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March 25, 2010

**Via Overnight Delivery**

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

Re: Blended Rates for the 2010-2011 Plan Year under the Eight Year Average Final Compensation Study Reflecting a Uniform UAL Rate for All Payroll Bases

Dear Sarabeth:

As you requested, we have calculated the uniform or “blended” rates for the 2010-2011 plan year based on the required contributions for the Defined Contribution (DC) and Defined Benefit (DB) plans incorporating the impact of increasing the Average Final Compensation from 5 years to 8 years for all members joining the DB plan on or after July 1, 2010 as discussed in the special study dated March 22, 2010.

**Analysis**

We determined the contribution rate for each membership class of the Florida Retirement System by dividing the total dollars required for both the DC and DB plans by the total payroll. The DB plan rates are based on the July 1, 2009 valuation of the defined benefit plan as modified by HB 479 and the March 22, 2010 Final Average Compensation Special Study. The DC plan rates are based on Section 121.72 and 121.73 of the Florida statutes.

Since the DB Plan requires an UAL Contribution, some employers are subject to only the UAL Contribution rate (e.g. employers of SUSORP, SMSOAP, and SCCORP participants, and withdrawn local Senior Managers.) The payroll for such employers is included in the calculation of the “Uniform” UAL Contribution Rate, but is excluded from the calculation of the “Blended” Normal Cost Contribution Rate.

As noted in our previous studies, there continues to be a low level of participation in the DC plan. As of July 1, 2009 the DC payroll comprised approximately 12.7% of total payroll, the projected DC payroll comprises approximately 12.7% of total payroll in fiscal year 2010, and is lower than the projected DC payroll of 14.1% for fiscal year 2009 which was calculated and used in the 2008 Blended Rate Study.

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## Results

Table I shows the blended rates based on actual levels of participation in the DB and DC plans as of July 1, 2009, adjusted to reflect an expected increase in DC plan participation. The results of the table are based on an assumption that the DC payroll will increase during fiscal year 2010 (due to salary inflation and membership growth) at the same rate that it increased during fiscal year 2009.<sup>1</sup> Thus, in total, the projected July 1, 2010 DC payroll is approximately 4.0% greater than the DC payroll as of July 1, 2009, while the total FRS payroll is assumed to grow 4% from the July 1, 2009 level.

Section A of the table includes the normal cost as of the July 1, 2009 valuation of the Defined Benefit Plan, after reflecting the impact of House Bill 479 and the impact of the Average Final Compensation proposal. Section A does not include the UAL cost because such contribution rates are applied to a larger total payroll. Section A, line 3 shows the total employer normal cost of the DB plan as the product of normal cost contribution rates and projected normal cost payroll.

Similarly, Section B of the table calculates the total employer cost of the DC plan as the product of applicable employer contribution rates and projected PEORP payroll. PEORP payroll is projected to mimic the fiscal year 2009 increase, as described above.

Section C of the table shows the sum of the DB normal cost and DC plan cost as dollars and as a percentage of total payroll (DB projected normal cost payroll plus DC projected payroll).

Section D of the table shows the UAL cost as of the July 1, 2009 valuation of the Defined Benefit Plan, after reflecting the impact of House Bill 479 and the impact of the Average Final Compensation proposal. However, the UAL cost rates are slightly different from those in Table I of the March 22, 2010 special study. This is because total payroll (DB plus DC plan) has been projected forward one year using the valuation salary inflation assumption of 4.0% for determining blended rates. The DC payroll is projected individually by membership class to increase at the same rate as it increased during fiscal year 2009. DB projected payroll is equal to the total projected payroll less the DC projected payroll. Thus, though the DC payroll and DB payroll each increase by 4.0% in total, there are variations in the increase by membership class. As a result, the UAL cost rates shown in Table I (line (A1)(b)) may be a larger (or smaller) percent of payroll based on whether the DC plan payroll for that particular membership class grew in excess of (or less than) 4.0% during fiscal year 2009. The projected payroll in line (D2) is greater than the projected payroll in line (A2) because it includes the salaries of members subject to only the UAL contribution rate.

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1) The total payroll attributable to DC members in two membership classes decreased during this period. The payroll for the Elected State Officers' class decreased 2.15% due to the types of positions electing DC participation, as well as a required 5% reduction in salaries for elected officials. In projecting DC payroll for fiscal year 2010, we assumed similar behavior in the coming fiscal year and that DC payroll attributable to this class would once again decrease 2.15%. The payroll for the Judicial class decreased 23.58%. Based on information from the Division, we assumed a constant rate of participation in this class, and therefore projected a 4% increase (due to salary inflation only) in the Judicial payroll attributable to DC members for fiscal year 2010.

Section E of the table shows the additional UAL cost attributable to the DC plan, which is 0.

Section F of the table calculates the “Blended” UAL cost as dollars and as a percentage of total payroll (DB projected UAL payroll plus DC projected payroll).

Section G of the table shows the final Blended Uniform Contribution Rates as the sum of the “Blended” Normal Cost Contribution Rates from line (C3) and the “Uniform UAL Contribution Rates from line (F3). The employers subject to only the UAL contribution rate would pay the “Uniform” UAL Contribution Rates shown in line (G2) of the table. All other employers would pay the Total Adjusted Contribution Rates shown in line (G3) of the table.

The contribution rates shown in the table exclude the 0.05% charge for DC administration and education (applied to all classes except DROP) and the 1.11% charge for financing the health insurance subsidy (HIS), which apply across the board to the DB and DC plans.

The calculations are based on data provided to us by the Division of Retirement for the July 1, 2009 actuarial valuation. 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. These calculations are based on the standard entry age actuarial cost method.

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 the methods and assumptions described in the March 22, 2010 special study reflecting the impact of increasing the Average Final Compensation from 5 years to 8 years for members joining the DB plan, on or after July 1, 2010. The data was based on the July 1, 2009 FRS actuarial valuation database and supplemental information provided for the special study. The results of our study depend on future experience conforming to those actuarial assumptions discussed earlier in this letter and the Eight Year Average Final Compensation Impact letter. 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. In addition, the cost/(savings) of the blended rates will depend on the actual legislation.

This analysis is solely for the internal use of the FRS. Milliman does not intend to benefit any third party recipient of this analysis. 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 these proposals with counsel.



Ms. Sarabeth Snuggs  
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I, Robert Dezube, am a consulting actuary for Milliman, Inc. I am also a member 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,

A handwritten signature in blue ink that reads "R. Dezube".

Robert S. Dezube, FSA  
Consulting Actuary

Enclosure

RSD/MDJ/ST/GIB05  
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FLORIDA RETIREMENT SYSTEM  
FISCAL IMPACT ANALYSIS

Blended Normal Cost Plus UAL Rates for 2010-2011 Fiscal Year  
Assuming Same Growth in PEORP Membership as was Experienced in FY 2009  
Consistent with the Study Reflecting the Impact of Modifying the Average Final Compensation from 5 years to 8 years  
For All Members Joining the Plan on and after July 1, 2010  
(000 omitted)

	FRS Regular	Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite (including DROP)
		Regular	Administration	Judicial	Leg-Atty-Cab				
<b>A. Defined Benefit Plan Normal Cost</b>									
1. Employer Cost									
a. Normal Cost Rate <sup>1</sup>	9.21%	20.74%	10.32%	18.33%	13.77%	15.71%	11.01%	13.76%	11.21%
b. UAL Cost and Rate Reduction Techniques	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
c. Total Adjusted Contribution Rate <sup>3</sup> -FY 2011	9.21%	20.74%	10.32%	18.33%	13.77%	15.71%	11.01%	13.76%	11.21%
2. Projected Payroll	\$21,093,163	\$3,776,387	\$2,644	\$117,578	\$6,679	\$46,658	\$25,574,857	\$2,041,693	\$27,616,550
3. Total Employer Normal Cost [(1c) x (2)] -FY 2011	\$1,942,680	\$783,223	\$273	\$21,552	\$920	\$7,330	\$2,814,843	\$280,937	\$3,095,780
<b>B. Defined Contribution Plan Cost (Normal Cost)</b>									
1. Employer Rates effective July 1, 2010 (Sec 121.72)	9.25%	21.33%	11.80%	19.63%	13.81%	16.61%	11.09%	0.00%	11.09%
2. Projected Payroll	\$3,278,102	\$580,350	\$985	\$6,696	\$2,313	\$13,398	\$4,016,228	\$0	\$4,016,228
3. Total Employer Cost [(1) x (2)] -FY 2011	\$303,224	\$123,789	\$116	\$1,314	\$319	\$2,225	\$446,051	\$0	\$446,051
<b>C. Total System Normal Cost (DB Plan + DC Plan)</b>									
1. Total Normal Cost Contribution [(A3) + (B3)]	\$2,245,904	\$907,012	\$389	\$22,866	\$1,239	\$9,555	\$3,260,894	\$280,937	\$3,541,831
2. Total System Projected Payroll [(A2) + (B2)]	\$24,371,265	\$4,356,737	\$3,629	\$124,274	\$8,992	\$60,056	\$29,591,085	\$2,041,693	\$31,632,778
3. "Blended" Normal Cost Contribution Rate As a Percentage of Total Payroll [(C1) / (C2)] <sup>3</sup>	9.22%	20.82%	10.72%	18.40%	13.78%	15.91%	11.02%	13.76%	11.20%

<sup>1</sup> As reported in Table I of the Special Study Dated March 22, 2010.

<sup>2</sup> Composite rates are based on 2009 payroll instead of the projected payroll.

<sup>3</sup> Rates shown do not include the HTS contribution rate or PEORP administrative fees.

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Blended Normal Cost Plus UAL Rates for 2010-2011 Fiscal Year  
Assuming Same Growth in PEORP Membership as was Experienced in FY 2009  
Consistent with the Study Reflecting the Impact of Modifying the Average Final Compensation from 5 years to 8 years  
For All Members Joining the Plan on and after July 1, 2010  
(000 omitted)*

	FRS		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite (including DROP)
	Regular	0.00%	Regular	Administration	Judicial	Leg-Atty-Cab				
<b>Blended UAL Contribution Rates</b>										
<b>D. Defined Benefit Plan UAL Cost</b>										
1. Employer Cost										
a. Normal Cost Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
b. UAL Cost and Rate Reduction Techniques	2.11%	8.01%	22.16%	12.20%	22.99%	25.76%	11.77%	3.21%	4.97%	3.33%
c. Total Adjusted Contribution Rate <sup>3</sup>										
-FY 2011	2.11%	8.01%	22.16%	12.20%	22.99%	25.76%	11.77%	3.21%	4.97%	3.33%
2. Projected Payroll	\$23,142,911	\$3,793,325	\$2,685	\$118,316	\$7,007	\$47,193	\$568,785	\$27,680,222	\$2,041,693	\$29,721,915
3. Total Employer UAL Cost [(1c) x (2)]	\$488,315	\$303,845	\$595	\$14,435	\$1,611	\$12,157	\$66,946	\$887,904	\$101,472	\$989,376
<b>E. Defined Contribution Plan Cost (UAL)</b>										
1. Employer Rates effective July 1, 2002 (Sec 121.72)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2. Projected Payroll	\$3,278,102	\$580,350	\$985	\$6,696	\$2,313	\$13,398	\$134,384	\$4,016,228	\$0	\$4,016,228
3. Total Employer Cost [(1) x (2)]	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>F. Total System UAL Cost (DB Plan + DC Plan)</b>										
1. Total UAL Contribution [(D3) + (E3)]	\$488,315	\$303,845	\$595	\$14,435	\$1,611	\$12,157	\$66,946	\$887,904	\$101,472	\$989,376
2. Total System Projected Payroll [(D2) + (E2)]	\$26,421,013	\$4,373,675	\$3,670	\$125,012	\$9,320	\$60,591	\$703,169	\$31,696,450	\$2,041,693	\$33,738,143
3. "Uniform" UAL Contribution Rate	1.85%	6.95%	16.21%	11.55%	17.29%	20.06%	9.52%	2.80%	4.97%	2.93%
As a Percentage of Total Payroll [(F1) / (F2)] <sup>3</sup>										

<sup>2</sup> Composite rates are based on 2009 payroll instead of the projected payroll.

<sup>3</sup> Rates shown do not include the HIS contribution rate or PEORP administrative fees.

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*Blended Normal Cost Plus UAL Rates for 2010-2011 Fiscal Year  
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(000 omitted)

	FRS		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite (including DROP)
	Regular		Regular	Administration	Judicial	Leg-Atty-Cab				
1. "Blended" Normal Cost Contribution Rate [(C3)]	9.22%	20.82%	10.72%	18.40%	13.78%	15.91%	11.10%	11.02%	13.76%	11.20%
2. "Uniform" UAL Contribution Rates [(F3)]	1.85%	6.95%	16.21%	11.55%	17.29%	20.06%	9.52%	2.80%	4.97%	2.93%
3. Total Adjusted Contribution Rate <sup>3</sup> -FY 2011 [(G1) + (G2)]	11.07%	27.77%	26.93%	29.95%	31.07%	35.97%	20.62%	13.82%	18.73%	14.13%

**Blended Uniform Contribution Rates <sup>4</sup>**

**G: Total Employer Contribution Rate (DB Plan + DC Plan)**

<sup>3</sup> Rates shown do not include the HIS contribution rate or PEORP administrative fees.  
<sup>4</sup> Employers subject to only the UAL contribution rate will pay the rates shown in line (G2).

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