



1921 Gallows Road
Suite 900
Vienna, VA 22182
USA

Main +1 703 917 0143
Fax +1 703 827 9266

March 12, 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 Reducing
DROP Interest Rate

Dear Sarabeth:

As you requested, we have studied the impact to the FRS of reducing the interest rate credited to the DROP account of future DROP members, effective July 1, 2010.

Background

Currently, DROP allows members of all classes to elect to retire and have FRS benefits accumulate in the FRS Trust Fund, earning interest at 6.5%, while the member continues to work for an FRS employer for a period up to 60 months. The member's election to participate in the DROP must be made at the beginning of the DROP period; therefore this study only affects members who may elect DROP on or after July 1, 2010. At the end of the DROP period, the member retires from FRS, receives the accumulated balance of his/her DROP account and starts his/her normal retirement benefit.

Assumptions and Analysis

The proposal would affect DROP members entering DROP on or after July 1, 2010. Therefore, we limited our study to the impact on current active members. Members currently in the DROP are considered retirees for the purposes of this study.

To study the impact of this proposal, we re-ran the July 1, 2009 valuation for hypothetical active members by each age and class replacing the 6.5% DROP accumulation interest rate assumption with the proposed 1.3% DROP accumulation interest rate. We analyzed the change in the DROP account balance from an accumulation of 6.5% versus 1.3% while

This work product was prepared solely for Florida Retirement System for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

the member is in DROP. We determined the impact of the decrease in the value of the member's DROP account balance for those who elect to participate in DROP in the future.

FRS currently funds the DROP through a separate contribution rate associated with the actual current costs of DROP. For purpose of this study this method was assumed to continue to apply to the adjusted rates used in analyzing these proposals. A more traditional funding of DROP would produce a different result. Note that because of the current method of funding DROP (i.e. through one separate contribution rate that applies to any DROP participant), any change in the normal cost or liabilities of any class of membership impacts the DROP contribution rate.

We have assumed no change in the valuation retirement rates since we believe DROP will still be attractive and that the proposed benefit change will not affect the incidence of DROP elections. (Because of this, the current impact of this proposal is limited to the contribution rate paid by employers on behalf of their employees currently participating in DROP.)

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 July 1, 2009 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. There is no impact in the funding actuarial liabilities, since this proposal only affects employees expected to participate in DROP in the future. This benefit change results in a decrease in the composite Normal Cost rate of 0.46% and no change to the composite UAL rate, and therefore, an overall decrease in the composite contribution rate of 0.46%, for the System. This translates into an estimated overall employer contribution savings of \$126 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 as 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:

- (a) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The Division of Retirement may provide a copy of Milliman's work, in its entirety, to other Governmental entities, as required by law.

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.



Ms. Sarabeth Snuggs
March 12, 2010
Page 4

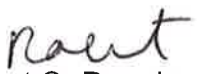
The consultants who worked on this assignment are pension actuaries. We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with council.

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.


Robert S. Dezube, FSA
Consulting Actuary

Enclosures

RSD/MDJ/ST/GIB02
C:\CLIENT\GIB\GIB02\GIB02_LETTER.DOC

FLORIDA RETIREMENT SYSTEM
FISCAL IMPACT ANALYSIS

***Impact of Setting the Interest Rate on DROP Accounts Equal to 1.3% per Annum
For All Participants who Enter DROP on and after July 1, 2010***

This work product was prepared solely for the Florida Department of Management Services for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

	FRS Regular	----Special Risk---- Regular	Administration	Judicial	-----Elected Officers' Class---- Leg-Atty-Cab	County	Senior Management	Composite (excluding DROP)	DROP	Composite
A. Contribution Rates										
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	<u>1.80%</u>	<u>6.87%</u>	<u>20.24%</u>	<u>11.62%</u>	<u>23.16%</u>	<u>25.64%</u>	<u>11.47%</u>	<u>2.78%</u>	<u>4.97%</u>	<u>2.93%</u>
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	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-6.19%	-0.46%
b. Amortization of UAL Cost	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
c. Total Change in Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-6.19%	-0.46%
B. Additional/(Reduced) Unfunded Liability due to Proposal (000 omitted)										
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
C. Additional/(Reduced) Dollars (Normal Cost and Amortization of UAL Cost) Due to Proposal to be paid by Employer for FY 2011 (000 omitted)										
1. State	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$22,715)	(\$22,715)
2. School Boards	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$61,005)	(\$61,005)
3. State Universities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$6,476)	(\$6,476)
4. Community Colleges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$4,670)	(\$4,670)
5. Counties	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$26,715)	(\$26,715)
6. Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$4,800)	(\$4,800)
7. Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$126,381)	(\$126,381)