Florida Retirement System
Actuarial Assumption Estimating Conference
Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on October 8, 2020, 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, 2020, show that the FRS continues to have an unfunded actuarial liability (UAL). Using the 2019 data and 2019 assumptions, the projected UAL is expected to increase slightly from the $30.3 billion shown in 2019's final valuation to $32.1 billion in 2020 preliminary valuation. Similarly, the system's funded status would drop from the 84.2% shown in the 2019 final valuation to 83.7% funded. These results were derived using a 7.20% investment return assumption (as adopted in 2019), the individual entry age normal (Individual EAN) cost allocation method, and a 30-year (level percent) amortization period. The Conference adopted changes to several assumptions; these adjustments will affect the final results reported in December 2020.

Asset performance over the next thirty years is expected to be relatively flat. The return in FY 2016-17 came in strong at 13.77%; however, the return for each subsequent fiscal year has declined over the prior year. The final FY 2019-20 return was 3.08%. 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
2015-16	0.54%
2016-17	13.77%
2017-18	8.98%
2018-19	6.26%
2019-20	3.08%

	Investment Return
3-year	6.08%
5-year	6.43%
10-year	8.69%
15-year	6.72%
20-year	5.61%

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 6.46% (Aon) to 6.56% (Milliman), with a relatively lower inflation assumption of 2.1% to 2.2% relative to the previous conference assumption of 2.6%.

The conference principals ultimately agreed to lower the investment return assumption to 7.0% and to decrease the inflation rate to 2.4% in accordance with the long-range inflation assumption used by the Office of the Chief Actuary for Social Security (75-year). In addition, the Conference shifted to an amortization policy of 25 years on new bases (level percent) from its current 30-year period. The Individual EAN cost allocation method was continued, and all demographic changes suggested by Milliman were adopted.

The table on the following page displays the nominal returns, inflation rates, and real returns used in the three most recent valuations, as well as the new assumptions that will be applicable in 2020.

2017	2018	2019	2020
7.50% Investment Return	7.40% Investment Return	7.20% Investment Return	7.00% Investment Return
2.60% Inflation	2.60% Inflation	2.60% Inflation	2.40% Inflation
4.78% Real Return	4.68% Real Return	4.48% Real Return	4.49% Real Return

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

The 2020 Legislature fully funded the UAL at the recommended contribution rate provided as part of the 2019 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, there could be a significant impact on the UAL and future contribution rates.

The final actuarial valuation for July 1, 2020, will be released in December 2020. Those results will differ from the preliminary numbers reviewed by the Conference principals.