December 5, 2019

Mr. David DiSalvo
State Retirement Director
Florida Department of Management Services, Division of Retirement

Re:  Blended Proposed Statutory Rates for the 2020-2021 Plan Year
Reflecting a Uniform UAL Rate for All Membership Classes and DROP

Dear Director DiSalvo:

As requested, we have calculated the uniform or “blended” proposed statutory employer rates for the 2020-2021 plan year based on the statutory contributions for the FRS Investment Plan and the actuarially calculated 2020-2021 rates for the defined benefit FRS Pension Plan, as specified in the FRS 2019 Actuarial Valuation Report. The blended rates reflect a uniform Unfunded Actuarial Liability (UAL) Contribution Rate for all payroll bases on which the Blended UAL Contribution Rate is assessed.

Analysis
We determined the uniform blended 2020-2021 employer rate for each membership class and subclass of the Florida Retirement System by projecting contributions for both the FRS Pension Plan and the FRS Investment Plan. We did this by dividing the projected combined amount that would be contributed for both the FRS Pension Plan and the FRS Investment Plan by the total projected combined payroll for both plans. The uniform blended rate calculation assumes plan year 2020-2021 contributions for the FRS Pension Plan will be made at the actuarially calculated rate levels. The actuarially calculated rate levels are based on the July 1, 2019 actuarial valuation of the FRS Pension Plan, as presented in Table 4-11 of the FRS 2019 Actuarial Valuation Report. The FRS Investment Plan rates are the sum of the rates in Sections 121.72, 121.73, and 121.735 of Florida Statutes and assume those rates continue in effect during plan year 2020-2021. The employer contribution rates shown in the attached table are net of the 3% of payroll employee contribution rate.

The payroll for some employee groups is subject to only the UAL Cost component of the FRS Pension Plan’s contribution rate (e.g. participants in SUSORP, SMSOAP, and SCCORP, and reemployed retirees not eligible for renewed membership in a state-sponsored retirement program). The payroll for those 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.

Based on the data provided to us for this study, as of July 1, 2019 FRS Investment Plan payroll comprised between 19% and 20% of total payroll. On a headcount basis, FRS Investment Plan members constitute between 22% and 23% of active FRS membership. Please note, Senate Bill 7022 enacted by the 2017 Florida legislature changed the default plan for initial enrollments on and after January 1, 2018.
from the FRS Pension Plan to the FRS Investment Plan for all membership classes other than Special Risk. As a result of the enactment, new entrants who would have defaulted into the FRS Pension Plan under prior statute will now default into the FRS Investment Plan in the absence of an active election. The actual levels of participation in the FRS Pension Plan and the FRS Investment Plan as of July 1, 2019 reflect that Investment Plan payroll now comprises an increased percentage of total payroll than it did one year ago.

Results
Table I shows the results of our study based on actual levels of participation in the FRS Pension Plan and the FRS Investment Plan as of July 1, 2019, projected to plan year 2020-2021 using the long-term payroll growth assumption of 3.25%.

Section A of the table includes the Normal Cost Rates developed in the July 1, 2019 funding actuarial valuation of the FRS Pension Plan. Section A does not include the UAL Cost. UAL Cost Rates are applied to a larger total payroll than the Normal Cost Rates and are developed in a later section. Section A, line 3 shows the total employer Normal Cost of the FRS Pension Plan as the product of Normal Cost Rates and projected Normal Cost payroll.

Similarly, Section B calculates the total employer cost of the FRS Investment Plan as the product of applicable employer contribution rates in effect since July 1, 2019 and the projected FRS Investment Plan payroll. FRS Investment Plan payroll is projected as described above.

Section C of the table shows the sum of the FRS Pension Plan employer Normal Cost and FRS Investment Plan employer cost as dollars and as a percentage of total projected combined payroll (FRS Pension Plan projected Normal Cost payroll plus FRS Investment Plan projected payroll).

Section D of the table shows the UAL Cost as of July 1, 2019 of the FRS Pension Plan, as shown in Table 4-11 of the FRS 2019 Actuarial Valuation Report.

Section E shows the projected payroll of the FRS Investment Plan. There is no UAL Cost attributable to the FRS Investment Plan.

Section F calculates the “Blended” UAL Cost as dollars and as a percentage of total payroll (FRS Pension Plan projected UAL payroll plus FRS Investment Plan projected payroll).

Section G shows the Total “Blended” 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 contribute the “Blended” UAL Contribution Rates shown in Line (G2) of the table on applicable payroll. The Total “Blended” Contribution Rates shown in Line (G3) of the table will be applied to all other payroll subject to employer contributions.
The contribution rates shown in Table I exclude the 0.06% contribution rate for FRS Investment Plan administration and education (applied to all classes except DROP) and the 1.66% contribution rate for the Florida Retiree Health Insurance Subsidy (HIS) program, which apply across the board to the FRS Pension Plan and the FRS Investment Plan.

The calculations are based on census and payroll data provided to us by the Florida Department of Management Services, Division of Retirement for the July 1, 2019 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 Individual Entry Age actuarial cost allocation method, as described in the FRS 2019 Actuarial Valuation Report for use in developing 2020-2021 actuarially calculated contribution rates for the FRS Pension Plan.

**Certification**

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.

Except where otherwise noted in this letter, this analysis is based on the FRS Pension Plan provisions, actuarial methods and actuarial assumptions as summarized in the FRS 2019 Actuarial Valuation Report as published on December 3, 2019. Further, the data used in these calculations were based on FRS Pension Plan data as summarized in the FRS 2019 Actuarial Valuation Report and FRS Investment Plan census data as of July 1, 2019 as provided to us by the Florida Department of Management Services, Division of Retirement. The results of our study depend on future experience conforming to those actuarial assumptions discussed earlier in this letter. Future actuarial measurements may differ significantly from the current measurements presented in this analysis 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.

Milliman’s work product was prepared exclusively for the internal business use of Florida Department of Management Services, Division of Retirement. 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 worked 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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of confidentiality and who agree to not use Milliman’s work for any purpose other than to benefit the System.

(b) The Florida Department of Management Services, 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 retirement actuaries. Milliman’s advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

We are consulting actuaries for Milliman, Inc. We are also members 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.

Respectfully submitted,

Matt Larabee, FSA, EA, MAAA
Principal and Consulting Actuary

Daniel Wade, FSA, EA, MAAA
Principal and Consulting Actuary

Kathryn Hunter, FSA, EA, MAAA
Consulting Actuary

Enclosures
## TABLE I

### FLORIDA RETIREMENT SYSTEM

**FISCAL IMPACT ANALYSIS**

**Blended Proposed Statutory Normal Cost Plus UAL Rates for 2020-2021 Plan Year**

Please see the attached letter for details regarding data, assumptions, methodology, and plan provisions used.

(Dollars in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>Regular</th>
<th>Special Risk</th>
<th>Special Risk</th>
<th>-----Elected Officers' Class-----</th>
<th>judicial</th>
<th>Leg-Atty-Cab</th>
<th>Local</th>
<th>Senior Management</th>
<th>Composite (excluding DROP)</th>
<th>DROP</th>
<th>Composite (including DROP)</th>
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<tbody>
<tr>
<td><strong>A. Defined Benefit FRS Pension Plan Normal Cost</strong></td>
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<tr>
<td>1. Employer Cost</td>
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</tr>
<tr>
<td>a. Normal Cost Rate</td>
<td>5.19%</td>
<td>15.41%</td>
<td>11.13%</td>
<td>13.64%</td>
<td>8.76%</td>
<td>10.57%</td>
<td>6.90%</td>
<td>7.03%</td>
<td>7.03%</td>
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<tr>
<td>b. Rate Reduction Techniques</td>
<td>0.00%</td>
<td>0.00%</td>
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<tr>
<td>c. Total Adjusted Contribution Rate</td>
<td>5.19%</td>
<td>15.41%</td>
<td>11.13%</td>
<td>13.64%</td>
<td>8.76%</td>
<td>10.57%</td>
<td>6.90%</td>
<td>7.03%</td>
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<td>-PYE 2021</td>
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<tr>
<td>2. Projected Payroll</td>
<td>$20,118,483</td>
<td>$4,322,041</td>
<td>$3,729</td>
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<td>3. Total Employer Normal Cost [(1c) x (2)]</td>
<td>$1,044,149</td>
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<td>$415</td>
<td>$15,597</td>
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<td><strong>B. Defined Contribution FRS Investment Plan (IP) Employer Cost</strong></td>
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<tr>
<td>1. Employer Rates effective July 1, 2019</td>
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<td>(Sec 121.72, Sec 121.73 and Sec 121.735)</td>
<td>3.60%</td>
<td>13.54%</td>
<td>5.43%</td>
<td>11.05%</td>
<td>6.94%</td>
<td>8.95%</td>
<td>4.98%</td>
<td>4.83%</td>
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<tr>
<td>2. Projected Payroll</td>
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<td>3. Total Employer Cost [(1) x (2)]</td>
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<td>$104,816</td>
<td>$55</td>
<td>$1,832</td>
<td>$121</td>
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<tr>
<td>-PYE 2021</td>
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<tr>
<td><strong>C. Total System Normal Cost (FRS Pension Plan + FRS Investment Plan)</strong></td>
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<tr>
<td>1. Total Normal Cost Contribution [(A3) + (B3)]</td>
<td>$1,248,027</td>
<td>$770,843</td>
<td>$470</td>
<td>$17,429</td>
<td>$698</td>
<td>$6,565</td>
<td>$48,220</td>
<td>$2,092,252</td>
<td>$166,193</td>
<td>$2,258,445</td>
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<td>2. Total System Projected Payroll [(A2) + (B2)]</td>
<td>$25,781,751</td>
<td>$5,096,159</td>
<td>$4,750</td>
<td>$13,933</td>
<td>$8,326</td>
<td>$65,192</td>
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<td>$31,841,967</td>
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<td>3. &quot;Blended&quot; Normal Cost Contribution Rate</td>
<td>4.84%</td>
<td>15.13%</td>
<td>9.89%</td>
<td>13.31%</td>
<td>8.38%</td>
<td>10.07%</td>
<td>6.39%</td>
<td>6.57%</td>
<td>7.03%</td>
<td>6.60%</td>
<td></td>
</tr>
</tbody>
</table>

1 As reported in the July 1, 2019 actuarial valuation report - Table 4-11

2 Rates shown do not include the Health Insurance Subsidy contribution rate or FRS Investment Plan education and administration assessment.

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<th>Class</th>
<th>Regular</th>
<th>Special Risk</th>
<th>Administrative</th>
<th>-----Elected Officers’ Class-----</th>
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<td>Senior</td>
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<td>Administrative</td>
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<td>Judicial</td>
<td>30.87%</td>
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<td>Leg-Atty-Cab</td>
<td>28.26%</td>
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<tr>
<td>Local</td>
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<td>Officer</td>
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<tr>
<td>Employer</td>
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<tr>
<td>Management</td>
<td>5.59%</td>
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<tr>
<td>Composite (excluding DROP)</td>
<td>8.29%</td>
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</tbody>
</table>

**Blended Proposed Statutory Uniform Contribution Rates**

**Total System UAL Contribution (FRS Pension Plan + FRS Investment Plan)**

1. Total UAL Contribution [(C1)]
   - PYE 2021: $1,011,318
2. Total System Projected Payroll [(D2) + (E)]
   - PYE 2021: $29,403,124
3. *Blended* UAL Contribution Rate As a Percentage of Total Payroll [(F1) / (F2)]
   - PYE 2021: 3.44% 7.60% 24.22% 24.70% 48.81% 37.39% 19.18% 4.54% 8.29% 4.77%

**Total Blended Contribution Rate**

1. *Blended* Normal Cost Contribution Rate [(C3)]
   - PYE 2021: 4.84% 15.12% 9.89% 13.31% 8.38% 10.07% 6.39% 6.57% 7.03% 6.60%
2. *Blended* UAL Contribution Rates [(F3)]
   - PYE 2021: 3.44% 7.60% 24.22% 24.70% 48.81% 37.39% 19.18% 4.54% 8.29% 4.77%
3. Total Blended Contribution Rate
   - PYE 2021: 8.28% 22.73% 34.12% 38.01% 57.19% 47.46% 25.57% 11.11% 15.32% 11.37%

* As reported in the July 1, 2019 actuarial valuation report - Table 4-11
1. Rates shown do not include the Health Insurance Subsidy contribution rate or FRS Investment Plan education and administration assessment.
2. Employers of employee groups subject to only the UAL contribution rate will pay the rates shown in line (G2).

**Blended Proposed Statutory Uniform Contribution Rates**

**Total Employer Contribution Rate (FRS Pension Plan + FRS Investment Plan)**

1. *Blended* Normal Cost Contribution Rate [(C3)]
   - PYE 2021: 4.84% 15.12% 9.89% 13.31% 8.38% 10.07% 6.39% 6.57% 7.03% 6.60%
2. *Blended* UAL Contribution Rates [(F3)]
   - PYE 2021: 3.44% 7.60% 24.22% 24.70% 48.81% 37.39% 19.18% 4.54% 8.29% 4.77%
3. Total Blended Contribution Rate
   - PYE 2021: 8.28% 22.73% 34.12% 38.01% 57.19% 47.46% 25.57% 11.11% 15.32% 11.37%

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