

# Florida Retirement System Actuarial Assumption Estimating Conference

## Executive Summary for October 2015 Meetings

The Florida Retirement System Actuarial Assumption Conference met on October 6<sup>th</sup> and October 15<sup>th</sup> to adopt updated economic assumptions to be used for the actuarial valuation of Florida's Retirement System (FRS). The preliminary results show that the FRS continues to have an unfunded actuarial liability (UAL). As updated, the projected UAL is expected to increase from last year's \$21.5 billion to \$23.0 billion. In 2014, the system was 86.6% funded on an actuarial basis; however, the funded status is expected to decrease to 86.2% in the 2015 updated valuation.

Asset performance has been generally favorable over the past five fiscal years. Returns far exceeded the 7.75% investment rate assumption in Fiscal Years 2010-11, 2012-13, and 2013-14. However, the investment return was much lower than expected in Fiscal Years 2011-12 and 2014-15. The tables below show actual investment returns for the past five fiscal years and as well as actual returns for 5-year, 10-year and 15-year timeframes.

Fiscal Year	Investment Return
2010-11	22.09%
2011-12	0.29%
2012-13	13.12%
2013-14	17.40%
2014-15	3.67%

	Investment Return
5-year	11.01%
10-year	6.86%
15-year	5.33%

The Conference reviewed quarterly national market data which showed a consistent downward trend in long-term interest rates in recent years. The state's actuary and the State Board of Administration's financial consultant both recommended a reduction in the investment return assumption. The Conference decided to keep the nominal investment rate and the inflation rate the same as the 2014 assumptions, which also resulted in an unchanged real rate of return. The table below displays the nominal returns, inflation rates, and real returns that are used in the 2013, 2014, and 2015 evaluations.

2013	2014	2015
7.75% Investment Return	7.65% Investment Return	7.65% Investment Return
3.00% Inflation	2.60% Inflation	2.60% Inflation
4.61% Real Return	4.92% Real Return	4.92% Real Return

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

The 2015 Legislature fully funded the UAL at the recommended contribution rate as provided in the 2014 valuation report. This action and continued full funding of the recommended UAL rate, as committed to by the Legislature, is expected to 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. However, there are many factors that affect these calculations and can cause the contribution rates to increase or decrease over time. For example, investment returns have been and will continue to be a relatively volatile factor included in the calculations, and if actual investment results are lower than assumed, there could be a significant impact on the UAL and future contribution rates.

The following table displays summary results from the 2014 Final Valuation and the 2015 Baseline Valuation.

	2014 Final	2015 Baseline
Actuarial Liability (AL)	\$160.1	\$166.3
Actuarial Value of Assets (AVA)	<u>\$138.6</u>	<u>\$143.3</u>
Unfunded Actuarial Liability (UAL)	\$21.5	\$23.0
Funded Status (FS)	86.6%	86.2%
Normal Cost Rate (NCR)	4.10%	4.15%
Unfunded Actuarial Liability Rate (UALR)	<u>4.89%</u>	<u>5.22%</u>
NCR + UALR	8.99%	9.37%

Note: dollars are in billions.

The preliminary report addresses information received through July 1, 2015. The final report will be based on these assumptions and released in December 2015.