Florida Retirement System

The Actuarial Assumption Estimating Conference
Including Preliminary July 1, 2005 Actuarial Valuation Results

September 28, 2005

A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

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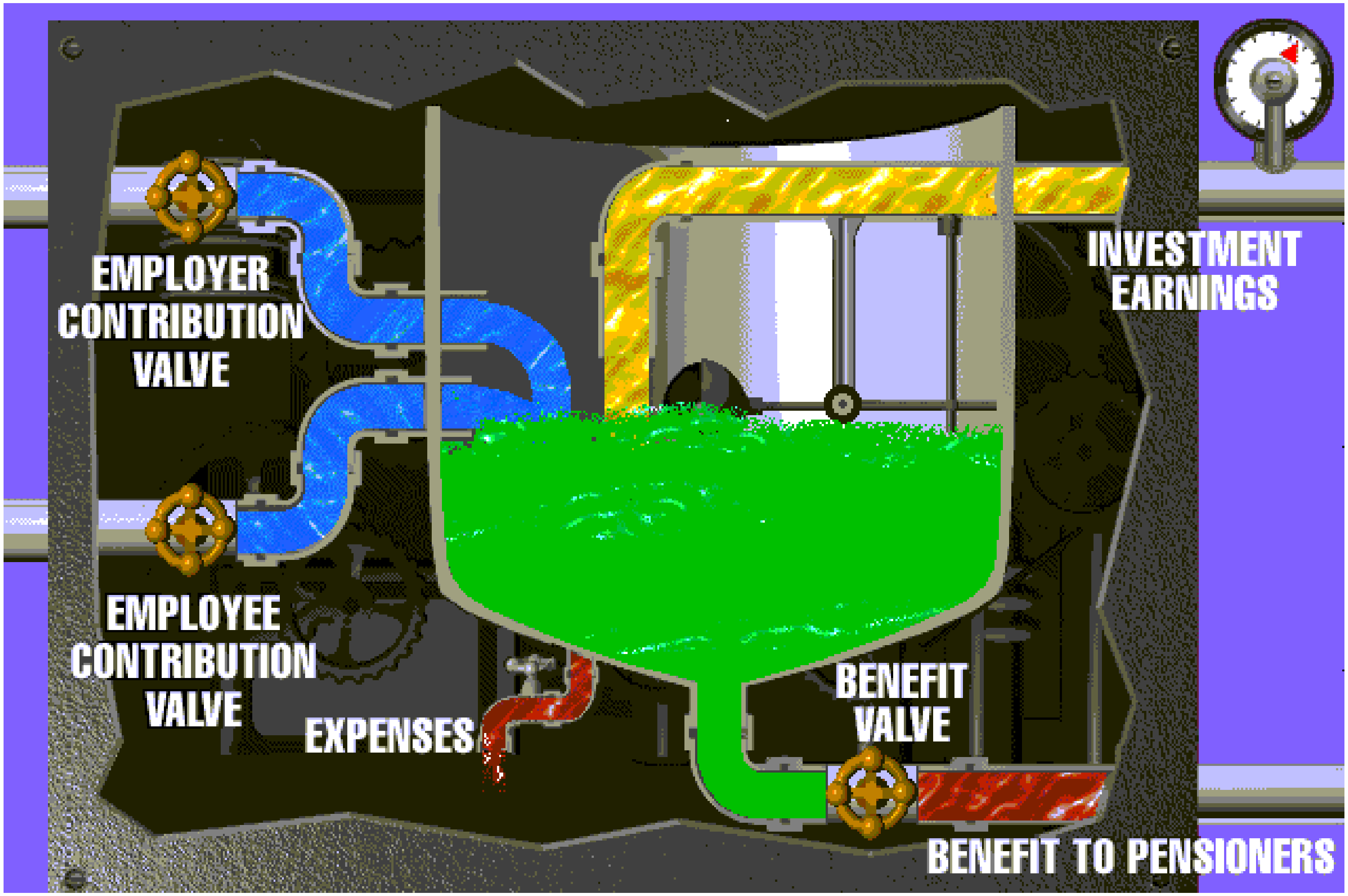
Overview

- Historical Analysis
- 2005 Valuation
- Projections
- Appendix

Actuarial Primer

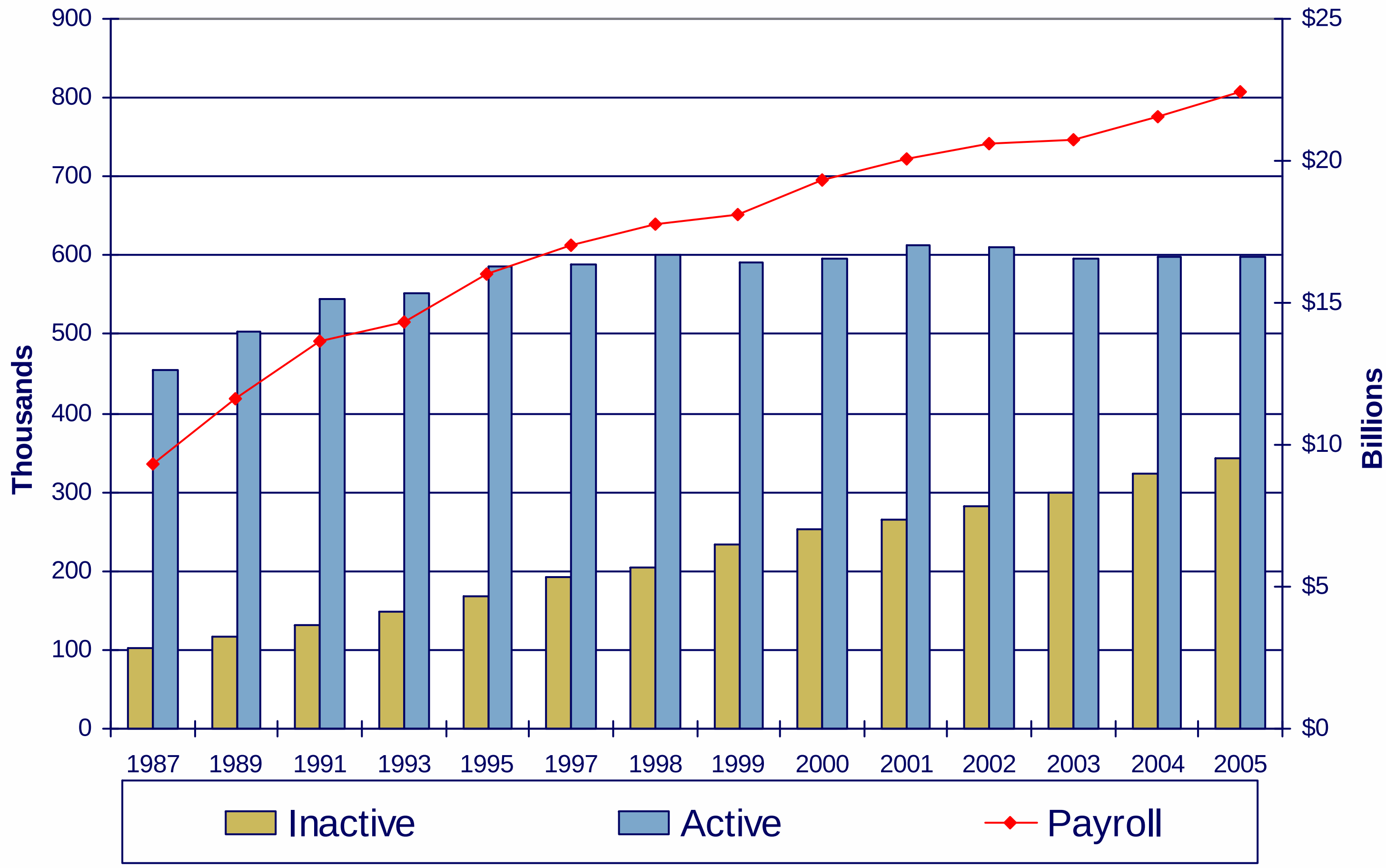


The Harvard Business Review 1965

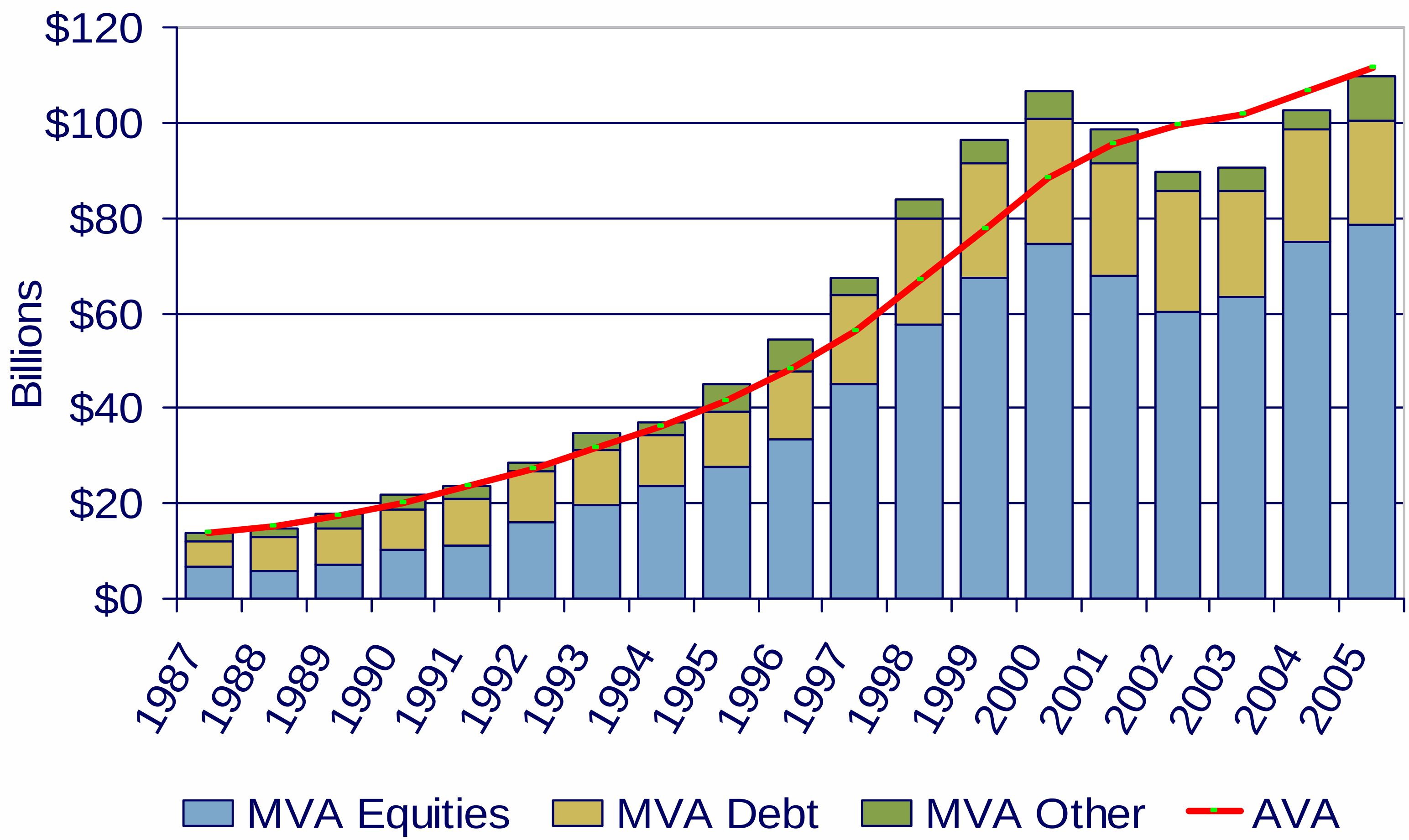
Historical Analysis

- Membership & Employer Payroll
- Market & Actuarial Value of Assets
- Liabilities
- Funding Target
- Contributions
- Plan Cash Flows
- Historic Asset Returns

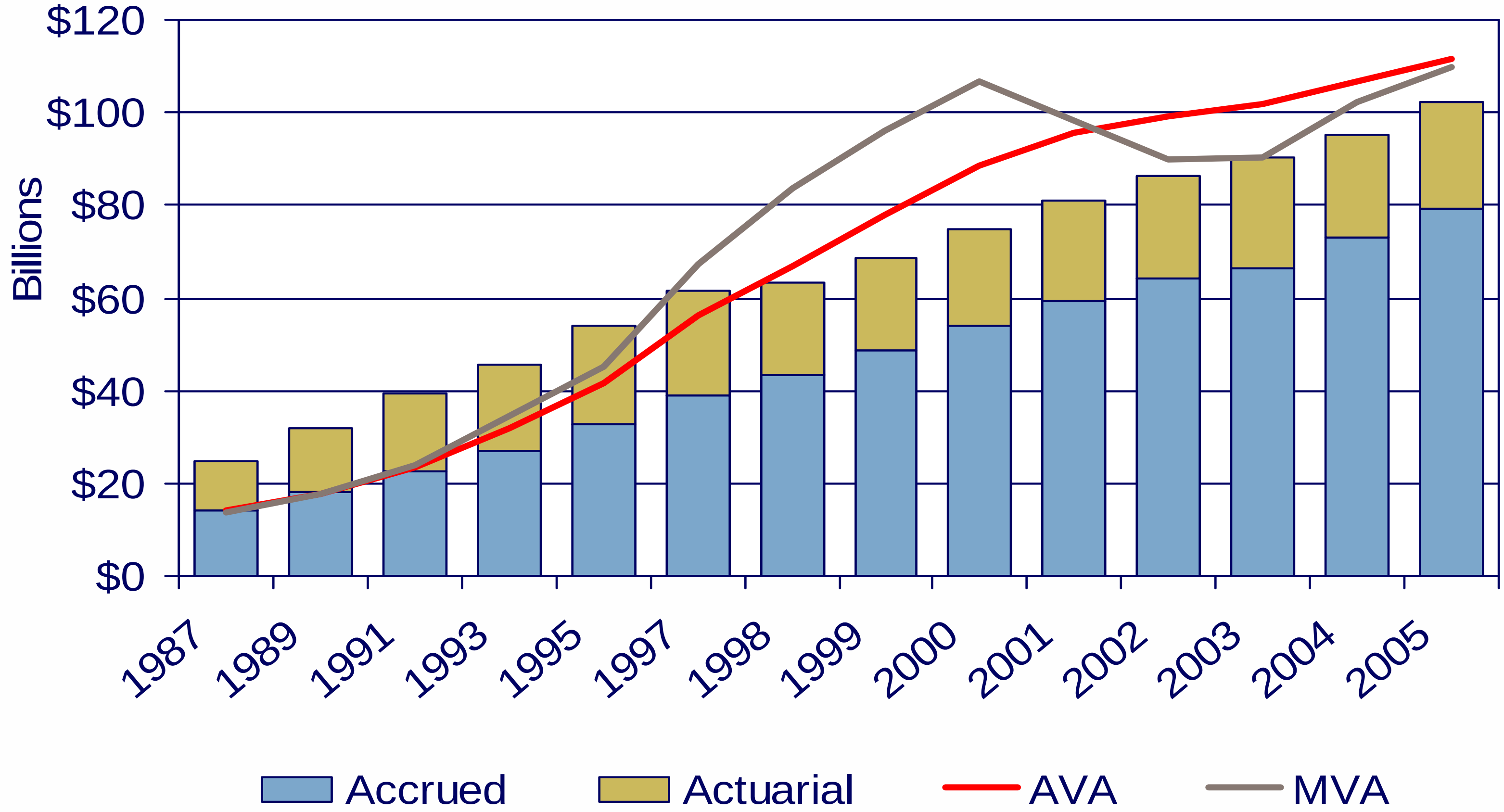
Membership & Employer Payroll



Market & Actuarial Value of Assets

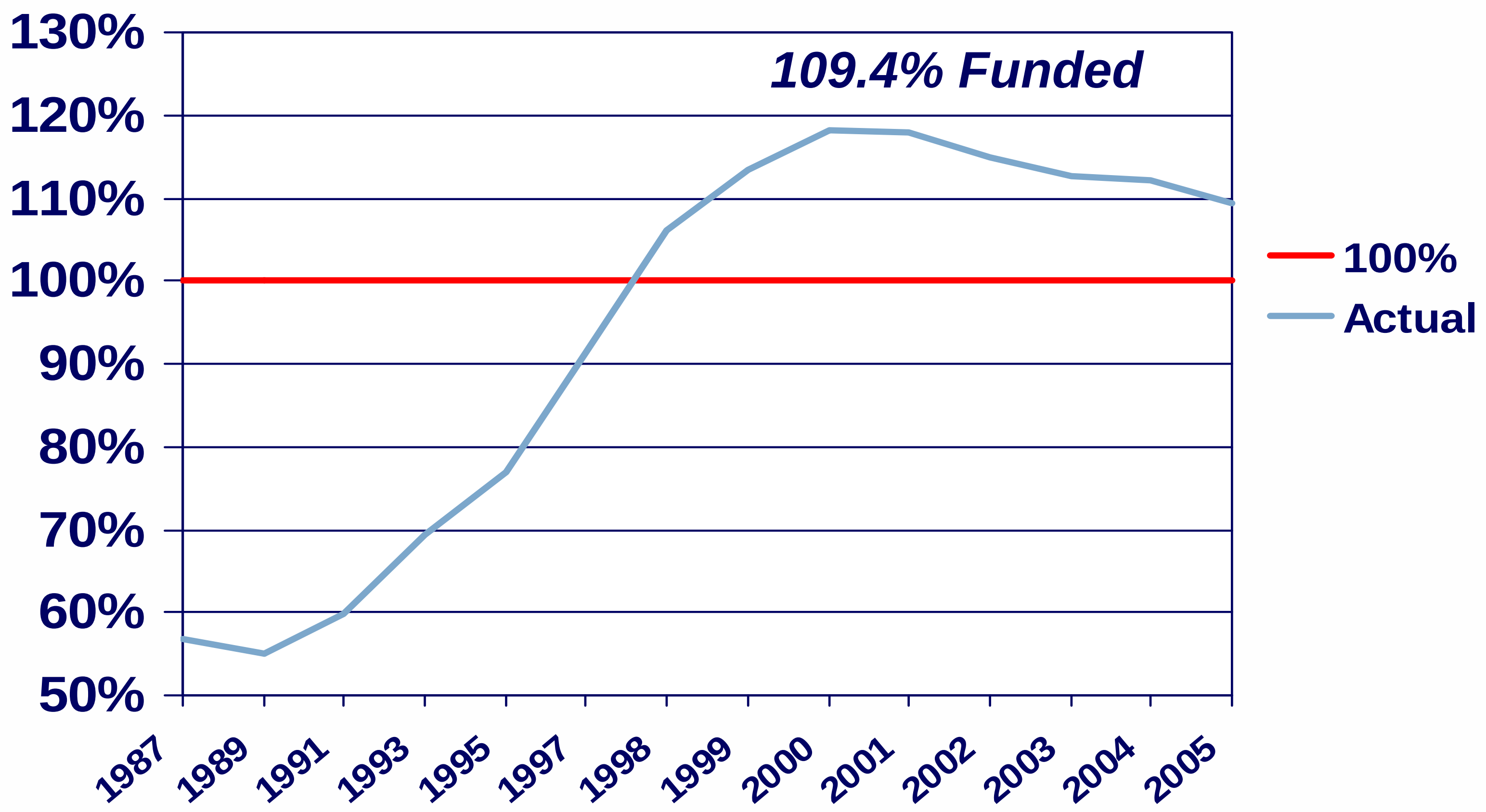


Liabilities



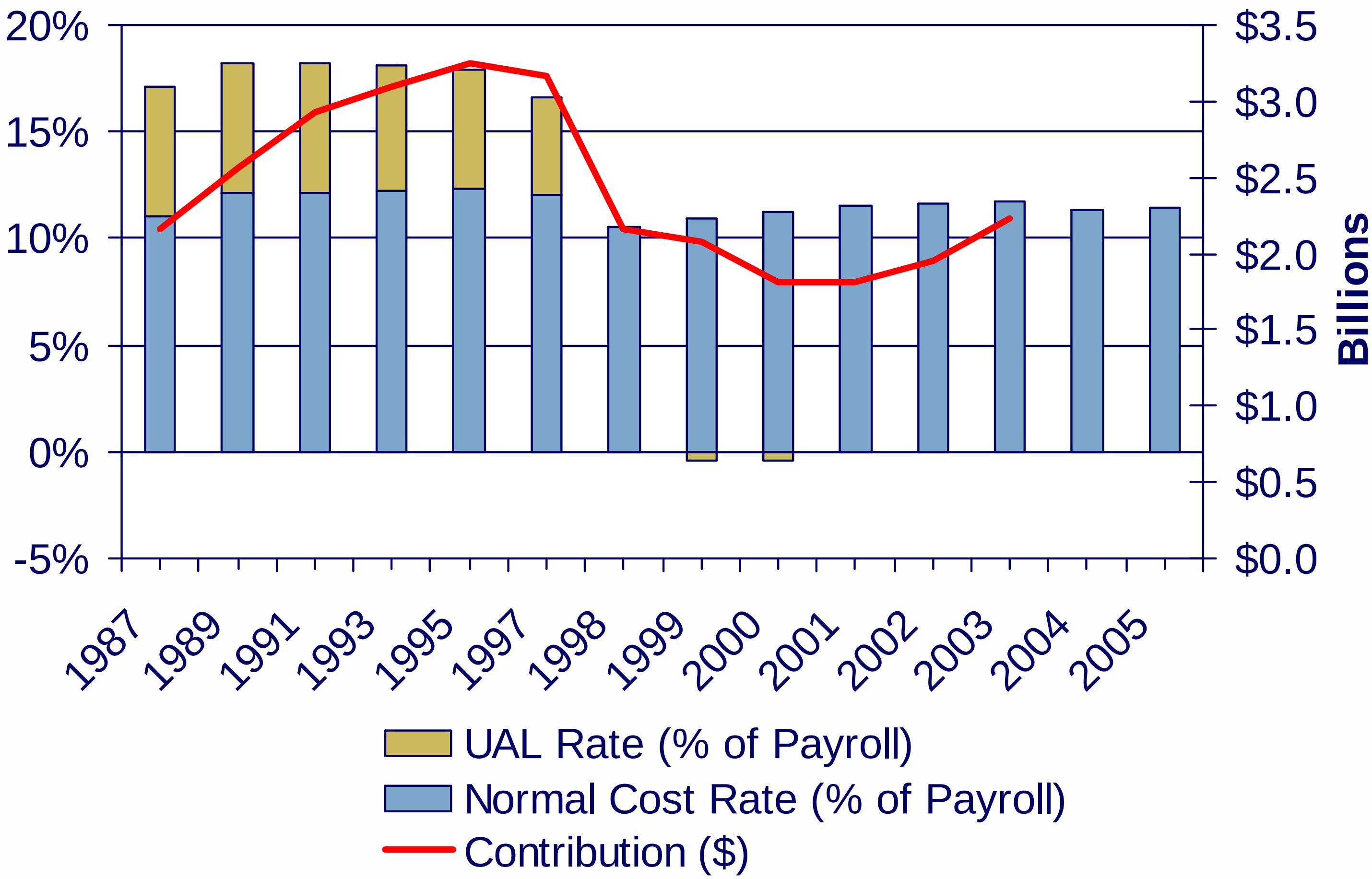
Funding Target

Actuarial Value of Assets / Actuarial Liabilities



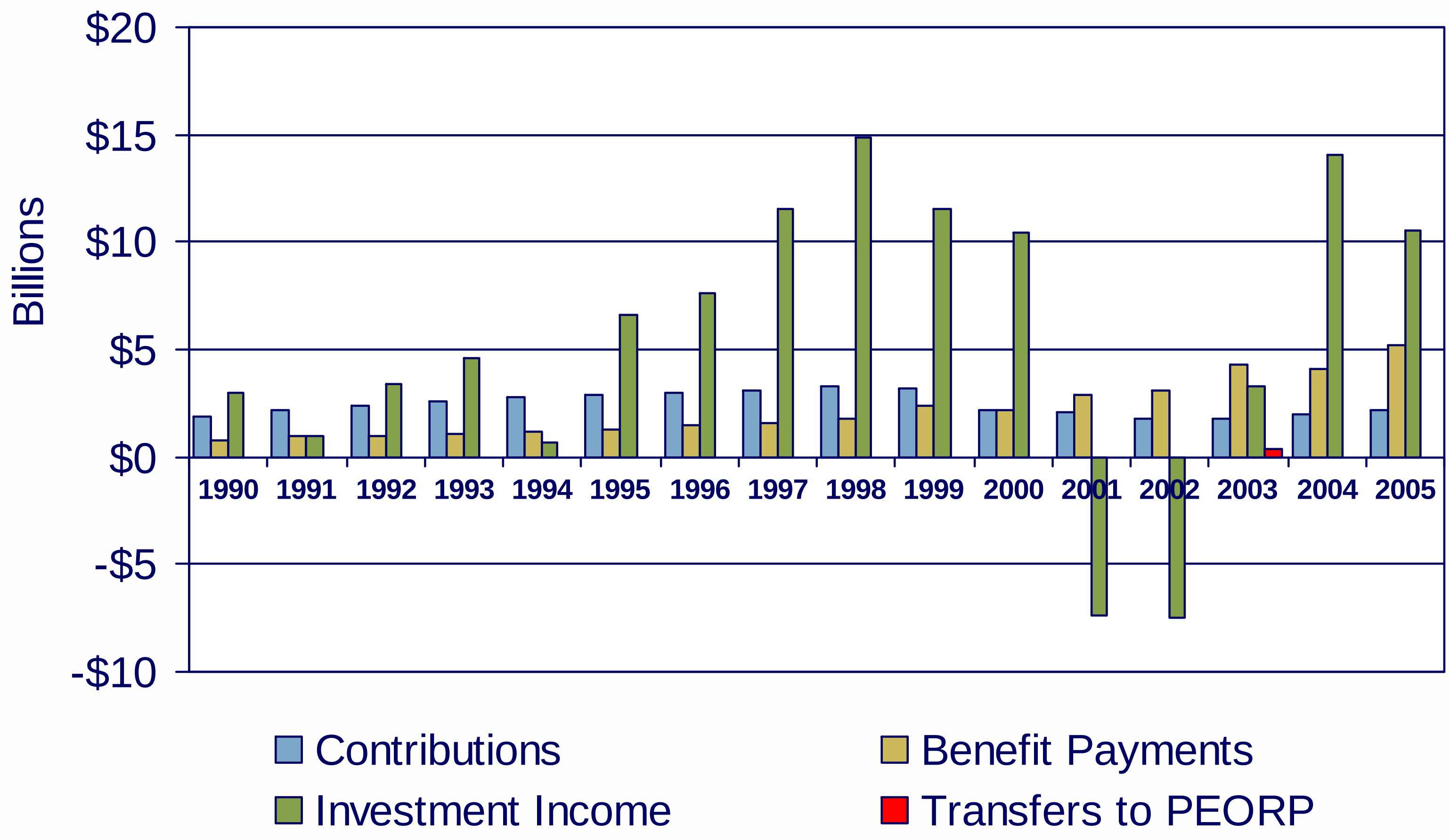
Contributions

(Contribution rate shown in year developed; contribution amount adjusted for budget lag*)

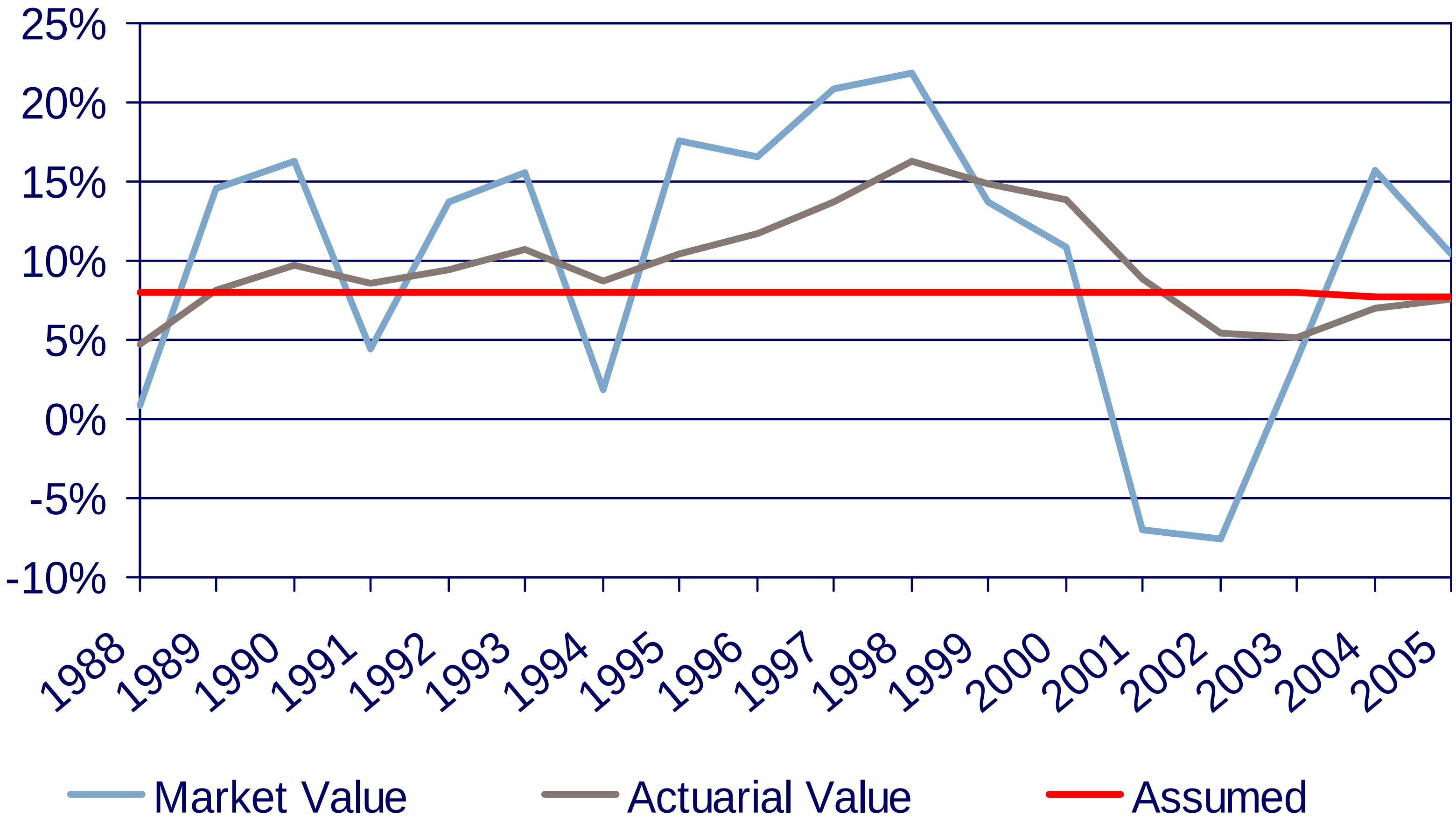


* For example, contributions for fiscal year 2005 are shown in 2003.

Plan Cash Flows



Historic Returns



2005 Valuation

- Valuation Highlights
- Composite Funding Levels
- Normal Cost Rates
- Summary of PEORP Elections
- Effect of Salary Distribution on Normal Cost Rates

2005 Valuation Highlights

- Results are based on the 2005 actuarial assumptions and methods as established by the July 1, 1998 – June 30, 2003 experience study
- FRS remains in a surplus position (i.e. "Fully Funded")
- Favorable Asset Performance
- AVA exceeds MVA by 1.6% or $1.8 billion

Asset Smoothing

Five-Year smoothing method helps alleviate heavy losses (on an actuarial basis) at times of unfavorable asset performance. However, large gains are also not “felt” at once.

Assets: MVA vs. AVA

($ Billions)

Year	MVA	MVA Return	AVA	AVA Return
1999	$ 96.1	13.76%	$ 77.8	14.80%
2000	106.5	10.82	88.5	13.79
2001	98.4	-6.93	95.5	8.82
2002	89.7	-7.62	99.4	5.44
2003	90.5	3.76	101.9	5.10
2004	102.4	15.73	106.7	6.93
2005	109.9	10.43	111.7	7.58

In the past the MVA exceeded AVA. However, even after two years of favorable MVA return, the AVA still exceeds the MVA. Due to three prior years of unfavorable MVA returns, the MVA needs to continue to earn more than 7.75% to cover the "banked" losses ($111.7 - $109.9 = $1.8 billion). MVA Return in 2004-05 was 10.43%

Composite Funding Levels

($ Billions)

	2004	2005	Change
Actuarial Liability	$95.2	$102.1	7.2%
Actuarial Value of Assets	$106.7	$111.7	4.7%
Unfunded Actuarial Liability	($11.5)	($9.6)	-16.5%
% Funded	112.1%	109.4%	

Normal Cost Rates

	Date of Actuarial Valuation		
Employer	07/01/2004	07/01/2005	Change
FRS Regular	9.53%	9.55%	0.02%
Special Risk			
Regular	21.91%	21.96%	0.05%
Administration	12.39%	12.65%	0.26%
Elected Officer's Class			
Judicial	20.43%	20.44%	0.01%
Leg-Atty-Cab	14.86%	14.80%	-0.06%
County	17.00%	17.08%	0.08%
Senior Management	13.27%	13.29%	0.02%
Composite Rate	11.38%	11.43%	0.05%
Composite Rate with DROP at 8.00% last year and 8.22% this year	11.16%	11.20%	0.04%

PEORP – July 1, 2005

Employer	Remaining "Original" Participants	Contingent Liability (000 omitted)
FRS Regular	13,672	$226,808
Special Risk		
Regular	476	11,885
Administration	2	(28)
Elected Officer's Class		
Judicial	8	(621)
Leg-Atty-Cab	7	167
County	26	157
Senior Management	376	11,580
2005 TOTAL	14,567	$249,949
2004 TOTAL	16,523	$263,399
2003 TOTAL	21,043	$312,915

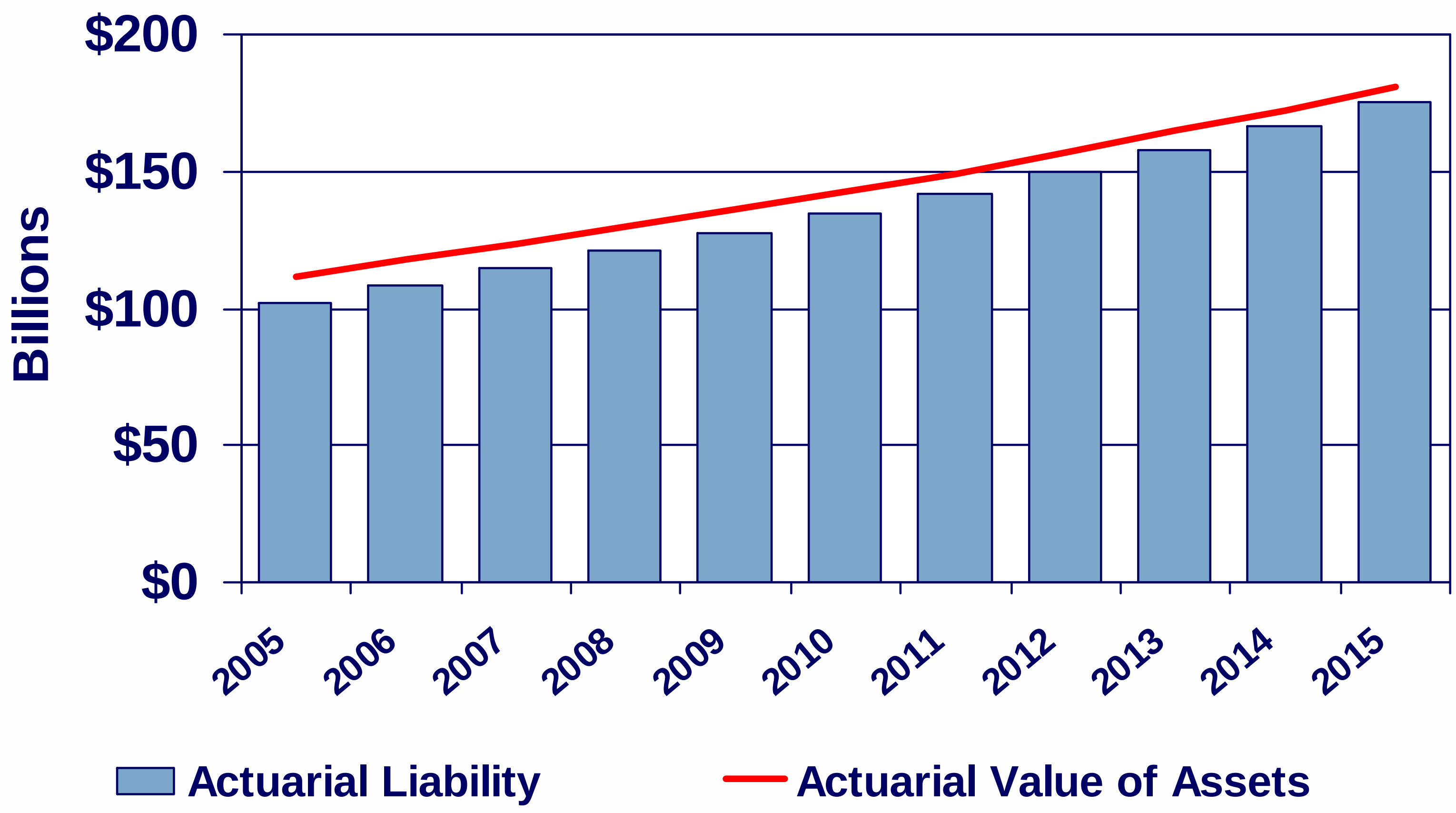
Net Assets transferred to PEORP in 2003: $353,193

Actuarial Liability and Asset Projections

- Assuming 7.75% constant investment returns
- Assuming -7.75% investment returns for one year followed by constant 7.75% returns
- Assuming -7.75% investment returns for two years followed by constant 7.75% returns
- Assuming a 2006 MVA of $80 billion, followed by constant 7.75% investment returns

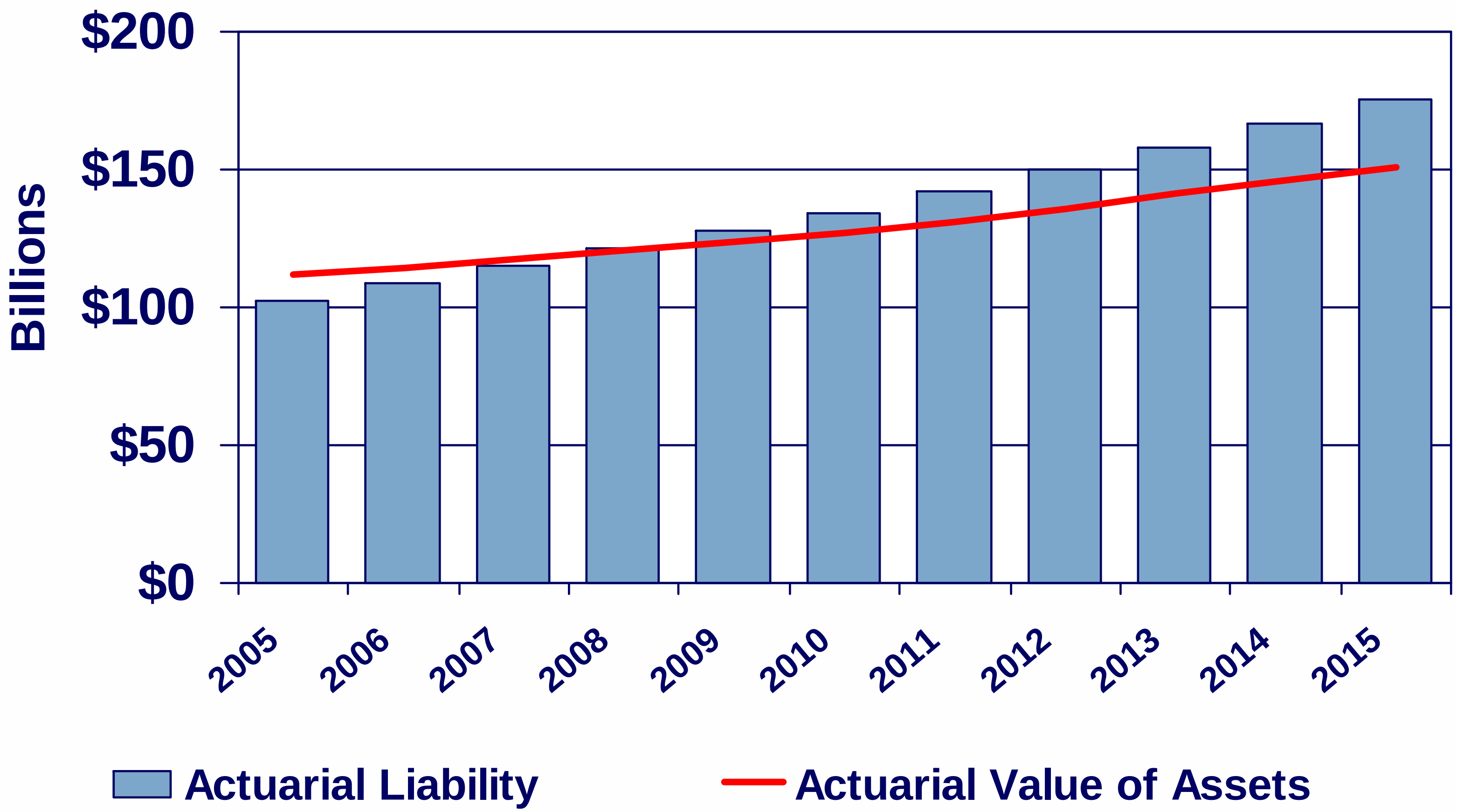
*** All returns are on a Market Value Basis

Comparison of Actuarial Liabilities & Assets Assuming Constant 7.75% Investment Returns



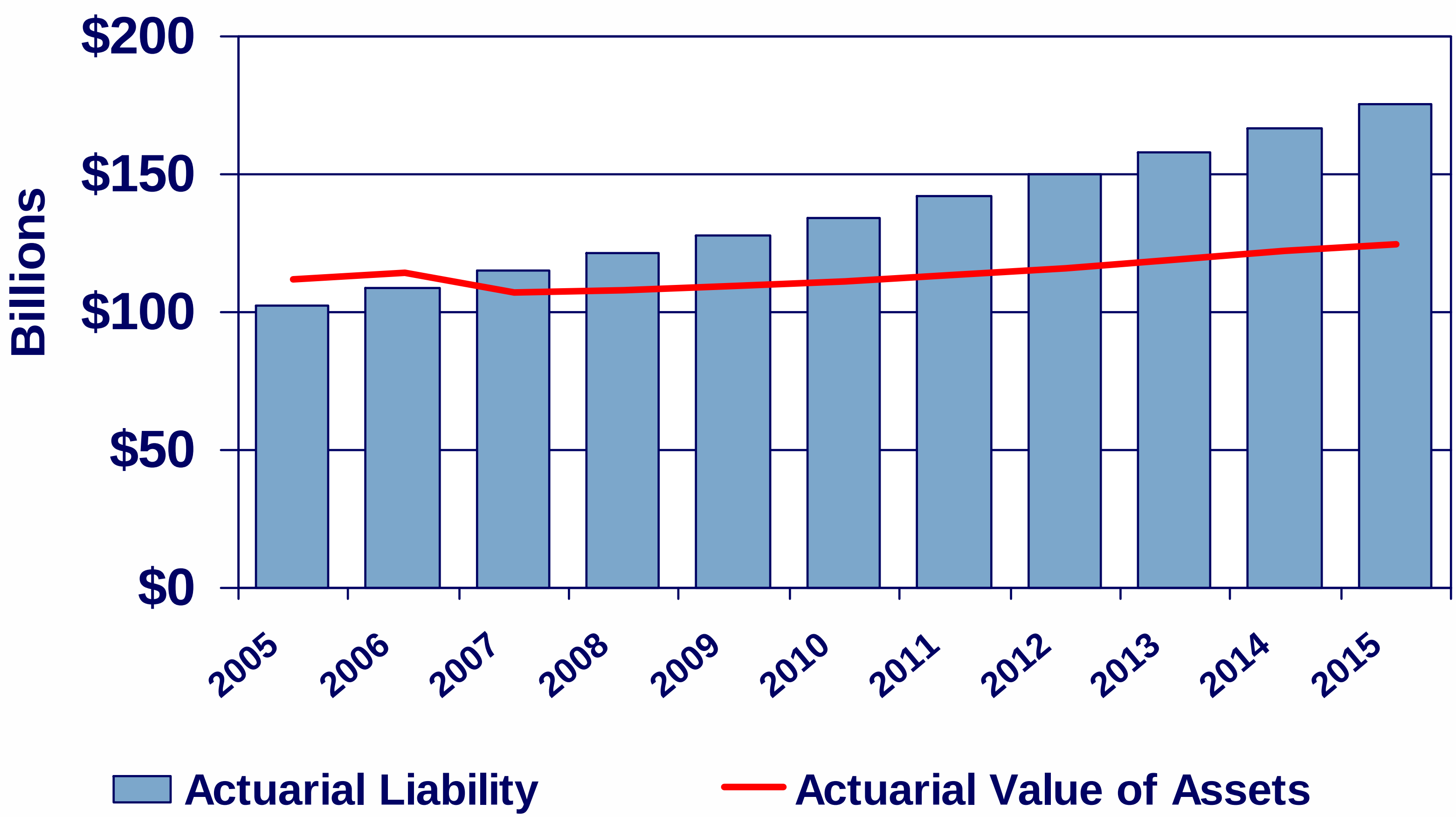
Contributions assumed to be 8.28% of payroll. Rate set to equal FY06 composite reduced rate.

Comparison of Actuarial Liabilities & Assets Assuming -7.75% Return Followed by Constant 7.75% Investment Returns



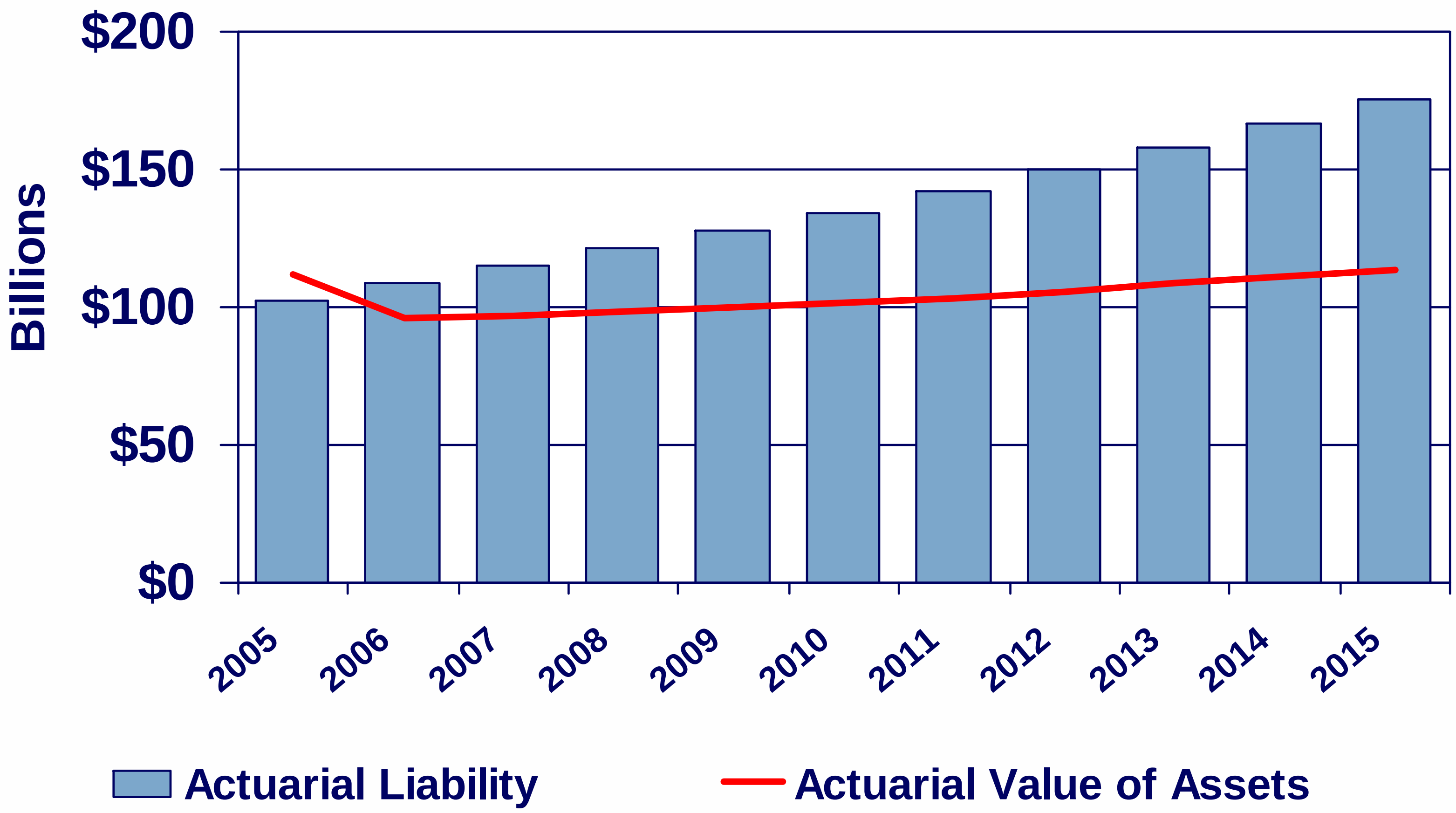
Contributions assumed to be 8.28% of payroll. Rate set to equal FY06 composite reduced rate.

Comparison of Actuarial Liabilities & Assets Assuming two years with a -7.75% Return Followed by Constant 7.75% Investment Returns



Contributions assumed to be 8.28% of payroll. Rate set to equal FY06 composite reduced rate.

Comparison of Actuarial Liabilities & Assets Assuming a 2006 MVA of $80 Billion, Followed by Constant 7.75% Investment Returns

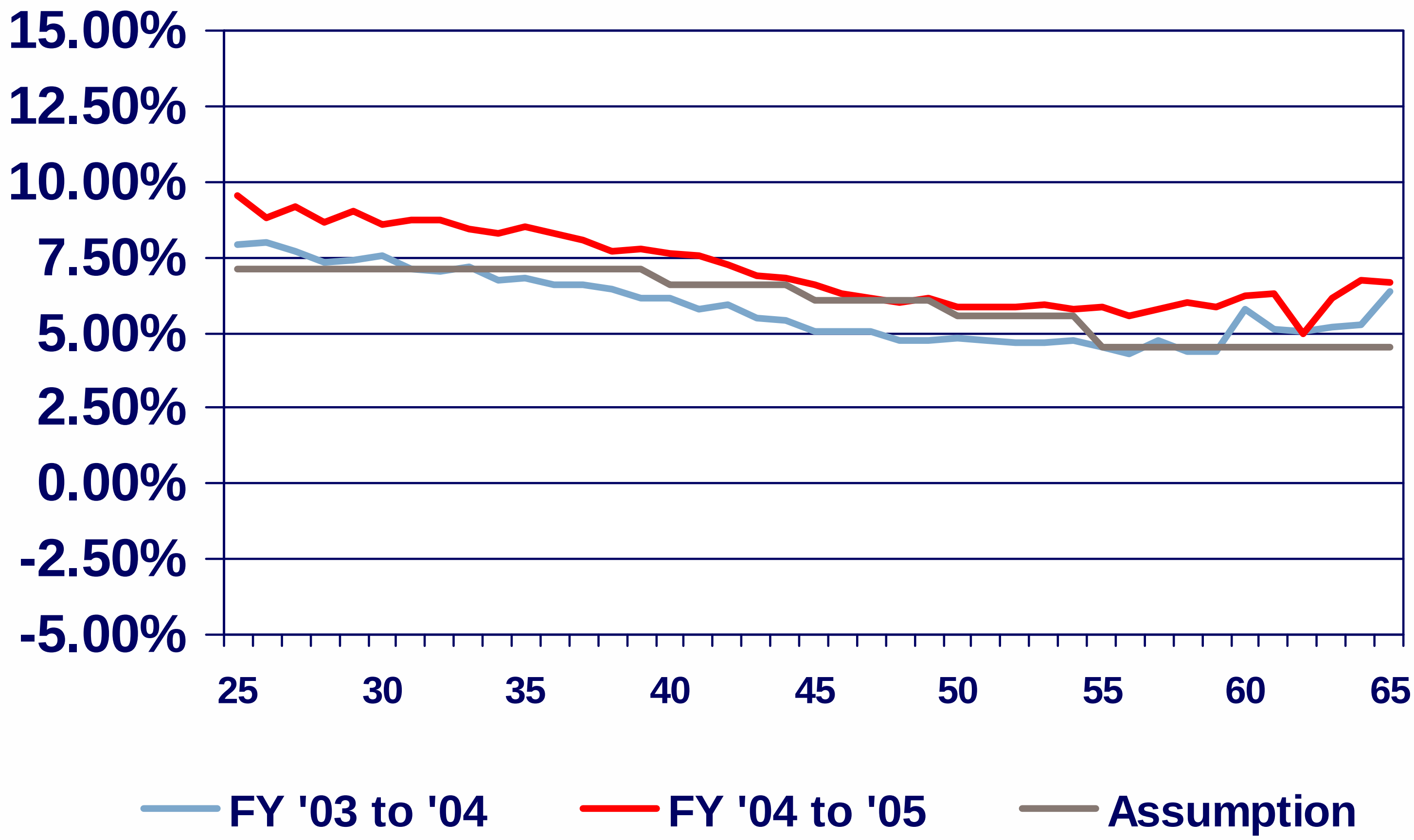


Contributions assumed to be 8.28% of payroll. Rate set to equal FY06 composite reduced rate.

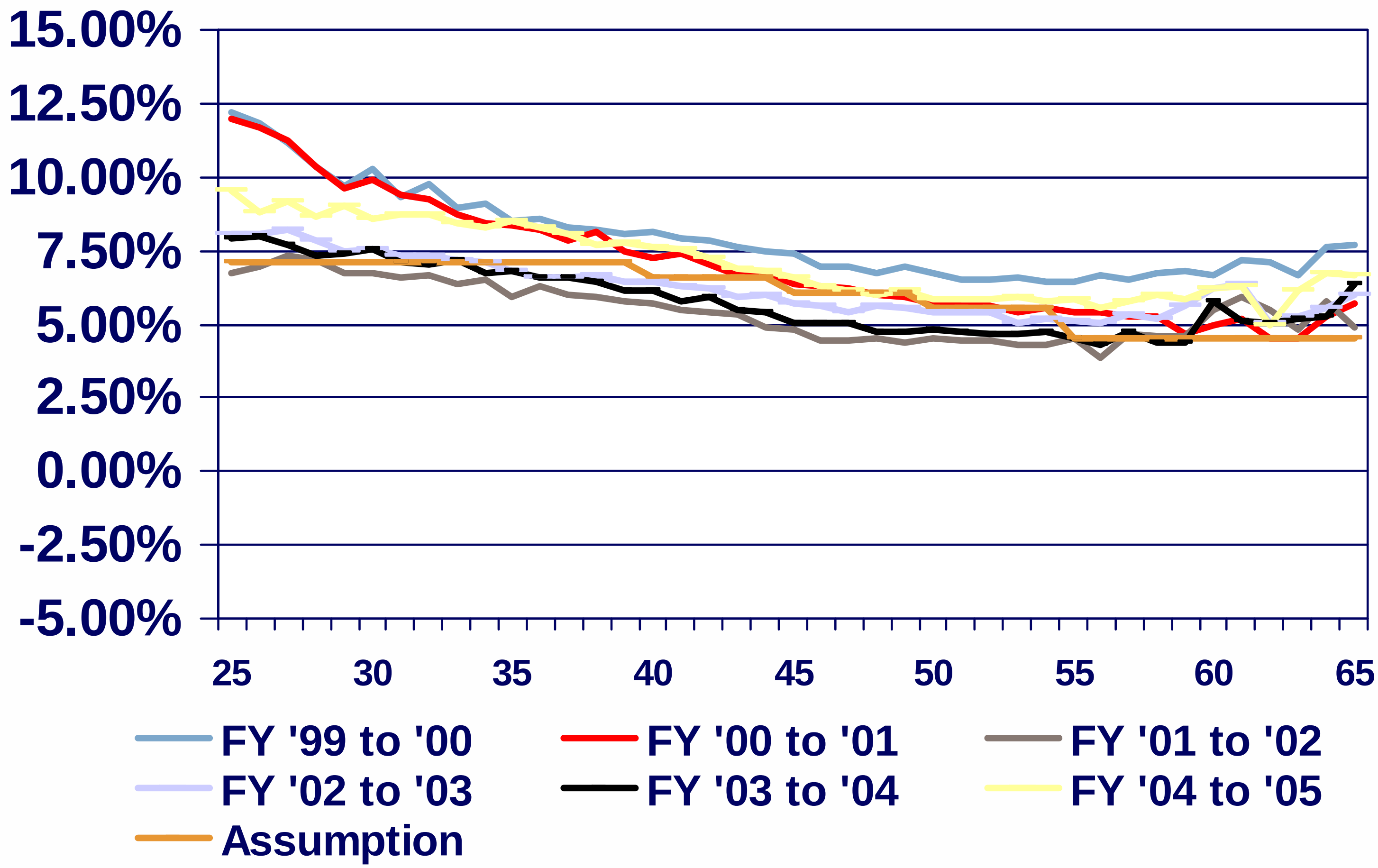
Appendix

- Salary Experience
  - Compare last two years
  - Compare last six year

Salary Experience
All Actives – Last Two Fiscal Years



Salary Experience
All Actives – By Fiscal Years



Conclusion

The purpose of this presentation is to provide preliminary results of the July 1, 2005 actuarial valuation of the Florida Retirement System Pension Plan and compare them to results from prior valuations. 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.

The actuarial assumptions used in performing this valuation 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 completed during Fiscal Year 2004. We believe the assumptions used reflect our best estimate of anticipated future experience of the plan. The results of this report 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.