

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

The Florida Retirement System Actuarial Assumption Conference met on October 17, 2024, to adopt assumptions to be used in the valuations of the Retiree Health Insurance Subsidy (HIS) and Florida 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 typically uses the same demographic assumptions as the Florida Retirement System. The Florida National Guard valuation normally uses the FRS mortality assumption specific to non-Special Risk members who are not K-12 Instructional. In addition, the principals of this Conference previously adopted the use of the Bond-Buyer General Obligation 20-bond Municipal Bond Index as the discount rate for both the HIS and National Guard GASB calculations. This index includes 20 general obligation bonds with 20-year maturities with an average rating of AA. According to the state’s actuary (Milliman), this index has been used by all public systems for pay-as-you-go programs subject to GASB financial reporting.

The Conference affirmed that these practices were appropriate to continue. The Bond Index currently stands at 3.93%, an increase from 3.65% in 2023. This upward movement in the index is estimated to decrease the Florida Health Insurance Subsidy liability by approximately \$541 million, and the Florida National Guard benefits program liability by roughly \$29 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 valuation.

# Assumptions for HLS 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

# 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 |
|---------|-------|
| 2024    | 3.93% |
| 2023    | 3.65% |
| 2022    | 3.54% |
| 2021    | 2.16% |
| 2020    | 2.21% |

- The **higher** the index, the **lower** the calculated present value liability
- An index **increase** from 3.65% to 3.93% could be expected to **decrease** June 30, 2023 HIS liability and National Guard liability by approximately \$541 million and \$29 million, respectively

# Other Assumptions used for HIS and NG GASB valuations

- The Florida Health Insurance Subsidy (HIS) valuation uses the same demographic assumptions as the Florida Retirement System; the Florida National Guard valuation uses the FRS mortality assumption specific to non-Special Risk members who are not K-12 Instructional
- The Florida Health Insurance Subsidy (HIS) valuation requires an additional assumption relating to the proportion of eligible retirees anticipated to elect HIS in retirement
  - In conjunction with the Experience Study, we reviewed actual member elections during the 2018-2019 through 2022-2023 plan years
  - Proposed assumptions based on this experience are as follows:

| Classification                                                   | Current Assumption | Proposed Assumption |
|------------------------------------------------------------------|--------------------|---------------------|
| <b>Pension Plan Members</b>                                      |                    |                     |
| Immediate Retirement (from Active status or DROP exit)           | 90%                | 90%                 |
| Deferred Retirement (Separating before retirement eligibility)   | 50%                | 50%                 |
| <b>Investment Plan</b>                                           |                    |                     |
| HIS-eligible at separation from active service / IP Distribution | 90%                | 60%                 |
| Deferred Retirement (not HIS-eligible at IP Distribution)        | 50%                | 40%                 |



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