

# **Retiree Health Insurance Subsidy Actuarial Assumption Estimating Conference**

## **Executive Summary for September 24, 2014**

The Florida Retirement System Actuarial Assumption Conference met on September 24, 2014 to adopt assumptions to be used in the actuarial valuation of the Retiree Health Insurance Subsidy (HIS) program. While the program is intended to be “pay-as-you-go” as opposed to pre-funded, GASB<sup>1</sup> accounting principles require that the benefit be treated as a pension benefit even though the benefit is subject to legislative authorization.

The HIS valuation relies primarily on the related FRS assumptions since all the retired members and beneficiaries in pay status are part of the FRS valuation. The investment return assumption is the one outlier beyond the FRS assumptions that is needed to complete the HIS valuation. Newly implemented GASB rules recommend using bond indices for investment return assumptions for valuations like the HIS for which there is no long-term funding. There are a few different bond indices to choose from that are produced by major rating agencies and public finance publications. The conference adopted the Bond-Buyer 20-bond index. This index includes 20 general obligation bonds with 20-year maturities with an average rating of AA. This index is also used in another conference to set rates for estimating PECO bonding capacity. The value of this index was 4.29% as of June 30, 2014, which is slightly higher than the 4.0% investment rate that has been adopted for the HIS at prior conferences but will reflect the current bond market in future valuations as opposed to a fixed rate.

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<sup>1</sup> The Governmental Accounting Standards Board (GASB) provides the generally accepted accounting principles (GAAP) used by state and local governments.