

**Florida Retirement System**  
**Actuarial Assumption Estimating Conference**  
**Executive Summary**  
**October 14, 2024 and October 17, 2024**

The Florida Retirement System Actuarial Assumption Conference met on October 14, 2024 and October 17, 2024, to consider the demographic, methodological, and economic assumptions to be used for the actuarial valuation of the Florida Retirement System (FRS) Pension Plan. In the first meeting of its two-part series, the Conference focused on the results of the 2024 experience study. This study is conducted every five years to update current demographic assumptions, taking into account actual plan experience.

The 2024 experience study was based on observations drawn from the time period running from July 2018 to June 2023. Because part of this period overlapped with the COVID health crisis, the System's actuary, Milliman Group, worked with the principals to exclude data and time periods that were clearly outliers. As one of the more significant changes, Milliman recommended continued use of updated mortality tables from the Society of Actuaries (Pub-2010 and MP-2021) that include public sector-specific experience for mortality projections. In addition, they recommended a material increase in the DROP entry rates, with the greatest effect on schoolteachers. Further, schoolteacher exits from DROP are now expected to increase relative to the previous assumption. At the end of the first meeting, the principals agreed to all of the proposed demographic changes presented by the State's actuary, as well as the continued use of the Individual Entry Age Normal (Individual EAN) cost allocation method. The principals also requested to see the results of a change to system payment growth—using a 2.4% inflation rate and 1.1% real wage growth rate which would combine to an overall system payroll growth rate of 3.50%. The previous assumption was 3.25%.

At its second meeting, the Conference reviewed “preliminary” 2024 actuarial funding results, with and without various assumption changes. The preliminary results for July 1, 2024, showed that the FRS continues to have an unfunded actuarial liability (UAL). Using the 2024 data and 2023 assumptions as a baseline, the resulting UAL suggested a decline from the \$42.0 billion reported in 2023's final valuation to \$41.0 billion in the 2024 valuation.

Aside from the dated assumptions, there are several reasons for this result. First, the current year's budget more than fully funded the recommended contribution rate for the UAL provided as part of 2023's final valuation report. All else being equal, fully funding the recommended UAL rate each year will result in a gradual increase of the funded ratio over time. Second, despite lags in private market valuations, the return for the FRS pension plan came in higher than assumed for the past year. After the return in FY 2022-23 rebounded from a loss in FY 2021-22, the State Board of Administration (SBA) reported that the pension plan return was an even higher +10.52% for the period ending June 2024. On a smoothed actuarial value of assets (AVA) basis, the FY 2023-24 result was +7.7%, as this calculation is determined by the market

value returns over the prior five years. The tables below show the actual investment returns for the past five fiscal years and the cumulative returns over a 5-year, 10-year, 15-year, and 20-year timeframe.

Fiscal Year	Investment Return
2019-20	3.08%
2020-21	29.46%
2021-22	-6.27%
2022-23	7.50%
2023-24	10.52%

	Investment Return
3-year	3.65%
5-year	8.24%
10-year	7.39%
15-year	9.28%
20-year	7.45%

During the meeting, the state’s actuary (Milliman) and SBA’s financial consultant Aon Investments USA Inc. (Aon) presented their respective outlooks for longer term investment returns. Their projections for median returns ranged from 6.32% (Aon, 3.95% real) to 7.30% (Milliman, 4.79% real). Arguing to maintain the current assumption, SBA’s presentation emphasized that while there is near-term economic stability, “the next 15 years are not likely to look like the past 15 years.” They pointed to the potential for higher average inflation, higher interest rates and greater volatility as reasons to be cautious.

After discussion, the Conference agreed to hold the investment return assumption at 6.70%, as well as maintaining the inflation assumption at 2.40%. The following table displays the nominal returns, inflation rates, and real returns adopted at the three previous conferences, as well as the new assumptions applicable to the July 1, 2024 Actuarial Valuation.

2021	2022	2023	2024
6.80% Investment Return	6.70% Investment Return	6.70% Investment Return	6.70% Investment Return
2.40% Inflation	2.40% Inflation	2.40% Inflation	2.40% Inflation
4.30% Real Return	4.20% Real Return	4.20% Real Return	4.20% Real Return

Note: The real return takes into account administrative expenses, so the numbers in this table are not additive.

After incorporating the new assumptions from both meetings, the UAL moves from \$41.0 billion to \$45.8 billion. Similarly, the system’s funded status changes from the 81.4% shown in 2023’s original valuation to 80.7% in the 2024 preliminary valuation, including all updates. These results were derived using a 6.7% investment return assumption (as first adopted in 2022), the Individual EAN cost allocation method, a 20-year (level percent of pay) closed amortization period for all bases, and an overall system payroll growth rate of 3.5%.

	<b>2023 Valuation</b> 2023 data 2023 assumptions	<b>2024 Baseline</b> 2024 data 2023 assumptions	<b>2024 Preliminary</b> 2024 data 2024 assumption updates
Actuarial Liability (AL)	\$ 226.2	\$ 232.6	\$ 237.4
Actuarial Value of Assets (AVA)	<u>184.2</u>	<u>191.6</u>	<u>191.6</u>
<b>Unfunded Actuarial Liability (UAL)</b>	<b>\$ 42.0</b>	<b>\$ 41.0</b>	<b>\$ 45.8</b>
<b>Funded Status</b>	<b>81.4%</b>	<b>82.3%</b>	<b>80.7%</b>

*(Amounts in \$ billions)*

The final actuarial valuation for July 1, 2024, will be released in December 2024. Those results will differ from the preliminary numbers reviewed by the Conference principals.