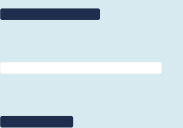


School of Governmental Finance

Florida Public Pension Plan Funding

October 2026

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Turn the valuation into a decision tool

- Read contribution results in the context of the funding policy
- Understand what experience and assumptions are moving costs
- Sequence benefit proposals, impact statements, and public hearings correctly
- Use projections to test budget and bargaining choices before commitments are made

Florida law creates three connected funding layers

- Chapter 112, Part VII: actuarial soundness baseline for local plans
- Chapter 175: firefighter plans and insurance premium tax requirements
- Chapter 185: police plans and insurance premium tax requirements
- Local ordinance, collective bargaining agreement, and funding policy complete the framework
- Apply the provisions together—not as separate checklists



A city prepayment is a timing strategy—not a lower obligation

- Chapter 112 requires employer deposits at least quarterly
- Chapters 175 and 185 also require employer contributions at least quarterly
- Confirm the amount and intended valuation-year credit with the actuary before payment
- Coordinate budget, custodian receipt date, accounting treatment, and cash-flow needs
- Track the prepayment separately so the next invoice or budget does not count it twice
- Compare expected earnings benefit with liquidity and operational risk

The valuation explains both today's contribution and tomorrow's path

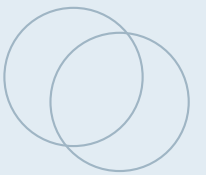
- Normal cost: value assigned to benefits earned during the year
- Unfunded actuarial accrued liability: past service not covered by actuarial assets
- Amortization: scheduled recognition of that unfunded amount
- Expected employee, state premium-tax, and city contributions
- Funded measures, cash flows, and sensitivity to key risks
- Reconcile each change from the prior valuation—do not stop at the final rate

Experience studies keep assumptions tied to the plan

- Compare actual retirements, terminations, disability, mortality, pay growth, and payroll with expected results
- Use a credible multi-year period and recognize plan or workforce changes
- Separate random volatility from a persistent pattern
- Evaluate assumptions as a coordinated set—not one at a time
- Document rationale, materiality, and contribution impact
- Adopt changes prospectively and communicate the transition



Assumptions determine timing—not the benefits already promised



Economic assumptions

- Investment return / discount rate, inflation, salary growth, payroll growth

Demographic assumptions

- Retirement, termination, disability, mortality, optional-form elections

A reasonable assumption can still produce volatility. The funding policy determines how that volatility reaches the budget.



The return assumption is a long-term measurement input

- It should reflect the investment policy, expected asset returns, expenses, and relevant risk
- A higher assumption generally lowers measured liabilities and near-term contributions
- It does not reduce benefit payments or eliminate investment risk
- Test lower-return and adverse-sequence scenarios alongside the baseline
- Pair any assumption discussion with contribution volatility and liquidity consequences

Valuation assumptions: mortality

ACTUARIAL ASSUMPTIONS AND METHODS

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Mortality Rate

Healthy active lives

Female: PubS-2010 Employees
Male: PubS-2010 Employees, +1 year

Healthy retiree lives

Female: PubS-2010 Healthy Retirees
Male: PubS-2010 Healthy Retirees, +1 year

Beneficiary lives

Female: PubG.H-2010 Healthy Retirees
Male: PubG.H-2010 Healthy Retirees, -1 year

Disabled lives

Female: PubG.H-2010 Disabled Retirees, +1 year
Male: PubG.H-2010 Disabled Retirees

All rates are projected generationally with Mortality Improvement Scale MP-2021.

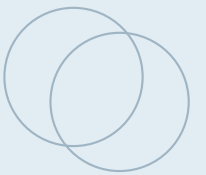
Florida law requires local plans to use mortality assumptions from one of the two most recent FRS valuations; this valuation uses the July 1, 2024 FRS special-risk assumptions.

WHY IT MATTERS

Mortality is not just a “table choice.”

- Florida law constrains the assumption framework for local plans.
- Small longevity changes compound across decades of benefit payments.
- The valuation should disclose the exact base table, adjustments, and improvement scale.

Valuation assumptions: economic & salary



ACTUARIAL ASSUMPTIONS AND METHODS

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Interest Rate 6.75% per year, compounded annually, net of investment-related expenses. Supported by target asset allocation and expected long-term return by asset class.

Salary Increases Based on an actuarial experience study dated October 15, 2025.

Salary Scale	Service	Old Rate	New Rate
	< 5	5.50%	6.75%
	5+	4.00%	4.75%

Final Pay Load Members hired before 10/1/2011: active liabilities increased 3.00% for assumed unused sick/annual leave. Members hired on/after 10/1/2011: no final-pay load.

FINANCE VIEW

Assumptions move the budget through several channels.

- Return affects present values and the amortization path.
- Salary growth affects projected benefits and payroll-based contribution rates.
- Experience studies can materially reset assumptions even when plan provisions do not change.



Valuation assumptions: retirement & disability

ACTUARIAL ASSUMPTIONS AND METHODS

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Retirement Rates

Age	Old	New
50	10.0%	12.5%
51	10.0%	12.5%
52	55.0%	55.0%
53	10.0%	20.0%
54	10.0%	9.5%
55	50.0%	30.0%
56	50.0%	65.0%
57	75.0%	85.0%
58	100.0%	100.0%

Disability Rates

Age	Rate
20	0.0545%
25	0.0545%
30	0.0580%
35	0.0895%
40	0.1210%
45	0.2750%
50	0.4290%

25 years of credited service: 100% assumed retirement.
90% of disablements are assumed service-related.

EXPERIENCE STUDY

The shape of the retirement curve matters.

- The 2025 experience study changed several retirement probabilities materially.
- A single “average retirement age” can hide cost-significant behavior by age and service.
- Demographic experience creates gains or losses when actual outcomes differ from assumptions.

Valuation assumptions: termination & funding methods

ACTUARIAL ASSUMPTIONS AND METHODS

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Termination Rates

Service	Old	New
0	8.0%	8.5%
1	7.0%	4.0%
2	6.0%	4.0%
3	5.0%	4.0%
4	5.0%	2.0%
5+	2.0%	2.0%

Payroll Growth

None for amortization of the UAAL.

Administrative Expenses

Average of actual expenses incurred in the prior two fiscal years.

Amortization Method

New UAAL bases are amortized over 15 years; payment is subject to an ASOP 4 minimum based on 30-year amortization when UAAL is positive.

Funding Method

Entry Age Normal Cost Method.

Actuarial Value of Assets

Four-year smoothing of investment gains and losses.

FUNDING POLICY

Assumptions and methods work together.

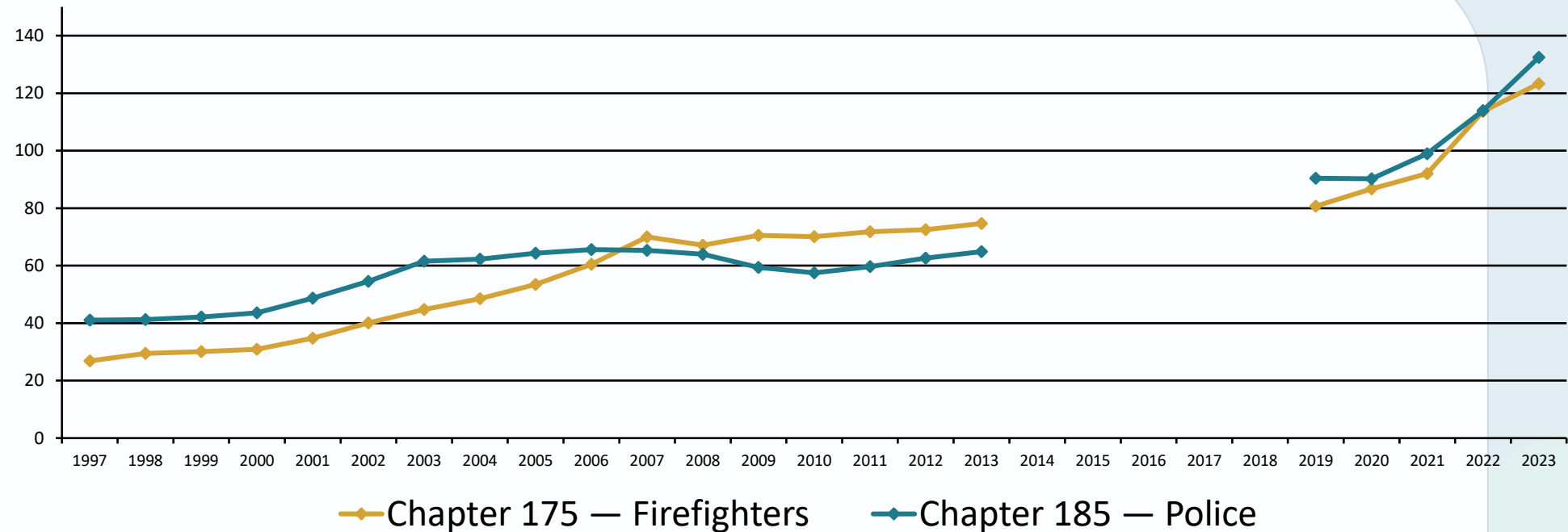
- Demographic assumptions determine expected benefit timing.
- The cost method assigns liability and normal cost across service.
- Amortization and asset smoothing determine how experience reaches the contribution budget.

Chapters 175 and 185 link benefits, funding, and premium taxes

- Eligibility for distributions depends on minimum benefits and minimum standards
- Premium-tax revenue is restricted to retirement benefits for the covered group
- Base and additional revenues have statutory allocation rules
- Mutual consent may permit a different allocation while required standards continue to be met
- Local law plans generally require a defined contribution component under the post-2015 framework
- Model premium-tax assumptions conservatively in bargaining projections

Chapter 175 and 185 premium taxes: separate histories

Statewide firefighter and police distributions • \$ millions



Chapter 175: \$26.8M → \$123.3M

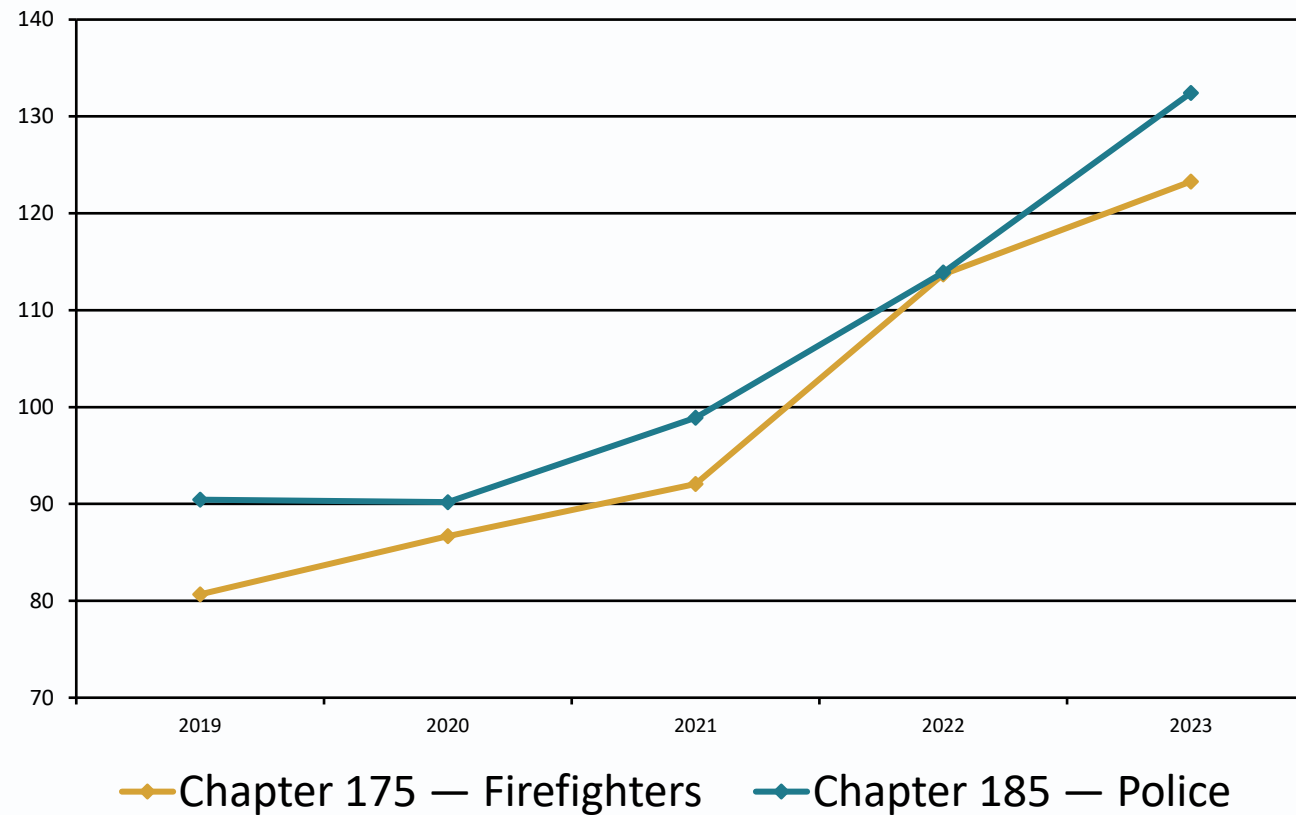
1997 to 2023, using verified split-year observations

Chapter 185: \$41.0M → \$132.4M

1997 to 2023, using verified split-year observations

Recent premium-tax distributions by chapter: 2019–2023

Separate Chapter 175 and Chapter 185 statewide distributions



2019 → 2023

175 +52.8%

2019 → 2023

185 +46.4%

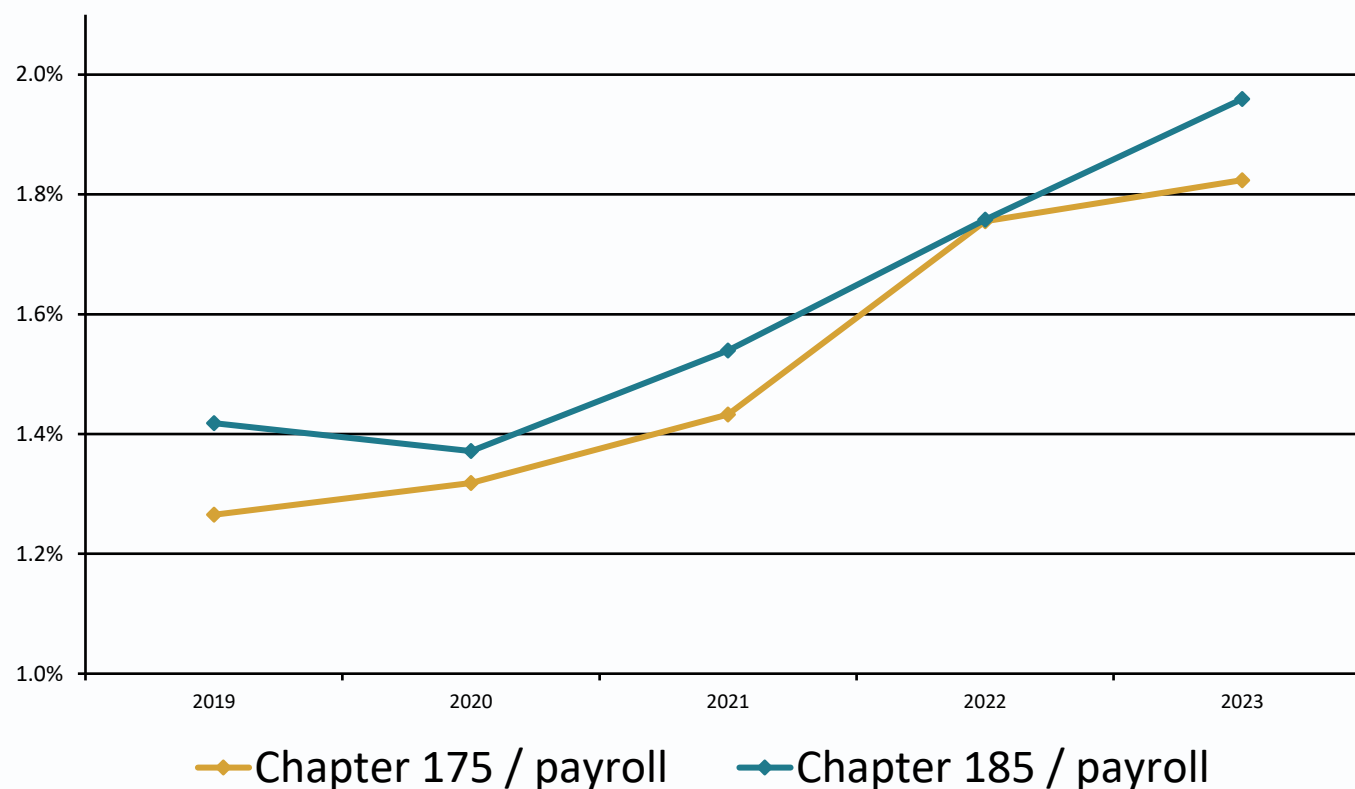
Largest jump

2022

175 +23.5% | 185 +15.2%

Premium taxes as a share of statewide DB plan payroll

Distribution ÷ aggregate municipal and special-district defined-benefit plan payroll reported by Florida DMS



175: 1.27% → 1.82%

185: 1.42% → 1.96%

Statewide scale measure — not a plan-level contribution rate.

Statewide DB payroll

2019 \$6.376B

2020 \$6.576B

2021 \$6.424B

2022 \$6.478B

2023 \$6.760B

DMS "Sponsor / Valuation Payroll"

NEW SECTION

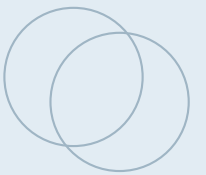
Negotiating benefit improvements

Use actuarial projections to test the full bargaining package—not just the first-year cost.

Impact statements • multi-year projections • Chapter 175/185 • downside scenarios



Obtain the impact statement before the decision is effectively made



- Define the proposed benefit or contribution change precisely
- Measure cost using assumptions consistent with the actuarial review
- Issue the statement before adoption and before the last public hearing
- Furnish it to the Division of Retirement
- Address Article X, section 14 and Chapter 112 compliance
- For Chapter 175/185 plans, follow the additional proposal and filing requirements

A negotiation projection needs more than one “cost” number

Show each proposal against a common baseline:

- First-year dollar contribution and percentage of payroll
- Five-, ten-, and twenty-year city contribution path
- Normal cost versus unfunded-liability payment
- Funded ratio and unfunded liability
- Cash-flow and liquidity outlook
- Downside sensitivities and the mechanism that absorbs adverse experience

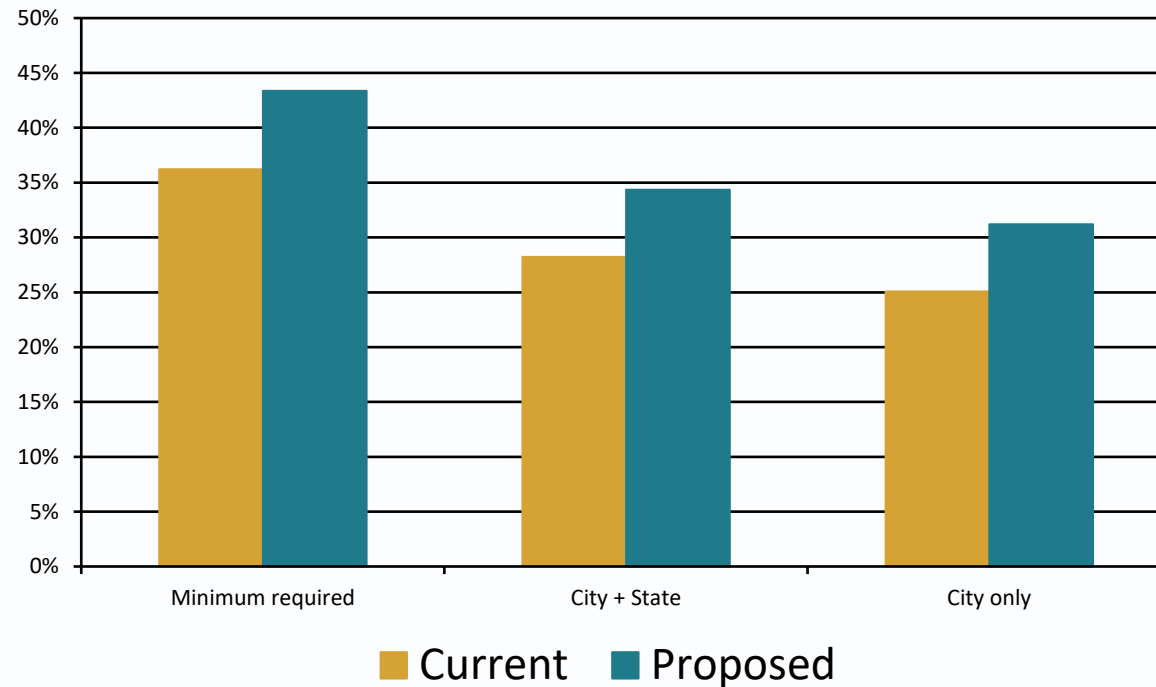
Model the complete bargaining package

- Benefit multiplier, retirement age, service requirement, and final-average-pay definition
- COLA design, DROP provisions, overtime, leave conversion, and other pensionable pay
- Employee contribution changes and effective dates
- Expected wage increases and workforce growth or contraction
- Chapter 175/185 premium-tax allocation and special-benefit provisions
- Transition rules, closed groups, and implementation timing

Small drafting differences can create materially different long-term costs.

2024 Police COLA study: first-year funding impact

Benefit package: 1% annual COLA for newer retirees, one-time catch-up for earlier retirees, and member contribution increase from 8% to 9%



UAAL

\$2.583M → \$3.641M

+\$1.057M

AVA funded ratio

80.9% → 75.0%

-5.9 pp

PV accrued benefits

\$11.449M → \$12.290M

+\$840K

FY2025 MRC

\$744K → \$891K

+\$147K

Projected payroll: \$2.055M

2024 Police COLA study: the multi-year cost has two layers

The first-year +7.14 percentage-point increase separates into recurring normal cost and a new amortization layer

NORMAL COST

+1.51 pp

+\$31.0K in first-year measurement

UAAL AMORTIZATION

+5.63 pp

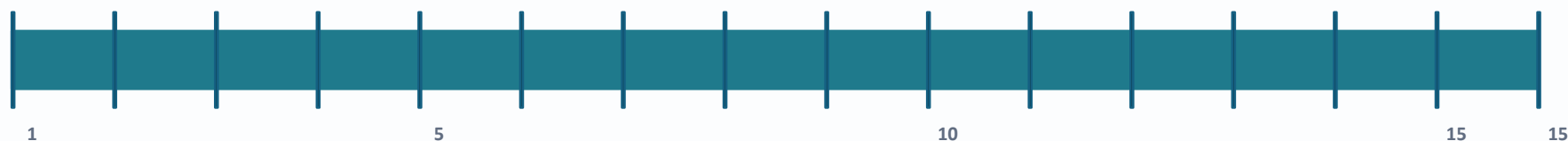
+\$115.6K in first-year measurement

TOTAL MRC CHANGE

+7.14 pp

36.22% → 43.36% of payroll

New UAAL base: 15-year amortization



A benefit improvement can add both ongoing normal cost and a separate UAAL payment stream. The study uses a 15-year period for new UAAL bases.

Investment return

7.50%

Payroll growth for UAAL

0.00%

Funding method

Entry Age Normal

Sequence the work so the projection supports the decision

1. Define current provisions and the baseline funding policy
2. Draft each proposal in unambiguous plan language
3. Screen alternatives with preliminary projections
4. Refine the complete package and test downside scenarios
5. Prepare the formal actuarial impact statement
6. Complete Division filings and public-hearing steps before adoption
7. Update the valuation, budget, and contribution schedule after adoption



Five questions finance officers should ask



1. What changed since last year—and how much did each item change the contribution?
2. Which assumptions are plan-specific, and when were they last studied?
3. Does a prepayment change only timing, or also the valuation-year contribution credit?
4. What happens to the budget under lower returns, slower payroll growth, or adverse experience?
5. Have impact-statement, premium-tax, bargaining, ordinance, and filing requirements been sequenced correctly?

Sound funding combines compliance, evidence, and foresight

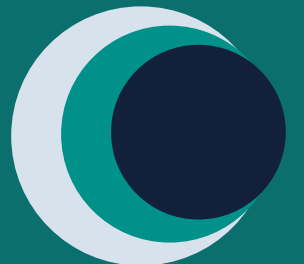
- Comply: apply Chapters 112, 175, and 185 to the actual plan structure
- Explain: reconcile valuation results and assumption changes in dollars
- Test: use experience studies and risk scenarios to challenge the baseline
- Project: show the full contribution path before bargaining commitments
- Coordinate: align actuary, finance, labor, legal counsel, administrator, and trustees

NEW SECTION

Moving to the Florida Retirement System

What changes when future employees enter FRS—and what remains with the legacy local defined benefit plan.

FRS rates • legacy liabilities • investment assumptions • funded status • transition risk



FRS changes who carries the new-hire pension risk

The strategic question is broader than the first-year employer contribution rate.

POTENTIAL ADVANTAGES

- Statewide pooling of investment and longevity risk for FRS Pension Plan members.
- Centralized administration, investments and actuarial infrastructure.
- Future employees gain FRS portability across participating employers.
- Published statutory class rates simplify near-term budgeting.
- New-hire DB investment risk no longer accumulates inside the local plan.

TRADE-OFFS / RISKS

- Less local control over benefit design and future funding policy.
- FRS employer rates can change with law, investment results and actuarial experience.
- Special Risk is materially more expensive than Regular Class.
- The existing local DB liabilities and funding shortfall do not disappear.
- Referendum, Chapter 175/185, bargaining and implementation issues require careful sequencing.

Decision standard: compare 20–30 year total cash flows and risk—not FRS rate vs. today's city contribution.



Current FRS employer rates: Regular vs. Special Risk

FY 2026–27 statutory blended rates • effective July 1, 2026

REGULAR CLASS

13.59%

employer

3.00% employee contribution

Investment Plan account allocation: 8.30% employer

SPECIAL RISK

37.74%

employer

3.00% employee contribution

Investment Plan account allocation: 16.00% employer

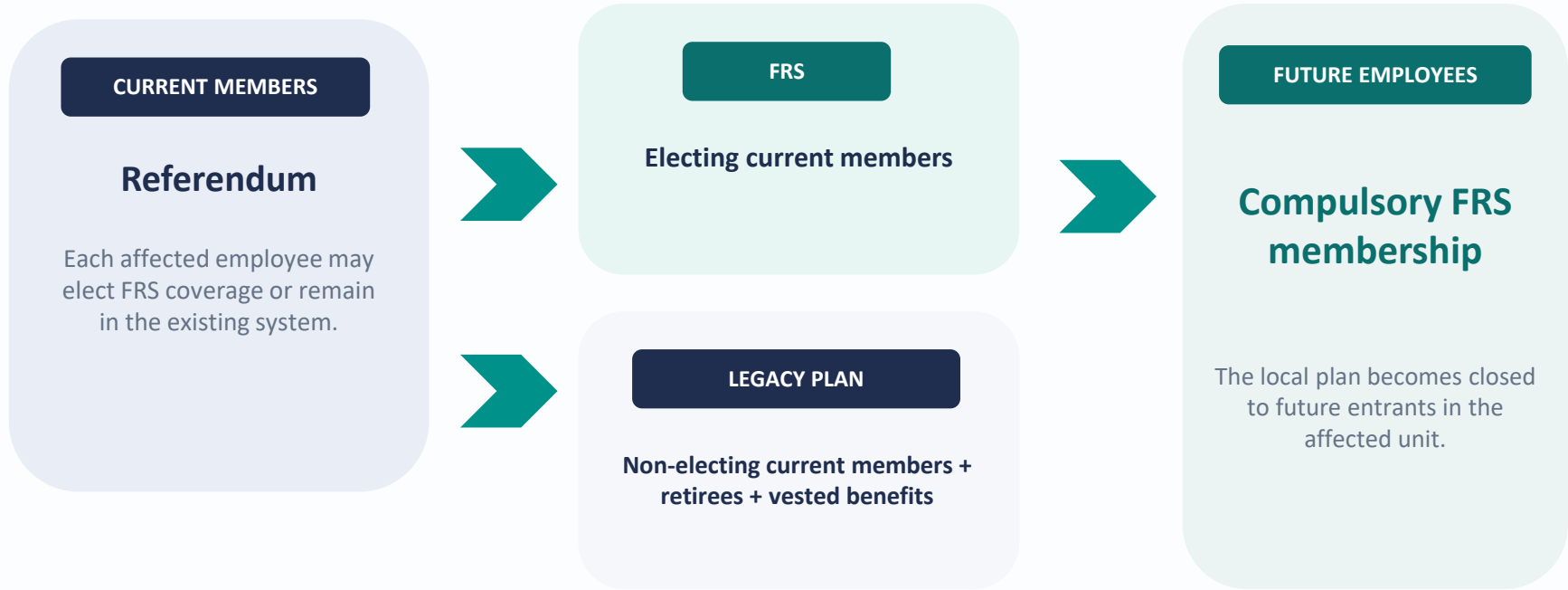
Special Risk premium over Regular Class

+24.15 pp



Moving to FRS does not move the legacy liability

Florida law permits current affected employees to vote on FRS coverage; future employees become compulsory FRS members after the referendum.



Legacy obligations remain: accrued benefits, retirees, vested members, existing UAAL and plan administration.



A closed legacy plan needs a more conservative investment lens

Closing the plan changes maturity, payroll support and cash-flow dynamics—even though the accrued benefits are unchanged.

OPEN LOCAL PLAN

6.86%

FY24 average assumed return

- Ongoing new entrants
- Payroll generally replenishes
- Longer asset horizon

FRS REFERENCE

6.70%

2025 valuation return assumption

Useful benchmark—
not a mandated target
for a local plan.

CLOSED LEGACY PLAN

Re-price the risk

- Fewer/no new entrants
- Higher benefit-payment intensity
- Smaller payroll base for UAAL
- Greater liquidity sensitivity

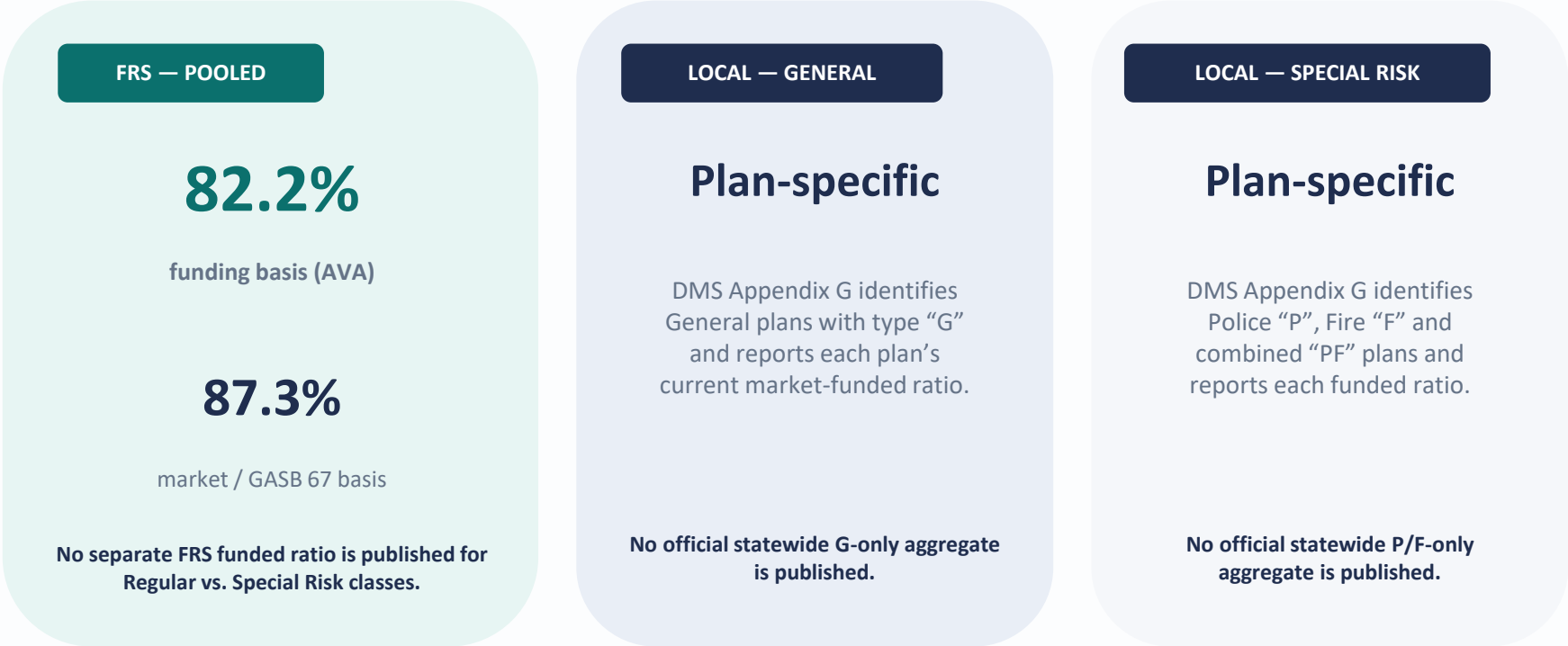
FRS conversion model: reassess the legacy-plan return assumption for the post-closure asset/liability profile; generally test a lower baseline plus at least –50 and –100 bp sensitivities.

Sources: FRS Actuarial Valuation as of July 1, 2025 (6.70%); FPPTA Pension Plan Data Center FY2024 (6.86% average local assumption). Legacy-plan assumption is actuarial judgment, not a statutory FRS conversion rate.



Funded status: compare like with like

FRS is one pooled statewide system; Florida local-law plans are separate trusts by employee group and sponsor.

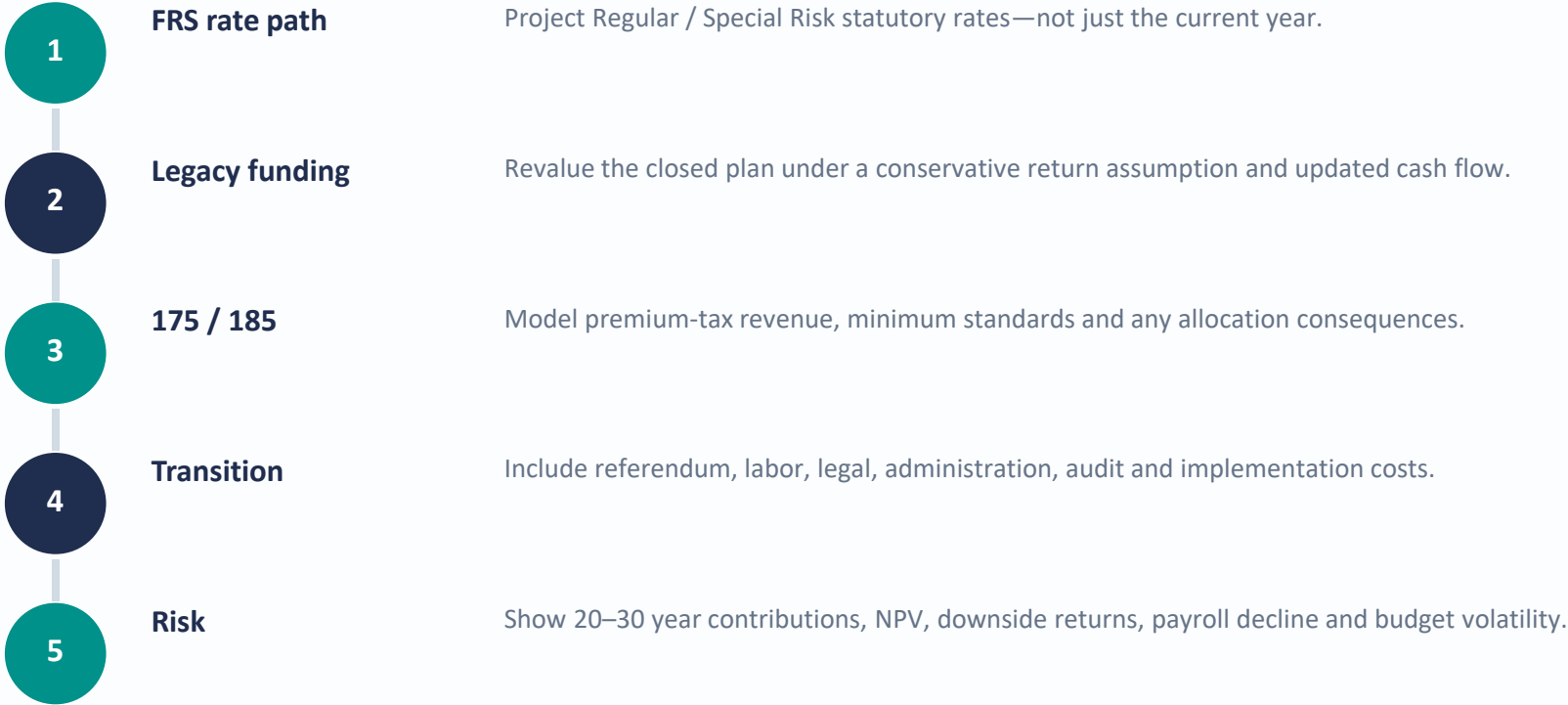


Current all-local benchmark: 82.2% mean pre-funded ratio in FY2024 across 482 local DB plans. For a conversion study, calculate weighted G vs. P/F/PF ratios from DMS Appendix G; mixed-plan types require allocation or exclusion.



Evaluate an FRS move on total long-term cost and risk

A defensible analysis keeps the FRS path and the closed legacy-plan path separate, then combines them at the city budget level.



Core takeaway: FRS may simplify new-hire risk, but it can increase near-term total pension cost while the legacy plan is being financed.



NEW SECTION

Funding is not GASB accounting

Why the contribution, unfunded liability, net pension liability, and pension expense can all be different—and all be correct.

GASB Statements 67 and 68 • financial reporting vs. funding policy



Funding and GASB 67/68 answer different questions

Both are actuarial measurements. Their objectives and recognition rules are different.

FUNDING

“How much should the city contribute?”

Focus: contribution adequacy, intergenerational equity, budget stability, and a disciplined payoff of the unfunded actuarial liability.

Primary output: actuarially determined contribution

≠

GASB 67 / 68

“What should the plan and employer report?”

Focus: financial reporting, transparency, comparability, balance-sheet recognition, pension expense, and required disclosures.

Primary outputs: NPL, pension expense, deferred items

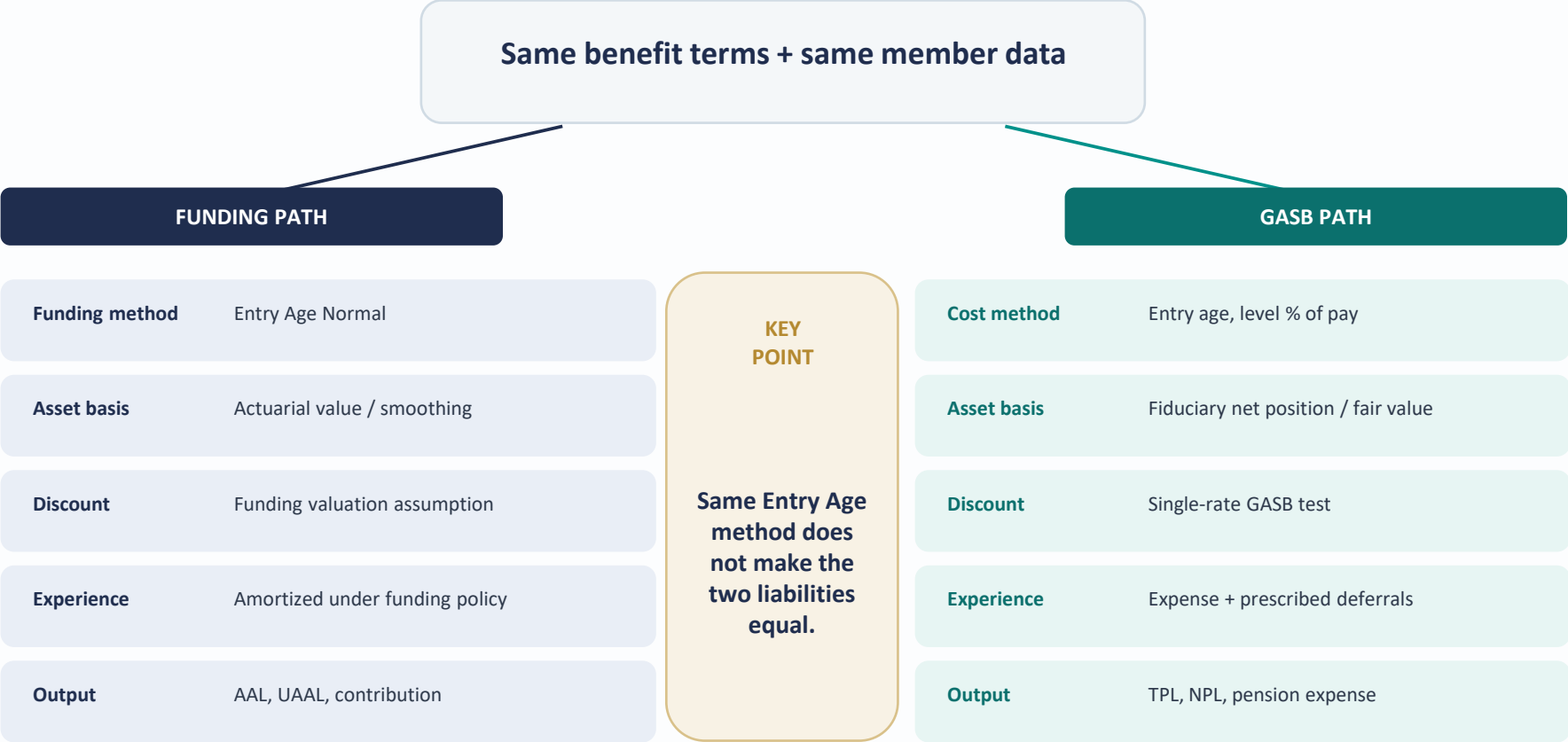
Funding valuation vs. GASB 67/68: the core differences

A useful rule: do not reconcile the two by forcing the liabilities or annual costs to match.

	Funding valuation	GASB 67 / 68 accounting
Objective	Determine a sustainable contribution under the plan's funding policy.	Measure and report the pension obligation and pension expense for financial statements.
Liability	Actuarial accrued liability / UAAL under the funding method.	Total pension liability (TPL); net pension liability = TPL – fiduciary net position.
Cost method	Entry Age Normal for this presentation; funding policy determines normal cost and AAL.	Entry age actuarial cost method, with service cost generally attributed as a level percentage of pay.
Assets	Actuarial value of assets may smooth gains and losses.	Fiduciary net position; investments are reported at fair value.
Discount rate	Funding assumption selected for the valuation and funding policy.	Single discount rate: long-term expected return where projected assets are sufficient; municipal-bond rate for uncovered periods.
Recognition	UAAL amortization and asset smoothing govern how experience reaches contributions.	Changes flow through pension expense immediately or through prescribed deferred outflows/inflows and later recognition.
Result	Contribution requirement / rate and funded status for funding purposes.	NPL, pension expense, deferred outflows/inflows, notes and RSI.

Why the funding liability and GASB liability do not match

Even when the same benefit provisions and demographic census are used, the measurement paths can diverge.



What finance officers should reconcile each year

The objective is a bridge between reports—not a forced equality of numbers.

1

Contribution

Tie the adopted budget and actual deposits to the funding valuation. Explain prepaid contributions, Chapter 175/185 revenue, and any timing differences.

2

Liability

Keep UAAL and GASB NPL labeled separately. Reconcile the major drivers: asset basis, discount rate, measurement date, assumptions, and benefit changes.

3

Pension expense

Do not compare GASB pension expense directly with the city contribution. Identify the current-year service/interest components and deferred recognition.

4

Audit package

Coordinate the valuation date, GASB measurement date, fiduciary net position, employer contributions, disclosures, RSI, and actuary/auditor schedules before year-end close.

Best practice: show a one-page reconciliation of funding contribution, UAAL, GASB NPL, and GASB pension expense—with a plain-English explanation of why each differs.

