

# FRS: History of Funded Status

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Presented by:



The Florida Legislature  
Office of Economic and  
Demographic Research  
850.487.1402  
<http://edr.state.fl.us>

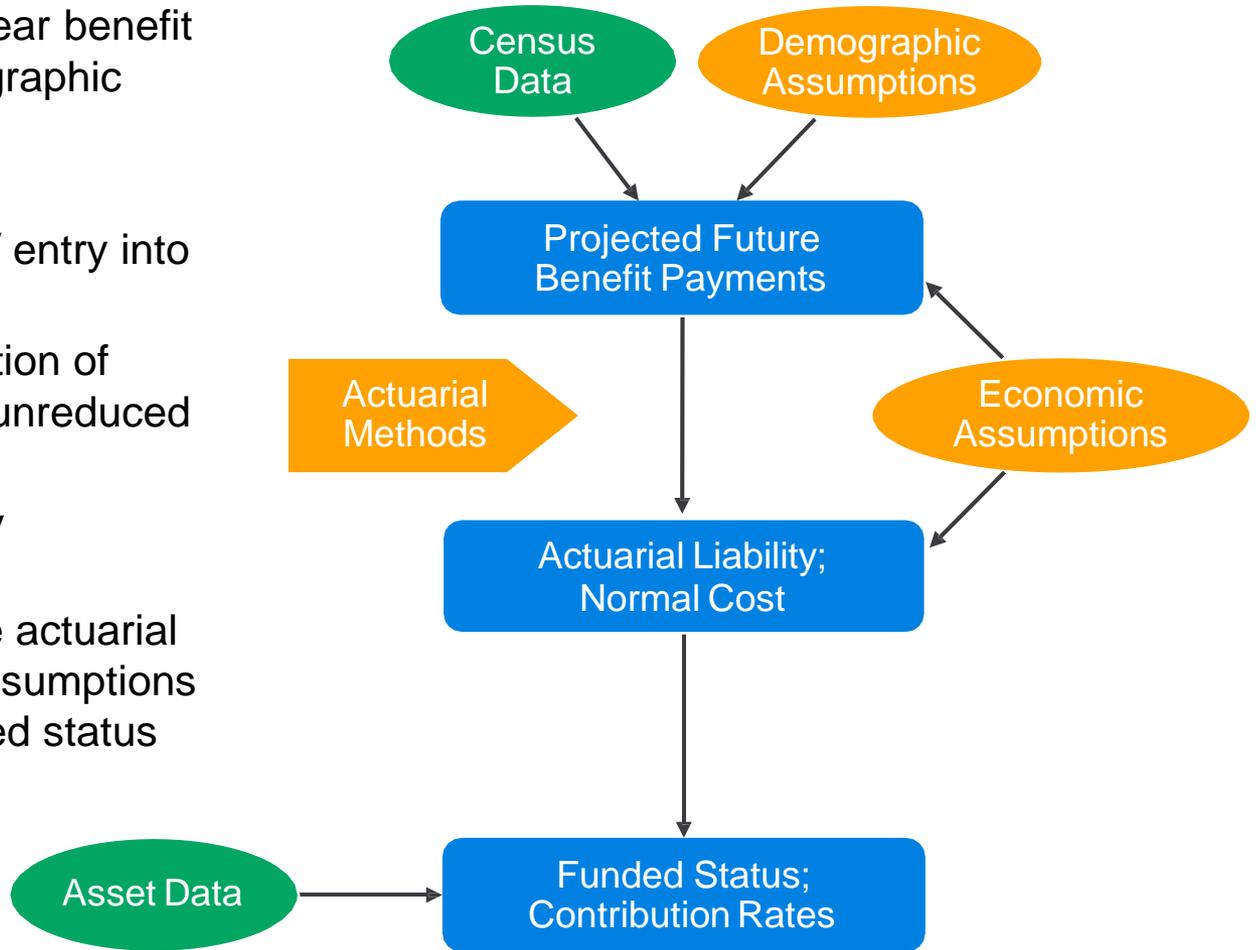
# In General...

- The Florida Retirement System (FRS) Pension Plan is currently the fifth largest state retirement system in the US with a total membership of more than 1.0 million active, retired, terminated vested and DROP members and \$164 billion in assets.
  - Public Pension Plans tend to focus on long term costs and the ability to meet them (fiscal health).
  - Key question is: what level of assets today would be needed to pay projected benefit payments?
- The FRS regularly undergoes evaluation of its financial condition. This complex process has many participants—the most directly involved are the Department of Management Services' Division of Retirement and its actuary (currently Milliman); the State Board of Administration and its consultant (currently Aon Investments), and the statutorily-based Actuarial Assumption Estimating Conference.
  - (10) FLORIDA RETIREMENT SYSTEM ACTUARIAL ASSUMPTION CONFERENCE.— The Florida Retirement System Actuarial Assumption Conference shall develop official information with respect to the economic and noneconomic assumptions and funding methods of the Florida Retirement System necessary to perform the system actuarial study undertaken pursuant to s. 121.031(3). Such information shall include: an analysis of the actuarial assumptions and actuarial methods used in the study and a determination of whether changes to the assumptions or methods need to be made due to experience changes or revised future forecasts. *Section 216.136(10), F.S.*

# Drivers...

- Coupled with benefit provisions which are policy-driven and seated in statute, census data and demographic assumptions are used to project future year-by-year benefit payments. The key demographic assumptions include:
  - Mortality
  - Timing of retirement / entry into DROP
  - Likelihood of termination of employment prior to unreduced benefit
  - Incidence of disability
- Given that information, the actuarial methods and economic assumptions affect calculations of funded status and contribution rates.

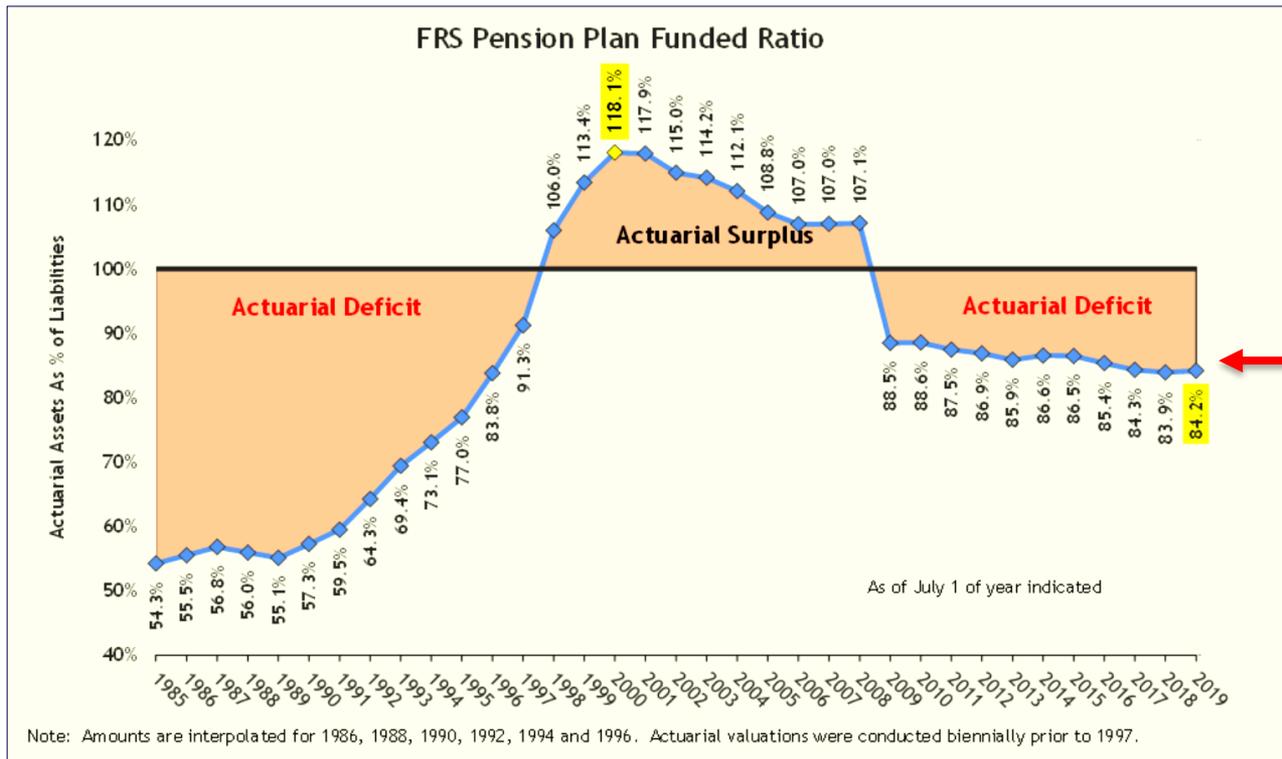
Legend
Provided by FRS
Adopted by Conference
Calculated by actuary



# Contribution Rates...

- Each year's valuation determines the System's current financial position, projected costs for benefits, and the contribution rates needed to ensure the System's long-term funding. The contribution rates potentially take two forms. They are both conceptually described below, but the actual calculations are much more complex:
  - **Normal Cost Rate:** Each year, active employees earn another increment of pension benefits. The annual contribution necessary to provide these benefits at a future time is actuarially calculated and known as the normal cost. In technical terms, the normal cost represents a single valuation year's portion of the value of actuarial liabilities.
  - **UAL Contribution Rate:** When it exists, the unfunded actuarial liability reflects the portion of the cost of promised future benefits that is greater than the amount the assets of the pension plan can reasonably generate over the same period. Generally, the UAL rate is calculated as the rate needed to amortize the entire unfunded actuarial liability over 30 years.

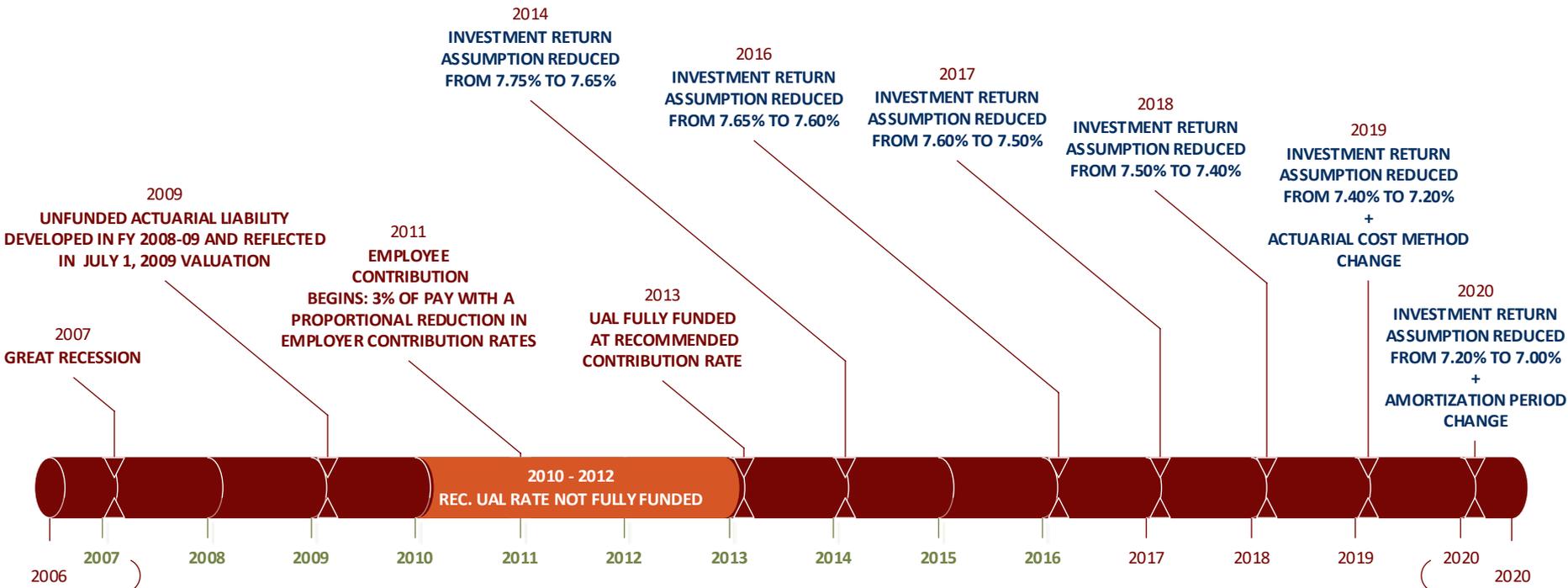
# System's Funded Status.....



Graphic from Presentation dated 10/8/2020; State Board of Administration

- Essentially, a ratio of the plan's assets to its liabilities using actuarial methods.
- Surplus Position (100% +) indicates that the system is fully funded. The actuarial value of assets exceeds the actuarial liability. As adjusted annually, the normal cost rate is adequate to maintain the System.
- Deficit Position (<100%) indicates the system is not fully funded. The actuarial liability exceeds the actuarial value of assets, and any surplus has been effectively eliminated.
- Prior to the current actuarial deficit that began in 2009 (FY 2008-09), the FRS had been in a surplus position since 1998 (FY 1997-98) to 2008 (FY 2007-08).

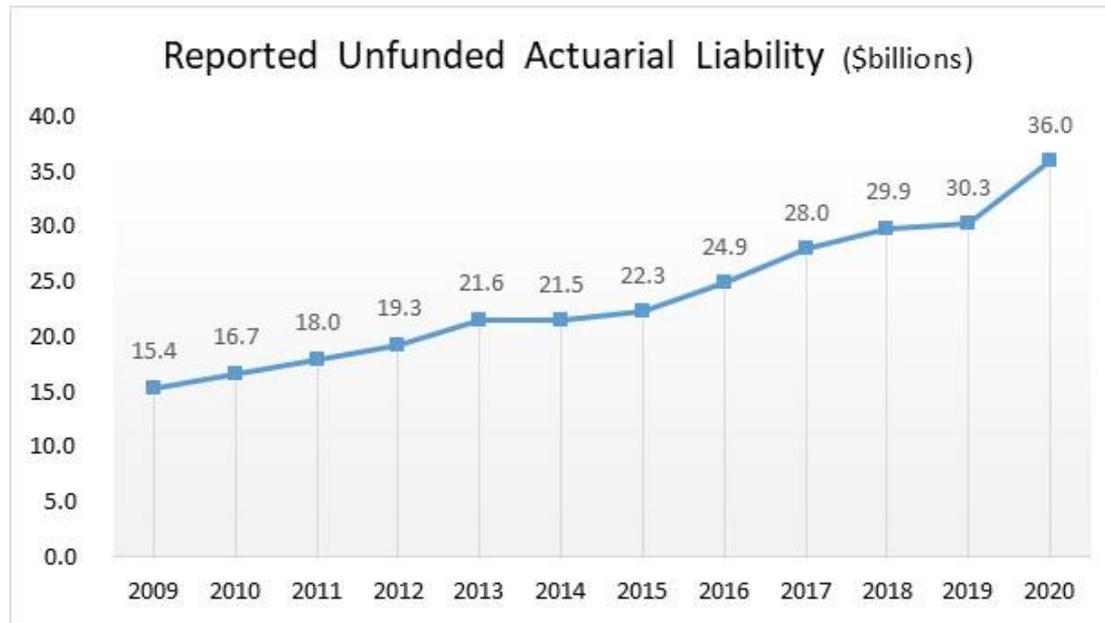
# Timeline: Key Conference Events...



Valuation as of July 1 of the year shown below the line.

Note: Items in blue font result from conference decisions.

# Unfunded Actuarial Liability...



- An unfunded actuarial liability developed prior to July 1, 2009, largely based on the unfavorable asset performance in FY 2008-09 that was a fallout of the Great Recession (December 2007 to June 2009).
- There is a lag between the recommendation of rates based on new information and when the contribution dollars actually come into the System. The July 1, 2008 valuation provided proposed contribution rates for FY 2009-10. The first time the unfunded actuarial liability could have been reasonably addressed by the Legislature was FY 2010-11.
- A discrete UAL rate was developed and recommended by the state's actuary. It was not fully funded for three years: FY 2010-11, FY 2011-12 and FY 2012-13. Not funding the recommended UAL rate moves that funding requirement to future years and depresses the System's funded percentage. It does not remove the expense—it just delays it.
- The 2013 Legislature fully funded the UAL at the recommended contribution rate for FY 2013-14. 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 UAL contribution rate is calculated assuming the liability will be funded over a period of 30 years. The contribution rates should remain stable as long as contributions are made as recommended and actual experience mirrors projections. Even if all goes according to plan, progress against the UAL will not be seen until well into the second half of the 30-year amortization period. However, there are many factors that affect these calculations and can cause the contribution rates to increase or decrease over time.

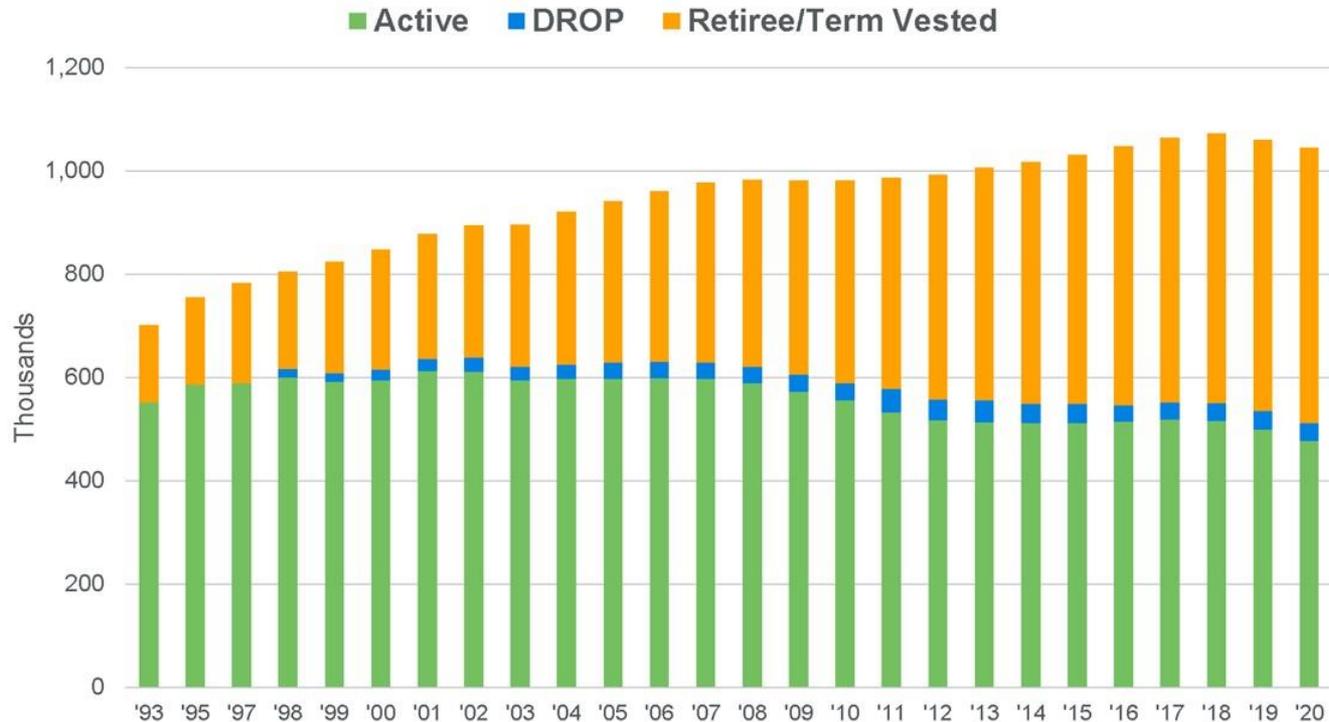
# Investment Return Assumption...



- This is the rate of return that the Conference expects the pension fund to earn from its investments.
- The investment return assumption affects the timing and pattern of contributions but does not affect the actual long-term cost of the plan.
- In the professional opinion of the FRS actuary, the 7.00% return assumption adopted for the 2020 valuation does not significantly conflict with its judgment regarding what would constitute a reasonable assumption for the purpose of the relevant Actuarial Standard of Practice; however, that specific analysis would have indicated a return assumption of 6.77%, indicating that more changes are likely needed in the future.

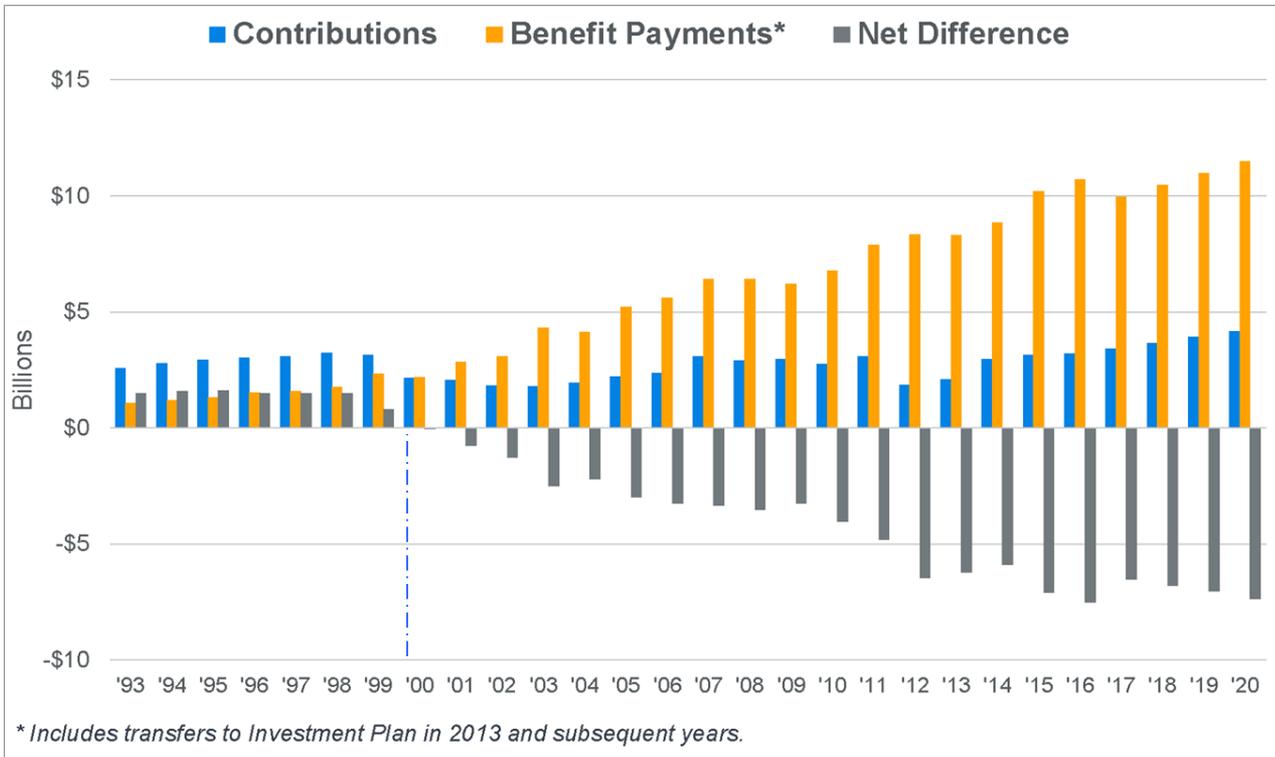
# FRS Membership Drives Benefit Payments...

Active Members	477,495
Terminated Vested Members	103,458
Retired Members	428,396
DROP Members	35,240
<b>Total Members</b>	<b>1,044,589</b>



Graphic from Conference Presentation dated 10/8/2020; Milliman

# Benefit Payments are increasing more than Contributions...



Valuation As of July 1	Pension Contributions Received	Payments of Benefits / Expenses
2006	2.11	5.35
2007	2.78	6.10
2008	2.90	6.41
2009	2.96	6.22
2010	2.75	6.78
2011	3.09	7.89
2012	1.87	8.33
2013	2.08	8.30
2014	2.97	8.85
2015	3.14	10.22
2016	3.20	10.70
2017	3.42	9.95
2018	3.67	10.47
2019	3.94	10.97
2020	4.16	11.50

Graphic from Conference Presentation dated 10/8/2020; Milliman