic System Benefit</u>	<u>Count</u>	<u>Average Annual Pension Basic System Benefit</u>	<u>Count</u>	<u>Average Annual Pension Basic System Benefit</u>
Under 35	0	0	0	0	0	0
35-39	0	0	0	0	0	0
40-44	0	0	0	0	0	0
45-49	1	19,200	2	33,900	3	29,000
50-54	4	45,000	2	30,000	6	40,000
55-59	4	55,200	1	67,200	5	57,600
60-64	3	34,400	4	46,347	7	41,227
65 & Over	<u>1</u>	18,000	<u>0</u>	0	<u>1</u>	18,000
All Ages	13	41,631	9	42,265	22	41,890

The Average Annual Pension Basic System Benefit amounts above are as of July 1, 2014 for terminated vested participants who are due a deferred annuity. In addition, there are 19 former participants who are due accumulated member and, if applicable, employer contributions totaling \$566,479 as of July 1, 2014.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

D. Summary of Retirees as of July 1, 2014

<u>Age</u>	<u>Count</u>	<u>Males</u> <u>Average Annual Pension</u>		<u>Count</u>	<u>Females</u> <u>Average Annual Pension</u>		<u>Count</u>	<u>Total</u> <u>Average Annual Pension</u>	
		<u>Basic System Benefit</u>	<u>Total Benefit</u>		<u>Basic System Benefit</u>	<u>Total Benefit</u>		<u>Basic System Benefit</u>	<u>Total Benefit</u>
Under 45	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0
50-54	0	0	0	1	19,824	19,824	1	19,824	19,824
55-59	14	69,694	70,246	6	59,286	59,967	20	66,571	67,162
60-64	47	62,575	64,262	25	61,508	62,550	72	62,205	63,667
65-69	50	61,318	64,646	31	63,349	66,213	81	62,095	65,246
70-74	44	55,582	59,821	17	55,839	60,387	61	55,654	59,979
75-79	58	50,512	56,345	12	49,290	54,802	70	50,303	56,081
80-84	42	37,330	42,872	4	64,816	71,695	46	39,720	45,378
85-89	8	33,236	38,245	1	16,432	19,050	9	31,369	36,112
90-94	10	36,188	41,952	0	0	0	10	36,188	41,952
95-99	2	71,714	83,137	0	0	0	2	71,714	83,137
100 & Over	<u>0</u>	0	0	<u>0</u>	0	0	<u>0</u>	0	0
All Ages	275	53,444	57,558	97	58,696	61,712	372	54,813	58,641

The Average Annual Pension amounts above are as of July 1, 2014.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION V – CENSUS DATA

E. Summary of Beneficiaries as of July 1, 2014

<u>Age</u>	<u>Count</u>	<u>Males</u> <u>Average Annual Pension</u>		<u>Count</u>	<u>Females</u> <u>Average Annual Pension</u>		<u>Count</u>	<u>Total</u> <u>Average Annual Pension</u>	
		<u>Basic</u> <u>System</u> <u>Benefit</u>	<u>Total</u> <u>Benefit</u>		<u>Basic</u> <u>System</u> <u>Benefit</u>	<u>Total</u> <u>Benefit</u>		<u>Basic</u> <u>System</u> <u>Benefit</u>	<u>Total</u> <u>Benefit</u>
Under 40	1	20,160	20,160	1	20,160	20,160	2	20,160	20,160
40-44	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0
50-54	0	0	0	1	33,808	36,000	1	33,808	36,000
55-59	0	0	0	1	16,407	18,030	1	16,407	18,030
60-64	0	0	0	3	27,357	29,204	3	27,357	29,204
65-69	0	0	0	3	20,214	21,452	3	20,214	21,452
70-74	1	14,759	16,227	6	33,583	34,248	7	30,894	31,673
75-79	1	16,779	18,148	10	25,251	26,788	11	24,481	26,002
80-84	1	3,525	3,874	6	16,606	16,725	7	14,738	14,889
85-89	4	12,186	13,391	8	14,981	16,239	12	14,049	15,290
90-94	1	7,985	8,783	5	9,670	10,224	6	9,389	9,984
95-99	0	0	0	1	11,874	13,049	1	11,874	13,049
100 & Over	<u>4</u>	9,859	10,747	<u>1</u>	56,618	64,418	<u>5</u>	19,611	21,481
All Ages	13	11,645	12,596	46	21,857	23,008	59	19,607	20,714

The Average Annual Pension amounts above are as of July 1, 2014.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS **AS OF JUNE 30, 2015**

Two main sets of benefit provisions apply to various members of PRJRS depending on the member's date of hire as a result of Act 162 of 2003, as modified by the February 21, 2014 decision of the Puerto Rico Supreme Court.

- The first set of provisions applies to judges hired on or before June 30, 2014. Distinctions for judges hired December 24, 2013 or later are noted throughout this first set of provisions as applicable.
- The second set of provisions applies to judges hired July 1, 2014 or later.

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

Provisions applicable to judges hired on or before June 30, 2014 (pre-Act 162)

1. Type of Plan

The System is a contributory, defined benefit plan.

2. Effective Date

The Plan was established in 1954 by Act 12. The plan was last amended under Act 162, approved December 24, 2013.

3. Eligibility for Membership

Members of the Judiciary Retirement System of Puerto Rico include all persons holding a position as Judge of the Supreme Court, Judge of the Court of Appeals, Superior Judges of the Court of First Instance, and Municipal Judges of the Court of First Instance in the Commonwealth of Puerto Rico hired on or before June 30, 2014 (Section 235 and Act 201 of 2003).

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Section 234).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

- b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.
- c. Creditable Service: The years and months (where fractional months are counted as full months of service) of System participation, beginning on the Date Credit Begins and ending on the date of separation of service. All intervening periods following a resignation, separation or expiration of any term by election or appointment during which a participant was not in government service 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 with interest to the System. (Section 234)
- d. Date Credit Begins: For participants with less than eight years of Credited Service as a judge, Creditable Service begins on the day of appointment as a judge. For participants with at least eight years of Creditable Service as a judge, Credited Service begins on the earlier of (1) the day of appointment as a judge or (2) the day first employed by the Government of Puerto Rico, provided that Accumulated Contributions for prior government service are transferred to the System. (Section 234)
- e. Salary: The annual compensation received by a judge for his services in that capacity (Section 234).
- f. Highest Salary: The highest salary received as a judge (Section 236).
- g. Average Compensation: The average of the 36 highest months of salary that the participant has received for Creditable Service (System Disability Regulation).
- h. Contributions: The amount deducted from the compensation of a Member (Sections 242 and 244).
- i. Interest: 2.5% compounded annually, or any other rate as may subsequently be prescribed by the Board of Trustees based on the System's experience (Section 234). The rate of 2.5% has always been in effect.
- j. Accumulated Contributions: The sum of all amounts deducted from the compensation of a Member with interest (Section 239).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

- k. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary. (Section 234)

5. Retirement Benefits

a. Normal Retirement

Basic Eligibility: Age 60 with 10 years of Creditable Service (Section 236).

Basic Benefit: 25% of Highest Salary, plus 5% of Highest Salary for each year of Creditable Service in excess of 10 years, subject to a maximum of 75% of Highest Salary if hired before December 24, 2013 and 60% of Highest Salary if hired between December 24, 2013 and June 30, 2014 (Section 236).

Eligibility for judges who serve without a fixed tenure: 10 years of Creditable Service (Section 236, as interpreted by the System). This enhanced eligibility is not available to judges who are appointed after June 28, 2007 to an unlimited term (Act 54, Section 2).

Benefit for judges who serve without a fixed tenure: 25% of the Salary corresponding to the office during the retirement period, plus 5% of such Salary for each year of Creditable Service in excess of 10 years, subject to a maximum of 100% of such Salary. If the judge has served in a position without a fixed tenure for a total of at least 8 years, the 25% increases to 50% in the preceding formula. (Section 236). This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term (Act 54, Section 2).

Optional Eligibility: Age and Creditable Service as shown in the table below, provided at least 8 years of Creditable Service were earned in office as a judge (Section 236a).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

Age	Years of Creditable Service
Less than 60	30
62	20
61	21
60	22
59	23
58	24
57	25
56	26
55	27

Optional Benefit: 75% of Highest Salary if hired before December 24, 2013 and 60% of Highest Salary if hired between December 24, 2013 and June 30, 2014 (Section 236a).

Enhanced Eligibility: Any judge who has served without a fixed tenure for at least 3 years and has at least 25 years of Creditable Service (Section 236). This enhanced benefit is not available to judges who are appointed after June 28, 2007 to an unlimited term (Act 54, Section 2).

Enhanced Benefit: 75% of the Salary earned at the time of retirement (Section 236).

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 10 years of creditable service, the judge can elect a refund of Accumulated Contributions or a proportional part of the Basic Benefit based on completed years and months of creditable service. (Section 236)

b. Early Retirement

Basic Eligibility: 20 years of Creditable Service before age 60 (Section 236).

Basic Benefit: The Basic Benefit payable under Normal Retirement, reduced on an actuarial equivalent basis for each month that Early Retirement Date precedes age 60. However, no actuarial reduction is applied for judges who serve without a fixed tenure. (Section 236).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

Optional Eligibility: 20 years of Creditable Service, provided at least 8 years of Creditable Service were earned in office as a judge (Section 236a).

Optional Benefit: 75% of Highest Salary if hired before December 24, 2013 and 60% of Highest Salary if hired between December 24, 2013 and June 30, 2014, reduced on an actuarial equivalent basis for each month that Early Retirement Date precedes the age specified in the table under Optional Eligibility under Normal Retirement for the applicable years of Creditable Service (Section 236a).

6. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service.

Benefit: The benefit equals a refund of Accumulated Contributions (Section 239).

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to age 60 and after 10 years of Creditable Service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 60, is equal to the benefit payable upon Normal Retirement (Section 236).

7. Death Benefits

a. Occupational Death Benefit

Eligibility: The beneficiaries of any active participant who dies from an employment-related cause under the Workmen's Accident Compensation Act (Section 240).

Spouse's Benefit: 50% of the participant's Salary at date of death, payable as an annuity until death or remarriage (Section 240).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

Children's Benefit: \$10 (\$20 if full orphan) for each child payable monthly until child's age 18 or completion of studies, if later. The maximum family benefit is 75% of the participant's Salary at date of death. (Section 240)

Benefit if no spouse or children: Refund of Accumulated Contributions, plus an amount equal to one year of Compensation in effect at the time of death (Section 240).

b. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible, provided not eligible for the Occupational Death Benefit (Section 240).

Benefit: The benefit is as follows:

- (i) While in active service, the benefit equals a refund of Accumulated Contributions; plus an amount equal to one year of Compensation in effect at the time of death (Section 240).
- (ii) While not in active service, the benefit equals a refund of Accumulated Contributions.

c. Special Pre-retirement Death Benefit

Eligibility: An active participant who was eligible to retire at the date of death with a surviving spouse or dependent children (Section 240a).

Benefit: The post-retirement death benefits described below assuming the active participant retired the day before the date of death (Section 240a).

d. Post-retirement Death Benefit

Eligibility: Any retiree or disabled member receiving a monthly benefit.

Benefit: The benefit is as follows:

- (i) For those married or with dependent children at the time of death, an annual income equal to 60% of the Retirement Benefit at time of death, payable for

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

life for a surviving spouse and/or disabled children and payable until age 18 or completion of studies, if later, for non-disabled children (Section 240a).

- (ii) The benefit, when there is no relation as stated above, is equal to the remaining balance of Accumulated Contributions at the time of retirement after the deduction of lifetime annual income paid and is payable to a beneficiary or to the Member's estate. In no case shall the benefit be less than \$1,000. The General Fund pays the difference, up to \$500, between (1) the Accumulated Fees with interest less the lifetime annual income paid and (2) \$1,000. The System pays for the rest. (Section 240 and Act 548)

8. Disability Benefits

a. Non-occupational Disability

Eligibility: All members are eligible for Non-occupational Disability upon 10 years of Creditable Service and the occurrence of disability (Section 238).

Benefit: 30% of Average Compensation, plus 1% of Average Compensation for each year of creditable service in excess of 10 years, payable as an annuity; subject to a maximum of 50% of Average Compensation (Section 238).

b. Occupational Disability

Eligibility: All members disabled while in the course and as a consequence of their work, as certified by two physicians appointed by the Plan Administrator, and provided the member is receiving compensation from the Workmen's Accident Compensation Act (Section 238).

Benefit: 50% of Salary at date of disability, payable as an annuity, reduced by any payments received from the State Insurance Fund under the Workmen's Accident Compensation Act (Section 238).

- 9. Cost-of-Living Adjustments (COLA) to Pension Benefits: Effective January 1, 2001, commencing January 1, 2002 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years (Section 236c).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

These COLAs are paid by the General Fund. In addition, an ad-hoc 3% COLA was granted effective January 1, 1999 and is paid by the System (Section 236b).

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

11. Special “Bonus” Benefits:

a. Christmas Bonus: An annual bonus of \$600 for each retiree, beneficiary, and disabled member paid in December provided the judge was hired before December 24, 2013. The System pays \$150 per retiree, beneficiary, and disabled member and the balance is paid by the General Fund (Act 144).

b. Summer Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member paid in July provided the judge was hired before December 24, 2013. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 37).

c. Medication Bonus: An annual bonus of \$100 for each retiree, beneficiary, and disabled member to cover health costs paid in July provided the judge was hired before December 24, 2013. Evidence of coverage is not required. The amount is prorated if there are multiple beneficiaries. This benefit is paid by the General Fund (Act 155).

d. Judges hired between December 24, 2013 and June 30, 2014 are not eligible for these special “bonus” benefits.

12. Forms of Payment

The basic pension benefits described in the above sections are payable in the form of a cash refund annuity. Optional benefits are provided upon a member’s death to the surviving beneficiaries as described in 7.d.

13. Member Contributions: Contributions by Members are 8.0% of Compensation if hired before December 24, 2013 and 10.0% of Compensation if hired between December 24, 2013 and June 30, 2014 (Sections 234, 240a and 242).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

Provisions applicable to judges hired July 1, 2014 or later (Act 162)

1. Type of Plan

The System is a contributory, hybrid defined benefit plan.

2. Effective Date

The Plan was established in 1954 by Act 12. The plan was last amended under Act 162, approved December 24, 2013.

3. Eligibility for Membership

Members of the Judiciary Retirement System of Puerto Rico include all persons holding a position as Judge of the Supreme Court, Judge of the Court of Appeals, Superior Judges of the Court of First Instance, and Municipal Judges of the Court of First Instance in the Commonwealth of Puerto Rico hired July 1, 2014 or later (Section 235 and Act 201 of 2003).

4. Definitions

- a. Fiscal Year: A Fiscal Year is a 12-month period beginning on July 1 and ending on June 30 (Section 234).
- b. General Fund: The General Expenses Budget of the Government of the Commonwealth of Puerto Rico.
- c. Creditable Service: The years and months (where fractional months are counted as full months of service) of System participation, beginning on the day of appointment as a judge and ending on the date of separation of service. All intervening periods following a resignation, separation or expiration of any term by election or appointment during which a participant was not a judge are excluded. Periods for which no contributions have been made or for which contributions were refunded are also excluded. (Section 234)
- d. Salary: The annual compensation received by a judge for his services in that capacity (Section 234).

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

- e. Average Compensation: The average of the last 60 months of salary that the participant has received for Creditable Service.
- f. Contributions: The amount deducted from the compensation of a Member (Sections 242 and 244).
- g. Actuarial Equivalent: Equality in value such that the present value of the amount under any form of payment is essentially the same as the present value of the amount under the normal form of annuity payment for single participants. Actuarially Equivalent factors are determined based on annuity and mortality tables adopted by the Board of Trustees based on the system's experience and in accordance with the recommendations of the actuary. (Section 234)
- h. Hybrid Program Contribution Account: The individual account established for each judge hired July 1, 2014 or later. Each member has a nonforfeitable right to their contributions to the Hybrid Program Contribution Account.
- i. Credits to Hybrid Program Contribution Account: The credits to the Hybrid Program Contribution Account include (1) contributions by the judge, (2) any discretionary matching contribution made by the Courts Administration Office, and (3) the investment yield for each semester of the fiscal year as determined by the Board. The investment yield determined by the Board shall never be less than 80% of the investment portfolio yield of the System during each semester of each fiscal year minus management fees such as, but not limited to, fees payable to administrator of the portfolio, custody and investment advice.

5. Retirement Benefits

a. Normal Retirement

Eligibility: Age 65 with 12 years of Creditable Service.

Benefit: 1.5% of Average Compensation for each year of Creditable Service, plus the annuitized value of the balance in the Hybrid Program Contribution Account at the time of retirement. The benefit is payable for the member's lifetime.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

Compulsory Retirement: All judges must retire by age 70. If the judge has less than 12 years of creditable service, the judge will receive a refund of the Hybrid Program Contribution Account.

b. Early Retirement

Eligibility: Age 55 with 12 years of Creditable Service before age 65.

Benefit: 1.5% of Average Compensation for each year of Creditable Service, reduced by 1/180 for each for the first 60 months and by 1/360 for each of the next 60 months by which the early retirement date precedes age 65, plus the annuitized value of the balance in the Hybrid Program Contribution Account at the time of retirement. (Note that Act 162 provides for an actuarial reduction for early retirement, however the PRJRS Board has not yet adopted the recommended factors as described in this paragraph.)

6. Termination Benefits

a. Lump Sum Withdrawal

Eligibility: A Member is eligible upon termination of service with less than 12 years of Creditable Service.

Benefit: The benefit equals a refund of the Hybrid Program Contribution Account.

b. Deferred Retirement

Eligibility: A Member is eligible upon termination of service prior to age 65 and after 12 years of Creditable Service, provided the member has not taken a lump sum withdrawal.

Benefit: The benefit, commencing at age 65, is equal to the benefit payable upon Normal Retirement. The benefit may commence as early as age 55, subject to the reductions described under early retirement.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

7. Death Benefits

a. Pre-retirement Death Benefit

Eligibility: Any current non-retired member is eligible.

Benefit: A refund of the Hybrid Program Contribution Account.

b. Post-retirement Death Benefit

Eligibility: Any retiree or disabled member.

Benefit: If the member elected at the time of retirement to transfer a portion of the annuity to a beneficiary by selecting an actuarially equivalent optional form of payment, the applicable survivor benefit.

For all members, the excess, if any, of the Hybrid Program Contribution Account at the time of retirement over the total Hybrid Program annuity payments paid to the member and any beneficiary per the terms of the optional form of payment shall be payable to a beneficiary or the Member's estate.

8. Disability Benefits

Eligibility: All members are eligible upon 5 years of Creditable Service and the occurrence of disability prior to age 65.

Benefit: 1.5% of Average Compensation for each year of Creditable Service plus the annuitized value of the balance in the Hybrid Program Contribution Account at the time of disability, payable as an annuity; subject to a maximum of 33% of Average Compensation.

9. Cost-of-Living Adjustments (COLA) to Pension Benefits: Commencing January 1, 2017 and subsequently every three years thereafter, the annual benefit is increased by 3% for retirees and disabled members provided that the member had been receiving payments for at least three years (Section 236c). These COLAs are paid by the General Fund.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VI – SUMMARY OF PRINCIPAL PLAN PROVISIONS AS OF JUNE 30, 2015

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

11. Member Contributions: Contributions by Members are 12.0% of Compensation.

Employer Contributions

1. Payroll-based Employer Contributions: Contributions by the Commonwealth of Puerto Rico are 30.34% of Compensation (Section 242). Prior to July 1, 2008, the employer contribution rate was 20.0% of Compensation. In addition, for members hired July 1, 2014 or later, a discretionary matching employer contribution up to 6.0% of Compensation may be made to the member's Hybrid Program Contribution Account.

2. Additional Contribution: Beginning with the 2014-2015 fiscal year, the System will receive an Additional Contribution as necessary to avoid having the projected gross assets of the System, during any subsequent fiscal year, to fall below \$20 million. (Act 162 of 2013)

Changes in Plan Provisions since Prior Valuation

None.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

Investment Return: 5.50% per annum, net of investment expenses. Based on the System's investment policy, including target asset allocation, and Milliman's capital market assumptions as of June 30, 2015.

Municipal Bond Rate: 3.80% per annum (Bond Buyer General Obligation 20-Bond Municipal Bond Index)

GASB 67 discount rate: 3.82% per annum

GASB 45 discount rate: 3.10% per annum. Based on the Commonwealth's asset allocation for the general assets that are used to pay this benefit and Milliman's capital market assumptions as of June 30, 2015.

Compensation Increases: 3.0% per year. However, no compensation increases are assumed until July 1, 2017 as a result of Act 66. Based on professional judgment and System input.

Hybrid Program Contribution Account: Member contributions to the Hybrid Program Contribution Account are assumed to be 12.0% of Compensation. No matching employer contributions to the Hybrid Program Contribution Account are assumed. Hybrid Program Contribution Accounts are assumed to grow using a 4.40% annual investment return (80% of the net investment return assumption).

Annuitization of Hybrid Program Contribution Account: Single life annuity factors using an interest rate of 4% and the RP-2000 Healthy Annuitant Mortality Table for ages 50 and over and the RP-2000 Employee Mortality Table for ages under 50, projected to 2025 using Scale AA and blended 50% male / 50% female, are used to convert the Hybrid Program Contribution Account to a lifetime annuity.

Basis for demographic assumptions: The mortality assumptions reflect standard industry tables that were selected based on the characteristics of the System's members. Most other demographic assumptions used in this valuation are based on a 2009 experience study using data as of June 30, 2003, June 30, 2005, and June 30, 2007. Certain demographic assumptions (e.g. termination and retirement) were impacted by the Act 162-2013 pension reforms and were revised based on the new retirement eligibility and expected future experience. All assumptions were reviewed with PRJRS staff for reasonableness and are documented in this Section.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

Termination – Judges who serve with a fixed tenure: Withdrawal rates vary by age and years of Creditable Service as a judge (not including any prior governmental service for judges hired before July 1, 2014).

Years of Creditable Service	Less than Age 45	Age 45 and older
0 – 6	3.5%	0.0%
7	0.0	0.0
8	30.0	15.0
9 – 11	3.0	3.0
12+	0.0	0.0

Retirement – Judges who serve with a fixed tenure and were hired before July 1, 2014: Rates of retirement vary by age and years of Creditable Service (including any prior governmental service). Retirement rates are not applied prior to completion of 8 years of Creditable Service as a judge.

If Eligible for the 75% of Highest Salary Maximum Benefit:

A retirement rate of 45% per year is assumed for active members who are eligible for retirement with the maximum benefit (e.g. age 60 with 20 years of Creditable Service, 30 years of Creditable Service, or Optional Eligibility).

If Not Yet Eligible for the 75% of Highest Salary Maximum Benefit:

The rates shown below apply when an active member is eligible for retirement with less than the maximum benefit (e.g. age 60 with 10 years of Creditable Service, or 20 years of Creditable Service before age 60).

Age	Less than 20 years of Creditable Service	20 or more years of Creditable Service
Less than 60	N/A	1.5%
60 and older	8.0%	N/A

At age 70, a retirement rate of 100% is applied.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

Retirement – Judges hired July 1, 2014 or later – Rates of retirement vary by age once eligible for early retirement (age 55 with 12 years of Creditable Service) or normal retirement (age 65 with 12 years of Creditable Service).

Age	Rate of Retirement
55 to 59	1.0%
60 to 61	2.0
62 to 64	10.0
65	30.0
66 to 69	20.0
70+	100%

Termination – Judges who serve without a fixed tenure: No termination is assumed prior to retirement eligibility.

Retirement – Judges who serve without a fixed tenure: Rates of retirement vary by age. The rates do not apply until the completion of 10 years of Creditable Service with 8 years earned as judge.

Age	Rate of Retirement
Under 65	0%
65 to 69	20
70 & Over	100

For benefit purposes, all Judges who serve without a fixed tenure are assumed to retire with at least 8 years of Creditable Service earned as a judge without a fixed tenure.

Commencement of benefits for terminated vested members: Current terminated members with a vested benefit are assumed to retire at age 60 if hired before July 1, 2014 or age 65 if hired July 1, 2014 or later, or at the attained age on the valuation date if later. Future terminated vested members are assumed to retire at age 60 if hired before July 1, 2014 or age 65 if hired July 1, 2014 or later.

Disability: 50% of the six month elimination period rates in the 1987 Commissioners Group Disability Table. 100% of disabilities are assumed to be occupational. For judges hired before July 1, 2014, rates of disability cease to apply once a member is

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

eligible for the 75% of Highest Salary maximum benefit. For judges hired July 1, 2014 or later, rates of disability cease to apply at age 65.

Pre-retirement Mortality: RP-2014 Employee Mortality Rates with white collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Among deaths while in active service, 50% are assumed to be occupational, 50% are assumed to be non-occupational.

Post-retirement Healthy Mortality: RP-2014 Healthy Annuitant Mortality Rates with white collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Post-retirement Disabled Mortality: RP-2014 Disabled Annuitant Mortality Rates, for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year, and projected forward using MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Marriage: 75% of current active and terminated members are assumed to be married at retirement with males 3 years older than females.

Form of Payment: For judges hired before July 1, 2014, future retired members are assumed to receive a joint and 60% survivor annuity if married and a modified cash refund (approximated by a single life annuity with 2 years certain) if not married. For judges hired July 1, 2014 or later, future retired members are assumed to receive a modified cash refund.

Spousal information was not provided for current retired and disabled members. If the retiree or disabled member was indicated as married, that member was assumed to receive a joint and 60% survivor annuity. The spouse's date of birth was imputed based on an assumed age difference of 3 years with males older than females. If the retiree or

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

disabled member was indicated as not married, that member was assumed to receive a modified cash refund (approximate by a single life annuity with 2 years certain).

No future dependent children were assumed to become beneficiaries.

Members who terminate employment with at least 10 years of Creditable Service (12 years of Creditable Service if hired July 1, 2014 or later) are assumed to elect to receive a deferred pension benefit in lieu of a refund of contributions.

Medical Insurance Plan Contribution: 75% of future and current service and disability retirees are assumed to receive a monthly medical insurance continuation benefit of \$100 per month.

Administrative Expenses: Average of past two year's expense, rounded up to the nearest \$5,000. For the 2014-2015 plan year, this amount is \$535,000.

Tenure as Judge: Supreme Court judges appointed before June 29, 2007 are assumed to serve with unlimited terms. All other judges are assumed to have a fixed tenure.

Census Data Collection Date: July 1, 2014. When information is provided by participant category in this report, the category is determined as of the census data collection date.

Special Data Adjustments: The following adjustments were made to the census data received from the System.

The amount of the COLA effective January 1, 2014 was estimated for current participants in pay status. Retirees with a date of retirement on or before January 1, 2011 were assumed to receive the COLA effective January 1, 2014.

Benefits for some of the current terminated vested members were estimated based on the provided years of creditable service and the last monthly salary.

Refer to the Form of Payment assumption above for a description of form of payment and spousal data imputation for current retired and disabled members.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VII – SUMMARY OF ACTUARIAL ASSUMPTIONS AS OF JUNE 30, 2015

Accumulated member contributions for active members hired before July 1, 2014 with other government service include the contributions accumulated during the other government service.

Benefits for current beneficiaries who are under age 22 as of the valuation date were assumed to cease at age 22. Benefits for current beneficiaries who are age 22 or older as of the valuation data were assumed to be payable for life. In addition, the current level of benefit was assumed to remain constant.

Benefits not valued: The minimum post-retirement death benefit of \$1,000 for retirees without surviving beneficiaries (for judges hired before July 1, 2014) is not explicitly valued. The additional liability associated with this benefit is expected to be de minimis.

Changes in actuarial assumptions since the prior valuation: The investment return assumption was increased from 5.35% to 5.50%. Accordingly, the assumed investment return on the Hybrid Program Contribution Account (80% of the net investment return assumption) was increased from 4.28% to 4.40%.

The pre-retirement mortality rates were updated from the RP-2000 Employee Mortality Rates to the RP-2014 Employee Mortality Rates (both with white collar adjustments), which were published by the Society of Actuaries in October 2014. The post-retirement healthy mortality rates were updated from the RP-2000 Healthy Annuitant Mortality Rates to the RP-2014 Healthy Annuitant Mortality Rates (both with white collar adjustments), which were published by the Society of Actuaries in October 2014. The disability mortality rates were updated from the RP-2000 Disabled Annuitant Mortality Rates to the RP-2014 Disabled Annuitant Mortality Rates, which were published by the Society of Actuaries in October 2014.

For active members and healthy retirees the projected mortality improvement scale was updated from Scale AA to Scale MP-2015, which was published by the Society of Actuaries in October 2015. Projected mortality improvement was implemented for disabled retirees using Scale MP-2015.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VIII – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2015

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

Actuarial Cost Method

The plan's actuarial cost method is the entry age normal method. Under this method, a projected benefit is determined at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of his compensation each year, it would accumulate at the valuation interest rate over his total prior and future years of service to his assumed retirement date into an amount sufficient to fund his projected benefit. The plan's accrued liability is the sum of (a) the accumulation of each active participant's normal costs attributable to all prior years of service plus (b) the present value of each inactive participant's future benefits.

Asset Valuation Method

The Market Value of Assets.

Liability Determination

The results as of June 30, 2015 are based on projecting the System obligations determined as of the census data collection date of July 1, 2014 for one year using roll-forward methods, assuming no liability gains or losses.

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PUERTO RICO JUDICIARY RETIREMENT SYSTEM

SECTION VIII – SUMMARY OF ACTUARIAL METHODS AS OF JUNE 30, 2015

Changes in actuarial methods since the prior valuation

None.

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