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January 5, 2011

Via Overnight Delivery

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

Re: Study Reflecting the Impact to the Florida Retirement System of Requiring
Employee Contributions for All Members on or After July 1, 2011

Dear Sarabeth:

As you requested, we have studied the impact to the Florida Retirement System of requiring all FRS employees to make member contributions equal to 5% of their salaries, effective July 1, 2011.

Background

Currently, FRS is a non-contributory plan and does not allow additional member contributions as a percent of compensation. Only members of the Teachers' Retirement System (TRS) and State and County Officers and Employees' Retirement System (SCOERS) pay member contributions; neither of these classes were analyzed in this study since they are closed, they are already contributors, and there are no future entrants. In addition, IFAS was excluded from this study since it is also a closed system.

Assumptions and Analysis

The proposal would affect all FRS pension plan and investment plan members who are actively employed with an FRS employer on or after July 1, 2011. The total contribution rates made to the accounts of investment plan members would be unchanged, but 5%

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would come from the employee and the remainder would come from the employer. In addition, under the proposal, any participants entering DROP on and after July 1, 2011 will be required to make the 5% employee contributions. Therefore, we re-ran the July 1, 2010 valuation for active members with the proposed employee contribution of 5% of payroll.

In addition, we have also included as a benefit for active members the refund of any employee contributions made by the member who terminates employment but is not eligible to retire, to receive a vested retirement allowance, or to receive a disability pension. Similarly, we have included as a benefit the refund of a deceased member's employee contributions which would be refunded to the beneficiary of a member who passed away before satisfying the eligibility for a pre-retirement death benefit. The refund does not include any interest accruals.

FRS funds the cost of DROP through a separate contribution rate paid on the salaries of current DROP participants. For purpose of this study this method was assumed to continue to apply to the adjusted rates used in analyzing these proposals. A more traditional funding of DROP would produce a different result. Note that because of the current method of funding DROP (i.e. through one separate contribution rate that applies to any DROP participant), any change in the normal cost or liabilities of any class of membership impacts the DROP contribution rate.

Under the proposal, only participants entering DROP on or after July 1, 2011 will be required to make the 5% employee contributions. Because of the current DROP funding methodology, the impact shown in the attached table reflects only the expected employee contribution from the group of DROP participants who are expected to DROP between July 1, 2011 and June 30, 2012. Each subsequent year required employee contributions will provide a larger offset or reduction to the employer cost of DROP until all then current DROP participants will have begun DROP participation on or after July 1, 2011.

For purposes of this study we have made several assumptions:

- Introduction of the 5% employee contribution rate will not affect any member decisions when to terminate, retire, participate in DROP, etc.
- Members who terminate after becoming vested will leave their accumulated contributions in the FRS and ultimately receive an annuity.
- The current funding technique in which the Normal Cost of each Class is based on payrolls until a member retires, terminates, begins DROP participation, etc, continues.
- DROP payroll will increase by 4% from 2010-11 to 2011-12.

- Introduction of the 5% employee contribution will have no impact on PEORP elections, second elections, etc.

Results

The results for this study are shown in Table I as described below. The table details the results by class. The contribution rates are presented by class of membership and in aggregate, and reflect the increase/(decrease) in the contribution rate.

Section A of Table I includes the normal cost as of the July 1, 2010 actuarial valuation, and the impact of the proposal. In addition, the change in liability attributable to the proposal was amortized over 30 years with the payments assumed to remain relatively stable when expressed as a percentage of payroll. Section B of the table shows the change in the unfunded actuarial liability, while Section C of the table translates the estimated change in contribution rates to a reduction in dollars to be paid by employers.

As shown in Table I, the projected impact of the proposal results in a net savings to the System. The projected decrease in actuarial liabilities is \$1.326 billion. This benefit change results in a decrease in the composite Normal Cost rate of 4.05% and a decrease in the composite UAL rate of 0.27%, and therefore, an overall decrease in the composite contribution rate of 4.32%, for the System. This translates into an estimated overall employer contribution savings of \$1.163 billion for Fiscal Year 2011-2012.

The reduction in employer costs, for each membership class, is less than the 5% employee contribution because of the leakage (i.e. the possibility that a member receives a refund of his contribution). The impact varies by class because each class has different probabilities of terminating, becoming disabled, etc., prior to attainment of vesting.

The calculations are based on data and other information provided to us by the Division of Retirement for the July 1, 2010 actuarial valuation and supplemented for purposes of this study. 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.

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 methods and assumptions used in the July 1, 2010 actuarial valuation, and the additional assumptions discussed earlier in this letter. The data was based on the July 1, 2010 FRS actuarial valuation database. The results of our study depend on future experience conforming to those actuarial assumptions. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here.

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 product 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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No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with 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.



Ms. Sarabeth Snuggs
January 5, 2011
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Please call if you would like to further discuss this project.

Sincerely,

Milliman, Inc.

A handwritten signature in blue ink that reads "Rozt".

Robert S. Dezube, FSA
Consulting Actuary

Enclosure

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FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

**Impact of Introducing Employee Contributions of 5%
For All Members Effective July 1, 2011**

	FRS Regular	----Special Risk---- Regular	Administration	Judicial	-----Elected Officers' Class---- Leg-Atty-Cab	County	Senior Management	Composite (excluding DROP)	DROP	Composite
A. Contribution Rates										
1. Present System Employer Costs (as reported the July 1, 2010 valuation - Table IV-4)										
a. Normal Cost	9.84%	22.34%	11.26%	19.42%	14.74%	16.79%	11.84%	11.81%	13.79%	11.96%
b. UAL Cost	<u>2.23%</u>	<u>6.72%</u>	<u>25.84%</u>	<u>11.90%</u>	<u>26.72%</u>	<u>26.90%</u>	<u>12.54%</u>	<u>3.16%</u>	<u>5.78%</u>	<u>3.35%</u>
c. Total Cost - FY 2012	12.07%	29.06%	37.10%	31.32%	41.46%	43.69%	24.38%	14.97%	19.57%	15.31%
2. Change in Contribution Rates due to Proposal Effective FY 2012 if Paid by Employer										
a. Normal Cost	-4.30%	-4.72%	-4.02%	-4.94%	-4.22%	-4.49%	-4.07%	-4.36%	-0.27%	-4.05%
b. Amortization of UAL Cost	<u>-0.31%</u>	<u>-0.21%</u>	<u>-0.28%</u>	<u>-0.04%</u>	<u>-0.25%</u>	<u>-0.18%</u>	<u>-0.35%</u>	<u>-0.29%</u>	<u>0.00%</u>	<u>-0.27%</u>
c. Total Change in Cost	-4.61%	-4.93%	-4.30%	-4.98%	-4.47%	-4.67%	-4.42%	-4.65%	-0.27%	-4.32%
B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)										
	(\$1,158,783)	(\$131,504)	(\$119)	(\$782)	(\$284)	(\$1,403)	(\$32,955)	(\$1,325,830)	\$0	(\$1,325,830)
C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2012 (000 omitted)										
1. State	(\$125,830)	(\$43,236)	(\$96)	(\$5,430)	(\$293)	\$0	(\$9,935)	(\$184,820)	(\$1,051)	(\$185,871)
2. School Boards	(\$507,119)	(\$983)	\$0	\$0	\$0	(\$430)	(\$2,467)	(\$510,999)	(\$2,507)	(\$513,506)
3. State Universities	(\$45,559)	(\$1,014)	\$0	\$0	\$0	\$0	(\$344)	(\$46,917)	(\$276)	(\$47,193)
4. Community Colleges	(\$31,168)	(\$84)	\$0	\$0	\$0	\$0	(\$1,095)	(\$32,347)	(\$197)	(\$32,544)
5. Counties	(\$183,890)	(\$126,872)	(\$11)	\$0	\$0	(\$1,501)	(\$6,549)	(\$318,823)	(\$1,309)	(\$320,132)
6. Other	(\$49,885)	(\$10,268)	(\$3)	\$0	\$0	(\$226)	(\$2,690)	(\$63,072)	(\$232)	(\$63,304)
7. Total	(\$943,451)	(\$182,457)	(\$110)	(\$5,430)	(\$293)	(\$2,157)	(\$23,080)	(\$1,156,978)	(\$5,572)	(\$1,162,550)

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