

Health Insurance Subsidy & Florida National Guard Benefits Actuarial Assumption Estimating Conference Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on October 23, 2023, to adopt assumptions to be used in the valuations of the Retiree Health Insurance Subsidy (HIS) and National Guard Benefits programs. These programs are intended to be funded on a “pay-as-you-go” basis and are subject to legislative authorization.

The HIS valuation relies primarily on the related FRS assumptions since all retired members and beneficiaries in pay status are part of the FRS valuation. The principals of this Conference previously adopted the use of the Bond-Buyer General Obligation 20-bond Municipal Bond Index as an appropriate discount rate for the required GASB calculations for both programs. This index includes 20 general obligation bonds with 20-year maturities that have an average rating of AA. According to the state’s actuary (Milliman), it has been used by all public systems for pay-as-you-go programs subject to GASB financial reporting. The Conference affirmed that this practice was appropriate to continue.

This index currently stands at 3.65%, an increase from 3.54% in 2022. This upward movement in the index is estimated to decrease the Florida Health Insurance Subsidy liability by approximately \$146 million, and the Florida National Guard benefits program liability by roughly \$12 million.

In addition to agreeing to the continued use of the Bond Buyer Obligation 20-Bond Municipal Bond Index, the Conference reaffirmed the demographic assumptions used in the previous valuations.

Discount Rate Assumption for HIS and National Guard Accounting Valuations

GASB Discount Rate Assumption

- Currently, the Florida Health Insurance Subsidy (HIS) and Florida National Guard benefits are effectively funded on a pay-as-you-go basis
- Accounting standards first effective several years ago (GASB 67 & 68) give direction on the discount rate assumption to be used for financial reporting of programs funded on a pay-as-you-go basis
 - The assumption should reflect an **index of 20-year, tax exempt, high quality (AA/Aa or higher) general obligation municipal bonds**
 - The assumption selected should be based on **market conditions as of the measurement date** of the financial reporting in question
- After consideration of these requirements at the time of initial implementation of the accounting standards, the Conference adopted the **Bond Buyer General Obligation 20-Bond Municipal Bond Index** for use in HIS and National Guard GASB calculations
 - That index has been used for pay-as-you-go GASB financial reporting valuations by all public systems with which I am familiar

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

Historical Values of the Bond Index

- The table below shows the value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of the last five fiscal year-end measurement dates

June 30	Index
2023	3.65%
2022	3.54%
2021	2.16%
2020	2.21%
2019	3.50%

- The **higher** the index, the **lower** the calculated present value liability, with an index **increase** from 3.54% to 3.65% estimated to **decrease** HIS liability and National Guard liability by approximately \$146 million and \$12 million, respectively
- SB 7024 increased the level of HIS monthly benefits from \$5.00 per year of service to \$7.50 per year of service; estimated HIS liability impact above is **before** reflection of SB 7024 benefit enhancements

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

Needed Guidance for the HIS and National Guard Programs

- From Conference Principals for GASB accounting valuations of the Health Insurance Subsidy (HIS) and Florida National Guard programs:
 - Re-confirmation of the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the discount rate for the two programs' GASB valuations
- Demographic assumptions will be consistent with those used in the prior valuation whenever appropriate, taking into consideration current provisions and currently available data
 - For HIS this will include plan changes adopted as of July 1, 2023 in SB 7024, which increased HIS monthly benefits for all members to \$7.50 per year of service, increased the minimum and maximum monthly benefits to \$45 and \$225, respectively, and increased the contribution rate from 1.66% to 2.00% of applicable payroll.

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.