FLORIDA RETIREMENT SYSTEM (FRS)

Why 80% Funded Is Not Enough

As of 2020, the Florida Retirement System (FRS) reported to have 82 cents for every dollar of pension benefits promised to public employees

Is Being 80% Funded—or Close to It—a Real Problem?

Some argue no since Florida has several decades to catch up on payments, while the state expects to have enough money to pay today's retirees. However, this view fails to account for the added costs and risks associated with holding an unfunded liability and a funded ratio less than 100%

#1: Financing FRS Pension Debt Is Expensive

- FRS has at least $36 billion in pension debt, and billions more if the pension plan's assumptions are wrong
- Billions in required annual pension debt payments could instead be used to pay public employees more, support the classroom, or provide tax relief
- Interest on pension debt has added about $13.5 billion in unfunded liabilities since 2009

#2: Maintaining an 80% Funded Ratio Jeopardizes Intergenerational Equity

- Any pension plan less than 100% funded holds pension debt that requires "unfunded liability amortization payments"
- Carrying pension debt means future taxpayers must eventually pay for today's public sector retirement benefits

#3: The Actuarial Community Agrees, 80% Funded is Not Healthy

- The idea pension actuaries think 80% funded ratios are healthy is a myth
- On the reverse side are quotes from the actuarial community on why pension plans with less than 100 cents on the dollar to pay promised benefits need to improve their long-term solvency

Conclusion: Pension plans must be 100% funded to prevent expensive, intergenerational inequality. Anything less won't do for Florida public employees or taxpayers

PENSION INTEGRITY PROJECT CONTACTS

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Reason Foundation is a national 501(c)(3) public policy research and education organization with expertise across a range of policy areas, including public sector pensions, transportation, infrastructure, education, and criminal justice. For more information about the Pension Integrity Project at Reason Foundation, visit reason.org.

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The Pension Plan Actuarial Community on Fully Funding Benefits

"[A pension] plan's funding goal should always be 100% of the plan liability calculated assuming median expected future investment returns." — Society of Actuaries

- The Society of Actuaries (SOA) is the world's largest actuarial professional organization.
- SOA's Blue Ribbon Panel on Public Pension Funding advises that a plan should not settle for any level of funding below 100%, and should always guide their fund to reach full funding within a reasonable time-frame and under a median level of possible long-term returns.
- Read for yourself: https://www.soa.org/blueribbonpanel/

"A plan with a funded ratio above 80% (or any specific level) might not be sustainable if the obligation is excessive relative to the financial resources of the sponsor, if the plan investments involve excessive risk, or if the sponsor fails to make the planned contributions." — American Academy of Actuaries

- According to actuarial reports, the FRS investment portfolio has increased its holdings in high risk and low transparency assets in an effort to achieve higher returns.
- The American Academy of Actuaries advises that an 80% funded ratio is not a reliable indicator of pension fund health, especially if the fund is allocating its investments in more risky assets and not making the full actuarially required payments.
- Read for yourself: https://www.actuary.org/files/80_Percent_Funding_IB_071912.pdf

"Underfunded pension plans ... generally violate the principle of intergenerational equity." — Pension Finance Institute

- The Pension Finance Institute warned that anything below full funding represents intergenerational theft, meaning current employees and employers aren't putting enough into the system to pay the amount promised, which will result in future generations having to pay for benefits they will not receive.
- Even if FRS is on a path to full funding within 30 years, future generations bear the financial risk if all market expectations are not met. To protect their future, Florida policymakers ought to do anything in their power to expedite the path to full funding.
- Read for yourself: https://www.pensionfinance.org/papers/PubPrin.pdf

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