FLORIDA RETIREMENT SYSTEM

GASB 67 DISCLOSURE
Fiscal Year: July 1, 2014 to June 30, 2015

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Certification

Actuarial computations presented in this report under Statement No. 67 of the Governmental Accounting Standards Board are for purposes of assisting the FRS in fulfilling its financial accounting requirements. No attempt is being made to offer any accounting opinion or advice. This report is for fiscal year July 1, 2014 to June 30, 2015. The reporting date for determining plan assets and obligations is June 30, 2015. The calculations enclosed in this report have been made on a basis consistent with our understanding of the plan provisions. Determinations for purposes other than meeting financial reporting requirements may be significantly different than the results contained in this report. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security or meeting employer funding requirements.

In preparing this report, we relied, without audit, on information as of June 30, 2014 and June 30, 2015 furnished by the FRS. This information includes, but is not limited to, statutory provisions, member census data, and financial information. Please note that this report is based on the June 30, 2015 assets for the program as reported to us by the Division of Retirement. Please see Milliman's funding valuation report dated December 1, 2015 for more information on the plan's participant group as of July 1, 2015 as well as a summary of the plan provisions and a summary of the actuarial methods and assumptions used for funding purposes.

We performed a limited review of the census and financial information used directly in our analysis and have found them to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

We hereby certify that, to the best of our knowledge, this report, including all costs and liabilities based on actuarial assumptions and methods, is complete and accurate and determined in conformance with generally recognized and accepted actuarial principles and practices, which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Code of Professional Conduct and supporting Recommendations of the American Academy of Actuaries.

This valuation report is only an estimate of the Plan's financial condition as of a single date. It can neither predict the Plan's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuarial assignment, we did not perform an analysis of the potential range of such future measurements.

Certification

Milliman's work is prepared solely for the internal use and benefit of the Florida Retirement System. To the extent that Milliman's work is not subject to disclosure under applicable public records 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 Plan Sponsor may provide a copy of Milliman's work, in its entirety, to the Plan Sponsor'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 Fund; and (b) the Plan Sponsor 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 specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and has been prepared in accordance with generally recognized accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

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Overview of GASB 67 and GASB 68

The Governmental Accounting Standards Board (GASB) released new accounting standards for public pension plans and participating employers in 2012. These standards, GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No. 25 and 27. The most notable change is the distinct separation of funding from financial reporting. The Annual Required Contribution (ARC) has been eliminated under GASB 67 and 68 and is no longer relevant for financial reporting purposes. As a result, plan sponsors have been encouraged to establish a formal funding policy that is separate from financial reporting calculations.

GASB 67 applies to financial reporting for public pension plans. Under GASB 67, enhancements to the financial statement disclosures are required, along with certain required supplementary information.

GASB 68 governs the specifics of accounting for public pension plan obligations for participating employers. GASB 68 requires a liability for pension obligations, known as the Net Pension Liability, to be recognized on the balance sheets of participating employers. Changes in the Net Pension Liability will be immediately recognized as Pension Expense on the income statement or reported as deferred inflows/outflows of resources depending on the nature of the change.

Relationship Between Valuation Date and Measurement Date

Relationship Between Valuation Date and Measurement Date

The Valuation Date is July 1, 2015. This is the date as of which the actuarial valuation is performed. The Measurement Date is June 30, 2015.

Schedule of Employer Contributions

Fiscal Year Ending June 30	Actuarially Determined Contribution[1]	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll[2]	Contribution as a % of Covered Payroll
2006	$2,193,928,000	$2,096,884,000	$97,044,000	$25,314,566,000	8.28%
2007	2,455,255,000	2,736,861,000	(281,606,000)	26,366,086,000	10.38%
2008	2,612,672,000	2,796,651,000	(183,979,000)	26,872,418,000	10.41%
2009	2,535,854,000	2,808,418,000	(272,564,000)	26,554,114,000	10.58%
2010	2,447,374,000	2,721,618,000	(274,244,000)	25,747,369,000	10.57%
2011	3,680,042,000	3,050,684,000	629,358,000	25,668,958,000	11.88%
2012	1,962,816,000	1,185,310,000	777,506,000	24,476,272,000	4.84%
2013	2,091,343,000	1,388,656,000	702,687,000	24,553,693,000	5.66%
2014	2,190,424,344	2,190,424,344	0	24,723,565,000	8.86%
2015	2,438,084,925	2,438,084,925	0	32,726,034,000	7.45%

[1] For fiscal years prior to 2013-14 the Annual Required Contribution under GASB Statement No. 27 is shown.

[2] For the fiscal years ending 2014 and before, covered payroll shown includes defined benefit plan actives and members in DROP, but excludes the payroll for Investment Plan members and payroll on which only UAL rates are charged. For the fiscal years 2015 and later, covered payroll shown includes the payroll for Investment Plan members and payroll on which only UAL rates are charged. For comparative purposes, the payroll for fiscal year ending 2015 on the basis shown in years 2014 and earlier is $25,063,048,000.

Actuarial Methods and Assumptions Used for Funding Policy

The following actuarial methods and assumptions were used in the July 1, 2015 funding valuation. Please see the valuation report dated December 1, 2015 for further details.

Valuation Timing	Actuarially determined contribution rates for a given plan year are calculated in the valuation conducted as of the beginning of the preceding plan year (e.g., rates for the 2016-2017 plan year are calculated in the 7/1/2015 actuarial valuation).
Actuarial Cost Method	Ultimate entry age
Amortization Method	
Level percent or level dollar	Level percent
Closed, open, or layered periods	Closed, layered
Amortization period at 07/01/2015	30 years
Payroll growth rate	3.25%
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Asymptotic
Corridor	80% - 120% of fair market value
Inflation	2.60%
Salary Increases	Varies by tier, membership class; details in valuation report
Investment Rate of Return	7.65%
Cost of Living Adjustments	3% for pre-July 2011 benefit service; 0% thereafter
Retirement Age	Varies by tier, membership class; details in valuation report
Turnover	Varies by tier, membership class; details in valuation report
Mortality	Generational RP-2000 with Projection Scale BB

Statement of Fiduciary Net Position

	June 30, 2014	June 30, 2015
Assets		
Cash and cash equivalents	$ 309,563,638	$ 725,275,586
State treasury investment pool	1,665,880	1,648,038
Total cash and cash equivalents	311,229,518	726,923,624
Investments:		
Certificates of deposit	1,417,425,894	1,936,529,355
U.S. government and federally guaranteed obligations	9,274,839,080	7,622,314,823
Federal agencies	8,819,935,227	9,458,712,224
Commercial paper	6,161,120,821	5,867,392,218
Options	2,388,871	33,150
Repurchase agreements	1,150,000,000	400,000,000
International bonds and notes	2,593,570,824	2,636,428,966
Bonds and Notes	7,171,943,413	7,735,700,449
Real estate contracts	9,910,419,718	10,142,273,433
Mutual funds equity	7,501,662,131	6,315,997,920
Short-term investment funds	9,733,821	12,264,488
Domestic equity / domestic equity commingled	44,070,462,430	43,387,207,094
Alternative investments	16,501,387,250	19,596,356,887
International equity / international equity commingled	38,330,351,178	36,089,572,296
Total investments	152,915,240,658	151,200,783,303
Receivables:		
Contributions receivable	201,012,138	210,652,630
Pending investment sales	1,764,143,791	1,477,146,161
Forward contracts receivable	2,967,243,022	2,203,248,822
Other receivables	587,811,549	539,212,007
Total receivables	5,520,210,499	4,430,259,620
Security lending collateral	4,618,259,793	8,346,890,175
Prepaid items; furniture & equipment net accumulated depreciation	10,645,280	8,991,387
Total assets	163,375,585,749	164,713,848,109
Liabilities		
Accrued DROP liability[1]	0	308,549,911
Obligations under security lending agreements	4,674,292,312	8,395,913,686
Pending investment purchases	5,287,740,705	4,984,157,006
Forward contracts payable	2,974,062,780	2,198,672,804
Other liabilities and payables	425,197,580	372,160,800
Total liabilities	13,361,293,377	16,259,454,207
Fiduciary Net Position		
Held in trust for pension benefits	$ 150,014,292,372	$ 148,454,393,902

[1] Per our understanding, the June 30, 2015 accrued DROP liability represents the amount of lump sum payments made in early July 2015 for members exiting the DROP on or before June 30, 2015.

Statement of Changes in Fiduciary Net Position

	June 30, 2014	June 30, 2015
Additions		
Member contributions	$ 682,507,323	$ 698,304,112
Employer contributions	2,190,424,344	2,438,084,925
Total contributions	2,872,931,667	3,136,389,037
Transfers from other funds	131,260,646	57,536,043
Investment income (loss):		
Interest	985,691,174	901,745,439
Dividends	2,201,178,475	2,002,846,459
Net increase in fair value of investments	19,454,778,191	2,402,481,481
Securities lending income	50,690,359	46,845,509
Less investment expenses:		
Direct investment expense	511,032,856	529,631,944
Securities lending expense	5,631,561	8,671,776
Net investment income	22,175,673,782	4,815,615,168
Other income	636,612,711	707,672,304
Total additions	25,816,478,806	8,717,212,552
Deductions		
Benefit payments[1]	8,030,797,920	9,530,429,352
Transfers to the Investment Plan	807,719,753	719,182,111
Refunds of member contributions	6,993,783	9,425,580
Administrative expenses	18,351,882	18,073,979
Total deductions	8,863,863,338	10,277,111,022
Net increase (decrease)	$ 16,952,615,468	$ (1,559,898,470)
Net position restricted for pensions		
Beginning of year	$ 133,061,676,904	$ 150,014,292,372
End of year	$ 150,014,292,372	$ 148,454,393,902

[1] Includes transfers to other funds and general revenue-funded benefit payments

Money-Weighted Rate of Return

Fiscal Year Ending June 30	Net Money-Weighted Rate of Return
2015	3.77%

Calculation of Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts estimated as invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. Cash flows are estimated on a monthly basis and are assumed to occur at the beginning of each month. Cash inflows are netted with cash outflows, resulting in a net cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows with Interest
Beginning value - July 1, 2014	$150,014,292,372	12	1.00	$155,672,422,060
Monthly net external cash flows:				
July	(590,265,495)	12	1.00	(612,528,699)
August	(590,265,495)	11	0.92	(610,717,153)
September	(590,265,495)	10	0.83	(608,685,567)
October	(590,265,495)	9	0.75	(606,885,387)
November	(590,265,495)	8	0.67	(605,090,531)
December	(590,265,495)	7	0.58	(603,077,662)
January	(590,265,495)	6	0.50	(601,294,068)
February	(590,265,495)	5	0.42	(599,515,748)
March	(590,265,495)	4	0.33	(597,521,424)
April	(590,265,495)	3	0.25	(595,754,262)
May	(590,265,495)	2	0.17	(593,992,326)
June	(590,265,495)	1	0.08	(592,016,376)
Ending value - June 30, 2015	148,454,393,902			148,445,342,857
Money-weighted rate of return	3.77%			

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2015 the FRS Actuarial Assumptions conference reviewed long-term assumptions developed by both Milliman's capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation*	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1%	3.2%	3.1%	1.7%
Fixed income	18%	4.8%	4.7%	4.7%
Global equity	53%	8.5%	7.2%	17.7%
Real estate (property)	10%	6.8%	6.2%	12.0%
Private equity	6%	11.9%	8.2%	30.0%
Strategic investments	12%	6.7%	6.1%	11.4%
Assumed inflation - mean		2.6%		1.9%

* As outlined in the Plan's investment policy

Depletion Date Projection

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for the Florida Retirement System:

- The Florida Retirement System has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.

- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.

- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position

Based on these circumstances, it is our professional opinion that the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses. As such, the detailed projections were not developed.

Net Pension Liability

Net Pension Liability	June 30, 2014	June 30, 2015
Total pension liability	$156,115,762,947	$161,370,735,088
Fiduciary net position	150,014,292,372	148,454,393,902
Net pension liability	6,101,470,575	12,916,341,186
Fiduciary net position as a % of total pension liability	96.09%	92.00%
Covered payroll*	24,723,565,000	32,726,034,000
Net pension liability as a % of covered payroll	24.68%	39.47%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below. The total pension liability is calculated using the Individual Entry Age Normal cost allocation method, which differs from the Ultimate Entry Age Normal cost allocation method used in the funding valuation for the System. Additionally, the net pension liability above has been adjusted upward to reflect any balance in the Contribution Clearing Trust Fund as of the measurement date.

* For June 30, 2014, covered payroll shown includes defined benefit plan actives and members in DROP, but excludes the payroll for Investment Plan members and payroll on which only UAL rates are charged. For June 30, 2015, covered payroll shown includes the payroll for Investment Plan members and payroll on which only UAL rates are charged.

Discount Rate

Discount rate	7.65%	7.65%
Long-term expected rate of return, net of investment expense	7.65%	7.65%
Municipal bond rate	N/A	N/A

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.

Other Key Actuarial Assumptions

The actuarial assumptions that determined the total pension liability as of June 30, 2015 were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Valuation date	July 1, 2014	July 1, 2015
Measurement date	June 30, 2014	June 30, 2015
Inflation	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%
Mortality	Generational RP-2000 with Projection Scale BB**	Generational RP-2000 with Projection Scale BB***
Actuarial cost method	Individual Entry Age	Individual Entry Age

** See July 1, 2014 Actuarial Valuation Report for details
*** See July 1, 2015 Actuarial Valuation Report for details

Changes in Net Pension Liability

Changes in Net Pension Liability	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of June 30, 2014	$ 156,115,762,947	$ 150,014,292,372	$ 6,101,470,575
Changes for the year:			
Service cost	2,114,046,879		2,114,046,879
Interest on total pension liability	11,721,563,262		11,721,563,262
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	1,620,863,000		1,620,863,000
Effect of assumptions changes or inputs	0		0
Benefit payments[1]	(10,201,501,000)	(10,201,501,000)	0
Employer contributions		2,438,084,925	(2,438,084,925)
Member contributions		698,304,112	(698,304,112)
Net investment income		5,523,287,472	(5,523,287,472)
Administrative expenses		(18,073,979)	18,073,979
Balances as of June 30, 2015	$ 161,370,735,088	$ 148,454,393,902	$ 12,916,341,186

[1] Benefit payments shown above include outbound transfers to the Investment Plan and returns of contributions, net of $57,536,043 inbound transfers from the Investment Plan.

Sensitivity Analysis

The following presents the net pension liability of the FRS, calculated using the discount rate of 7.65%, as well as what the FRS's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate.

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
Total pension liability	$181,923,555,126	$161,370,735,088	$144,267,412,898
Fiduciary net position	148,454,393,902	148,454,393,902	148,454,393,902
Net pension liability	$ 33,469,161,224	$ 12,916,341,186	$ (4,186,981,004)

Schedule of Changes in Net Pension Liability and Related Ratios[1] (in 1,000s)

	June 30, 2014	June 30, 2015
Total Pension Liability		
Service cost	$2,256,738	$2,114,047
Interest on total pension liability	11,489,921	11,721,563
Effect of plan changes	0	0
Effect of economic/demographic (gains) or losses	(448,818)	1,620,863
Effect of assumption changes or inputs	1,256,045	0
Benefit payments	(8,714,251)	(10,201,501)
Net change in total pension liability	5,839,635	5,254,972
Total pension liability, beginning	150,276,128	156,115,763
Total pension liability, ending (a)	156,115,763	161,370,735
Fiduciary Net Position		
Employer contributions	$2,190,424	$2,438,085
Member contributions	682,507	698,304
Investment income net of investment expenses	22,812,286	5,523,287
Benefit payments	(8,714,251)	(10,201,501)
Administrative expenses	(18,352)	(18,074)
Net change in plan fiduciary net position	16,952,615	(1,559,898)
Fiduciary net position, beginning	133,061,677	150,014,292
Fiduciary net position, ending (b)	150,014,292	148,454,394
Net pension liability, ending = (a) - (b)	$6,101,471	$12,916,341
Fiduciary net position as a % of total pension liability	96.09%	92.00%
Covered payroll[2]	$24,723,565	$32,726,034
Net pension liability as a % of covered payroll	24.68%	39.47%

[1] This exhibit will fill in to a ten-year schedule as results for new fiscal years are calculated.

[2] For June 30, 2014, covered payroll shown includes defined benefit plan actives and members in DROP, but excludes the payroll for Investment Plan members and payroll on which only UAL rates are charged. For June 30, 2015 and later, covered payroll shown includes the payroll for Investment Plan members and payroll on which only UAL rates are charged.

Glossary

Actuarially Determined Contribution	A target contribution to a defined benefit pension plan for the reporting period, determined based on the funding policy and most recent measurement available when the contribution for the reporting period was adopted.
Deferred Inflows/Outflows of Resources	Portion of changes in net pension liability that is not immediately recognized in pension expense. These changes include differences between expected and actual experience, changes in assumptions, and differences between expected and actual earnings on plan investments.
Discount Rate	Single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the sum of: 1) The actuarial present value of benefit payments projected to be made in future periods where the plan assets are projected to be sufficient to meet benefit payments, calculated using the Long-Term Expected Rate of Return. 2) The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.
Fiduciary Net Position	Equal to market value of assets.
Long-Term Expected Rate of Return	Long-term expected rate of return on pension plan investments expected to be used to finance the payment of benefits, net of investment expenses.
Money-Weighted Rate of Return	The internal rate of return on pension plan investments, net of investment expenses.
Municipal Bond Rate	Yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
Net Pension Liability	Total pension liability minus the plan's fiduciary net position.
Projected Benefit Payments	All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and expected future service.
Service Cost	The portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.
Total Pension Liability	The portion of actuarial present value of projected benefit payments that is attributable to past periods of member service using the individual entry age cost method based on the requirements of GASB 67 and 68.