FLORIDA RETIREMENT SYSTEM (FRS)

Examining the Florida Retirement System's 7.0% Assumed Rate of Return

Retirement System (FRS) historically used an assumed rate of return on investments as high as 8%, gradually lowering the expected rate to 7% over the last 17 years. The slow adjustment to a lower assumed rate of return was a step in the right direction but may still not be enough to ensure long-term pension fund stability.

1. An accurate assumed rate of return is necessary for the long-term stability of a pension plan.

- Financial experts are projecting long-term investment returns well below 7.0%, which means the fund's assets are unlikely to grow at the currently assumed rate. Keeping an unrealistically high investment assumption leads to underestimating annual contributions, making it less likely assets will fully fund retiree benefits in the future.
- Milliman, the FRS consulting actuary, determined an assumed investment return rate of 6.77% to be more appropriate per Actuarial Standard of Practice Number 27 (ASOP 27).
- Adopting a more realistic projection of investment returns and estimated value of pension benefits is important to ensuring Florida will uphold promises made to retirees.

2. Moving to a lower rate does not cut or change retirement benefits.

- Lowering the assumed rate of return on investments reflects a more realistic pricing of benefits and exposes higher liabilities on paper, but it would in no way change the *actual* benefits promised to FRS employees and retirees.
- This change in accounting method results in a more accurate valuation of future pension benefit payments and provides the opportunity to better plan for the future.
- What will change is the cost of the program. To ensure benefits are fully paid, FRS will need to consider options to secure more funds annually than previously calculated.

3. More conservative assumptions for FRS are consistent with national trends.

- According to the Center for Retirement Research, the national average for assumed rates of return for public pension plans declined from 8% in 2002 to 7.27% in 2018.
- Public pension boards deciding to lower their assumed rates of return in recent years include the California Public Employees Retirement System, the Teachers' Retirement System of Illinois, the Michigan Public School Employees Retirement System, Texas Teachers Retirement System, North Carolina Retirement Systems, and many more.

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