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Update on Choice in the Florida Retirement System

Background on the Florida Retirement System

The Florida Retirement System (FRS) is the fourth largest public retirement system in the U.S., with approximately 950 participating public-sector employers, 680,000 active employee members and 300,000 retirees. In 2000, the Florida Legislature created Part II of the FRS consisting of two primary components:

- **The FRS Investment Plan:** (also known as the Public Employee Optional Retirement Program): a 401(a) defined contribution plan that employees choose in lieu of membership in the traditional defined benefit plan (i.e., the FRS Pension Plan). At the end of the fourth quarter 2009, it had 20 investment options, 122,769 open accounts, of which 96,883 are actively working members, and \$4.8 billion in assets; and,
- **The MyFRS Financial Guidance Program:** multi-media educational resources that support employees' choices between retirement plans and, on an ongoing basis, provide all FRS members (i.e., both Pension Plan and Investment Plan) with the information necessary to make informed decisions about choices within their FRS Plan and in preparation for retirement (s. 121.4501(10)(d), F.S.). The MyFRS Financial Guidance Program is delivered in coordination with the State Division of Retirement (DOR) within the Department of Management Services.

Between June 2002 and February 2003, employees were given the opportunity to:

- Remain in the FRS Pension Plan by actively electing or defaulting (i.e., by taking no action during their choice window).
- Enroll in the FRS Investment Plan by transferring a lump sum from the Pension Plan and receiving future employer contributions into a self-directed account.¹

¹ Employees with 5 or more years of prior FRS service may also choose the Hybrid Option; which includes aspects of both the Pension Plan and Investment Plan.

- After their initial plan election periods, employees also retain a second and final opportunity to move between the two retirement plans anytime in their FRS career (“2nd Election”).

The MyFRS Financial Guidance Program utilizes the following channels:

- **Print and Video:** Personalized FRS plan choice and retirement statements and generic material on FRS plan choice and retirement planning.
- **Toll-free MyFRS Financial Guidance Line:** Employees can discuss their FRS options and retirement planning issues with experienced and objective financial planners from Ernst & Young. DOR counselors are also available on this line.
- **MyFRS.com:** This award-winning site contains a wealth of plan choice information and retirement planning applications, including Financial Engines’ Choice Service (compares FRS plans) and flagship Advisor Service (financial guidance). Employees can enroll and manage their benefits online.
- **Workshops:** Ernst & Young conducts FRS plan choice workshops and retirement and financial planning workshops throughout Florida.

Initial FRS Plan Choice Experience

During the initial education and choice periods in 2002-03, employees were exposed to an economic recession, plummeting stock market, negative press accounts of the dangers of 401(k) plans, the aftermath of the September 11, 2001 terrorist attacks and the largest corporate bankruptcy in U.S. history. The broad stock market fell at an annualized rate of 22% from February 2002 to February 2003 (the education and choice periods), and surveys showed that employees believed this and the economic recession were two of the most important factors in their plan choice decisions.

Table 1 summarizes the elections recorded during June 2002 to February 2003. Roughly \$280 million was transferred from the Pension Plan to the Investment Plan during these initial FRS Plan Choice periods.

Table 1: FRS Plan Choice Statistics, June 2002 to February 2003

	Existing Members	New Hires
Pension Plan	605,042	23,123
Hybrid Option	669	2
Investment Plan	21,393	2,340
Total	627,104	25,465
Default Rate (not filing an election)	70%	86%
Choosing Investment Plan/Hybrid	3.5%	9.2%

Source: CitiStreet for period covering initial FRS elections June 2002 to February 2003.

Recent FRS Plan Choice Trends

In a given fiscal year, roughly 75,000 newly-hired employees have five months after their month of hire to choose from the two FRS retirement plans: Pension Plan or Investment Plan.² Like all FRS members, these employees also have one 2nd Election opportunity that may be exercised during their FRS career. However, in FY 2008-2009, this number was reduced by more than a third, with only about 45,000 in choice.

Retirement planning appears to be a low priority for most new hires, particularly younger employees. Since the Investment Plan was introduced in September 2002, on average, 61% of new employees never actively enrolled in either FRS plan; they “defaulted” into the Pension Plan at the end of their sixth month of employment.

In an ongoing effort to educate and inform the membership about the importance of making an informed decision about their retirement options, and consistent with the SBA’s mission to offer unbiased education that promotes *informed and personalized decisions*, the SBA routinely reviews and updates the new hire education and enrollment processes. Employee home mailings and MyFRS.com have been streamlined. Employers are encouraged to play a more active role in the education process and have been provided with updated publications and an employer education program.

For new hires with a choice period ending during the fourth quarter of 2009, 21% made an active election into the FRS Investment Plan, 20% made an active election into the FRS Pension Plan and 59% defaulted into the Pension Plan. However, based on survey

² Returning employees with 5 or more years of prior FRS service may also choose the Hybrid Option; which includes aspects of both the Pension Plan and Investment Plan.

data, up to 41% of the defaulters may be using this option as their active election in the belief that by defaulting there could be no mistakes made in their plan choice.

Table 2: FRS Enrollments by Newly-Hired Employees, Various Periods

	Defaults into Pension Plan	Active Enrollments- Pension Plan	Active Enrollments- Investment Plan*	Total Enrollments
Sep 2002 – Jun 2003	86%	6%	8%	100%
Jul 2003 – Jun 2004	73%	11%	16%	100%
Jul 2004 – Jun 2005	61%	18%	21%	100%
Jul 2005 – Jun 2006	59%	19%	22%	100%
Jul 2006 – Jun 2007	58%	18%	24%	100%
Jul 2007 – Jun 2008	55%	19%	26%	100%
Jul 2008 – Dec 2008	55%	22%	23%	100%
Jul 2009 – Dec 2009	57%	22%	21%	100%

* Includes active enrollments into the Hybrid Option.
Rounding may prevent rows from totaling to 100%.

Table 3: FRS 2nd Election Activity, June 2002 to December 2009

	Pension Plan To Investment Plan	Pension Plan To Hybrid Plan	Investment Plan To Pension Plan	Total 2 nd Elections
Members	40,844	121	1,428	42,393
Percent of Total	97%	0%	3%	100%

* Includes active enrollments into the Hybrid Option.
Rounding may prevent rows from totaling to 100%.

Table 4: Actively-Employed FRS Members, December 2009

	Pension Plan	Investment Plan/ Hybrid*	Total
Members	586,052	93,788	279,840
Percent of Total	86%	14%	100%

* Excludes members that have terminated employment, but maintain active accounts under the Investment Plan or Hybrid Option.

Table 5: Usage of MyFRS Financial Guidance Program, 12 Months Ended December 2009

MyFRS Financial Guidance Line	Most Recent 12-month Period	Annualized Growth*
Total Calls	184,014	- 6%
Choice Calls	124,788	- 4%
Planning Calls	57,568	-11%
Employer Calls	667	24%
MyFRS.com		
Total Visits	1,448,553	- 9%
Online Choice, 2 nd Election Service & Advisor Service	224,956	-16%

* None of the figures include data from the Division of Retirement and only include data from Ernst & Young, Financial Engines and Enterpuls.