

Retiree Health Insurance Subsidy Actuarial Assumption Estimating Conference

Executive Summary for October 1, 2012

The Florida Retirement System Actuarial Assumption Conference met on October 1, 2012 to adopt explicit assumptions to be used in the actuarial valuation of the Retiree Health Insurance Subsidy program authorized pursuant to s. 112.363, Florida Statutes. While the program is intended to be “pay-as-you-go” as opposed to prefunded, GASB¹ accounting principles require that the benefit be treated as a pension benefit. In reality, the benefit is subject to legislative authorization.

For the 2012 valuation, strict adherence to the official GASB statements leads to a projected unfunded actuarial liability (UAL) of just over \$8.6 billion.

The preliminary analysis addressed information received through July 1, 2012. Because of the program’s funding design, the Conference adopted a 4.00% discount rate. This is only the second time the Conference has adopted a unique investment assumption for this program.

KEY ECONOMIC ASSUMPTIONS Used in 2012 Actuarial Valuation

	<u>2012</u>
• Investment Earnings	4.00%
• Active & Terminated vested members electing coverage	95.0%
• Retiring members electing joint & survivor option or spousal right	30.0%
• Increase in current level of benefits	0.00%
• PEORP members retire at same rates as DB plan in same membership class	N/A

¹The **Governmental Accounting Standards Board** (GASB) provides the generally accepted accounting principles (known as GAAP) used by state and local governments.

Florida Health Insurance Subsidy

The Actuarial Assumption Estimating Conference

Including Preliminary July 1, 2012 Actuarial Valuation Results

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October 1, 2012



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Overview

- Summary of Benefit
- GASB 25/27
- Investment Return Assumption
- 2012 Valuation Highlights
- Demographic Highlights

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Summary of Health Insurance Subsidy

- The monthly Health Insurance Subsidy (HIS) benefit is equal to \$5 per year of service, with a minimum of \$30 and a maximum of \$150.
- The HIS benefit is paid to retirees and surviving beneficiaries of the FRS Pension Plan and the FRS Investment Plan who maintain health insurance coverage.
- Employers contribute 1.11% of payroll into a trust fund to pay HIS benefits.

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Government Accounting Standards Board

- Statements No. 25 / 27 apply to defined benefit pension plans / employers who offer pension plans
- Statements No. 43 / 45 apply to postemployment benefit plans other than pensions (OPEB) / employers who offer OPEB plans
- In 2007 GASB staff deemed HIS a pension benefit rather than an OPEB.
- Milliman's valuation shows costs and liabilities under GASB 27.

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Investment Return Assumption

- Assumption should be: “estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits.”
- HIS is not prefunded. There exists a small pool of liquid assets equal to approximately six months worth of benefit payments.
- SBA has provided information regarding the investment strategy of the HIS fund.
- 2010 valuation used 4.00%
- Lower investment return assumption may be more appropriate
(Decreasing the investment return assumption will increase liabilities)

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Assumptions Specific to HIS Valuation

- Percent of active and terminated vested members electing coverage at retirement: 95%
- Percent of retiring members electing a joint & survivor option (Pension Plan) or a spousal right (Investment Plan): 30%
- Investment Plan members will retire at the same rates as Pension plan members in the same membership class.
- No increase in the current level of HIS benefits.

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2012 Valuation Highlights (\$Millions)

	2010 Val at 4.00% <u>(FY12 ARC*)</u>	2012 Val at 4.00% <u>(FY13 ARC)</u>
Actuarial Liability	\$8,464	\$8,641
Actuarial Value of Assets	\$291	\$220
Unfunded Actuarial Liability	\$8,173	\$8,421
Annual Required Contribution (ARC)	\$585	\$486
ARC as a % of Payroll	1.77%	1.55%
Pay-As-You-Go Cost as a % of Payroll	1.13%	1.25%

*The 2010 valuation determined the ARC for FY2010-11 and FY2011-12. Actuarial liability and assets shown under the 2010 Val column represent values as of July 1, 2010, however, the FY2011-12 ARC is shown to aid comparability with the FY2012-13 ARC shown under the 2012 Val column.

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Demographic Highlights

	<u>2010 Val</u>	<u>2012 Val</u>	<u>Change</u>
Number of Potential HIS Recipients:			
FRS Actives	654,077	622,542	-4.8%
Terminated Vested Members	91,084	108,133	18.7%
DROP Members	33,575	40,553	20.8%
Number of Current HIS Recipients:	264,332	290,312	9.8%
Average Annual HIS Benefit	\$1,295	\$1,297	0.2%
FRS Active Payroll	\$31.7B	\$31.3B	-1.3%

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Conclusion

The purpose of this presentation is to provide preliminary results of the July 1, 2012 actuarial valuation of the Florida Health Insurance Subsidy Program and compare them to results from the prior valuation. The results are not yet final and are subject to review and possible revision.

We relied, without audit, on information (some oral and some written) supplied by the Division of Retirement. This information includes, but is not limited to, plan provisions, employee data, and financial information. Census data provided to us by the Division has been reviewed for reasonableness and for consistency with data used in prior valuations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Where possible, the actuarial assumptions used in performing this valuation are consistent with those used for the Florida Retirement System Pension Program. Those assumptions have been recommended by the actuary and adopted by the Actuarial Assumption Conference based on Milliman's most recent review of the System's experience during Fiscal Years 2003-2008. The new assumptions were first used in the Fiscal Year 2009 valuation, and have been modified subsequently by the studies reflecting the impact of HB 479 and SB 2100 which were both enacted into law. We made additional assumptions that are needed for the valuation of HIS. We believe the assumptions used reflect our best estimate of anticipated future experience of the plan. The results of this valuation are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the plan could vary from our results.

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