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March 22, 2010

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  
Modifying the Vesting Period

Dear Sarabeth:

As you requested, we have studied the impact to the FRS of modifying the vesting period from 6 years to 8 years for all members joining the plan on or after July 1, 2010.

### **Background**

Currently members are vested in the FRS defined benefit plan after completion of 6 years of creditable service. The proposal would require 8 years of creditable service for members initially enrolled on and after July 1, 2010 to become vested. The 8 years of creditable service requirement would also apply to eligibility for the non-duty death benefit. In addition normal retirement eligibility criteria based on age and vesting would change from age 55 and 6 years of creditable service to age 55 and 8 years of creditable service for Special Risk Members and from age 62 and 6 years of creditable service to age 62 and 8 years of creditable service for non-Special Risk members. The "years of service" criteria for all members for Normal Retirement eligibility would not be modified by this proposal.

### **Assumptions and Analysis**

The proposal would affect all active members joining FRS on or after July 1, 2010. Increasing the vesting period from 6 years to 8 years of creditable service for future hires would provide a savings to FRS since fewer members would either ultimately become vested in the plan, or eligible for a pre-retirement death benefit. In addition, eligibility for retirement might be delayed for up to two years for Special Risk members hired after age 47 and non-Special Risk members hired after age 54.

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To study the impact of this proposal, we re-ran the July 1, 2009 valuation for active members changing the vesting requirement from 6 years to 8 years. We determined the impact of this prospective benefit change to be the change in Normal Cost rates. Because Normal Cost and Present Value of Future Normal Cost (PVFNC) are reduced 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, 2010 and earlier) is unchanged, the actuarial accrued liability is increased by this proposal. The actuarial accrued liability is defined as PVB less PVFNC. Thus, if PVFNC increases and PVB remains the same, the actuarial accrued liability would increase. The PVB will decrease in future valuations as current members are replaced by members impacted by change in benefits.

In addition, we assumed that the change in the vesting schedule would not impact a future member's decision as to when to terminate, postpone retirement, or retire with or without DROP participation. It is possibly that without a corresponding increase in the vesting in the DC Plan, a greater percentage of future hires, at hire, might initially elect DC Plan participation. This study does not address the potential impact of reducing future enrollment in the DB Plan. This change would also impact the present calculation of transfers between the DC Plan and the DB Plan.

## **Results**

The results for this study are shown in Table I as described below. The 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 Table I includes the normal cost as of the July 1, 2009 Valuation as amended by the Study Reflecting the Impact to the FRS of House Bill 479, and the impact of the proposal. 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 the table shows the change in the unfunded actuarial liability, while Section C of the table translates the estimated change in contribution rates to a reduction in dollars to be paid by employers.

As shown in Table I, the projected impact of the proposal results in a net savings to the System, although the projected increase in the actuarial liabilities of \$575 million. This benefit change results in a decrease in the composite Normal Cost rate of 0.28% and an increase in the composite UAL rate of 0.12%, and therefore, an overall decrease in contribution levels of 0.16%, for the Composite System. This translates into an estimated overall employer contribution savings of \$44 million for Fiscal Year 2010-2011.

The calculations are based on data and other information provided to us by the Division of Retirement for the July 1, 2009 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, 2009 actuarial valuation, as modified by the February 16, 2010 study on House Bill 479, which was enacted into law, and the additional assumptions discussed earlier in this letter. The data was based on the July 1, 2009 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. 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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No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

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

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proposal with counsel.

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,

Milliman, Inc.

A handwritten signature in blue ink that reads 'Robert'.

Robert S. Dezube, FSA  
Consulting Actuary

Enclosures

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**FLORIDA RETIREMENT SYSTEM**  
FISCAL IMPACT ANALYSIS

*Impact of Increasing the Vesting Period from 6 years to 8 years  
For All Members Joining the Plan on and after July 1, 2010*

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	FRS		Special Risk		Elected Officers' Class		Senior Management	Composite (excluding DROP)	DROP	Composite
	Regular	Regular	Administration	Judicial	Leg-Atty-Cab	County				
<b>A. Contribution Rates</b>										
1. Present System Employer Costs (Based on July 1, 2009 valuation as Amended by Study Reflecting the Impact of House Bill 479)										
a. Normal Cost	9.84%	22.28%	11.05%	19.38%	14.58%	16.62%	11.83%	11.78%	14.23%	11.96%
b. UAL Cost	1.80%	6.87%	20.24%	11.62%	23.16%	25.64%	11.47%	2.78%	4.97%	2.93%
c. Total Cost - FY 2011	11.64%	29.15%	31.29%	31.00%	37.74%	42.26%	23.30%	14.56%	19.20%	14.89%
2. Change in Contribution Rates due to Proposal Effective FY 2011 if Paid by Employer										
a. Normal Cost	-0.28%	-0.34%	-0.33%	-0.16%	-0.73%	-0.42%	-0.44%	-0.29%	-0.19%	-0.28%
b. Amortization of UAL Cost	0.11%	0.21%	0.11%	0.04%	0.29%	0.12%	0.15%	0.12%	0.00%	0.12%
c. Total Change in Cost	-0.17%	-0.13%	-0.22%	-0.12%	-0.44%	-0.30%	-0.29%	-0.17%	-0.19%	-0.16%
<b>B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)</b>										
	\$424,708	\$134,007	\$56	\$894	\$331	\$934	\$14,314	\$575,244	\$0	\$575,244
<b>C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2011 (000 omitted)</b>										
1. State	(\$4,558)	(\$1,139)	(\$6)	(\$141)	(\$28)	\$0	(\$596)	(\$6,468)	(\$697)	(\$7,165)
2. School Boards	(\$19,137)	(\$26)	\$0	\$0	\$0	\$0	(\$166)	(\$19,329)	(\$1,873)	(\$21,202)
3. State Universities	(\$11)	(\$27)	\$0	\$0	\$0	\$0	(\$21)	(\$59)	(\$199)	(\$258)
4. Community Colleges	(\$961)	(\$2)	\$0	\$0	\$0	\$0	(\$64)	(\$1,027)	(\$143)	(\$1,170)
5. Counties	(\$7,086)	(\$3,426)	(\$1)	\$0	\$0	(\$138)	(\$457)	(\$11,108)	(\$820)	(\$11,928)
6. Other	(\$1,841)	(\$263)	\$0	\$0	\$0	\$0	(\$179)	(\$2,283)	(\$147)	(\$2,430)
7. Total	(\$33,594)	(\$4,883)	(\$7)	(\$141)	(\$28)	(\$138)	(\$1,483)	(\$40,274)	(\$3,879)	(\$44,153)