Florida Retirement System
Actuarial Assumption Estimating Conference
Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on October 20, 2022, to consider the demographic, methodological, and economic assumptions to be used for the actuarial valuation of the Florida Retirement System (FRS) Pension Plan. The preliminary results for July 1, 2022, show that the FRS continues to have an unfunded actuarial liability (UAL). Using the 2022 data and 2021 assumptions, the projected UAL shows a slight increase from the $34.7 billion shown in 2021's final valuation to $35.6 billion in the 2022 preliminary valuation. The system's funded status remains essentially the same as the 2021 final valuation at 83.4%. These results were derived using a 6.8% investment return assumption (as adopted in 2021), the individual entry age normal (Individual EAN) cost allocation method and a 20-year (level percent of pay) closed amortization period for all bases. The Conference discussed several possible changes to the current assumptions, but ultimately decided only to modify the investment return assumption, decreasing it by 10 basis points to 6.70 percent. This change will affect the final results reported in December 2022.

Working against the market downturn caused by the rise in inflation, the war in Ukraine and global supply chain shortages, the return for the FRS pension plan came in lower than assumed for the past year. After a period of extremely strong market value investment performance in 2021, the pension plan return was -6.27% for the period ending June 2022. On a smoothed actuarial value of assets basis, the 2021-22 result was +7.0%, as this calculation is determined by returns over the prior five years. The tables below show the actual investment returns for the past five fiscal years and the cumulative returns over a 5-year, 10-year, 15-year, and 20-year timeframe.

Fiscal Year	Investment Return
2017-18	8.98%
2018-19	6.26%
2019-20	3.08%
2020-21	29.46%
2021-22	-6.27%

	Investment Return
3-year	7.74%
5-year	7.69%
10-year	8.59%
15-year	6.20%
20-year	7.50%

The state's actuary (Milliman) and the State Board of Administration's (SBA) financial consultant Aon Investments USA Inc. (Aon), presented their respective outlooks for longer term investment returns. Their projections for median returns ranged from 6.87% (Aon, 4.38% real) to 7.21% (Milliman, 4.70% real), both of which are higher than the the 2021 return assumption of 6.80%. As a counterpoint, SBA's presentation emphasized the current challenges and headwinds in the investment market, as well as the structural challenges caused by the following factors:

- Participant growth is slowing significantly due to change in default plan.
- Plan now has more annuitants than active members.

- Net negative cash flow is projected to grow from approximately $7 billion today, to over $10 billion by 2033 and over $17 billion by 2045.

After discussion, the conference principals agreed to lower the investment return assumption to 6.70%, while maintaining the inflation assumption at 2.40%. That portion of the assumption matches the long-range inflation assumption used by the Social Security Administration. The following table displays the nominal returns, inflation rates, and real returns adopted at the three most recent conferences and the new assumptions applicable to the July 1, 2022 Actuarial Valuation.

2019	2020	2021	2022
7.20% Investment Return	7.00% Investment Return	6.80% Investment Return	6.70% Investment Return
2.60% Inflation	2.40% Inflation	2.40% Inflation	2.40% Inflation
4.48% Real Return	4.49% Real Return	4.30% Real Return	4.20% Real Return

Note: The real return takes into account administrative expenses, so the numbers in this table are not additive.

The conference principals also noted that the 2022 Legislature fully funded the UAL at the recommended contribution rate provided as part of the 2021 valuation report. This action and continued full funding of the recommended UAL rate, as committed to by the Legislature, will result—all else being equal—in the gradual increase of the funded ratio over time. Further, the contribution rates should remain stable so long as contributions are made as recommended and actual experience mirrors projections. Nonetheless, many factors affect these calculations and can cause the contribution rates to increase or decrease. Most importantly, investment returns have been and will continue to be a relatively volatile factor. If actual investment results are lower than assumed, they could significantly impact the UAL and future contribution rates.

All other assumptions were left unchanged; however, to evaluate a potential future change in the current amortization policy which uses a level percent of projected payroll over a maximum 20-year period to level dollar amortization over a yet-to-be-determined time period, the conference principals requested that staff from the Department of Management Services, Division of Retirement, work with the state's actuary (Milliman) to develop a study of backcasted results under various scenarios.

The final actuarial valuation for July 1, 2022, will be released in December 2022. Those results will differ from the preliminary numbers reviewed by the Conference principals.