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February 11, 2011

**Via Overnight Delivery**

milliman.com

Ms. Sarabeth Snuggs  
State Retirement Director  
Division of Retirement  
1317 Winewood Boulevard, Building 8  
Tallahassee, FL 32399

Re: Blended Rates for the 2011-2012 Plan Year under Reduced Accrual Rate Study  
Reflecting a Uniform UAL Rate for All Payroll Bases

Dear Sarabeth:

As you requested, we have calculated the uniform or "blended" rates for the 2011-2012 plan year based on the required contributions for the Defined Contribution (DC) and Defined Benefit (DB) plans incorporating the impact of the Reduced Accrual Rate proposal. The proposal would reduce the Special Risk Class Service Accrual Rate from 3.0% to 2.0% for new members enrolled on or after July 1, 2011. All other members initially enrolled on or after July 1, 2011 will have the Regular Class accrual rule shown below, but the actual Class designation will not change.

<u>The Regular Class Accrual Rate is as follows based on Retirement at:</u>	<u>Accrual Rate</u>
Age 62 with 6 years of creditable service, or 30 years of creditable service	1.60%
Age 63 with 6 years of creditable service, or 31 years of creditable service	1.63%
Age 64 with 6 years of creditable service, or 32 years of creditable service	1.65%
Age 65 with 6 years of creditable service, or 33 years of creditable service	1.68%

New members of the Special Risk Administrative Support Class will become eligible for retirement at age 62 with 6 years of service, or any age with 30 years of service. In addition, if a member of the Special Risk Administrative Support Class terminates employment after eligibility for immediate reduced benefits but prior to eligibility for unreduced retirement, the reduction factor will be based on the number of months preceding age 62. The reduction factor would remain at 5% per year. Members initially enrolled before July 1, 2011 will continue to be eligible for unreduced retirement at age 55 with 6 years of service or any age with 25 years of service. Their reduction for immediate reduced retirement will remain based on the number of months preceding age 55.

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## Analysis

We determined the contribution rate for each membership class of the Florida Retirement System by dividing the total dollars required for both the DC and DB plans by the total payroll. The DB plan rates are based on the July 1, 2010 valuation of the defined benefit plan as modified by the Study Reflecting the Impact to the FRS of Reducing Service Accrual Rates for New Members Enrolled on or After July 1, 2011. The DC plan rates are based on Section 121.72 and 121.73 of the Florida statutes.

Since the DB Plan requires an UAL Contribution, some employee groups are subject to only the UAL Contribution rate (e.g. employers of SUSORP, SMSOAP, and SCCORP participants, and withdrawn local Senior Managers.) The payroll for such employee groups is included in the calculation of the “Blended” UAL Contribution Rate, but is excluded from the calculation of the “Blended” Normal Cost Contribution Rate.

As noted in our previous studies, there continues to be a low level of participation in the DC plan. As of July 1, 2010 the DC payroll comprised approximately 13.4% of total payroll.

## Results

Table I shows the blended rates based on actual levels of participation in the DB and DC plans as of July 1, 2010, adjusted to reflect an expected increase in DC plan participation. The results of the table are based on an assumption that the DC payroll will increase during fiscal year 2011 (due to salary inflation and membership growth) at the same rate that it increased during fiscal year 2010. Thus, in total, the projected July 1, 2011 DC payroll is approximately 3.0% greater than the DC payroll as of July 1, 2010, while the total FRS payroll is assumed to grow 4% from the July 1, 2010 level.

Section A includes the normal cost as of July 1, 2010 of the Defined Benefit Plan, after reflecting the impact of the Reduced Accrual Rate proposal. Section A does not include the UAL cost because such contribution rates are applied to a larger total payroll. Section A, line 3 shows the total employer normal cost of the DB plan as the product of normal cost contribution rates and projected normal cost payroll.

Similarly, Section B calculates the total employer cost of the DC plan as the product of applicable employer contribution rates and projected DC payroll. DC payroll is projected to mimic the fiscal year 2010 increase, as described above.

Section C shows the sum of the DB normal cost and DC plan cost as dollars and as a percentage of total payroll (DB projected normal cost payroll plus DC projected payroll).

Section D shows the UAL cost as of July 1, 2010 of the Defined Benefit Plan, after reflecting the impact of the Reduced Accrual Rate proposal. However, the UAL cost rates are slightly different from those in Table I of the special study. This is because total payroll

(DB plus DC plan) has been projected forward one year using the valuation salary inflation assumption of 4.0% for determining blended rates. The DC payroll is projected individually by membership class to increase at the same rate as it increased during fiscal year 2010. DB projected payroll is equal to the total projected payroll less the DC projected payroll. Thus, though the DC payroll and DB payroll each increase by 4.0% in total, there are variations in the increase by membership class. As a result, the UAL cost rates shown in Table I (line (A1)(b)) may be a larger (or smaller) percent of payroll based on whether the DC plan payroll for that particular membership class grew in excess of (or less than) 4.0% during fiscal year 2010. The projected payroll in line (D2) is greater than the projected payroll in line (A2) because it includes the salaries of members subject to only the UAL contribution rate.

Section E shows there is no UAL cost attributable to the DC plan.

Section F calculates the “Blended” UAL cost as dollars and as a percentage of total payroll (DB projected UAL payroll plus DC projected payroll).

Section G shows the final Blended Uniform Contribution Rates as the sum of the “Blended” Normal Cost Contribution Rates from line (C3) and the “Blended” UAL Contribution Rates from line (F3). The employers of employee groups subject to only the UAL contribution rate would pay the “Blended” UAL Contribution Rates shown in line (G2) of the table. The Total Adjusted Contribution Rates shown in Line (G3) of the table will be paid on all other salaries.

Section H shows the final Blended Uniform Contribution Rates developed in the July 1, 2010 valuation. These rates come directly from Section G of the Blended Rate Study dated December 1, 2010 prepared in conjunction with the July 1, 2010 actuarial valuation.

Section I shows the increase (or decrease) in the Blended Uniform Contribution Rates of the studied proposal over the rates determined by the July 1, 2010 valuation.

The contribution rates shown in the table exclude the 0.03% contribution rate for DC administration and education (applied to all classes except DROP) and the 1.11% contribution rate for financing the health insurance subsidy (HIS), which apply across the board to the DB and DC plans.

The calculations are based on data provided to us by the Division of Retirement for the July 1, 2010 actuarial valuation. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. These calculations are based on the standard entry age actuarial cost method.

We performed a limited review of the data used directly in our analysis for reasonableness

and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

This analysis is based on the methods and assumptions described in the Study Reflecting the Impact to the FRS of Reducing Service Accrual Rates for New Members Enrolled on or After July 1, 2011. The data was based on the July 1, 2010 FRS actuarial valuation database and supplemental information provided for the special study. The results of our study depend on future experience conforming to those actuarial assumptions discussed earlier in this letter and the special study letter-report. Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period) and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. In addition, the cost/(savings) of the proposed change will depend on the actual legislation.

Milliman's work product was prepared exclusively for the internal business use of Florida Department of Management Services, Division of Retirement for a specific and limited purpose. It is a complex technical analysis that assumes a high level of knowledge concerning the Florida Retirement System's operations, and uses Division data, which Milliman has not audited. To the extent that Milliman's work is not subject to disclosure under applicable public record laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

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The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

I, Robert Dezube, am a consulting actuary for Milliman, Inc. I am also a member of the American Academy of Actuaries, and meet their Qualification Standards to render the actuarial opinion contained herein.

Please call if you would like to further discuss this project.

Sincerely,

A handwritten signature in black ink that reads "Robert S. Dezube".

Robert S. Dezube, FSA  
Consulting Actuary

Enclosure

RSD/MDJ/KH/ST/GIB03  
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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Blended Normal Cost Plus UAL Rates for 2011-2012 Fiscal Year  
Assuming Same Growth in PEORP Membership as was Experienced in FY 2010*

*Impact of Reducing Service Accrual Rates  
For New Members Enrolled on or After July 1, 2011  
(000 omitted)*

	FRS Regular	Special Risk	Administration	Judicial	Leg-Atty-Cab	County	Senior Management	Composite (excluding DROP)	DROP	Composite (including DROP)
<b>A. Defined Benefit Plan Normal Cost</b>										
1. Employer Cost										
a. Normal Cost Rate <sup>1</sup>	9.84%	15.91%	8.94%	10.39%	8.29%	9.54%	9.72%	10.75%	13.25%	10.94%
b. UAL Cost and Rate Reduction Techniques	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
c. Total Adjusted Contribution Rate <sup>3</sup> -FY 2012	9.84%	15.91%	8.94%	10.39%	8.29%	9.54%	9.72%	10.75%	13.25%	10.94%
2. Projected Payroll	\$20,365,315	\$3,710,690	\$2,539	\$108,475	\$6,547	\$43,216	\$514,601	\$24,751,383	\$2,063,692	\$26,815,075
3. Total Employer Normal Cost [(1c) x (2)] -FY 2012	\$2,003,947	\$590,371	\$227	\$11,271	\$543	\$4,123	\$50,019	\$2,660,501	\$273,439	\$2,933,940
<b>B. Defined Contribution Plan Cost (Normal Cost)</b>										
1. Employer Rates effective July 1, 2002 (Sec 121.72)	9.25%	21.33%	11.80%	19.63%	13.81%	16.61%	11.21%	11.08%	0.00%	11.08%
2. Projected Payroll	\$3,343,694	\$574,984	\$845	\$8,043	\$2,553	\$19,924	\$150,288	\$4,100,331	\$0	\$4,100,331
3. Total Employer Cost [(1) x (2)] -FY 2012	\$309,292	\$122,644	\$100	\$1,579	\$353	\$3,309	\$16,847	\$454,124	\$0	\$454,124
<b>C. Total System Normal Cost (DB Plan + DC Plan)</b>										
1. Total Normal Cost Contribution [(A3) + (B3)]	\$2,313,239	\$713,015	\$327	\$12,850	\$896	\$7,432	\$66,866	\$3,114,625	\$273,439	\$3,388,064
2. Total System Projected Payroll [(A2) + (B2)]	\$23,709,009	\$4,285,674	\$3,384	\$116,518	\$9,100	\$63,140	\$664,889	\$28,851,714	\$2,063,692	\$30,915,406
3. "Blended" Normal Cost Contribution Rate As a Percentage of Total Payroll [(C1) / (C2)] <sup>3</sup>	9.76%	16.64%	9.66%	11.03%	9.85%	11.77%	10.06%	10.80%	13.25%	10.96%

<sup>1</sup> As reported in Table I of the Study Reflecting the Impact of Reducing Service Accrual Rates For New Members Enrolled on or After July 1, 2011

<sup>2</sup> Composite rates are based on 2010 payroll instead of the projected payroll.

<sup>3</sup> Rates shown do not include the HIS contribution rate or PEORP administrative fees.

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Blended Normal Cost Plus UAL Rates for 2011-2012 Fiscal Year  
Assuming Same Growth in PEORP Membership as was Experienced in FY 2010*

*Impact of Reducing Service Accrual Rates  
For New Members Enrolled on or After July 1, 2011  
(000 omitted)*

	FRS		Special Risk		Administration		Judicial	Elected Officers' Class		County	Senior Management	Composite	
	Regular	Regular	Regular	Regular	Admin	Leg-Atty-Cab		Leg-Atty-Cab	County		(excluding DROP)	DROP	(including DROP)
<b>D. Defined Benefit Plan UAL Cost</b>													
1. Employer Cost													
a. Normal Cost Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
b. UAL Cost and Rate Reduction Techniques	2.23%	11.30%	26.85%	16.91%	29.30%	32.07%	13.57%	3.84%	5.78%	3.84%	5.78%	3.98%	3.98%
c. Total Adjusted Contribution Rate <sup>3</sup> -FY 2012	2.23%	11.30%	26.85%	16.91%	29.30%	32.07%	13.57%	3.84%	5.78%	3.84%	5.78%	3.98%	3.98%
2. Projected Payroll	\$22,384,554	\$3,726,391	\$2,581	\$109,204	\$6,747	\$43,665	\$548,807	\$26,821,949	\$2,063,692	\$28,885,641	\$26,821,949	\$2,063,692	\$28,885,641
3. Total Employer UAL Cost [(1c) x (2)] -FY 2012	\$499,176	\$421,082	\$693	\$18,466	\$1,977	\$14,003	\$74,473	\$1,029,870	\$119,281	\$1,149,151	\$1,029,870	\$119,281	\$1,149,151
<b>E. Defined Contribution Plan Cost (UAL)</b>													
1. Employer Rates effective July 1, 2002 (Sec 121.72)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2. Projected Payroll	\$3,343,694	\$574,984	\$845	\$8,043	\$2,553	\$19,924	\$150,288	\$4,100,331	\$0	\$4,100,331	\$4,100,331	\$0	\$4,100,331
3. Total Employer Cost [(1) x (2)] -FY 2012	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>F. Total System UAL Cost (DB Plan + DC Plan)</b>													
1. Total UAL Contribution [(D3) + (E3)]	\$499,176	\$421,082	\$693	\$18,466	\$1,977	\$14,003	\$74,473	\$1,029,870	\$119,281	\$1,149,151	\$1,029,870	\$119,281	\$1,149,151
2. Total System Projected Payroll [(D2) + (E2)]	\$25,728,248	\$4,301,375	\$3,426	\$117,247	\$9,300	\$63,589	\$699,095	\$30,922,280	\$2,063,692	\$32,985,972	\$30,922,280	\$2,063,692	\$32,985,972
3. "Blended" UAL Contribution Rate As a Percentage of Total Payroll [(F1) / (F2)] <sup>3</sup>	1.94%	9.79%	20.23%	15.75%	21.26%	22.02%	10.65%	3.33%	5.78%	3.33%	5.78%	3.48%	3.48%

<sup>2</sup> Composite rates are based on 2010 payroll instead of the projected payroll.

<sup>3</sup> Rates shown do not include the HIS contribution rate or PEORP administrative fees.

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

**Blended Normal Cost Plus UAL Rates for 2011-2012 Fiscal Year**  
**Assuming Same Growth in PEORP Membership as was Experienced in FY 2010**

**Impact of Reducing Service Accrual Rates**  
**For New Members Enrolled on or After July 1, 2011**  
(000 omitted)

	FRS Regular	Special Risk Regular	Administration	Judicial	Leg-Atty-Cab	Class County	Senior Management	Composite (excluding DROP)	DROP	Composite (including DROP)
<b>G: Total Employer Contribution Rate (DB Plan + DC Plan)</b>										
1. "Blended" Normal Cost Contribution Rate [(C3)]	9.76%	16.64%	9.66%	11.03%	9.85%	11.77%	10.06%	10.80%	13.25%	10.96%
2. "Blended" UAL Contribution Rates [(F3)]	1.94%	9.79%	20.23%	15.75%	21.26%	22.02%	10.65%	3.33%	5.78%	3.48%
3. Total Adjusted Contribution Rate <sup>3</sup> -FY 2012 [(G1) + (G2)]	11.70%	26.43%	29.89%	26.78%	31.11%	33.79%	20.71%	14.13%	19.03%	14.44%
<b>H: Total Employer Contribution Rate (DB Plan + DC Plan)</b> <b>As Determined in July 1, 2010 Valuation Blended Rate Study</b>										
1. "Blended" Normal Cost Contribution Rate	9.76%	22.20%	11.41%	19.43%	14.48%	16.73%	11.70%	11.71%	13.79%	11.85%
2. "Blended" UAL Contribution Rates	1.94%	5.80%	19.61%	11.14%	19.39%	19.71%	9.93%	2.74%	5.78%	2.93%
3. Total Adjusted Contribution Rate <sup>3</sup> -FY 2012 [(H1) + (H2)]	11.70%	28.00%	31.02%	30.57%	33.87%	36.44%	21.63%	14.45%	19.57%	14.78%
<b>I: Increase / (Decrease) in Valuation Total Employer Contribution Rate Due to Proposal</b>										
1. "Blended" Normal Cost Contribution Rate [(G1) - (H1)]	0.00%	(5.56%)	(1.75%)	(8.40%)	(4.63%)	(4.96%)	(1.64%)	(0.91%)	(0.54%)	(0.89%)
2. "Blended" UAL Contribution Rates [(G2) - (H2)]	0.00%	3.99%	0.62%	4.61%	1.87%	2.31%	0.72%	0.59%	0.00%	0.55%
3. Total Adjusted Contribution Rate <sup>3</sup> -FY 2012 [(I1) + (I2)]	0.00%	(1.57%)	(1.13%)	(3.79%)	(2.76%)	(2.65%)	(0.92%)	(0.32%)	(0.54%)	(0.34%)

<sup>3</sup> Rates shown do not include the HIS contribution rate or PEORP administrative fees.

<sup>4</sup> Employers subject to only the UAL contribution rate will pay the rates shown in line (G2).

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