Florida Retirement System
Actuarial Assumption Estimating Conference
Executive Summary

The Florida Retirement System Actuarial Assumption Conference met on October 23, 2023, to consider the demographic, methodological, and economic assumptions to be used for the actuarial valuation of the Florida Retirement System (FRS) Pension Plan. The preliminary results for July 1, 2023, show that the FRS continues to have an unfunded actuarial liability (UAL). Using the 2023 data and 2022 assumptions, the projected UAL shows an increase from the $38.3 billion reported in 2022's final valuation to $42.0 billion in the 2023 preliminary valuation. In part, this difference is explained by the plan changes that were authorized in CS/SB 7024 (Ch. 2023-193, Laws of Florida) which passed during the 2023 Session. After adjusting the 2022 data for the impact of that law, the remaining increase moves from a revised $39.6 billion to the $42.0 billion discussed above. Similarly, the system's funded status drops from the 82.4% shown in 2022's original valuation to 81.4% in the 2023 preliminary valuation. These results were derived using a 6.7% investment return assumption (as adopted in 2022), the individual entry age normal (Individual EAN) cost allocation method and a 20-year (level percent of pay) closed amortization period for all bases. The Conference discussed several possible changes, but ultimately decided to retain all of the assumptions from the prior year.

Despite lags in private market valuations, the return for the FRS pension plan came in higher than assumed for the past year. After a period of extremely weak market value investment performance in FY 2021-22, the State Board of Administration (SBA) reported that the pension plan return was +7.5% for the period ending June 2023. On a smoothed actuarial value of assets (AVA) basis, the FY 2022-23 result was +7.0%, as this calculation is determined by returns over the prior five years. The tables below show the actual investment returns for the past five fiscal years and the cumulative returns over a 5-year, 10-year, 15-year, and 20-year timeframe.

Fiscal Year	Investment Return
2018-19	6.26%
2019-20	3.08%
2020-21	29.46%
2021-22	-6.27%
2022-23	7.50%

	Investment Return
3-year	9.26%
5-year	7.40%
10-year	8.04%
15-year	7.03%
20-year	7.74%

The state's actuary (Milliman) and SBA's financial consultant Aon Investments USA Inc. (Aon), presented their respective outlooks for longer term investment returns. Their projections for median returns ranged from 6.86% (Aon, 4.48% real) to 7.12% (Milliman, 4.61% real), both of which are higher than the the proposed return assumption of 6.70%. Arguing against an upward adjustment, SBA's presentation emphasized that while there is near-term economic stability, "the next 15 years are not likely to look like the past 15 years." They specifically pointed to the potential for higher average inflation, higher interest rates and greater volatility as reasons to be cautious.

After discussion, the conference principals agreed to hold the investment return assumption to 6.70%, while also maintaining the inflation assumption at 2.40%. That portion of the assumption matches the long-range inflation assumption used by the Social Security Administration. The following table displays the nominal returns, inflation rates, and real returns adopted at the three most recent conferences, as well as the new assumptions applicable to the July 1, 2023 Actuarial Valuation.

2020	2021	2022	2023
7.00% Investment Return	6.80% Investment Return	6.70% Investment Return	6.70% Investment Return
2.40% Inflation	2.40% Inflation	2.40% Inflation	2.40% Inflation
4.49% Real Return	4.30% Real Return	4.20% Real Return	4.20% Real Return

Note: The real return takes into account administrative expenses, so the numbers in this table are not additive.

All other assumptions were retained from the prior year.

The conference principals also noted that the current year's budget fully funded the UAL at the recommended contribution rate provided as part of 2022's final valuation report. All else being equal, fully funding the recommended UAL rate each year will result in a gradual increase of the funded ratio over time. Further, the contribution rates should remain stable so long as contributions are made as recommended and actual experience mirrors projections. Nonetheless, many factors affect these calculations and can cause the contribution rates to increase or decrease. Most importantly, investment returns have been and will continue to be a relatively volatile factor. If actual investment results are lower than assumed, they could significantly impact the UAL and future contribution rates.

The final actuarial valuation for July 1, 2023, will be released in December 2023. Those results will differ from the preliminary numbers reviewed by the Conference principals.