



1921 Gallows Road
Suite 900
Vienna, VA 22182
USA

Main +1 703 917 0143
Fax +1 703 827 9266

February 10, 2011

milliman.com

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
Reducing Service Accrual Rates for New Members Enrolled on or After July 1, 2011

Dear Sarabeth:

As you requested, we have studied the impact to the FRS of reducing 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.

This work product was prepared solely for Florida Retirement System for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Assumptions and Analysis

The proposal would affect all active members initially enrolled in the FRS on or after July 1, 2011. Decreasing the service accrual rates for future hires would provide a savings to FRS since benefits earned under the new accrual rates would be smaller.

It should be noted that both the Line-of-Duty Pre-Retirement Death Benefit and the Line-of-Duty Disability benefit are not directly impacted by the reduction in accrual rates. This is because the Line-of-Duty Pre-Retirement Death benefit remains at 50% of the member's monthly compensation at death, while the Line-of-Duty Disability is heavily influenced by the minimum benefit amount (42% of average monthly compensation for the non-Special Risk Class and 65% for the Special Risk Class). In addition, the decrease in the accrual rates will also lessen the probability that retirement benefits are limited by the 100% of average final compensation maximum.

To study the impact of this proposal, we re-ran the July 1, 2010 valuation for active members changing the service accrual rates as described above. We determined the impact of this prospective benefit change to be the change in Normal Cost rates. Because Normal Cost and Present Value of Future Normal Cost (PVFNC) are reduced by this proposal whereas the Present Value of Benefits (PVB) (based on benefits expected to be paid to current and former members, as of July 1, 2011 and earlier) is unchanged, the actuarial accrued liability is increased by this proposal. The actuarial accrued liability is defined as PVB less PVFNC. Thus, if PVFNC decreases and PVB remains the same, the actuarial accrued liability would increase. The PVB will decrease in future valuations as current members are replaced by members impacted by the change in benefits.

Except for current Regular Class members, all other current members will continue to earn benefits at levels greater than those annually earned by members initially enrolled on or after July 1, 2011. When this impact is combined with amortizing the change in the unfunded liability due to this proposal over 30 years, the funding of current member's actual normal costs will extend beyond working lifetime into retirement. Under the percent of pay amortization method used in the valuation, payment of the actual excess normal costs will effectively not occur until the last 10 years of the 30 year amortization period. Under a level percent of pay amortization, initial payments are less than interest on the unfunded liability, resulting in the unfunded liability increasing over time. After approximately 20 years, the unfunded liability will be approximately at the same level as the initial amount. By deferring to the later years of the 30-year amortization period, the funded ratio of the plan is expected to gradually decline for the next 20 years, which could compound the impact of any future adverse experience.

In addition, we assumed that the change in service accrual rates would not impact a future member's decision as to when to terminate, postpone retirement, or retire with or without DROP participation, although you might expect some members to retire at later ages due to decreased benefits. Please note that the cost impact of the proposed changes may be

higher or lower than the study estimates depending upon rates of retirement actually experienced un FRS. A realistic estimate of retirement rates is critical to determining the actual impact on plan costs. It is possible that a greater percentage of future hires might initially elect DC Plan participation at hire if this proposal is enacted, unless there is a corresponding decrease in DC plan contribution rates. This study does not address the potential impact of reducing future enrollment in the DB Plan. This change would also impact the present calculation of transfers between the DC Plan and the DB Plan.

For the Special Risk Administrative Support Class, we assumed that the increase in the Normal Retirement Age criteria would impact a future member's decision as to when to retire, or participation in DROP, since the member would be eligible for unreduced benefits at a later age. The attached Appendix A summarizes the new retirement rates.

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 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, although there is a projected increase in the actuarial liabilities of \$3.08 billion. This benefit change results in a decrease in the composite Normal Cost rate of 1.02% and an increase in the composite UAL rate of 0.64%, and therefore, an overall decrease in contribution levels of 0.38%, for the Composite System. This translates into an estimated overall employer contribution savings of \$90 million for Fiscal Year 2011-2012.

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:

- (a) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to other Governmental entities, as required by law.

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.



Ms. Sarabeth Snuggs
February 10, 2011
Page 5

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,

Milliman, Inc.

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

Robert S. Dezube, FSA
Consulting Actuary

Enclosures

RSD/MDJ/KH/ST/GIB03
M:\GIB\GIB03\2010\GIB03_LETTER.DOC

Appendix A
Adjusted Retirement Rates

SPECIAL RISK ADMINISTRATIVE SUPPORT

Age	Male		Female	
	Retirement at First Eligibility	Retirement Beyond First Eligibility	Retirement at First Eligibility	Retirement Beyond First Eligibility
20	0.0%	0.0%	0.0%	0.0%
25	0.0%	0.0%	0.0%	0.0%
30	0.0%	0.0%	0.0%	0.0%
35	0.0%	0.0%	0.0%	0.0%
40	0.0%	0.0%	0.0%	0.0%
45	11.3%	0.0%	11.3%	0.0%
50	18.0%	4.5%	18.0%	4.5%
55	33.0%	5.8%	56.5%	5.8%
60	24.8%	11.6%	42.6%	11.6%
65	69.2%	56.0%	69.5%	56.0%

This work product was prepared solely for Florida Retirement System for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

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

	FRS Regular	----Special Risk---- Regular	Administration	-----Elected Officers' Class---- Judicial	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	2.23%	6.72%	25.84%	11.90%	26.72%	26.90%	12.54%	3.16%	5.78%	3.35%
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	0.00%	-6.43%	-2.32%	-9.03%	-6.45%	-7.25%	-2.12%	-1.06%	-0.54%	-1.02%
b. Amortization of UAL Cost	0.00%	4.61%	0.80%	4.92%	2.59%	3.14%	0.91%	0.68%	0.00%	0.64%
c. Total Change in Cost	0.00%	-1.82%	-1.52%	-4.11%	-3.86%	-4.11%	-1.21%	-0.38%	-0.54%	-0.38%
B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)										
	\$0	\$2,879,917	\$350	\$90,914	\$2,939	\$24,592	\$84,790	\$3,083,502	\$0	\$3,083,502
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	\$0	(\$15,787)	(\$34)	(\$4,446)	(\$247)	\$0	(\$2,406)	(\$22,920)	(\$2,102)	(\$25,022)
2. School Boards	\$0	(\$359)	\$0	\$0	\$0	(\$375)	(\$701)	(\$1,435)	(\$5,014)	(\$6,449)
3. State Universities	\$0	(\$370)	\$0	\$0	\$0	\$0	\$43	(\$327)	(\$551)	(\$878)
4. Community Colleges	\$0	(\$31)	\$0	\$0	\$0	\$0	(\$289)	(\$320)	(\$395)	(\$715)
5. Counties	\$0	(\$46,325)	(\$3)	\$0	\$0	(\$1,311)	(\$1,866)	(\$49,505)	(\$2,618)	(\$52,123)
6. Other	\$0	(\$3,749)	(\$1)	\$0	\$0	(\$197)	(\$753)	(\$4,700)	(\$464)	(\$5,164)
7. Total	\$0	(\$66,621)	(\$38)	(\$4,446)	(\$247)	(\$1,883)	(\$5,972)	(\$79,207)	(\$11,144)	(\$90,351)

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.