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January 20, 2012

milliman.com

**Via Overnight Delivery**

Ms. Sarabeth Snuggs  
State Retirement Director  
Division of Retirement  
1317 Winewood Boulevard, Building 8  
Tallahassee, FL 32399

Re: Study Reflecting the Impact to the Florida Retirement System of  
**Retroactively Modifying the Normal Retirement Criteria for Special Risk Class  
Members: Two Scenarios**

Dear Sarabeth:

As you requested, we have studied the fiscal impact to the Florida Retirement System of retroactively modifying the Normal Retirement age and service criteria for Special Risk Class members, effective July 1, 2012.

**Background**

Prior to the passage of 2011 Senate Bill 2100 (SB 2100), the Florida Retirement System defined benefit plan provided an unreduced benefit payable to Special Risk Class members at age 55 if vested or any age with 25 years of service. SB 2100 increased the Normal Retirement age and service criteria to either age 60 if vested or 30 years of service for Special Risk Class members initially enrolled on or after July 1, 2011 ("Tier II" members). Each of the two proposed scenarios would partially reverse the Normal Retirement age and service modification of SB 2100 retroactively for Special Risk Class members, while maintaining the other changes included in SB 2100, which include 8 year vesting for Tier II members. The following chart compares the two proposed scenarios to the current provisions:

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Provision	Tier I	Tier II	Scenario 1	Scenario 2
Normal Retirement	55 and 6 years	60 and 8 years	55 and 8 years	55 and 8 years
Unreduced Retirement	25 years	30 years	48 and 25 years	50 and 25 years
Early Retirement < 25 Years	5% from age 55	5% from age 60	5% from age 55	5% from age 55
Early Retirement >= 25 Years	5% from age 55	5% from age 60	5% from age 48	5% from age 50

We assumed that under these proposed scenarios the deferral of DROP participation would be similarly returned to pre-SB 2100 provisions for Special Risk Class members.

### Methodology and Assumptions

To study the impact of the proposed scenarios, we re-ran the July 1, 2011 valuation for active members in the Special Risk Class, changing the definition of normal retirement age. We determined the impact of this benefit change to be the change in Normal Cost rates. Because Normal Cost and Present Value of Future Normal Cost (PVFNC) are increased by this proposal whereas the Present Value of Benefits (PVB) (based on benefits expected to be paid to current and former members, as of July 1, 2011 and earlier) is unchanged, the actuarial accrued liability is decreased by this proposal. The actuarial accrued liability is defined as PVB less PVFNC. This, if PVFNC increases and PVB remains the same, the actuarial accrued liability decreases. The PVB will increase in future valuations as benefits to Tier II members are increased by these proposals.

Currently, the valuation assumes different rates of retirement for Tier II members, which account for the later unreduced retirement eligibility. For purposes of this study, we applied the same rates of retirement used for Tier I members to both Tier I and Tier II Special Risk Class members. We used demographic and economic assumptions consistent with those used in the July 1, 2011 valuation, with the above modifications. The study projected the change in system liabilities and recommended contribution levels as of the July 1, 2011 valuation.

### Results

The results for this study are shown in the tables as described below. Table 1 shows the results of Scenario 1 and Table 2 shows the results of Scenario 2. Each table details the results by class. The contribution rates are presented by class of membership and in aggregate, and reflect the increase/(decrease) in the contribution rate.

Section A of each table includes the normal cost as of July 1, 2011, and the impact of the proposed change to the Normal Retirement criteria. In addition, the change in liability attributable to the proposal was amortized over 30 years with the payments assumed to remain relatively stable when expressed as a percentage of payroll. Section B of each table shows the change in the unfunded actuarial liability, while Section C of each table translates the estimated change in contribution rates to an increase in dollars to be paid by employers.

As shown in Table I, the projected impact of Scenario 1 results in a net cost to the System, although actuarial liabilities are projected to decrease by \$341 million. This benefit change results in an increase in the composite Normal Cost rate of 0.24% and a decrease in the composite UAL rate of 0.07%, and therefore, an overall increase in the composite contribution rate of 0.17%, for the Composite System. This translates into an estimated overall employer contribution of \$44 million for Fiscal Year 2012-2013.

Table II shows that the projected impact of Scenario 2 results in a net cost to the System, although actuarial liabilities are projected to decrease by \$350 million. This benefit change results in an increase in the composite Normal Cost rate of 0.24% and a decrease in the composite UAL rate of 0.07%, and therefore, an overall increase in the composite contribution rate of 0.17%, for the Composite System. This translates into an estimated overall employer contribution of \$44 million for Fiscal Year 2012-2013.

<i>Scenario</i>	<i>Additional/(Reduced) Actuarial Liabilities (\$million)</i>	<i>Change in the Normal Cost Rate (%)</i>	<i>Change in the UAL Rate (%)</i>	<i>Change in the Contribution Rate (%)</i>	<i>Additional/(Reduced) Employer Contributions FY 12-13 (\$million)</i>
<b>Special Risk</b>					
Scenario 1	\$ (341)	1.49%	(0.57%)	0.92%	\$33
Scenario 2	\$ (350)	1.48%	(0.58%)	0.90%	\$32
<b>DROP*</b>					
Scenario 1	\$ 0	0.39%	0.00%	0.39%	\$11
Scenario 2	\$ 0	0.42%	0.00%	0.42%	\$12
<b>Composite</b>					
Scenario 1	\$ (341)	0.24%	(0.07%)	0.17%	\$44
Scenario 2	\$ (350)	0.24%	(0.07%)	0.17%	\$44

\* Affects all Employers with DROP participation.

The calculations are based on data and other information provided to us by the Division of Retirement for the July 1, 2011 actuarial valuation and supplemented for purposes of this

study. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

This analysis is based on methods and assumptions used in the July 1, 2011 actuarial valuation, and the additional assumptions discussed earlier in this letter. The data was based on the July 1, 2011 FRS actuarial valuation database. The results of our study depend on future experience conforming to those actuarial assumptions. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. To the extent future experience deviates from those assumptions, the results of this analysis could vary from the results presented here.

Milliman's work product was prepared exclusively for the internal business use of Florida Department of Management Services, Division of Retirement for a specific and limited purpose. It is a complex technical analysis that assumes a high level of knowledge concerning the Florida Retirement System's operations, and uses Division data, which Milliman has not audited. To the extent that Milliman's work product is not subject to disclosure under applicable public record laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

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- (b) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to other Governmental entities, as required by law.

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Ms. Sarabeth Snuggs  
January 20, 2012  
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The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

I, Robert Dezube, am a consulting actuary for Milliman, Inc. We are members of the American Academy of Actuaries, and meet their Qualification Standards to render the actuarial opinion contained herein.

Please call if you would like to further discuss this project.

Sincerely,

Milliman, Inc.

A handwritten signature in cursive script that reads "Kathryn M. Hunter".

Kathryn M. Hunter, ASA  
Associate Actuary

A handwritten signature in cursive script that reads "Robert S. Dezube".

Robert S. Dezube, FSA  
Consulting Actuary

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Impact of Retroactively Modifying the Normal Retirement Criteria for Special Risk Class Members Enrolled on or after July 1, 2011*  
**Scenario 1: Unreduced Retirement at Age 55 with 8 YOS or Age 48 with 25 YOS; Early Retirement Reduction from Age 48 if 25 YOS**

	FRS Regular		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Administration	Judicial	Leg-Atty-Cab	County					
<b>A. Contribution Rates</b>										
1. Present System Employer Costs (as reported the July 1, 2011 valuation - Table IV-4)										
a. Normal Cost	3.54%	10.74%	9.93%	6.38%	8.20%	4.80%	4.68%	4.33%	4.64%	4.64%
b. UAL Cost	2.36%	8.32%	17.71%	37.41%	32.50%	14.72%	3.56%	6.21%	3.82%	3.82%
c. Total Cost - FY 2013	5.90%	19.06%	27.64%	43.79%	40.70%	19.53%	8.24%	10.54%	8.46%	8.46%
2. Change in Contribution Rates due to Proposed Change Effective FY 2013 if Paid by Employer										
a. Normal Cost	0.00%	1.49%	0.00%	0.00%	0.00%	0.00%	0.27%	0.39%	0.24%	0.24%
b. Amortization of UAL Cost	0.00%	-0.57%	0.60%	0.00%	0.00%	0.00%	-0.08%	0.00%	-0.07%	-0.07%
c. Total Change in Cost	0.00%	0.92%	0.60%	0.00%	0.00%	0.00%	0.19%	0.39%	0.17%	0.17%
<b>B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)</b>	\$0	(\$340,734)	\$0	\$0	\$0	\$0	(\$340,871)	\$0	(\$340,871)	(\$340,871)
<b>C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be Paid by Employer for FY 2013 (000 omitted)</b>										
1. State	\$0	\$7,331	\$0	\$0	\$0	\$0	\$7,343	\$2,108	\$9,451	\$9,451
2. School Boards	\$0	\$176	\$0	\$0	\$0	\$0	\$176	\$4,824	\$5,000	\$5,000
3. State Universities	\$0	\$194	\$0	\$0	\$0	\$0	\$194	\$725	\$725	\$725
4. Community Colleges	\$0	\$14	\$0	\$0	\$0	\$0	\$14	\$388	\$402	\$402
5. Counties	\$0	\$23,345	\$1	\$0	\$0	\$0	\$23,346	\$2,610	\$25,956	\$25,956
6. Other	\$0	\$1,892	\$0	\$0	\$0	\$0	\$1,893	\$469	\$2,362	\$2,362
7. Total	\$0	\$32,952	\$14	\$0	\$0	\$0	\$32,966	\$10,930	\$43,896	\$43,896

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Impact of Retroactively Modifying the Normal Retirement Criteria for Special Risk Class Members  
Enrolled on or after July 1, 2011  
Scenario 2: Unreduced Retirement at Age 55 with 8 YOS or Age 50 with 25 YOS;  
Early Retirement Reduction from Age 50 if 25 YOS*

	FRS Regular		Special Risk Administration		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Special Risk	Administration	Judicial	Leg-Atty-Cab	County				
<b>A. Contribution Rates</b>										
1. Present System Employer Costs (as reported the July 1, 2011 valuation - Table IV-4)										
a. Normal Cost	3.54%	10.74%	3.43%	9.93%	6.38%	8.20%	4.80%	4.68%	4.33%	4.64%
b. UAL Cost	2.36%	8.32%	37.14%	17.71%	37.41%	32.50%	14.73%	3.56%	6.21%	3.82%
c. Total Cost - FY 2013	5.90%	19.06%	40.57%	27.64%	43.79%	40.70%	19.53%	8.24%	10.54%	8.46%
2. Change in Contribution Rates due to Proposed Change Effective FY 2013 if Paid by Employer										
a. Normal Cost	0.00%	1.48%	0.99%	0.00%	0.00%	0.00%	0.00%	0.22%	0.42%	0.24%
b. Amortization of UAL Cost	0.00%	-0.58%	-0.33%	0.00%	0.00%	0.00%	0.00%	-0.08%	0.00%	-0.07%
c. Total Change in Cost	0.00%	0.90%	0.66%	0.00%	0.00%	0.00%	0.00%	0.14%	0.42%	0.17%
<b>B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)</b>	\$0	(\$350,250)	(\$128)	\$0	\$0	\$0	\$0	(\$350,378)	\$0	(\$350,378)
<b>C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2013 (000 omitted)</b>										
1. State	\$0	\$7,158	\$13	\$0	\$0	\$0	\$0	\$7,171	\$2,270	\$9,441
2. School Boards	\$0	\$171	\$0	\$0	\$0	\$0	\$0	\$171	\$5,195	\$5,366
3. State Universities	\$0	\$190	\$0	\$0	\$0	\$0	\$0	\$190	\$761	\$951
4. Community Colleges	\$0	\$14	\$0	\$0	\$0	\$0	\$0	\$14	\$418	\$432
5. Counties	\$0	\$22,849	\$1	\$0	\$0	\$0	\$0	\$22,850	\$2,811	\$25,661
6. Other	\$0	\$1,853	\$1	\$0	\$0	\$0	\$0	\$1,854	\$505	\$2,359
7. Total	\$0	\$32,235	\$15	\$0	\$0	\$0	\$0	\$32,250	\$11,770	\$44,020

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