

Health Insurance Subsidy & Florida National Guard Benefits Actuarial Assumption Estimating Conference Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on November 13, 2018, to adopt assumptions to be used in the valuations of the Retiree Health Insurance Subsidy (HIS) and National Guard benefits programs. These programs are intended to be funded on a “pay-as-you-go” basis, which makes them subject to legislative appropriations. However, GASB requires financial reporting using a different approach.

The HIS valuation relies primarily on the related FRS assumptions. However, a few assumptions more unique to this program have been continued from prior years. These include assumptions that: (1) 95% of eligible members elect coverage at retirement, and (2) 30% of retiring members elect a spousal protection form of benefit. In addition, an assumption was adopted regarding the appropriate discount rate. Continuing prior practice, the Conference decided to use the Bond Buyer General Obligation 20-Bond Municipal Bond Index which is adopted as part of National Economic Estimating Conference. For the valuation dated June 30, 2018, the appropriate index value is 3.87%. The Conference also adopted the prospective use of this index for the 2019 valuation.

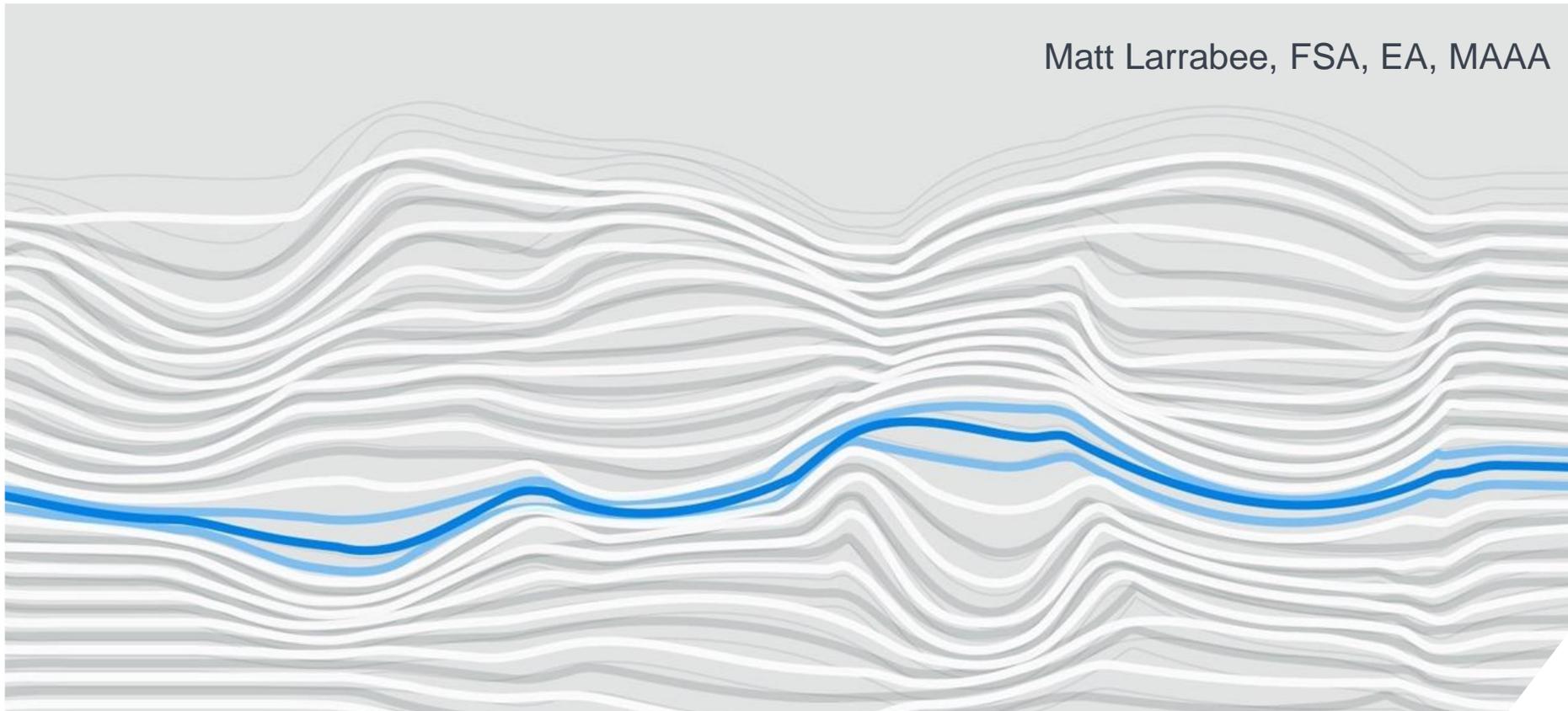
This discount rate will also be used for the Florida National Guard benefit. In addition to the rate, the Conference adopted an average annual future Cost-of-Living Adjustment (COLA) assumption of 2.6%. This rate matches the inflation assumption adopted for the Florida Retirement System, and it mirrors the average observed COLA increase over the past four years. Unless changed by a subsequent conference, this COLA assumption will also be used in 2019.

These assumptions affect only the GASB valuations and do not change actual program costs.

Florida Retirement System

2018 FRS Actuarial Assumption Estimating Conference
Supplement for HIS and National Guard GASB Valuations

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Discount Rate Assumption for HIS and National Guard GASB Valuations

GASB Discount Rate Assumption

- Currently, the Health Insurance Subsidy 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
2018	3.87%
2017	3.58%
2016	2.85%
2015	3.80%
2014	4.29%

- The **higher** the index, the **lower** the calculated liability, with an index increase from 3.58% to 3.87% estimated to **decrease** HIS liability and National Guard liability by approximately \$360 million and \$30 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
- Those assumptions mirror those used in the valuation of the FRS Pension Plan and were established by the most recent Experience Study (conducted in 2014)
- No changes are recommended at this time based on observed experience since adoption of those assumptions
 - Continuing “no change” recommendations include assumptions based on observed experience that:
 - 95% of eligible members elect coverage at retirement
 - 30% of retiring members elect a spousal protection form of benefit

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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
- Based on observed experience over the past four years since assumptions were initially established, a solitary assumption modification is recommended: an increase to the average annual future COLA on National Guard benefits from 1.5% to 2.6%
 - 2.6% is the average observed COLA increase over the past four years, and it is also the inflation assumption adopted for the FRS Pension Plan

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Needed Guidance

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
 - Re-confirmation of the previously used assumptions other than discount rate for the HIS program
 - Re-confirmation of the previously used assumptions other than discount rate for the National Guard program, with the exception of average annual future COLA increase, where the recommended change is to increase the assumption from 1.5% to 2.6% based on recently observed program experience over the past four years
 - Benefits for this program are currently around \$15 million per year, so adoption of the recommendation would increase estimated fiscal 18-19 costs by around \$165,000, but actual costs would be unaffected by adopting the assumption

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Appendix

Certification

This presentation summarizes recommended assumptions for valuations of the HIS and National Guard programs as June 30, 2018. Those valuations, when finalized, will develop mandated financial reporting for the fiscal year ending June 30, 2018.

In preparing this presentation, we relied, without audit, on information (some oral and some in writing) supplied by Division of Retirement (“Division”) staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The results in this presentation depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

The material in this presentation have been made on a basis consistent with our understanding of the plan provisions described in the appendices of our most recently published formal actuarial valuation reports for the programs.

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Certification

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel. The presenting actuaries are independent of the plan sponsors. I am not aware of any relationship that would impair the objectivity of Milliman's work.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices. I am a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

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