

Florida Retirement System

The Actuarial Assumption Estimating Conference
Including Preliminary July 1, 2007 Actuarial Valuation Results

September 24, 2007

A MILLIMAN GLOBAL FIRM



Milliman

Consultants and Actuaries

This work product was prepared solely for the Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.



Disclaimer

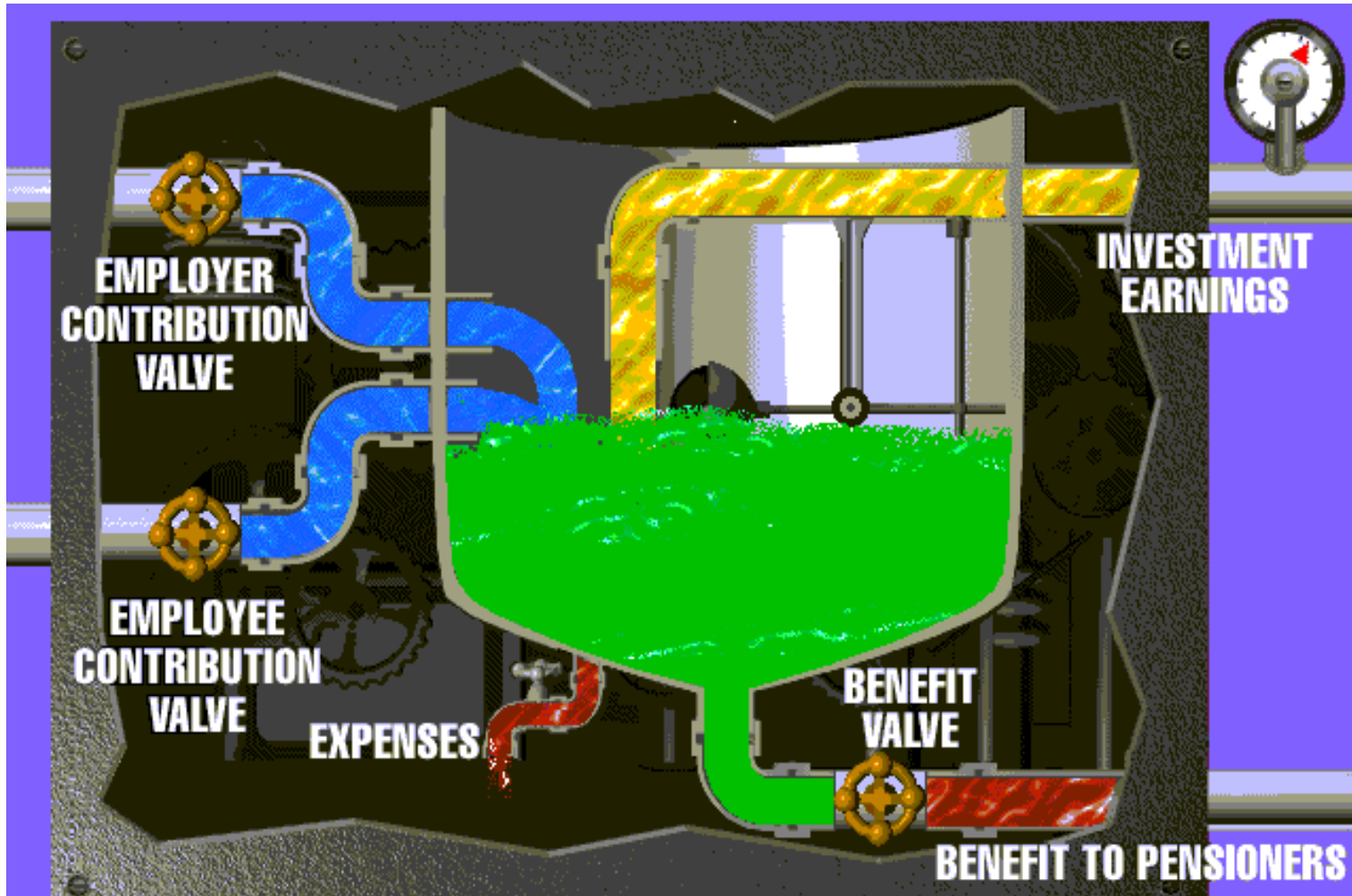
At your request, we have provided this DRAFT presentation prior to completion of the July 1, 2007 Actuarial Valuation Report. Because this is a draft presentation, Milliman, Inc. does not make any representation or warranty regarding the contents of the presentation. Milliman, Inc. advises any reader not to take any action in reliance on anything contained in this draft presentation. All results from this presentation are subject to revision or correction prior to the release of the final July 1, 2007 Actuarial Valuation Report, and such changes or corrections may be material. No distribution of this draft presentation may be made without our express prior written consent.

Overview

- Historical Analysis
- 2007 Valuation
- Discussion Points
- Projections
- Appendix



Actuarial Primer



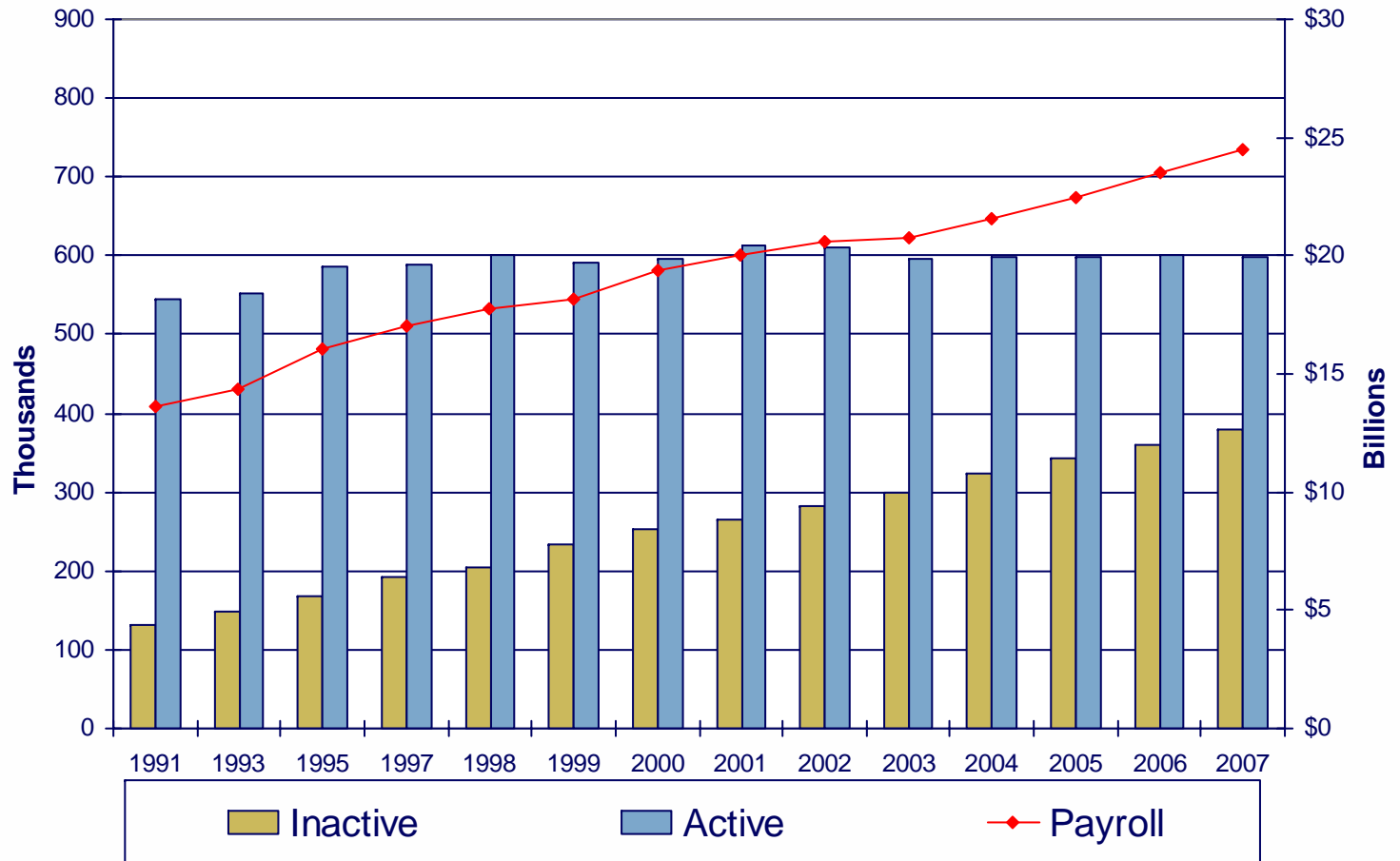
The Harvard Business Review 1965

Historical Analysis

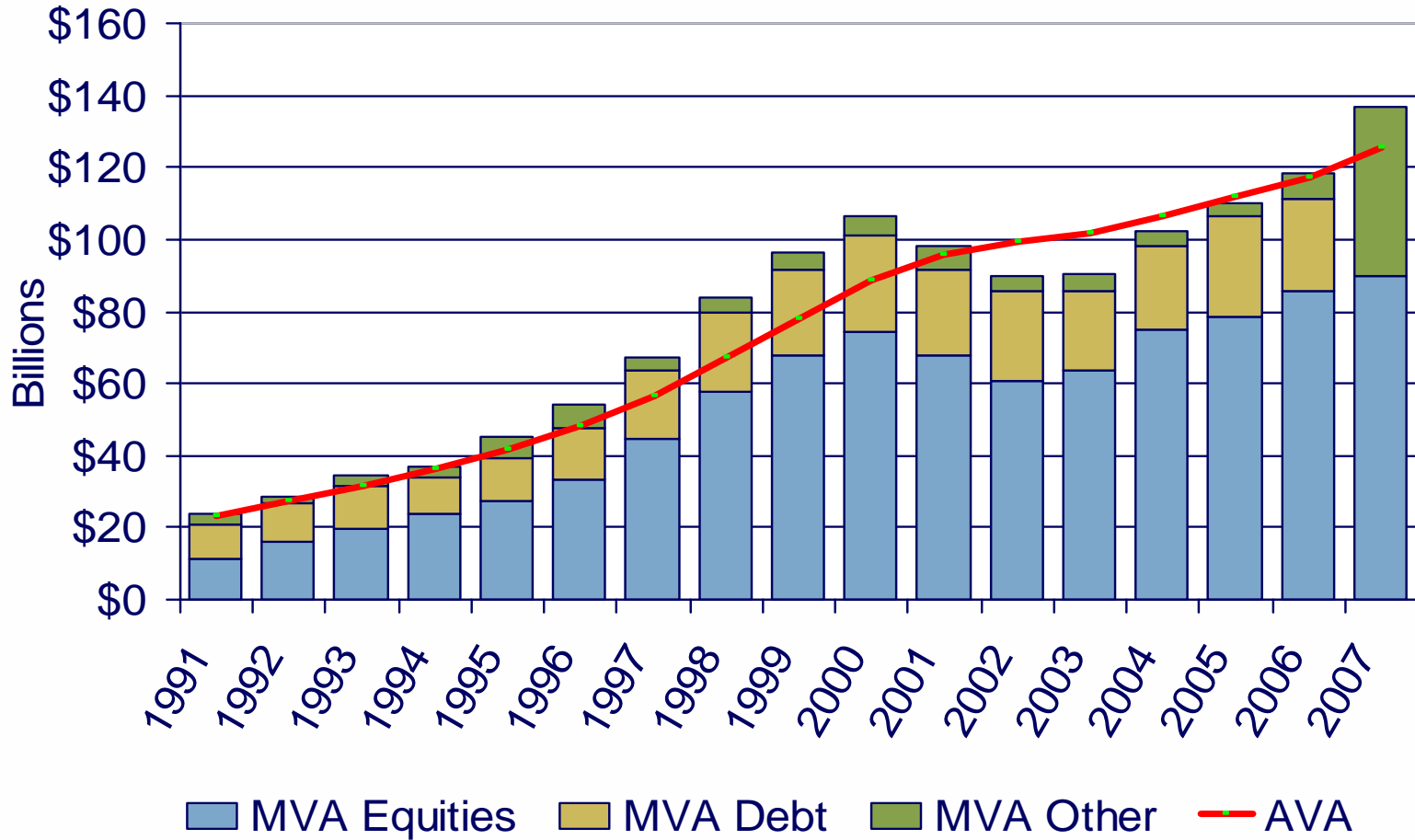
- Membership & Employer Payroll
- Market & Actuarial Value of Assets
- Liabilities
- Funding Target
- Contributions
- Plan Cash Flows
- Historic Asset Returns



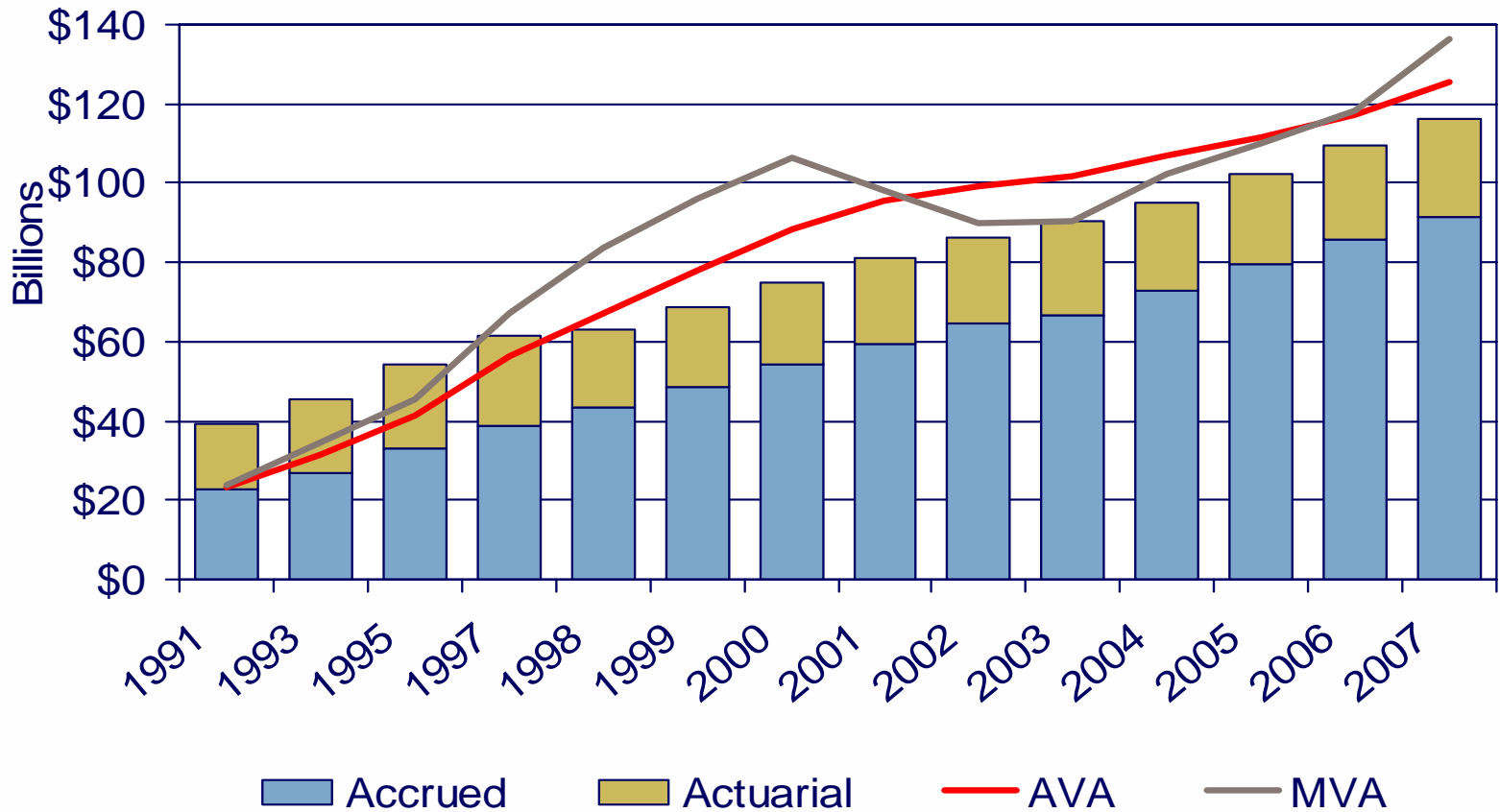
Membership & Employer Payroll



Market & Actuarial Value of Assets

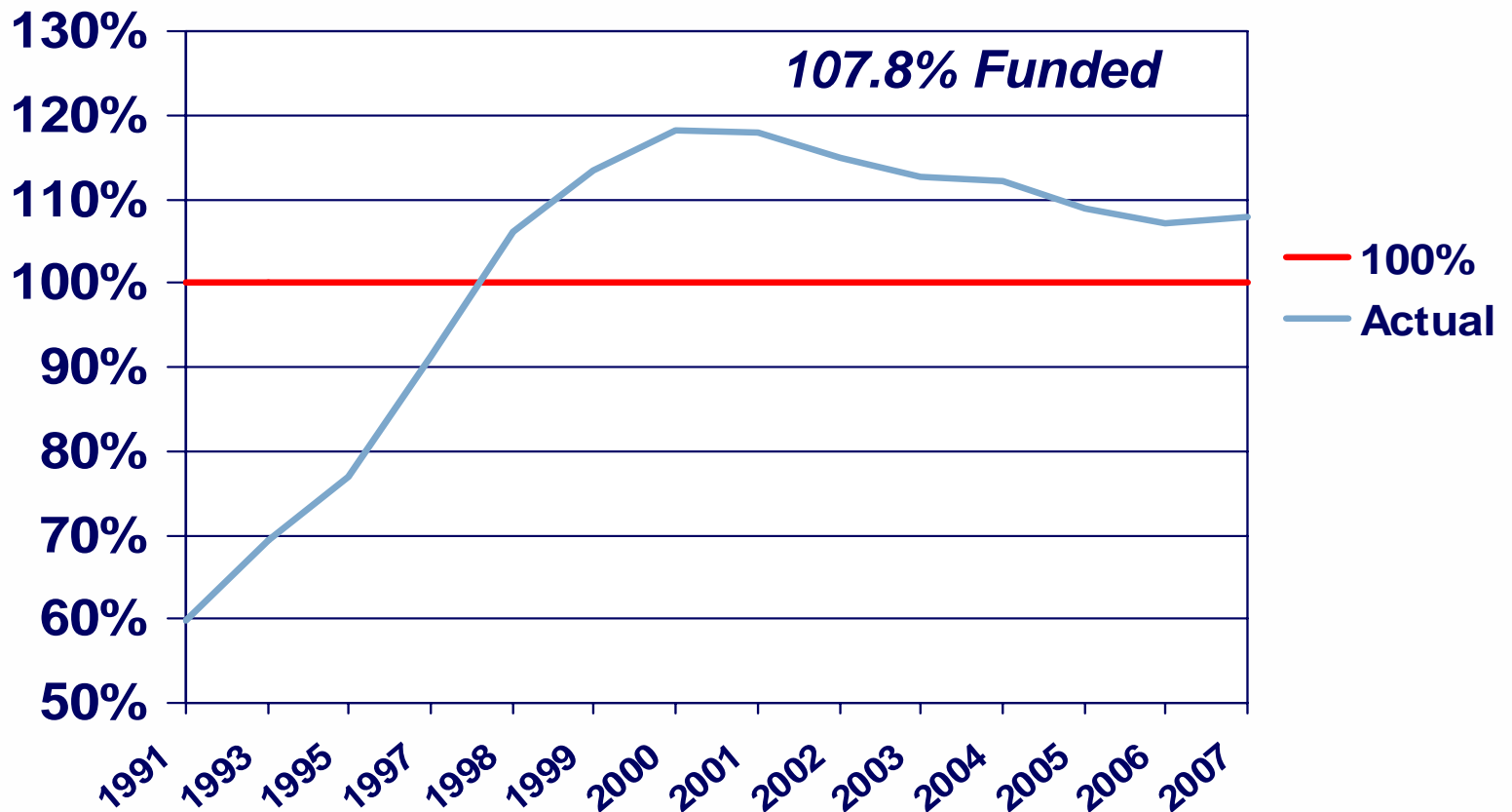


Liabilities



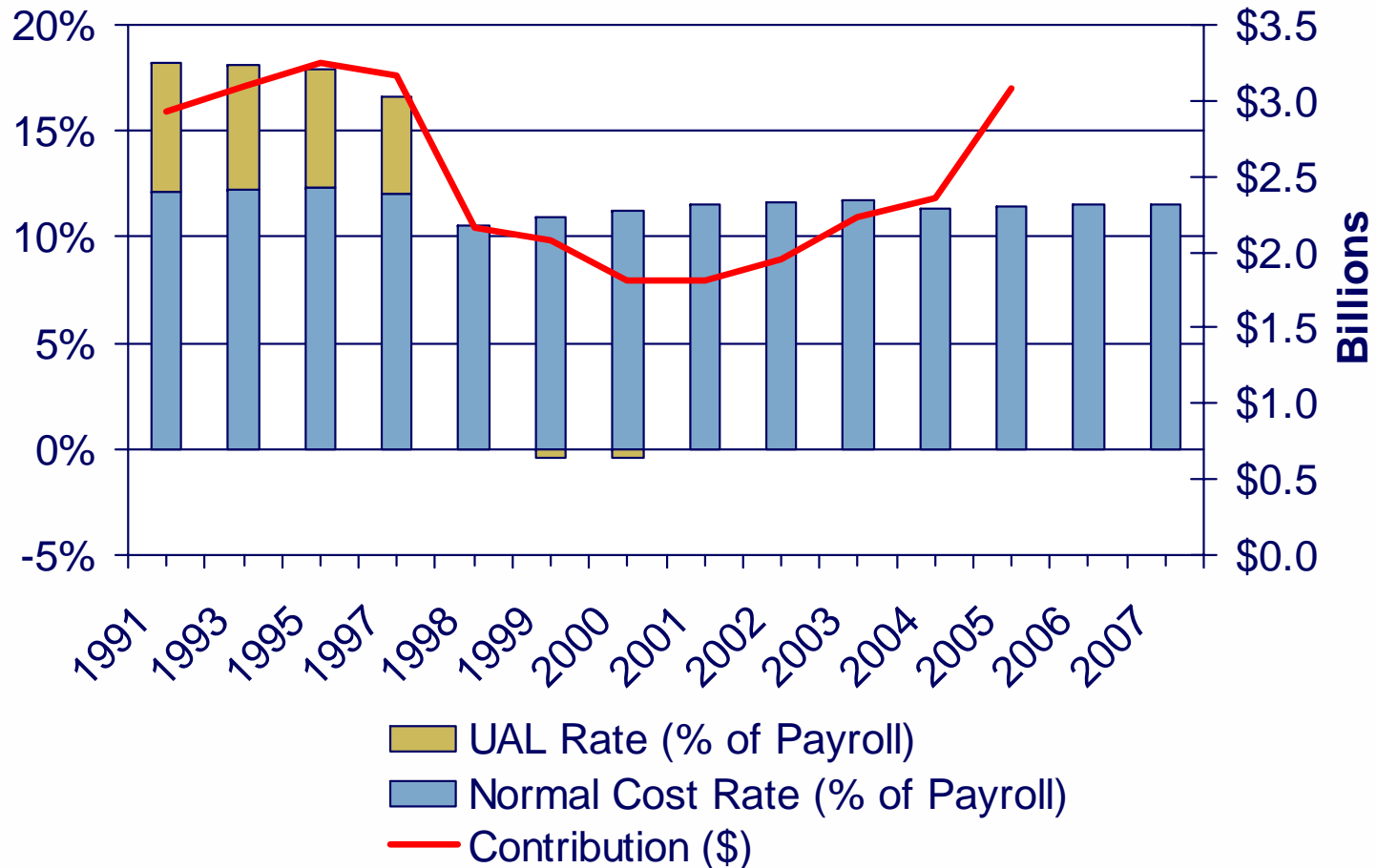
Funding Target

Actuarial Value of Assets / Actuarial Liabilities



Contributions

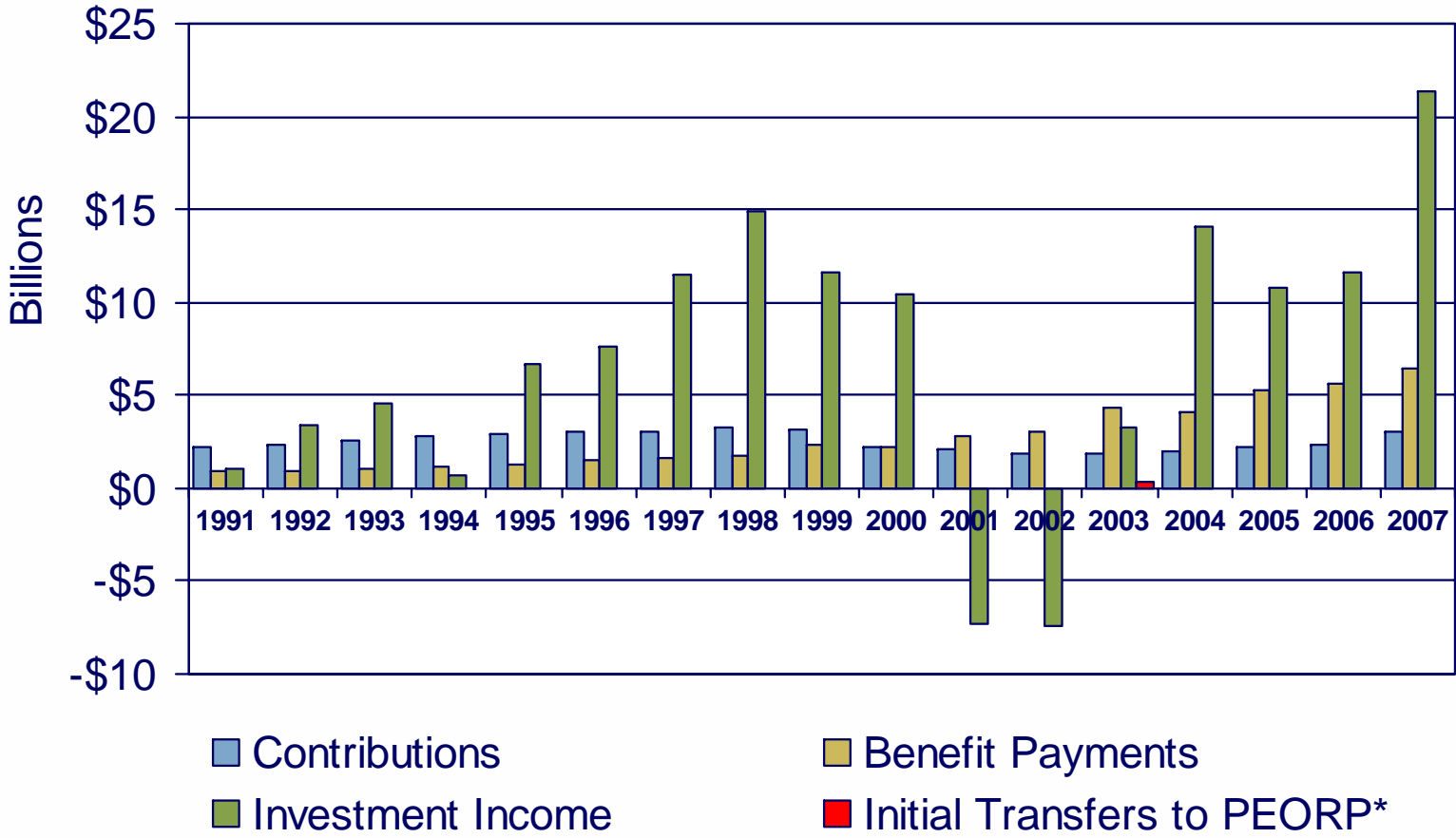
(Contribution rate shown in year developed;
contribution amount adjusted for budget lag*)



* For example, contributions for FY 2007 are shown in 2005 because the 2005 actuarial valuation developed contribution rates for FY 2007.



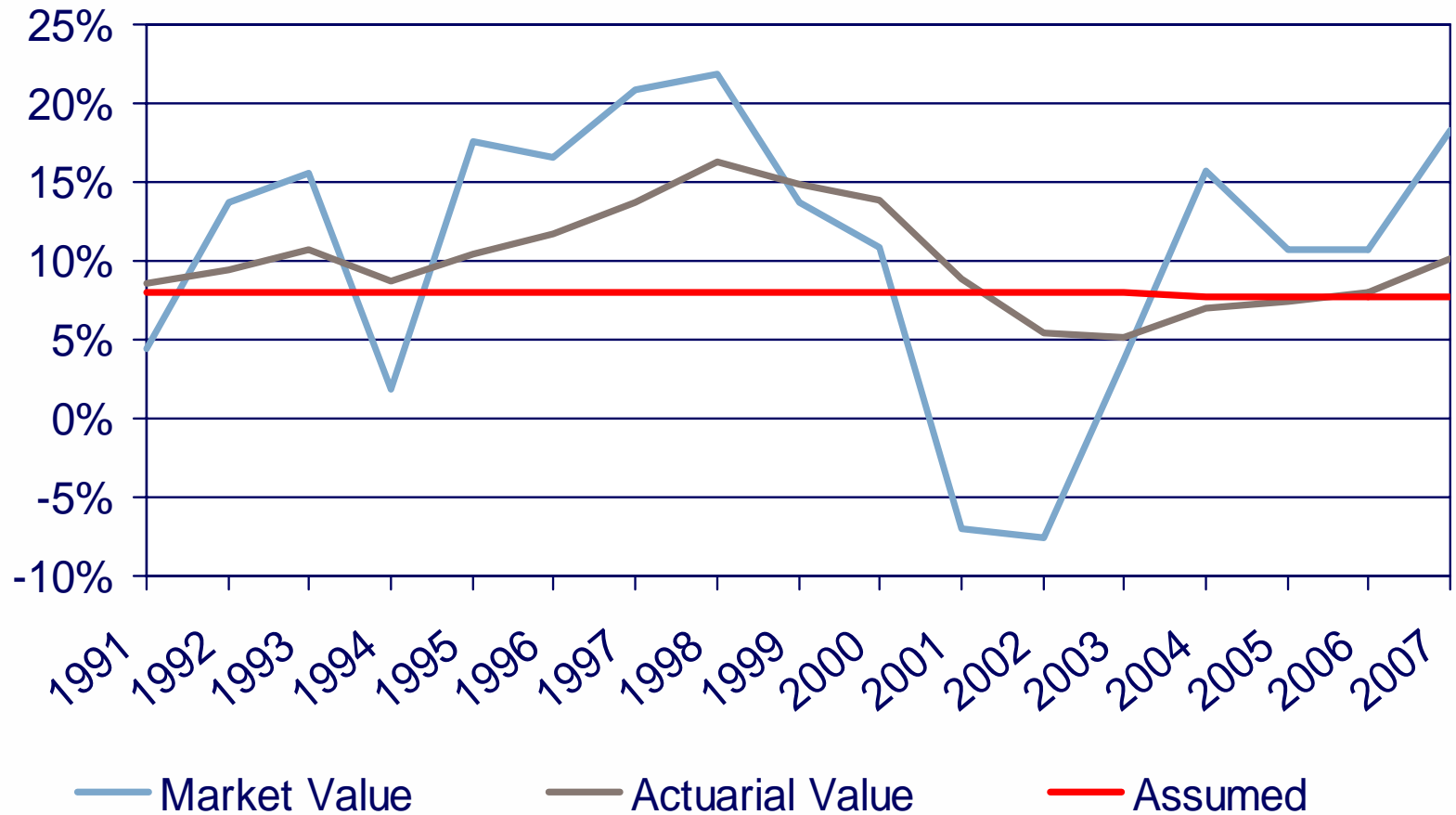
Plan Cash Flows



*See slide 19 for more detail.



Historic Asset Returns



2007 Valuation

- Valuation Highlights
- Composite Funding Levels
- Normal Cost Rates
- Summary of PEORP Elections
- Effect of Salary Distribution on Normal Cost Rates



2007 Valuation Highlights

- Results are based on the 2007 actuarial assumptions and methods as established by the July 1, 1998 – June 30, 2003 experience study
- FRS remains in a surplus position (i.e. “Fully Funded”)
- Favorable Asset Performance
- MVA exceeds AVA by 8.0% or \$11.0 billion
- IFAS is now a subclass of FRS (like TRS, SCOERS)



Asset Smoothing

Five-Year smoothing method helps alleviate heavy losses (on an actuarial basis) at times of unfavorable asset performance. However, large gains are also not “felt” at once.



Assets: MVA vs. AVA

(\$ Billions)

<u>Year</u>	<u>MVA</u>	<u>MVA Return</u>	<u>AVA</u>	<u>AVA Return</u>
1999	\$ 96.1	13.76%	\$ 77.8	14.80%
2000	106.5	10.82	88.5	13.79
2001	98.4	-6.93	95.5	8.82
2002	89.7	-7.62	99.4	5.44
2003	90.5	3.76	101.9	5.10
2004	102.4	15.73	106.7	6.93
2005	110.2	10.71	111.5	7.43
2006	118.5	10.65	117.2	8.06
2007	136.5	18.24	125.5	10.13

From 2002 to 2005 the AVA exceeded the MVA, representing the smoothed impact of the three years of unfavorable MVA returns experienced in 2001-2003. In 2006 & 2007 the MVA once again exceeded the AVA, as a result of four years MVA returns greater than the 7.75% assumed return. The MVA Return in 2006-07 was 18.24%.



Composite Funding Levels

(\$ Billions)

	<u>2006</u>	<u>2007</u>	<u>Change</u>
Actuarial Liability	\$109.5	\$116.5	6.4%
Actuarial Value of Assets	\$117.2	\$125.5	7.1%
Unfunded Actuarial Liability	(\$7.7)	(\$9.0)	16.9%
% Funded	107.0%	107.8%	



Normal Cost Rates

<u>Employer</u>	<u>Date of Actuarial Valuation</u>		<u>Change</u>
	<u>07/01/2006</u>	<u>07/01/2007</u>	
FRS Regular	9.59%	9.60%*	0.01%
Special Risk			
Regular	22.01%	22.03%	0.02%
Administration	11.90%	11.98%	0.08%
Elected Officer's Class			
Judicial	20.46%	20.37%	-0.09%
Leg-Atty-Cab	14.99%	14.52%	-0.47%
County	17.15%	17.06%	-0.09%
Senior Management	13.35%	13.36%	0.01%
Composite Rate (w/o DROP)	11.52%	11.52%	0.00%
Composite Rate with DROP equal 9.80%	11.40%	11.40%	0.00%

***Includes IFAS**



PEORP – July 1, 2007

<u>Employer</u>	<u>Remaining “Original” Participants</u>	<u>Contingent Liability (000 omitted)</u>
FRS Regular	10,956	\$211,015
Special Risk		
Regular	417	12,089
Administration	2	(33)
Elected Officer’s Class		
Judicial	7	(630)
Leg-Atty-Cab	6	166
County	17	119
Senior Management	<u>259</u>	<u>9,261</u>
2007 TOTAL	11,664	\$231,987
2006 TOTAL	12,921	\$238,465
2005 TOTAL	14,567	\$249,949
2004 TOTAL	16,523	\$263,399
2003 TOTAL	21,043	\$312,915
Net Assets transferred to PEORP in 2003:		\$353,193



Discussion Points

- The Pension Protection Act of 2006 limits the asset smoothing period to 24 months (effective in 2008). Florida may need to amend applicable statutes by identifying specific Treasury Regulations that would maintain the current five-year smoothing method.
- We continue to recommend changes to the method of funding DROP.



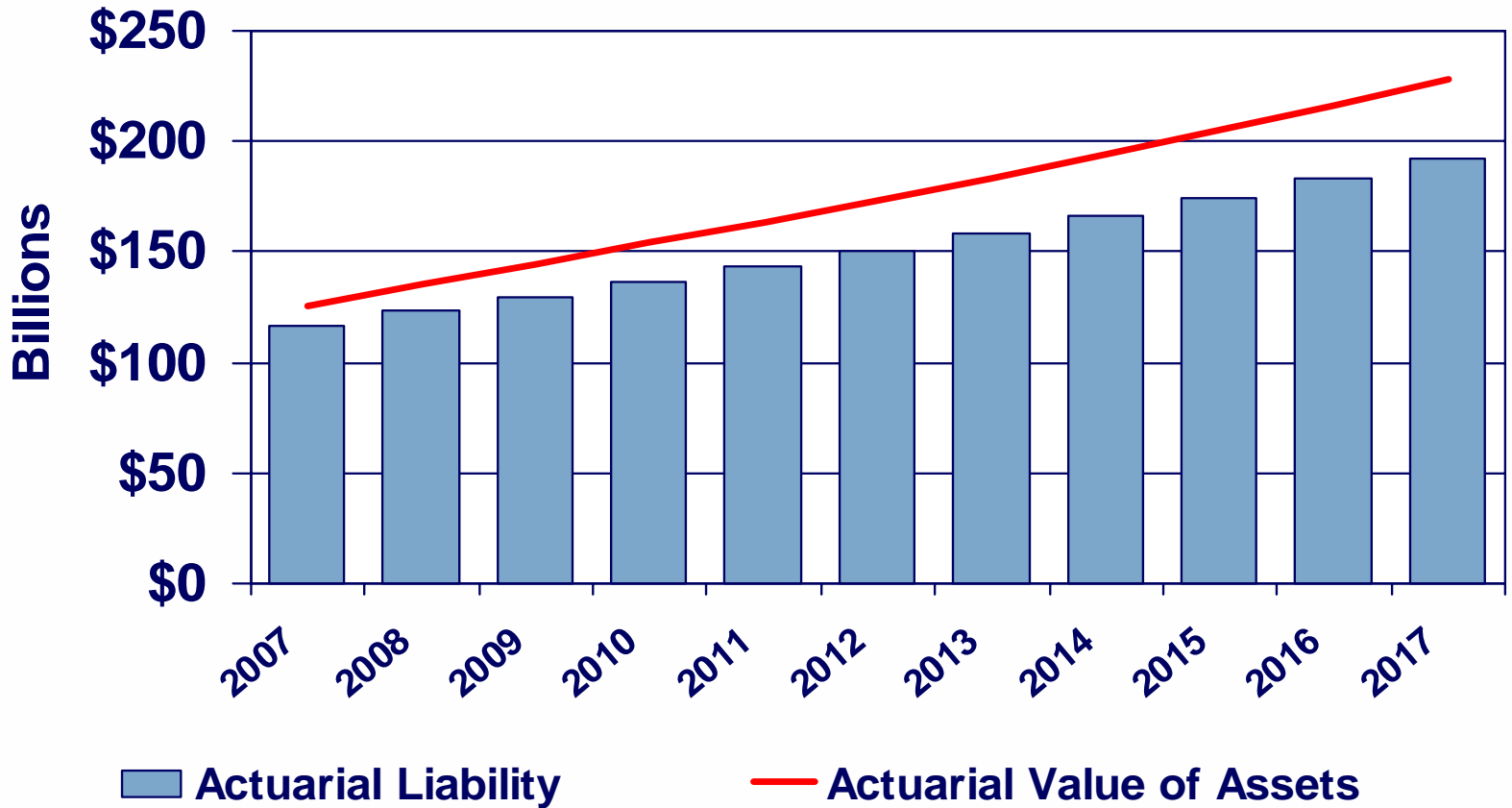
Actuarial Liability and Asset Projections

- Assuming 7.75% constant investment returns
- Assuming -7.75% investment returns for one year followed by constant 7.75% returns
- Assuming -7.75% investment returns for two years followed by constant 7.75% returns

*** All returns are on a Market Value Basis

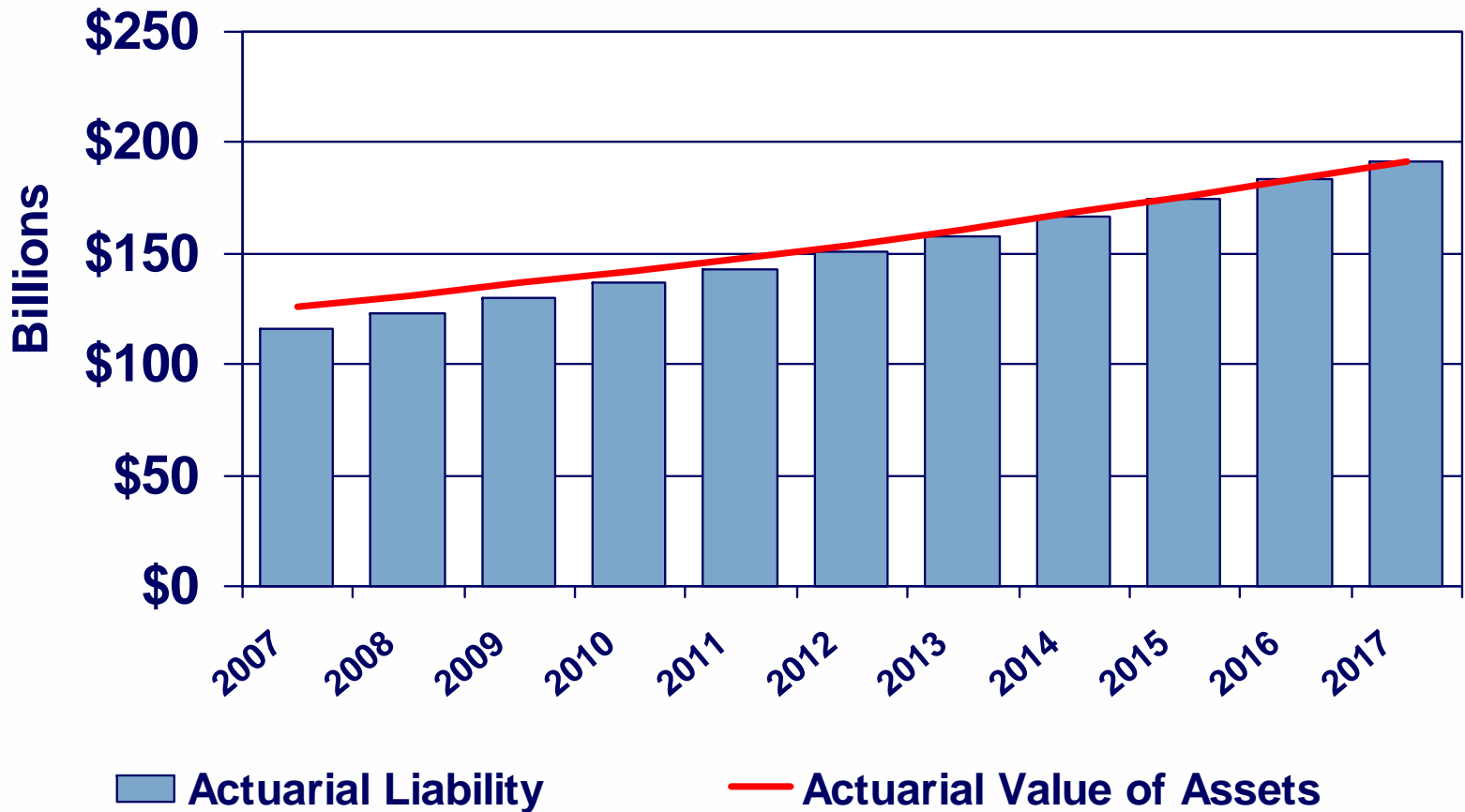


Comparison of Actuarial Liabilities & Assets Assuming Constant 7.75% Investment Returns



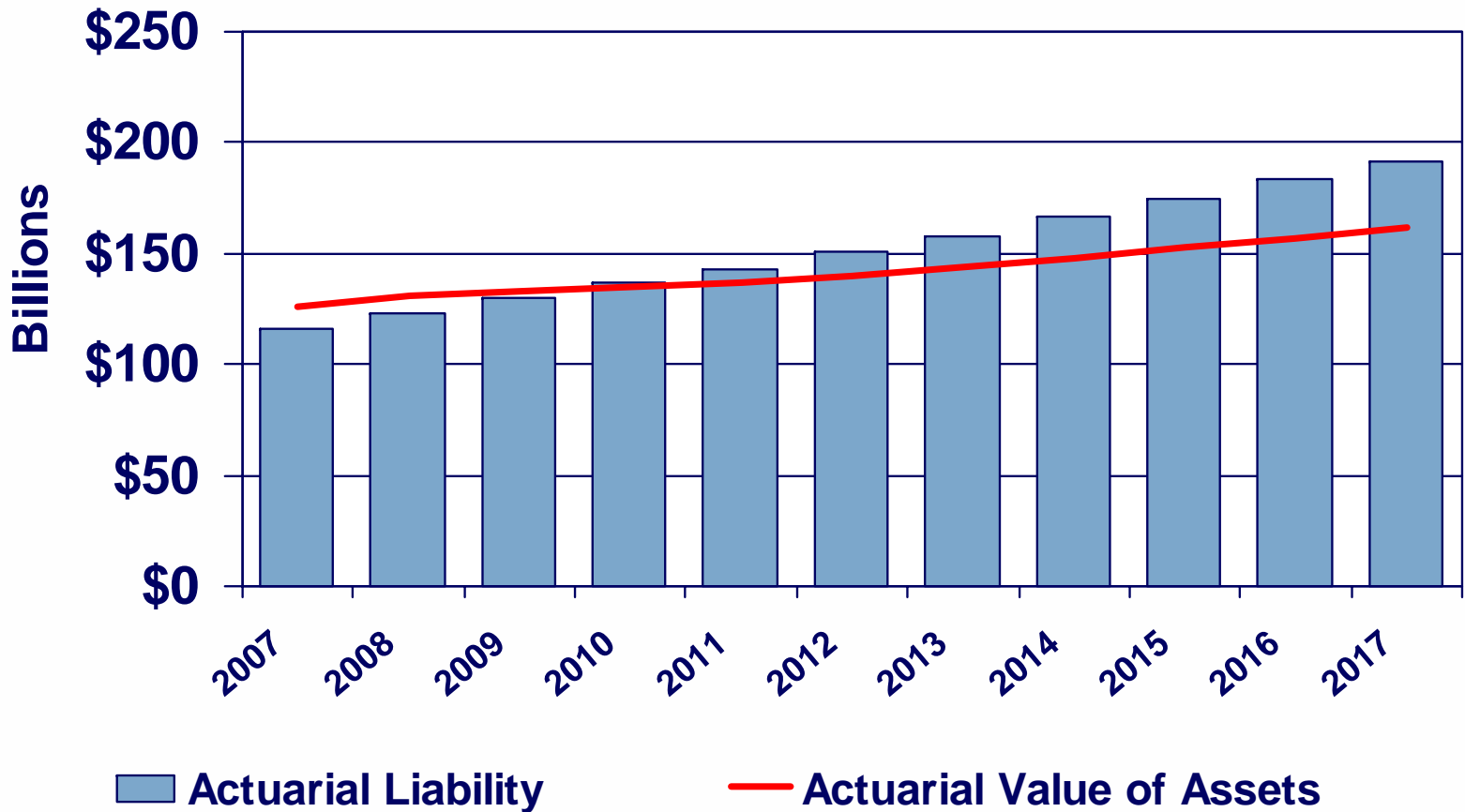
Contributions assumed to be 10.35% of payroll. Rate set to equal FY07-08 composite reduced rate.

Comparison of Actuarial Liabilities & Assets Assuming -7.75% Return Followed by Constant 7.75% Investment Returns



Contributions assumed to be 10.35% of payroll. Rate set to equal FY07-08 composite reduced rate.

Comparison of Actuarial Liabilities & Assets Assuming two years with a -7.75% Return Followed by Constant 7.75% Investment Returns



Contributions assumed to be 10.35% of payroll. Rate set to equal FY07-08 composite reduced rate.

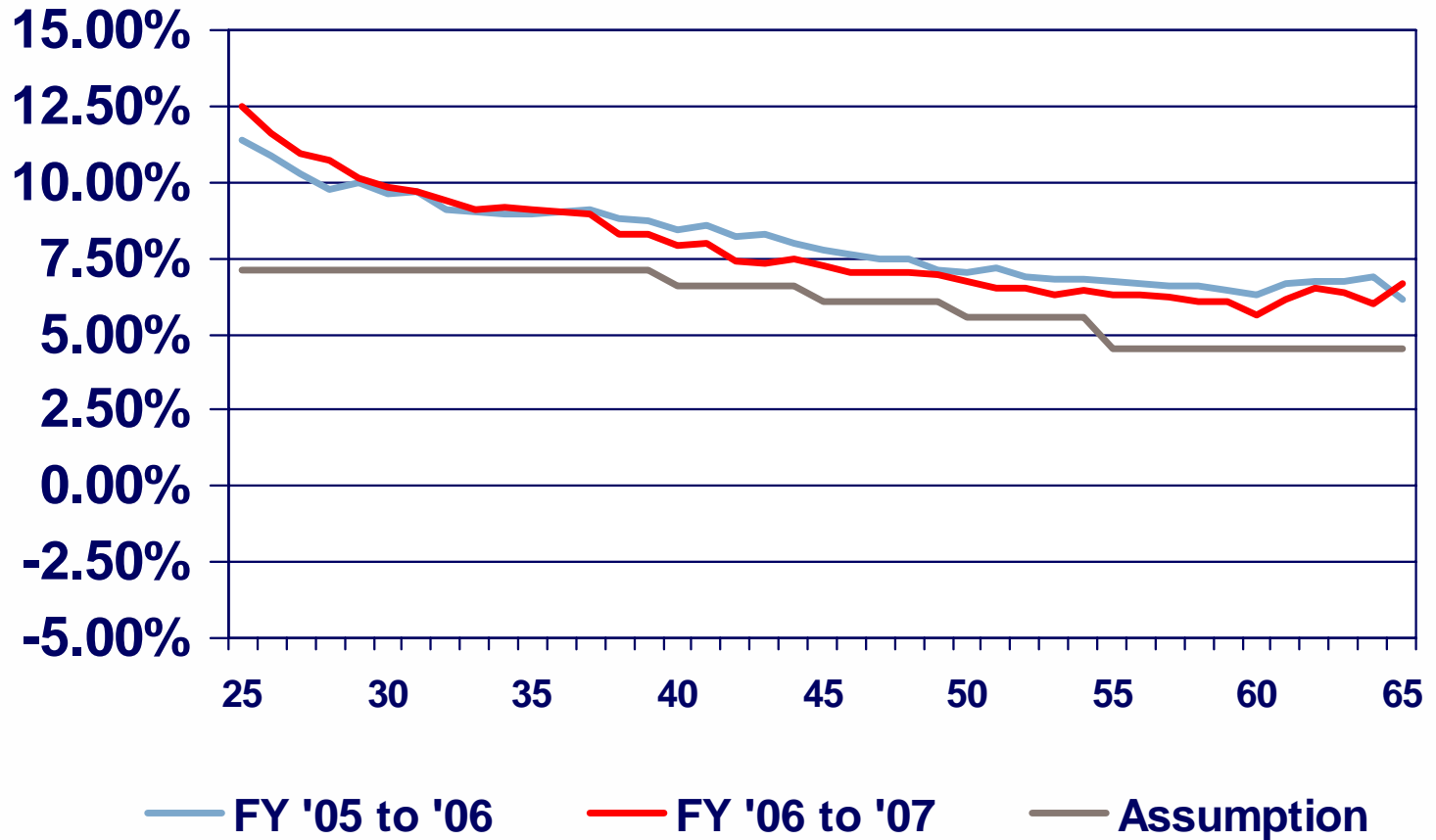
Appendix

- Salary Experience
 - Compare last two years
 - Compare last five years



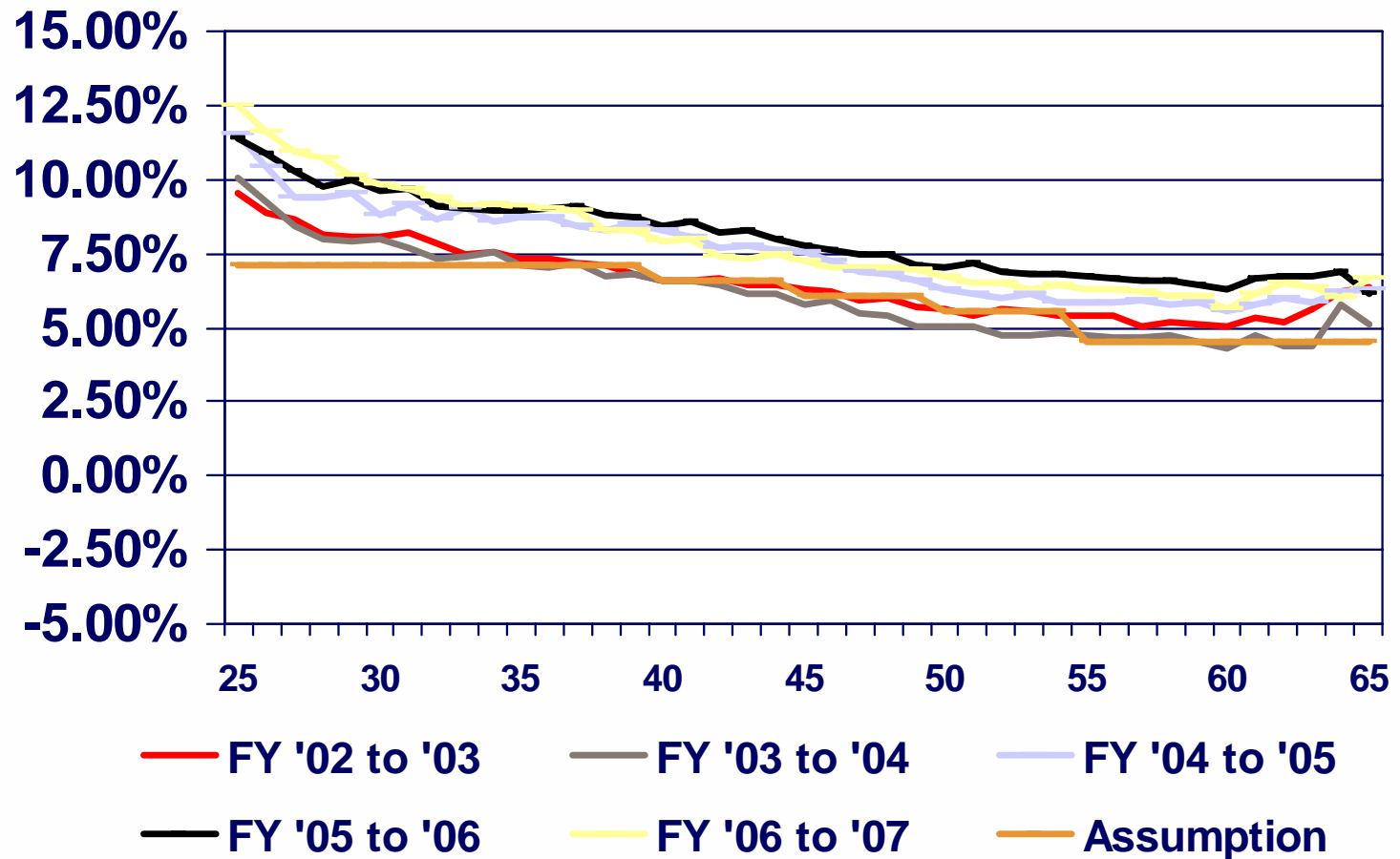
Salary Experience

All Actives – Last Two Fiscal Years



Salary Experience

All Actives – By Fiscal Years



Conclusion

The purpose of this presentation is to provide preliminary results of the July 1, 2007 actuarial valuation of the Florida Retirement System Pension Plan and compare them to results from prior valuations. The results are not yet final and are subject to review and possible revision.

We relied, without audit, on information (some oral and some written) supplied by the Division of Retirement. This information includes, but is not limited to, plan provisions, employee data, and financial information. Census data provided to us by the Division has been reviewed for reasonableness and for consistency with data used in prior valuations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

The actuarial assumptions used in performing this valuation have been recommended by the actuary and adopted by the Actuarial Assumption Conference based on Milliman's most recent review of the System's experience completed during Fiscal Year 2004. We believe the assumptions used reflect our best estimate of anticipated future experience of the plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the plan could vary from our results.

