

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

The Florida Retirement System Actuarial Assumption Conference met on October 7, 2021, 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 and are subject to legislative authorization.

The HIS valuation relies primarily on the related FRS assumptions since all the retired members and beneficiaries in pay status are part of the FRS valuation. The principals of this Conference previously adopted the use of the Bond-Buyer General Obligation 20-bond Municipal Bond Index for both the HIS and National Guard GASB calculations. This index includes 20 general obligation bonds with 20-year maturities with an average rating of AA. According to the state’s actuary (Milliman), this index has been used by all public systems as the discount rate assumption for pay-as-you-go programs subject to GASB financial reporting. The Conference affirmed that this practice was appropriate to continue.

In addition to agreeing to the continued use of the Bond Buyer Obligation 20-Bond Municipal Bond Index, the Conference reaffirmed the demographic assumptions used in the previous valuation.

Discount Rate Assumption for HIS and National Guard Accounting 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
2021	2.16%
2020	2.21%
2019	3.50%
2018	3.87%
2017	3.58%

- The **lower** the index, the **higher** the calculated present value liability, with an index **decrease** from 2.21% to 2.16% estimated to **increase** HIS liability and National Guard liability by approximately \$95 million and \$16 million, respectively

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Needed Guidance

Needed Guidance for FRS Pension Plan

- From Conference Principals for system funding calculations, identification of **methods** and **assumptions** to use in the 2021 FRS Pension Plan valuation calculations for system funding purposes to calculate blended proposed 2022-23 statutory contribution rates, including:
 - Investment return assumption (currently 7.00%)
 - Inflation assumption (currently 2.40%)
 - Amortization policy - currently 25-year amortization as a level percent of projected future payroll for newly arising UAL (unfunded actuarial liability) bases

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Needed Guidance for the HIS and National Guard Programs

- From Conference Principals for GASB accounting valuations of the Health Insurance Subsidy (HIS) and Florida National Guard programs:
 - Re-confirmation of the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the discount rate for the two programs' GASB valuations
 - Re-confirmation of the demographic assumptions used in the prior valuation

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