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February 6, 2015

Ms. Maria del Carmen López Fuentes
Executive Director
University of Puerto Rico
Retirement System
1019 Ponce de Leon Avenue
Rio Piedras, PR 00925

Dear Ms. López:

Enclosed are 40 copies of the "University of Puerto Rico Retirement System Actuarial Valuation Report as of June 30, 2014."

Please let us know if you have any questions concerning the report.

Sincerely,

José I. Fernández, ASA, FCA, MAAA, EA
Principal and Consulting Actuary

JIF:dpb

Enclosure

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**University of Puerto Rico
Retirement System**

**Actuarial Valuation
Valuation Report**

As of June 30, 2014





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

February 6, 2015

Board of Trustees & Retirement Board
University of Puerto Rico
Retirement System
P.O. Box 21769
San Juan, Puerto Rico 00925

Dear Board Members:

We are pleased to submit the results of the annual actuarial valuation of the University of Puerto Rico Retirement System (the System) as of June 30, 2014.

The purpose of this report is to provide a summary of the funded status of the System as of June 30, 2014, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 27 (GASB 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The valuation results indicate that the combined employer and member contribution rates in the table below are sufficient to fund the normal cost for all members and the unfunded accrued liability. In the table below we also present the estimated required University contribution amount for fiscal year 2015 to fund the System. For comparison we present the contribution rates and amounts for fiscal year 2014 based on the 2013 valuation.

Valuation Date	June 30, 2014	June 30, 2013
Recommended Contributions for Fiscal Year	2015	2014
Total Contribution Rate	25.00%	21.24%
Average Member Contribution Rate	7.71%	6.08%
University Contribution Rate	17.29%	15.16%
Estimated University Contribution (\$'s millions)	\$ 86.6	\$ 74.5

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The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the individual entry age normal cost method and open-end supplemental liability. The valuation reflects the assumption and method changes based on the most recent experience study of the Retirement System. A five-year smoothing of the market value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll over a closed 30-year period, on the assumption that payroll will increase by 3% annually and the amortization period will decrease by one year until reaching 0 years. The assumptions recommended by the actuary and adopted by the Board are, in the aggregate, reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 27.

The recommended assumptions and methods include amortization of the unfunded accrued liability over a closed 30-year period. As requested, below we also present the University contribution rate and estimated contribution amount assuming an open 30-year period. Since as of June 30, 2014 both the closed and open periods are 30 years, the contribution rates and amounts are the same under both methods.

Unfunded Accrued Liability Amortization Method	Closed (Recommended)	Open
Contributions for Fiscal Year	2015	2015
Total Contribution Rate	25.00%	25.00%
Average Member Contribution Rate	7.71%	7.71%
University Contribution Rate	17.29%	17.29%
Estimated University Contribution (\$'s millions)	\$ 86.6	\$ 86.6
Amortization Period	30 years	30 years



All historical information that references a valuation date prior to June 30, 2013 was prepared by the previous actuary.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Jose I. Fernandez', with a long horizontal flourish extending to the right.

José I. Fernández, ASA, FCA, MAAA, EA
Principal and Consulting Actuary



Table of Contents

<u>Section</u>	<u>Item</u>	<u>Page No.</u>
I	Summary of Principal Results	1
II	Membership Data	3
III	Assets	5
IV	Comments on Valuation	6
V	Contributions Payable by Employer	7
VI	Accounting Information	8
VII	Derivation of Experience Gains and Losses	11

Schedule

A	Valuation Balance Sheet and Solvency Test	13
B	Development of the Actuarial Value of Assets	15
C	Summary of Changes in Net Assets	16
D	Outline of Actuarial Assumptions and Methods	17
E	Actuarial Cost Method	21
F	Summary of Plan Provisions	22
G	Schedule of Active Member Data	29
H	Data Reconciliation	31





Section I – Summary of Principal Results

- For convenience of reference, the principal results of the valuation and a comparison with the preceding year’s results are summarized in the following table.

SUMMARY OF PRINCIPAL RESULTS

	June 30, 2014	June 30, 2013
Number of Active Members	10,711	11,008
Annual Covered Payroll (Salary used for valuation purposes)	\$501,190,385	\$491,291,305
Number of Retired and Disabled Members and Survivors	8,081	7,863
Annual Benefits	\$170,304,912	\$168,669,795
Number of Terminated Vested Members	476	453
Number of Non-Vested Terminated Members	7,941	7,941
Total Assets		
Actuarial Value	\$1,179,752,077	\$1,070,402,499
Market Value	\$1,325,364,820	\$1,161,568,590
Actuarial Accrued Liability	\$2,684,515,789	\$2,622,367,510
Unfunded Actuarial Accrued Liability	\$1,504,763,712	\$1,551,965,011
RECOMMENDED CONTRIBUTIONS FOR FISCAL YEAR ENDING	June 30, 2015	June 30, 2014
Total Contribution Rate:		
Normal (Including Administrative Expenses)	7.15%	5.86%
Unfunded Accrued Liability	<u>17.85%</u>	<u>15.38%</u>
Total Contribution Rate	25.00%	21.24%
Average Member Contribution Rate	7.71%	6.08%
University Contribution Rate	17.29%	15.16%
Amortization Period	30 years	30 years





Section I – Summary of Principal Results

2. Comments on the valuation results as of June 30, 2014 are given in Section IV and further discussion of the contribution levels is set out in Section V.

3. Schedule B shows the development of the actuarial value of assets. Schedules D and E of this report outline the full set of actuarial assumptions and methods used in the current valuation. Based on the most recent experience study of the Retirement System, the following changes to the assumptions have been adopted by the Retirement Board since the previous valuation:
 - Change assumed rates of termination from age-based to service-based rates
 - Reduce assumed rates of retirement
 - Reduce assumed rates of disability retirement
 - Update mortality to RP-2000 projected to 2020
 - Reduce assumed salary increases to 3.75%
 - Reduce assumed rate of investment return to 7.75%
 - Reduce price inflation assumption to 3.0%
 - Reduce wage inflation assumption to 3.75%
 - Reduce payroll growth assumption to 3.0%
 - Increase administrative expense load to 0.70% of payroll
 - Change amortization method from 30 year open to 30 year closed

4. The valuation takes into account the effect of amendments to the System through the valuation date. The Main Provisions of the System, as summarized in Schedule F, were taken into account in the current valuation. Effective July 1, 2014, the compensation limit for Certification 139 was frozen at \$69,556.44. There were no other changes to the provisions since the previous valuation.





Section II – Membership Data

1. Membership data for use in the valuation was furnished by the System. The following table shows the number of active members and their annual compensation for valuation purposes, as of June 30, 2014, on which the valuation was based.

TABLE 1
THE NUMBER AND ANNUAL COMPENSATION OF
ACTIVE MEMBERS AS OF JUNE 30, 2014

Number	Compensation	Average Compensation	Average Age	Average Service
10,711	\$501,190,385	\$46,792	49.1	17.4

2. The following table shows a four-year history of active member valuation data.

TABLE 2
SCHEDULE OF TOTAL ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Compensation	Average Annual Compensation	% Increase in Average Compensation
6/30/2014	10,711	501,190,385	46,792	4.8
6/30/2013	11,008	491,291,305	44,630	-0.3
6/30/2012	11,148	499,027,788	44,764	-0.1
6/30/2011	11,398	510,706,620	44,807	





Section II – Membership Data

3. The following table shows the number and annual retirement benefits payable to retired members and survivors on the roll of the System as of the valuation date.

TABLE 3
THE NUMBER AND ANNUAL RETIREMENT BENEFITS
OF RETIRED MEMBERS AND SURVIVORS OF DECEASED MEMBERS
AS OF JUNE 30, 2014

Type of Retirement	Number	Annual Benefits	Average Monthly Benefit	Average Age	Actuarial Liabilities
Retiree	6,864	\$160,028,073	\$1,943	71.4	\$1,445,874,987
Disability	1,146	\$9,957,886	\$724	67.1	\$77,475,391
Beneficiary	71	\$318,953	\$374	65.2	\$2,721,593
Total	8,081	\$170,304,912	\$1,756		\$1,526,071,971

4. Schedule G shows the distribution by age and service of the number and annual compensation of active members.





Section III – Assets

Schedule C shows the additions and deductions for the year preceding the valuation date and a reconciliation of the fund balances at market value. The market value of assets as of June 30, 2014 used to determine the actuarial value of assets is shown below. The market related actuarial value of assets used for the current valuation was \$1,179,752,077. Schedule B shows the development of the actuarial value of assets. The following table shows historical asset information.

TABLE 4
HISTORICAL ASSET INFORMATION
(in \$1,000s)

Plan Year	Market Value as of June 30	Actuarial Value as of June 30	Benefit Payments	Expenses	University and Member Contribs.	Market Value Yield	Actuarial Value Yield
2014	1,325,365	1,179,752	169,163	3,914	129,589	18.2%	14.6%
2013	1,161,569	1,070,402	162,182	3,777	115,333	15.2%	8.1%
2012	1,055,909	1,039,441	153,890	3,518	114,405	4.5%	4.0%
2011	1,052,467	1,041,628	143,198	3,070	110,823	20.9%	4.8%
2010	902,867	1,028,918	133,113	3,709	112,915	13.0%	1.8%
2009	821,867	1,034,645	124,353	3,935	116,436	-12.7%	2.1%
2008	954,307	1,024,987	118,779	3,640	124,518	-5.0%	7.3%
2007	1,002,117	953,197	110,831	3,443	118,341	14.8%	9.2%
2006	869,349	869,211	105,090	3,263	112,368	7.3%	5.4%
2005	806,229	820,501	100,459	3,781	105,755	8.2%	1.9%
2004	743,761	803,498	94,188	2,675	102,369	11.4%	2.5%
2003	662,518	778,265	89,313	2,420	88,988	4.0%	2.1%
2002	639,813	765,329	84,455	2,105	78,220	-5.6%	12.8%
2001	686,067	686,067	78,613	2,178	78,424	-8.7%	-8.7%
2000	754,280	754,280	72,043	2,215	72,036	16.4%	16.4%
1999	650,295	650,295	64,269	6,245	75,034	10.1%	10.1%
1998	586,095	586,095	58,507	1,763	66,866	14.6%	14.6%





Section IV – Comments on Valuation

1. The total valuation balance sheet on account of benefits shows that the System has total prospective benefit liabilities of \$2,940,879,329, of which \$1,526,071,971 is for the prospective benefits payable on account of present retired members, disabled members and survivors of deceased members, \$46,542,365 is for the prospective benefits payable on account of inactive members entitled to future benefits, and \$1,368,264,993 is for the prospective benefits payable on account of present active members. Against these benefit liabilities the System has a total present actuarial value of assets of \$1,179,752,077 as of June 30, 2014. The difference of \$1,761,127,252 between the total liabilities and the total present actuarial value of assets represents the present value of contributions to be made in the future on account of benefits. Of this amount, \$256,363,540 is the present value of future contributions expected to be made by members, and the balance of \$1,504,763,712 represents future University contributions.

2. Since the average member contribution rate exceeds the Normal Rate of the System, the University's contributions on account of benefits consist of accrued liability contributions only.

3. It is recommended that the accrued liability contribution rate payable on account of retirement benefits be set at 17.85% of payroll. This rate is sufficient to liquidate the unfunded accrued liability of \$1,504,763,712 over 30 years beginning June 30, 2014 on the assumption that the aggregate payroll will increase by 3% each year. Of the total unfunded accrued liability rate of 17.85%, the employer will contribute 17.29% and the extra 0.56% of payroll is from the average member contribution rate, which is 7.71%, that is in excess of the total normal contribution rate of 7.15%.





Section V – Contributions Payable by Employer

The employer contribution rates according to the Rules and Regulations of the System are shown in the following table.

TABLE 5

	June 30, 2014	June 30, 2013
A. Funding Results		
1. Present Value of Future Benefits	\$2,940,879,329	\$2,793,837,407
2. Actuarial Value of Assets	<u>1,179,752,077</u>	<u>1,070,402,499</u>
3. PV of Future Contributions (1) – (2)	1,761,127,252	1,723,434,908
4. PV of Future Member Contributions	<u>256,363,540</u>	<u>171,469,897</u>
5. PV of Future University Contributions (3) – (4)	1,504,763,712	1,551,965,011
6. PV of Future University Normal Conts.	<u>0</u>	<u>0</u>
7. Unfunded Accrued Liability (5) – (6)	1,504,763,712	1,551,965,011
B. Annual Contribution Rate (% of payroll)		
1.Total		
a. Normal rate (including expenses)	7.15%	5.86%
b. Unfunded accrued liability	<u>17.85%</u>	<u>15.38%</u>
c. Sub-total	25.00%	21.24%
2. Members	<u>7.71%</u>	<u>6.08%</u>
3. University	17.29%	15.16%





Section VI – Accounting Information

- Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED MEMBERS
AS OF JUNE 30, 2014**

Group	Number
Retirees and beneficiaries currently receiving benefits	8,081
Terminated employees entitled to but not yet receiving benefits	8,417
Active Members	<u>10,711</u>
Total	27,209

- Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / (c))
6/30/2014	1,179,752,077	2,684,515,789	1,504,763,712	43.9	501,190,385	300.2%
6/30/2013	1,070,402,499	2,622,367,510	1,551,965,011	40.8	491,291,305	315.9%
6/30/2012	1,039,441,000	2,617,989,147	1,578,548,147	39.7	499,027,788	316.3%
6/30/2011	1,041,628,000	2,542,444,021	1,500,816,021	41.0	510,706,620	293.9%
6/30/2010	1,028,918,000	2,436,913,244	1,407,995,244	42.2	540,867,018	260.3%
6/30/2009	1,034,645,000	2,331,619,466	1,296,974,466	44.4	570,122,184	227.5%





Section VI – Accounting Information

3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2014. All historical information that references a valuation date prior to June 30, 2013 was prepared by the previous actuary.

Valuation Date	June 30, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level percent, closed
Payroll Growth Rate	3%
Remaining Amortization Period	30 years
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	3.75%
Cost-of-living adjustments	None
*Includes inflation at	3.00%





**SCHEDULE OF EMPLOYER CONTRIBUTIONS
(\$ Millions)**

Fiscal Year	Annual Required Contribution (ARC)	Percent of ARC Contributed
2014	\$78.2	117.2%
2013	77.8	100.9%
2012	72.2	104.1%
2011	68.5	103.3%
2010	63.7	111.7%
2009	64.1	113.3%
2008	59.2	137.7%
2007	57.5	136.1%
2006	55.4	133.0%





Section VII – Derivation of Experience Gains and Losses

**CHANGES IN UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)
DURING PLAN YEAR**

1) Beginning of Year:	
a) Unfunded Actuarial Accrued Liability	\$1,551,965,011
b) Total Normal Cost with Administrative Expenses	28,773,996
c) Expected Total Contributions based on prior valuation contribution rate with Administrative Expenses	104,339,945
d) Actual Total Contributions based on contribution rate applicable to current fiscal year	129,588,674
2) End of Year:	
a) Expected UAAL from previous valuation [(1a) + (1b)] * 1.08 – (1c) * 1.04	\$1,598,684,585
b) Expected UAAL on actual contributions [(1a) + (1b)] * 1.08 – (1d) * 1.04	1,572,425,907
c) Increase (Decrease) in UAAL due to deficiency (surplus) (2b) – (2a)	(26,258,678)
3) Gains (Losses) on Year's Activities	
a) Liability – Assumed vs. Actual	\$(22,624,736)
b) Assets – Assumed vs. Actual	68,944,467
c) Change in Plan Assumptions	(6,202,119)
d) Change in Plan Provisions	27,544,583
e) Change in Methods	0
f) Total	\$67,662,195
4) Actual UAAL at End of Year (2a) + (2c) – (3f)	\$1,504,763,712

* Expected Total Contributions are based on the Annual Required Contribution (ARC) rate, the average member contribution rate, and annual covered payroll as of the previous valuation date.





Section VII – Derivation of Experience Gains and Losses

**GAINS & LOSSES IN ACTUARIAL ACCRUED LIABILITIES
DURING PLAN YEAR**

Type of Activity	Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$7,544,031
Disability Retirements. If disability claims are less than assumed, there is a gain. If more, a loss.	(2,071,864)
Death-in Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(217,670)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(7,774,507)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(3,145,146)
New Members. Additional unfunded accrued liability will produce a loss.	(2,250,670)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	68,944,467
Death After Retirement. If retirees live longer than assumed, there is a loss. If not as long, a gain.	(7,008,508)
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	<u>18,558,276</u>
Gain (or Loss) During Year From Financial Experience	\$72,578,409
Non-Recurring Items. Adjustments for plan amendments, assumptions changes and method changes.	<u>21,342,464</u>
Composite Gain (or Loss) During Year	\$93,920,873





Schedule A – Valuation Balance Sheet

**VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES
AS OF JUNE 30, 2014**

PRESENT AND PROSPECTIVE ASSETS		
Actuarial Value of Present Assets		\$1,179,752,077
Present Value of Future Member Contributions		\$256,363,540
Present Value of Future Employer Contributions		
Normal Contributions	0	
Unfunded Accrued Liability Contributions	<u>\$1,504,763,712</u>	
Total Prospective Employer Contributions		<u>\$1,504,763,712</u>
Total Present and Prospective Assets		<u>\$2,940,879,329</u>
ACTUARIAL LIABILITIES		
Present Value of Benefits Payable on Account of Retired Members and Survivors of Deceased Members Now Drawing Retirement Benefits		\$1,526,071,971
Present Value of Prospective Benefits Payable on Account of Inactive Members		\$46,542,365
Present Value of Prospective Benefits Payable on Account of Present Active Members:		
Service Retirement Benefits	\$1,275,343,050	
Disability Retirement Benefits	\$26,429,411	
Death Benefits	\$31,637,063	
Separation Benefits	<u>\$34,855,469</u>	
Total		<u>\$1,368,264,993</u>
Total Actuarial Liabilities		<u>\$2,940,879,329</u>





Schedule A – Solvency Test

SOLVENCY TEST

Aggregate Accrued Liabilities					Portion of Accrued Liabilities Covered By Reported Assets		
Val. Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/2014	\$472,105,689	\$1,556,930,333	\$655,479,767	\$1,179,752,077	100.0%	45.5%	0.0%
6/30/2013	\$444,754,422	\$1,359,422,890	\$818,190,198	\$1,070,402,499	100.0%	46.0%	0.0%
6/30/2012	\$429,151,111	\$1,320,121,857	\$868,716,179	\$1,039,441,000	100.0%	46.2%	0.0%





DEVELOPMENT OF THE JUNE 30, 2014 ACTUARIAL VALUE OF ASSETS

Valuation date June 30:	2012	2013	2014	2015	2016	2017
A. Actuarial Value Beginning of Year	1,041,628,000	\$1,039,441,230	\$1,070,402,499			
B. Market Value End of Year	1,055,908,704	1,161,568,590	1,325,364,820			
C. Market Value Beginning of Year	1,052,466,560	1,055,908,704	1,161,568,590			
Audit Adjustment	0	(4,550)				
Adjusted Market Value Beginning of Year	1,052,466,560	1,055,904,154	1,161,568,590			
D. Cash Flow						
D1. Contributions	114,404,938	115,333,059	129,588,674			
D2. Benefit Payments	(153,890,144)	(162,182,241)	(169,162,756)			
D3. Administrative Expenses	(3,517,749)	(3,776,854)	(3,913,504)			
D4. Investment Expenses	0	0	0			
D5. Net	(43,002,955)	(50,626,036)	(43,487,586)			
E. Investment Income						
E1. Market Total: B.-C.-D5.	46,445,099	156,290,472	207,283,816			
E2. Assumed Rate	8.00%	8.00%	8.00%			
E3. Amount for Immediate Recognition	82,477,207	82,447,291	91,185,984			
E4. Amount for Phased-In Recognition	(36,032,108)	73,843,181	116,097,832			
F. Phased-In Recognition of Investment Income						
F1. Current Year: 0.20*E4.	(7,206,422)	14,768,636	23,219,566	0	0	0
F2. First Prior Year	22,846,600	(7,206,422)	14,768,636	23,219,566	0	0
F3. Second Prior Year	8,022,800	22,846,600	(7,206,422)	14,768,636	23,219,566	0
F4. Third Prior Year	(39,291,600)	8,022,800	22,846,600	(7,206,422)	14,768,636	23,219,566
F5. Fourth Prior Year	(26,032,400)	(39,291,600)	8,022,800	22,846,600	(7,206,422)	14,768,636
F6. Total Recognized Investment Gain	(41,661,022)	(859,986)	61,651,180	53,628,381	30,781,780	37,988,202
G. Actuarial Value End of Year:						
A.+D5.+E3.+F6.	\$1,039,441,230	\$1,070,402,499	\$1,179,752,077			
H. Difference Between Market & Actuarial Values	\$ 16,467,474	\$ 91,166,091	\$ 145,612,743	\$ 91,984,361	\$ 61,202,580	\$ 23,214,378
I. Market Value Rate of Return	4.51%	15.17%	18.19%			
J. Actuarial Value Rate of Return	4.00% ¹	8.05% ¹	14.57% ¹			

¹ Reflects phase-in of 5-year "smoothed" market value of assets.





Schedule C – Summary of Changes in Net Assets

**SUMMARY OF CHANGES IN NET ASSETS
FOR THE YEAR ENDING JUNE 30, 2014**

Additions for the Year		
Contributions		
Members	\$37,899,651	
University	\$91,689,023	
Transfers	<u>\$0</u>	
Total		\$129,588,674
Net Investment Income		<u>\$207,283,816</u>
TOTAL		\$336,872,490
Deductions for the Year		
Benefit Payments	(\$169,162,756)	
Administrative Expenses	<u>(\$3,913,504)</u>	
TOTAL		(\$173,076,260)
Excess of Additions Over Deductions		
TOTAL		\$163,796,230
Reconciliation of Asset Balances		
Market Value of Assets as of June 30, 2013		\$1,161,568,590
Audit Adjustment		\$0
Excess of Additions over Deductions		\$163,796,230
Market Value of Assets as of June 30, 2014*		\$1,325,364,820

* The Market Value of Assets shown above is used in the determination of the Actuarial Value of Assets (Schedule B).





Schedule D – Outline of Actuarial Assumptions and Methods

INVESTMENT RATE OF RETURN: 7.75% per annum, compounded annually (net of investment expenses).

INFLATION ASSUMPTION: 3.00% per year.

PAYROLL GROWTH ASSUMPTION: 3.00% per year

ADMINISTRATIVE EXPENSE ASSUMPTION: 0.70% of total payroll of covered employees

PERCENT MARRIED: 80% of employees are assumed to be married, and wives are assumed to be the same age as their husbands.

ACTUARIAL METHOD: Individual Entry Age Normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over a closed 30-year period beginning June 30, 2014. This amortization assumes future payroll increases of 3% per annum. See Schedule E for a detailed explanation.

DECREMENTS:

PRE-RETIREMENT MORTALITY: RP-2000 Healthy Annuitant Mortality for ages 50 and greater and the RP-2000 Combined Mortality table for ages less than 50 projected to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females. Representative values are presented below.

Age	Men	Women
20	0.025%	0.018%
25	0.033%	0.020%
30	0.035%	0.029%
35	0.042%	0.048%
40	0.073%	0.073%
45	0.102%	0.115%
50	0.142%	0.232%
55	0.524%	0.348%
60	0.603%	0.555%
64	0.719%	0.814%





Schedule D – Outline of Actuarial Assumptions and Methods

- **POST-RETIREMENT HEALTHY MORTALITY:** RP-2000 Healthy Annuitant Mortality for ages 50 and greater and the RP-2000 Combined Mortality table for ages less than 50 projected to 2020 using Scale BB, set back 5 years for males and set forward 1 year for females. Representative values are presented below.

Age	Men	Women
50	0.142%	0.232%
55	0.524%	0.348%
60	0.603%	0.555%
65	0.772%	0.897%
70	1.142%	1.459%
75	1.779%	2.432%
80	3.031%	3.989%
85	5.156%	6.785%
90	8.521%	11.827%
95	14.701%	18.579%

- **POST-RETIREMENT DISABLED MORTALITY:** RP-2000 Disabled Mortality projected to 2020 using Scale BB, set back 5 years for males and set forward 2 years for females. Representative values are presented below.

Age	Men	Women
50	2.13%	1.27%
55	2.73%	1.62%
60	3.34%	1.89%
65	3.65%	2.46%
70	3.94%	3.37%
75	4.63%	4.68%
80	6.07%	6.46%
85	8.08%	8.99%
90	10.47%	13.35%
95	14.70%	19.87%

- **DISABILITY:** Representative values are presented below (65% of the projected disabilities are assumed to be due to occupational causes).





Schedule D – Outline of Actuarial Assumptions and Methods

Age	Men	Women
20	0.005%	0.005%
25	0.029%	0.029%
30	0.052%	0.052%
35	0.076%	0.076%
40	0.100%	0.100%
45	0.150%	0.150%
50	0.200%	0.250%
55	0.300%	0.200%
60	0.200%	0.200%

- **TERMINATION:** Assumed rates are presented below.

Years of Service	Rate
0	22%
1	22%
2	15%
3	10%
4	7%
5	7%
6	5%
7	4%
8	3%
9	3%
10-14	2%
15+	1%





Schedule D – Outline of Actuarial Assumptions and Methods

- **RETIREMENT:** Representative values are presented below.

Age	Less than 25 Years of Service	25 Years of Service or More, but Less than 30	30 or More Years of Service
45			9.5%
50			9.5%
55		5%	42%
58	5%	5%	32%
60	5%	5%	26%
61	10%	10%	23%
62	11%	11%	28%
63	10%	10%	28%
64	10%	10%	28%
65	20%	20%	28%
66	15%	15%	30%
67	15%	15%	30%
68	15%	15%	30%
69	15%	15%	30%
70+	100%	100%	100%

ASSETS: The method of valuing assets is intended to recognize a “smoothed” market value of assets. Under this method, the difference between actual return on market value from investment experience and the expected return on market value is recognized over a 5-year period.

INTEREST CREDIT: 4% per annum on member contribution account balances.

SALARY INCREASES: 3.75% per annum





Schedule E – Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement, disability or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 7.75%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to current benefit recipients to obtain the present value of all expected benefits payable to the present group of members and survivors.
2. The employer contributions required to support the benefits of the System are determined using the individual entry age normal cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit.

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The normal cost is calculated for each individual member. The normal cost rate is defined as the total of the individual normal cost divided by the total annual covered payroll.

The portion of the actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of assets and (b) the actuarial present value of future normal cost is called the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is amortized as a level percentage of the projected salaries of the present and future members of the System, over a 30 year period beginning June 30, 2014 on a closed basis.





Schedule F– Summary of Plan Provisions

1. Provisions applicable to those members who had completed 20 years of service by July 1, 1979 (Certification 7/7 Supplemented)

a) Service retirement annuity payable:

- i. After 30 years of service; or
- ii. At age 58 after 10 years of service; or
- iii. At age 55 after 25 years of service.

b) Amount of service retirement annuity:

- i. Before age 65 – member with at least 30 years of service: 75% of average compensation if age 55 at beginning date; 65% if under age 55. If member completed 30 years of service before July 1973, annuity is increased by 2% of average compensation for each year of service beyond 30 and before July 1973, but to not more than 85% of average compensation.
- ii. Before age 65 – member with less than 30 years of service: 1.50% of average compensation per year of service for member with 20 or fewer years. Percentage increased by 0.05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount reduced by ½% for each month member is under age 58 at time annuity begins.
- iii. After age 65 – same as before age 65.
- iv. Minimum annuity: \$250 per month.
- v. Average compensation means the average for the highest-paid 36 months of service without limit on compensation.
- vi. Employee contributions:
 - Complete supplementation: 7.00% of compensation.
 - Coordinated: 4.00% up to \$4,200 of compensation plus 6.50% of compensation in excess of \$4,200.





Schedule F– Summary of Plan Provisions

2. Provisions applicable to all members who were affected under Certification 37 and who had not completed 20 years of service by July 1, 1979 plus those members who entered the system on or after July 1, 1978 and who did not elect Certification 55 or 94 and did not elect full supplementation under Certification 54 (Certification 37/37 Coordinated)

a) Service retirement annuity payable:

- i. After 30 years of service; or
- ii. At age 58 after 10 years of service; or
- iii. At age 55 after 25 years of service.

b) Amount of service retirement annuity:

- i. Before age 65 – member with at least 30 years of service: 75% of average compensation. Amount reduced by $\frac{1}{2}\%$ for each month member is under age 58 at time annuity begins.
- ii. Before age 65 – member with less than 30 years of service: 1.50% of average compensation per year of service for member with 20 or fewer years. Percentage increased by 0.05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount reduced by $\frac{1}{2}\%$ for each month member is under age 58 at time annuity begins.
- iii. After age 65 – Benefit is coordinated. Annuity is reduced by $\frac{1}{2}\%$ of average compensation not in excess of the Social Security wage base in effect at retirement for each year of service up to 30 years. If member was under age 58 at beginning date, the coordination adjustment is made before application of $\frac{1}{2}\%$ reduction per month under 58.
- iv. Minimum annuity: \$250 per month.
- v. Average compensation means the average for the highest-paid 36 months of service, excluding that portion of compensation in any year which is in excess of \$35,000.
- vi. Employee contributions for coordinated benefit: 5.00% of compensation up to maximum salary of \$35,000.





Schedule F– Summary of Plan Provisions

3. Provision applicable to all members who were affected by Certification 37 and who had not completed 20 years of service by July 1, 1979 as well as those members who entered the system on or after July 1, 1978 and later elected Certification 55 or those who elected full supplementation under Certification 54 (but not Certification 94) (Certification 55/55 Coordinated)

- a) Service retirement annuity payable:
- i. After 30 years of service; or
 - ii. At age 58 after 10 years of service; or
 - iii. At age 55 after 25 years of service.
- b) Amount of service retirement annuity:
- i. Before age 65 – member with at least 30 years of service: 75% of average compensation. Amount reduced by $\frac{1}{3}\%$ for each month member is under age 55 at time annuity begins.
 - ii. Before age 65 – member with less than 30 years of service: 1.50% of average compensation per year of service for member with 20 or fewer years. Percentage increased by 0.05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount reduced by $\frac{1}{2}\%$ for each month member is under age 58 at time annuity begins.
 - iii. After age 65 – if member elected full supplementation, annuity is the same as before age 65. Otherwise, annuity is reduced by $\frac{1}{2}\%$ of average compensation at time of retirement multiplied by years of service up to 30 years.
 - iv. Minimum annuity: \$250 per month.
 - v. Average compensation means the average for the highest-paid 36 months of service, excluding that portion of compensation in any year which is in excess of \$35,000.
 - vi. Employee contributions:
 - Complete supplementation: 7.00% of compensation up to \$35,000.





Schedule F– Summary of Plan Provisions

- Coordinated: 4.00% up to \$4,200 of compensation plus 6.50% of the excess up to the compensation limit of \$35,000.

4. For those entering between January 1, 1990 and June 30, 1998 who did not elect Certification 94 (Certification 55/55 Supplemented)

a) Service retirement annuity payable:

- After 30 years of service; or
- At age 58 after 10 years of service; or
- At age 55 after 25 years of service.

b) Amount of service retirement annuity:

- Before age 65 – member with at least 30 years of service: 75% of average compensation. Amount reduced by $\frac{1}{3}\%$ for each month member is under age 55 at time annuity begins.
- Before age 65 – member with less than 30 years of service: 1.50% of average compensation per year of service for member with 20 or fewer years. Percentage increased by 0.05% for each year in excess of 20 years up to a maximum of 1.95% of average compensation per year of service. Amount reduced by $\frac{1}{2}\%$ for each month member is under age 58 at time annuity begins.
- After age 65 – Same as before age 65.
- Minimum annuity: \$250 per month.
- Average compensation means the average for the highest-paid 36 months of service, excluding that portion of compensation in any year which is in excess of \$35,000.
- Employee contributions:
 - All completely supplemented: 8.00% of compensation up to compensation limit of \$35,000.





Schedule F– Summary of Plan Provisions

5. Certification 94:

- a) Increase compensation up to \$50,000.
- b) Those electing coverage under the above certification agree to pay 9.00% of compensation up to \$50,000.

6. Certification 139:

- a) Increase compensation up to a \$60,000 maximum. The \$60,000 cap was increased by 3.00% every two years until 7/1/2014. Effective 7/1/2014, the maximum compensation is frozen at \$69,557.
- b) Those electing coverage under the above certification agree to pay 11.00% of compensation up the applicable indexed maximum (see (a) above).

7. Disability Benefits

- a) A disability retirement annuity is payable upon:
 - i. Disability due to occupational causes, regardless of service, or
 - ii. Disability due to non-occupational causes after 10 years of service. If member is also eligible for a service retirement annuity, benefit payable is the higher of the two.
- b) Amount of disability retirement annuity:
 - i. Before age 65 – If service connected, 50% of rate of salary (subject to applicable salary cap) at retirement. If not service connected, 30% of average compensation plus additional 1.00% for each year of service over 10 (subject to a maximum of 50%).
 - ii. After age 65 – Reduced to amount payable by the applicable retirement benefit formula above. However, if post 65 retirement benefit plus Primary Social Security benefit is less than pre 65 disability benefit, then post 65 benefit is adjusted (increased) by the amount necessary to match pre 65 disability benefit.
 - iii. Minimum annuity: \$250 per month.





Schedule F– Summary of Plan Provisions

8. Vested Benefits

A member whose employment terminates after ten (10) years of service, and who does not withdraw his contributions, receives a retirement annuity payable beginning at age 60 based on the applicable retirement formula above.

9. Non-vested Termination Benefits

If termination of employment occurs prior to completing ten (10) years of service, member is entitled only to a refund of his/her own contributions. Refund of a member's own contributions can also be obtained after attainment of ten (10) years of service but in that event the vested benefit is forfeited.

10. Pre-retirement Death Benefits

a) A pre-retirement death benefit is payable upon:

- i. A service-connected death, or
- ii. A non-service connected death.

b) Amount of pre-retirement death benefit:

- i. The widow of a deceased member whose death is service-connected receives an annuity of 50% of final salary (subject to applicable salary cap), plus \$10 per month for each child under age 18 (21 if at school) or disabled. If no annuity is paid to widow, \$20 per month per eligible child. Widow receives annuity until death or remarriage. Maximum family benefit is 75% of final salary (subject to applicable salary cap).

If there is no surviving widow or eligible children, a lump sum amount equal to the member's contributions plus one year's final salary (subject to applicable salary cap), but not less than \$6,000, will be payable to the employee's designated beneficiary.

- ii. Should the member's death be non-service connected then a lump sum amount is paid which is equal to the member's contributions plus one year's final salary (subject to applicable salary cap), but not less than \$6,000.





Schedule F– Summary of Plan Provisions

11. Post-retirement Death Benefits

Member contributions are refunded to the extent that they exceed retirement payments already made, unless a reversionary annuity was elected. Minimum payment is \$600. In addition, 50% of retirement annuity is payable to the surviving spouse until death, remarriage, or until the spouse begins to receive Social Security benefits. Minimum annuity, \$75 per month; maximum annuity, \$150 per month.

12. Reversionary Annuity

Member may elect to receive a reduced annuity in order to provide a lifetime benefit after death to a spouse or relative. The benefit to the spouse or relative may be as low as \$25 per month or as high as 100% of the member's reduced annuity. This option is not permitted if member retires on a disability annuity.

13. Christmas Bonus

A \$400 annual bonus is given to all retired participants.





Schedule G– Schedule of Active Member Data

**SCHEDULE OF ACTIVE MEMBER DATA
AS OF JUNE 30, 2014**

Age	Completed Years of Service							Total	Payroll
	Under 5	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30+		
Under 20	0	0	0	0	0	0	0	0	0
20 to 24	49	1	0	0	0	0	0	50	867,097
25 to 29	288	32	1	0	0	0	0	321	6,495,033
30 to 34	257	264	123	1	0	0	0	645	18,899,673
35 to 39	217	346	477	130	2	0	0	1,172	41,495,237
40 to 44	138	260	393	489	96	1	0	1,377	56,682,593
45 to 49	90	200	368	480	359	120	0	1,617	73,794,632
50 to 54	69	163	274	424	388	549	149	2,016	98,584,108
55 to 59	53	96	194	245	305	462	432	1,787	94,779,012
60 to 64	31	42	106	159	156	224	356	1,074	64,941,912
65 to 69	2	23	39	53	42	93	180	432	28,948,712
70+	0	7	15	11	17	39	131	220	15,702,375
Total	1,194	1,434	1,990	1,992	1,365	1,488	1,248	10,711	501,190,385

Average Active Age: 49.1

Average Service: 17.4





Schedule G– Schedule of Active Member Data

**DISTRIBUTION OF ACTIVE PARTICIPANTS BY PENSION ELIGIBILITY,
CONTRIBUTORY MAXIMUM, AND PLAN TYPE**

<u>Pension Eligibility Certification</u>	<u>Contributory Maximum Certification</u>	<u>Employee Contribution Wage Base</u>	<u>Plan Type</u>	<u>Participant Count @ 6/30/2014</u>	<u>Participant Count @ 6/30/2013</u>
Cert. #7	Cert. #7	None	Coordinated	-	-
Cert. #55	Cert. #55	\$35,000	Coordinated	99	114
Cert. #37	Cert. #37	\$35,000	Coordinated	868	978
Cert. #55	Cert. #55	\$35,000	Supplemented	2,392	2,528
Cert. #7	Cert. #7	None	Supplemented	-	2
Cert. #37	Cert. #94	\$50,000	Coordinated	105	123
Cert. #55	Cert. #94	\$50,000	Supplemented	4,836	4,822
Cert. #55	Cert. #94	\$50,000	Coordinated	40	49
Cert. #37	Cert. #139*	\$69,557	Coordinated	121	139
Cert. #55	Cert. #139*	\$69,557	Coordinated	12	13
Cert. #55	Cert. #139*	\$69,557	Supplemented	<u>2,238</u>	<u>2,240</u>
				10,711	11,008

*Effective 7/1/2014, the Certification 139 contribution wage base is frozen at \$69,557.





Schedule H – Data Reconciliation

**DATA RECONCILIATION
AS OF JUNE 30, 2014**

	Active	Terminated Vested	Receiving Benefits	Total
1. Number of Participants as of June 30, 2013	11,008	453	7,863	19,324
2. Change in status during the plan year:				
a. Active to inactive	(391)	118		(273)
b. Active to retiree	(350)		350	
c. Inactive to active	131	(20)		111
d. Inactive to retired		(63)	63	
e. Retired to active	4		(4)	
3. No longer participating due to:				
a. Death	(1)	(10)	(197)	(208)
b. Termination / Refund	(53)	(2)	(6)	(61)
c. Deletion of duplicate data				
d. Data adjustment				
4. New participant due to:				
a. Initial participation	363			363
b. Omitted in error last year			6	6
c. Pickups and Corrections			2	2
d. New beneficiaries			4	4
5. Number of Participants as of June 30, 2014	10,711	476	8,081	19,268

