

FLORIDA RETIREMENT SYSTEM (FRS)

FRS INVESTMENT PLAN

ASSESSMENT AND RECOMMENDED IMPROVEMENTS

Prepared by:

Pension Integrity Project at Reason Foundation

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About the Pension Integrity Project

We offer pro-bono technical assistance to public officials to help them design and implement pension reforms that improve plan solvency and promote retirement security, including:

- *Customized analysis* of pension system design, trends
- *Independent actuarial modeling* of reform scenarios
- Consultation and modeling around *custom policy designs*
- Latest pension reform *research and case studies*
- *Peer-to-peer mentoring* from state and local officials who have successfully enacted pension reforms
- Assistance with *stakeholder outreach*, engagement and relationship management
- Design and execution of *public education programs* and media campaigns



Policy Objectives

- **Keeping Promises:** Ensure the ability to pay 100% of the benefits earned and accrued by active workers and retirees
- **Retirement Security:** Provide retirement security for all current and future employees
- **Predictability:** Stabilize contribution rates for the long-term
- **Risk Reduction:** Reduce pension system exposure to financial risk and market volatility
- **Affordability:** Reduce long-term costs for employers/taxpayers and employees
- **Attractive Benefits:** Ensure the ability to recruit 21st Century employees
- **Good Governance:** Adopt best practices for board organization, investment management, and financial reporting



Major Reforms to FRS

2000 – House Bill 2393

- Provided a defined, participant-directed contribution (DC) plan option to FRS members.
- One-year vesting for the portability of employer contributions.
- Based retirement benefits on market returns rather than a fixed benefit guarantee.
- Existing members given the option to switch future FRS participation into the DC plan without losing their already earned pension benefits.

2011 – Senate Bill 2100

- Created a Tier II with different eligibility requirements for all new members post July 1, 2011.
- Renamed the FRS defined benefit plan the Florida Retirement System “Pension Plan”.
- Renamed the FRS defined contribution plan from the Public Employee Optional Retirement Program to the Florida Retirement System “Investment Plan.”
- Eliminated post-retirement increases on pension benefits earned after July 2011.
- Decreased both employer and employee contribution rates effective July 2012.
- Led to unfunded accrued liabilities decreasing from \$16.7 billion to \$15.6 billion.

2017 – Senate Bill 7022

- Defaults new Regular Class employees hired after January 2018 into the FRS Investment Plan (DC plan) if no election taken after eight months of employment.

Choice-based Public Retirement

Florida is a leader in expanding options to public workers



Upon being hired, Florida's public employees have a choice between:

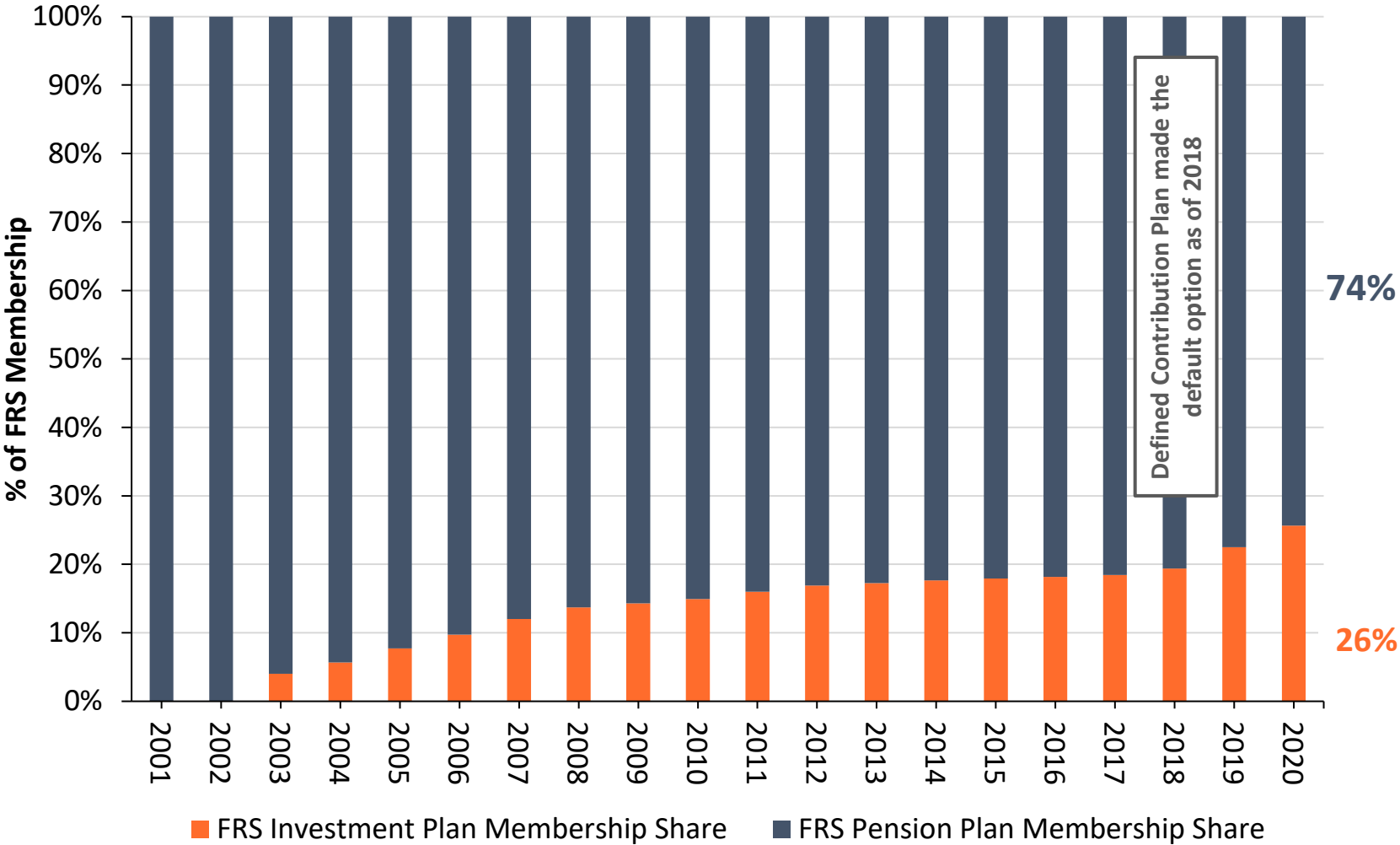
FRS Investment Plan
(defined contribution)

FRS Pension Plan
(defined benefit)

There is no one-size-fits-all retirement plan. Choice-based plan design helps FRS serve a wider group of public workers.



FRS Membership Allocation: DB+DC Plans



Source: Pension Integrity Project analysis of FRS CAFR reports

FRS Investment Plan Successes

Florida's Investment Plan has several strong foundational features



- **Defaults** that optimize the selection to the majority of new members
- Affordable and flexible **investment options**
- **Reduces** the growth of unfunded pension liabilities by lowering financial risk
- Does not hinder much-needed **contributions** from the state to pay off long-standing pension debt

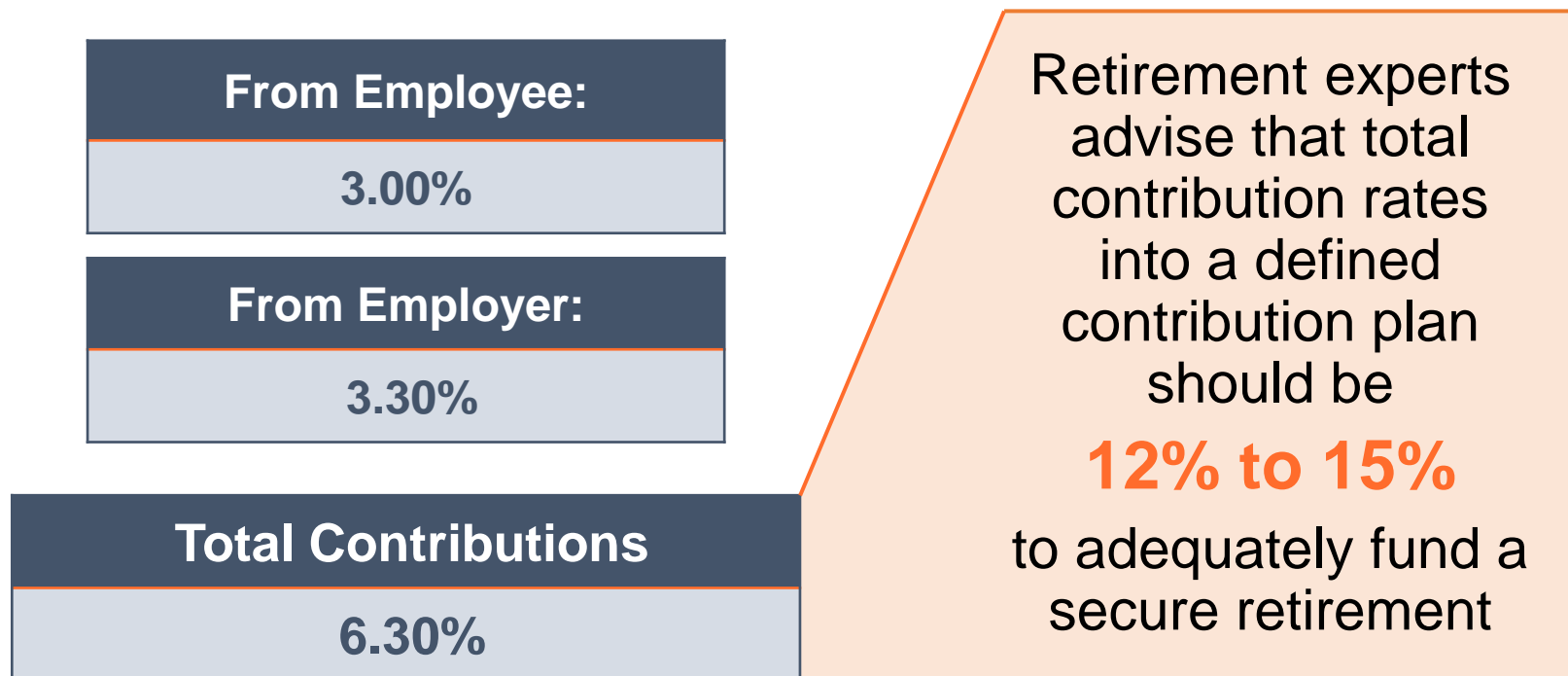


OPPORTUNITIES FOR IMPROVEMENT



I. FRS Investment Plan Contributions

Current FRS Investment Plan contribution breakdown
(Regular Class only):



The state also makes a **3.44%** contribution to pay down legacy unfunded FRS Pension Plan liabilities for EVERY new hire, regardless of plan choice.

Contribution Comparison

Rates Used by States with Primary DC Plans



State	Plan	Employee Contribution	Employer Contribution	Total Contribution
OH	STRS	14.00%	9.53%	23.53%
CO	PERA	10.50%	10.50%	21.00%
AZ	PSPRS	9.00%	9.00%	18.00%
OH	PERS	10.00%	7.50%	17.50%
MT	PERA	7.90%	8.63%	16.53%
ND	PERS	7.00%	7.12%	14.12%
SC	SCRS	9.00%	5.00%	14.00%
AK	PERS	8.00%	5.00%	13.00%
PA	PSERS	7.50%	3.50%	11.00%
PA	SERS	7.50%	3.50%	11.00%
OK	PERS	4.50%	6.00%	10.50%
MI	PSERS	3.00%	7.00%	10.00%
MI	SERS	3.00%	7.00%	10.00%
UT	URS	0.00%	10.00%	10.00%
FL	FRS (Regular)	3.00%	3.30%	6.30%

2. Establish Objectives for the Investment Plan



- FRS has stated objectives for all plans combined
- Framing explicit language delineating the specific objectives of the Investment Plan could help communicate the goals of the plan to new and existing public workers
- Lifetime income and retirement security should be a key focus



3. Expand Target Date Fund Options

- The Investment Plan offers target-date portfolios to simplify long-term saving strategies based on a target retirement year
- Other unique factors should also be recognized in retirement planning (i.e. health, family, etc.)
- More options in target-date portfolios can increase flexibility for plan participants

4. Expand Lifetime Income Options

- The Investment Plan offers annuitization at retirement, which allow retirees to use their accrued retirement funds to buy a stream of guaranteed lifetime income
- Policymakers can further improve on this option by allowing deferred annuities, which reduce the risk on the employee



FRS Investment Plan - Gold Standard Score

Objective	Gold Standard	FRS Investment Plan
Defined Plan Objectives	Defines objectives in writing as part of a comprehensive “benefits policy statement” or at least within a “retirement plan policy statement.”	There is little reference in the FRS Investment Plan material that specifically speaks to plan objectives. The “Summary Plan Description” states, “Each FRS plan is designed to provide you with a good foundation for financial security when considered along with Social Security, other retirement programs, and your own personal savings (including savings accounts, IRAs, and deferred compensation programs offered through your employer, among other resources).” This statement falls short of stating plan objectives as it is too general and without supporting detail.
Communication and Education	Educated members on the available choices and relevant information needed to make competent retirement decisions.	The plan sponsor offers various tools for communicating with and educating employees about the different retirement plans available. Once a choice is made by the employee to join the FRS Investment Plan, a good amount of material is available including investment education. The plan also offers robo-advice to participants at no additional charge.
Auto Enrollment	Defaults members into a defined contribution retirement option if no other option is selected upon hire.	New hires are enrolled into the FRS Investment Plan by the end of their eighth month of employment when no other option is selected, providing the member with maximum asset mobility by default.
Adequate Contributions	Replace approximately 80% of a worker’s final salary.	A major challenge facing the FRS Investment Plan is the inadequacy of the combined 6.3% FRS Investment Plan contribution rate (3% Employee /3.3% Employer) to fund lifetime financial security, even in combination with social security and reasonable personal savings. Retirement experts agree that a total contribution rate of between 12% and 15% is necessary over a career to adequately fund retirement when combined with social security and personal savings.
Retirement Specific Portfolio Design	Offer “one-touch” investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.	The FRS Investment Plan offers a solid mix of proprietary investment funds with acceptable fees and a series of reasonably priced target-date funds for participants preferring a “one-choice” option. However, it would be preferable to see some guaranteed investments included in the target-date portfolio constructions, and not offering deferred annuities limit a member’s financial flexibility.
Benefit Portability	Safeguard the ability to recruit highly mobile 21st Century employees.	Accumulations attributable to employer contributions into the FRS Investment Plan are vested in the employee after one year of service. Accumulations attributable to employee contributions are, of course, immediately vested. While much shorter than the FRS pension plan, the one-year vest is somewhat longer than ideal. Full and immediate vesting would be preferred.
Offer Distribution Options	Provide members with a variety of asset distribution methods while limiting borrowing.	The standard distribution method offered under the FRS Investment Plan is a lump-sum withdrawal upon separation of service. The employee can roll this distribution over to an IRA or take periodic distributions. Despite a lifetime annuity option being available to members, generally the distribution choices offered by the FRS Investment Plan limit its attractiveness as a true, core retirement option.
Disability Coverage	Offer a separate disability insurance benefit from a quality insurer.	The FRS Investment Plan’s disability coverage is the same as the FRS Pension Plan. In fact, FRS Investment Plan assets are transferred to the FRS Pension Plan upon a member becoming disabled to help fund the benefit. While the consistency between plans is ideal, the FRS disability benefit is not available until an employee has eight years of creditable service.



Questions?

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