Retiree Health Insurance Subsidy
Actuarial Assumption Estimating Conference

Executive Summary for October 19, 2010

The Florida Retirement System Actuarial Assumption Conference met on October 19, 2010 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, GASB[1] accounting principles require that the benefit be treated as a pension benefit. In reality, the benefit is subject to legislative authorization.

For the 2010 valuation, strict adherence to the official GASB statements leads to a projected unfunded actuarial liability (UAL) of nearly $8.2 billion.

The preliminary analysis addressed information received through July 1, 2010. Because of the program's funding design, the Conference adopted a 4.00% discount rate. This is the first time the Conference has adopted a unique investment assumption for this program.

KEY ECONOMIC ASSUMPTIONS
Used in 2010 Actuarial Valuations

	2010
• 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

[1]The **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, 2010 Actuarial Valuation Results

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Overview

- Summary of Benefit
- GASB 25/27
- Investment Return Assumption
- 2010 Valuation Highlights
- Demographic Highlights

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 Defined Benefit Plan and the FRS PEORP who maintain health insurance coverage.
- Employers contribute 1.11% of payroll into a trust fund to pay HIS benefits.

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.

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 ten months worth of benefit payments.
- SBA has provided information regarding the investment strategy of the HIS fund.
- 2008 valuation used 7.75% (consistent with FRS pension valuation)
- Lower investment return assumption may be more appropriate (Decreasing the investment return assumption will increase liabilities)

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 (DB Plan) or a spousal right (PEORP): 30%
- PEORP members will retire at the same rates as DB plan members in the same membership class.
- No increase in the current level of HIS benefits.

2010 Valuation Highlights ($Millions)

2010 Results shown using 7.75% and 4.00% discount rates

	2008 Val at 7.75% (FY09 ARC)	2010 Val at 7.75% (FY11 ARC)	2010 Val at 4.00% (FY11 ARC)
Actuarial Liability	$5,110	$5,673	$8,464
Actuarial Value of Assets	$275	$291	$291
Unfunded Actuarial Liability	$4,835	$5,382	$8,173
Annual Required Contribution (ARC)	$395	$420	$734
ARC as a % of Payroll	1.29%	1.33%	2.32%
Pay-As-You-Go Cost as a % of Payroll	1.04%	1.12%	1.12%

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Demographic Highlights

	2008 Val	2010 Val	Change
Number of Potential HIS Recipients:			
FRS Actives	683,484	654,077	-4.3%
Terminated Vested Members	87,832	91,084	3.7%
DROP Members	31,253	33,575	7.4%
Number of Current HIS Recipients:	245,958	264,332	7.5%
Average Annual HIS Benefit	$1,242	$1,295	4.3%
FRS Active Payroll	$30.7B	$31.6B	3.2%*

***Percent change before rounding**

Conclusion

The purpose of this presentation is to provide preliminary results of the July 1, 2010 actuarial valuation of the Florida Health Insurance Subsidy Program 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.

Where possible, the actuarial assumptions used in performing this valuation are consistent with those used for the Florida Retirement System Defined Benefit 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 completed during Fiscal Year 2009, and modified by the study reflecting the impact of HB 479 which was 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.