

Florida Retirement System

2020 FRS Actuarial Assumption Estimating Conference Supplement
for HIS and National Guard GASB Valuations

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A decorative graphic consisting of numerous thin, wavy, light gray lines that create a textured, layered effect. A single, thicker blue line is superimposed on these, following a similar wavy path across the bottom half of the slide.

Discount Rate Assumption for HIS and National Guard GASB Valuations

GASB Discount Rate Assumption

- Currently, the Florida Health Insurance Subsidy (HIS) and Florida National Guard benefits are effectively funded on a pay-as-you-go basis
- Accounting standards first effective several years ago (GASB 67 & 68) give direction on the discount rate assumption to be used for financial reporting of programs funded on a pay-as-you-go basis
 - The assumption should reflect an **index of 20-year, tax exempt, high quality (AA/Aa or higher) general obligation municipal bonds**
 - The assumption selected should be based on **market conditions as of the measurement date** of the financial reporting in question
- After consideration of these requirements at the time of initial implementation of the accounting standards, the Conference adopted the **Bond Buyer General Obligation 20-Bond Municipal Bond Index** for use in HIS and National Guard GASB calculations
 - That index has been used for pay-as-you-go GASB financial reporting valuations by all public systems with which I am familiar

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Historical Values of the Bond Index

- The table below shows the value of the Bond Buyer General Obligation 20-Bond Municipal Bond Index as of the last five fiscal year-end measurement dates

June 30	Index
2020	2.21%
2019	3.50%
2018	3.87%
2017	3.58%
2016	2.85%

- The **higher** the index, the **lower** the calculated liability, with an index decrease from 3.50% to 2.21% estimated to **increase** HIS liability and National Guard liability by approximately \$2.05 billion and \$260 million, respectively

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Other Assumptions for HIS and National Guard GASB Valuations

HIS GASB Valuation Assumptions

- In addition to the discount rate assumption, other assumptions about member behavior (e.g., timing and nature of cessation of employment) and life expectancy are used in the HIS valuation
- The assumptions used in the last full valuation, conducted in 2018, mirrored those used in the 2018 valuation of the FRS Pension Plan and were established by the most recent Experience Study at that time (conducted in 2014)
- For this valuation, we recommend updates to mirror those used in the 2019 and 2020 FRS Pension Plan valuations, reflecting the Experience Study conducted in 2019

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HIS GASB Valuation Assumptions (Cont.)

- Specific to the HIS valuation, we use additional assumptions relating to member elections at time of retirement
 - Percentage of eligible members who elect HIS coverage at retirement
 - Prior valuation assumed **95%**
 - We recommend new assumption of **90%**, based on observed experience
 - Percentage of eligible members who elect a spousal protection form of benefit:
 - Prior valuation assumed **30%**, applicable to both Pension Plan (PP) and Investment Plan (IP) retirees
 - We recommend bifurcating the assumption:
 - **30%** of retiring PP members elect a spousal protection form of benefit (since HIS spousal continuance is tied to Option election of PP benefit)
 - **80%** of retiring IP members elect a spousal protection form of benefit (since HIS spousal continuance is not tied to IP retiree election)

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National Guard Valuation Assumptions

- The initial valuation for the National Guard program was conducted in 2014 to comply with the new GASB financial reporting standards
- Assumptions used in valuations prior to this year incorporate FRS Pension Plan assumptions along with estimates of future military experience as National Guard benefits are tied to federal pay levels and retirement benefits
- Only changes recommended are to update mortality / life expectancy assumptions to mirror those developed with the Experience Study conducted in 2019

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Needed Guidance for HIS and National Guard

Needed Guidance

- From Conference Principals for GASB financial reporting calculations of HIS and National Guard:
 - Re-confirmation of the continued use of the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the discount rate for the GASB valuations of the two programs
 - Adoption of updates to demographic assumptions to reflect assumptions used in the 2019 and 2020 FRS Pension Plan valuations, as developed by the 2019 Experience Study
 - Adoption of updates to HIS-specific assumptions on percentage of members electing a) coverage at retirement and b) a spousal protection form of benefit payment
 - Adoption of updates to the mortality assumption to reflect assumptions used in the 2019 and 2020 FRS Pension Plan valuations, as developed by the 2019 Experience Study, along with re-confirmation of the previously used assumptions other than discount rate and mortality for the National Guard program

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