

Florida Retirement System Pension Plan and the Retiree Health Insurance Subsidy Program
Cost-Sharing Multiple Employer Defined Benefit Pension Plans
Notes to the Schedules of Employer Allocations and
Schedules of Pension Amounts by Employer
For the Fiscal Year Ended June 30, 2022

NOTE 1 – PLAN DESCRIPTION

A. Reporting Entity

The Florida Department of Management Services, Division of Retirement (division), is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems (system). For the fiscal year ended June 30, 2022, the division administered two cost-sharing, multiple employer defined benefit plans, one single employer defined benefit plan, two defined contribution plans, a supplemental funding of defined benefit plans for municipal police officers and firefighters, and various general revenue funded pension programs. The division issued a publicly available, audited annual comprehensive financial report (ACFR) on behalf of the system that includes financial statements, notes and required supplementary information for each of the pension plans. Detailed information about the plans is provided in the ACFR, which is available online, or by contacting the division (see Note 5).

B. Cost-Sharing Defined Benefit Plans

As required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), this report includes the allocation of the collective net pension liability and associated pension expense, deferred outflows of resources and deferred inflows of resources for each of the participating employers in the system's cost-sharing, multiple employer defined benefit plans:

- The Florida Retirement System (FRS) Pension Plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program (DROP) available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the FRS Pension Plan. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under sections 121.053 and 121.122, Florida Statutes, or allowed to participate in a non-integrated defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.
- The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended June 30, 2022, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which may include Medicare.

Over 1,000 participating employers are served by the two defined benefit plans. Of these, more than 900 employers, referred to as reporting employers, report payroll and remit contributions to the division for their covered employees and, in some cases, for the covered employees of associated participating employers.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Employers participating in the FRS Pension Plan and HIS Program are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with GASB 68. The Schedules of Employer Allocations and Schedules of Pension Amounts by Employer (pension allocation schedules) and notes to the schedules, along with the system's ACFR, provide employers with the required information for reporting.

The underlying financial information used to prepare the pension allocation schedules is based on the system's records. The financial statements for the cost-sharing defined benefit plans are prepared using the flow of economic resources measurement focus and the accrual basis of accounting and are prepared in accordance with accounting principles generally accepted in the United States. The system's financial statements are available online or by contacting the division (see Note 5). There have been no significant changes since the publication of the financial statements.

B. Employer Contributions

Contributions are recognized as revenues in the period for which the contributions are due pursuant to statutory and contractual requirements. Employee contributions required pursuant to section 121.71(3), Florida Statutes, are accounted for by the FRS as employer-paid employee contributions and are treated as employer contributions under 26 U.S.C. s. 414(h)(2) allowing these contributions to be deducted on a pre-tax basis. Pension expense reported in the pension allocation schedules is reduced by these amounts.

Total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes. Employer contributions reflected in the financial statements and in the pension allocation schedules for the cost-sharing defined benefit plans represent contributions specific to each defined benefit plan and do not equal total blended contributions remitted by the employer.

C. Use of Estimates

The preparation of these schedules, and the associated financial statements, requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and changes therein, including appropriate disclosures at the date of the financial statements. Actual results could differ from those estimates.

NOTE 3 – NET PENSION LIABILITY OF EMPLOYERS

A. Net Pension Liability

The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2022, are shown below:

	<u>FRS</u>	<u>HIS</u>
Total Pension Liability	\$ 217,434,441,000	\$ 11,126,965,688
Plan Fiduciary Net Position	<u>(180,226,404,807)</u>	<u>(535,368,479)</u>
Net Pension Liability	<u>\$ 37,208,036,193</u>	<u>\$ 10,591,597,209</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.89%	4.81%

The total pension liability for the FRS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2022. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The total pension liability for the HIS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2022. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

B. Basis for Allocation

The employer's proportionate share reported in the pension allocation schedules was calculated using accrued retirement contributions related to the reporting periods included in the system's fiscal years ended June 30, 2013, through June 30, 2022, for employers that were members of the FRS and HIS during those fiscal years. For fiscal years ended June 30, 2015, through June 30, 2022, in addition to contributions from employers, the required accrued contributions for the division (paid on behalf of the division's employees who administer the plans) were allocated to each employer on a proportional basis. The division administers the plans, and therefore, cannot allocate a portion of the liability to itself. Although GASB 68 encourages the use of the employers' projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is acceptable. The aggregate employer contribution amounts for each fiscal year agree to the employer contribution amounts reported in the system's ACFR for that fiscal year.

The proportion calculated based on contributions for each of the fiscal years presented in the pension allocation schedules was applied to the net pension liability and other pension amounts applicable to that fiscal year to determine each employer's proportionate share of the liability, deferred outflows of resources, deferred inflows of resources and associated pension expense.

For the purposes of the pension allocation schedules, pension amounts are allocated to reporting employers. The pension amounts of participating employers whose payrolls are reported and contributions are remitted by another entity are included in the reporting employer's amounts and will be allocated to the participating employer by the reporting employer.

C. Actuarial Methods and Assumptions

The Florida Retirement System (FRS) Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan's GASB 67 valuation is performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2019 for the period July 1, 2013, through June 30, 2018. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.40%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 6.70%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.54% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both the FRS Pension Plan and the HIS Program were based on the PUB-2010 base table, (refer to the valuation reports for more information – see Note 5).

The following changes in actuarial assumptions occurred in 2022:

- FRS: The long-term expected rate of return was decreased from 6.80% to 6.70%.
- HIS: The demographic assumptions for the Special Risk class were updated to reflect plan changes due to HB5007, HB689, and SB838.
- HIS: The election assumption for vested terminated members was updated from 20% to 50% to reflect recent experience.
- HIS: The municipal bond rate used to determine total pension liability was increased from 2.16% to 3.54%.

D. Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the collective net pension liability of the participating employers if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2022.

FRS Net Pension Liability

1% Decrease	Current Discount Rate	1% Increase
5.70%	6.70%	7.70%
\$ 64,348,740,193	\$ 37,208,036,193	\$ 14,515,178,193

HIS Net Pension Liability

1% Decrease	Current Discount Rate	1% Increase
2.54%	3.54%	4.54%
\$ 12,117,656,828	\$ 10,591,597,209	\$ 9,328,814,334

NOTE 4 – PENSION EXPENSE AND DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In accordance with GASB 68, paragraphs 54 and 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current reporting period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors are amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes of assumptions or other inputs are amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes in proportion and differences between contributions and proportionate share of contributions are amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments are amortized over five years

Employer contributions to the pension plans from employers are not included in collective pension expense; however, employee contributions are used to reduce pension expense.

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2022, was 5.5 years for FRS and 6.4 years for HIS. The components of collective pension expense reported in the pension allocation schedules for the fiscal year ended June 30, 2022, are presented below for each plan.

Florida Retirement System (FRS)

	Recognized in Expense Reporting Period Ended 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Service cost	\$ 2,635,672,488	\$ -	\$ -
Interest cost	14,012,135,121	-	-
Effect of plan changes	99,285,000	-	-
Effect of economic/demographic gains or losses (difference between expected and actual experience)	770,756,657	1,767,166,815	-
Effect of assumptions changes or inputs	3,024,039,521	4,582,325,338	-
Member contributions	(769,227,774)	-	-
Projected investment earnings	(13,486,916,285)	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	1,518,682,253	(1,518,682,253)
Net difference between projected and actual investment earnings	(1,083,277,220)	2,456,841,704	-
Administrative expenses	22,494,571	-	-
Total	\$ 5,224,962,079	\$ 10,325,016,110	\$ (1,518,682,253)

Health Insurance Subsidy (HIS)

	Recognized in Expense Reporting Period Ended 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Service cost	\$ 290,824,676	\$ -	\$ -
Interest cost	275,385,816	-	-
Effect of plan changes	5,215,372	-	-
Effect of economic/demographic gains or losses (difference between expected and actual experience)	76,234,960	321,479,995	(46,603,942)
Effect of assumptions changes or inputs	(95,499,894)	607,117,164	(1,638,513,312)
Member contributions	(48,424)	-	-
Projected investment earnings	(10,646,011)	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	483,666,109	(483,666,109)
Net difference between projected and actual investment earnings	6,287,188	15,334,367	-
Administrative expenses	189,390	-	-
Total	\$ 547,943,073	\$ 1,427,597,635	\$ (2,168,783,363)

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction of the net pension liability in the subsequent reporting period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

Reporting Period Ending	FRS Expense	HIS Expense
2023	\$ 2,129,674,028	\$ (177,501,199)
2024	\$ 803,626,645	\$ (95,717,591)
2025	\$ (719,200,160)	\$ (43,764,688)
2026	\$ 6,257,613,685	\$ (96,873,244)
2027	\$ 334,619,659	\$ (224,855,445)
Thereafter	\$ -	\$ (102,473,561)
Total	\$ 8,806,333,857	\$ (741,185,728)

NOTE 5 – ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Additional audited financial information supporting the Schedules of Employer Allocations and the Schedules of Pension Amounts by Employer is located in the Florida Retirement System Pension Plan and Other State-Administered Systems ACFR for the fiscal year ended June 30, 2022. The system's ACFR and the actuarial valuation reports referenced herein are available online at:

http://www.dms.myflorida.com/workforce_operations/retirement/publications

The system's ACFR and actuarial reports may also be obtained by contacting the Division of Retirement at:

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