Florida Retirement System
Actuarial Assumption Estimating Conference
Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on October 7, 2021, to consider the demographic, methodological, and economic assumptions to be used for the actuarial valuation of Florida's Retirement System (FRS). The preliminary results for July 1, 2021, show that the FRS continues to have an unfunded actuarial liability (UAL). Nonetheless, using the 2021 data and 2020 assumptions, the projected UAL shows improvement and is expected to decrease from the $36.0 billion shown in 2020's final valuation to $30.0 billion in the 2021 preliminary valuation. The system's funded status would increase from the 82.0% shown in the 2020 final valuation to 85.3% funded. These results were derived using a 7.0% investment return assumption (as adopted in 2020), the individual entry age normal (Individual EAN) cost allocation method, and a 25-year (level percent of pay) amortization period for new bases. The Conference adopted changes to several assumptions; these adjustments will affect the final results reported in December 2021.

Investment performance for the current year was exceptional to the good; the FY 2020-21 pension plan return was 29.46% for the one-year period ending June 2021 (11.2% on smoothed actuarial value). Conference presenters and the principals agreed that while such performance is very helpful to build a cushion for the pension plan assets, this is an atypical performance. By way of demonstration, the investment performance in FY 2020-21 was preceded by a 3.08% return in FY 2019-20 and 6.26% in 2018-19. 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
2016-17	13.77%
2017-18	8.98%
2018-19	6.26%
2019-20	3.08%
2020-21	29.46%

	Investment Return
3-year	12.34%
5-year	11.95%
10-year	9.33%
15-year	7.85%
20-year	7.40%

The state's actuary (Milliman), the State Board of Administration (SBA), and the SBA's financial consultant Aon Investments USA Inc. (Aon) all recommended a reduction in the investment return assumption primarily due to market volatility and an increase in the risk premium. The conference presenters suggested return assumptions within the range of 6.13% (Aon/SBA) to 6.57% (Milliman), with a lower inflation assumption of 2.1% to 2.3% relative to the previous conference assumption of 2.4%. The conference principals discussed several investment return assumptions ranging from 6.75% to 6.90%, but ultimately agreed to lower the investment return assumption to 6.80% and to keep the inflation rate at 2.4% in accordance with the long-range inflation assumption adopted by the Social Security Administration and in line with the Congressional Budget Office. The following table displays the nominal returns, inflation rates, and real returns used in the three most recent valuations and the new assumptions applicable to 2021.

2018	2019	2020	2021
7.40% Investment Return	7.20% Investment Return	7.00% Investment Return	6.80% Investment Return
2.60% Inflation	2.60% Inflation	2.40% Inflation	2.40% Inflation
4.68% Real Return	4.48% Real Return	4.49% Real Return	4.30% Real Return

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

The Conference also discussed changes to the amortization policy and the amortization period of the current unfunded actuarial liability (UAL). The two policy options under review were a level percent of pay (the current method) versus a level dollar method. After discussion and a review of the assumptions used by peer retirement systems – the Conference decided to keep the current practice of a level percent of pay. Then the Conference discussed changing the current amortization period of 25-year on new bases to 20-year on new bases or 20-year on all bases. After discussion among principals about ensuring the integrity and stability of the retirement system and inputs from presenters – the Conference decided to move to 20-year amortization for all bases.

The 2021 Legislature fully funded the UAL at the recommended contribution rate provided as part of the 2020 valuation report. This action and continued full funding of the recommended UAL rate, as committed to by the Legislature, will result in the gradual increase of the funded ratio in future years. The contribution rates should remain stable as long as contributions are made as recommended and actual experience mirrors projections. However, many factors affect these calculations and can cause the contribution rates to increase or decrease over time. For example, investment returns have been and will continue to be a relatively volatile factor. If actual investment results are lower than assumed, these could significantly impact the UAL and future contribution rates.

The final actuarial valuation for July 1, 2021, will be released in December 2021. Those results will differ from the preliminary numbers reviewed by the Conference principals.