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OVERVIEW: Florida Retirement System

The **Florida Retirement System (FRS)** provides a defined benefit (DB) fund for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

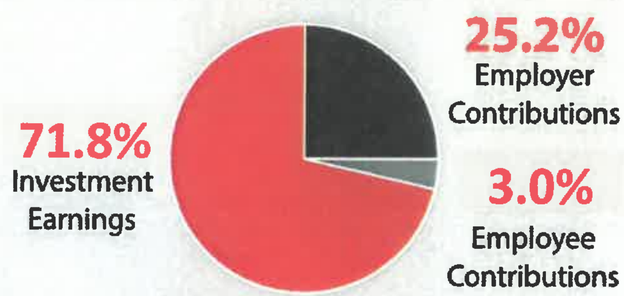
The spending from the pension checks of the 456,312 retired public employees helps support:

$18.2 billion
in economic output in Florida.

123,246 jobs
paying $5.9 billion in wages supported by retirees' spending from public pensions in Florida.

$2.7 billion
in federal, state, and local tax revenues based on spending of pension benefits in Florida.

Pensions are a good deal for taxpayers:
Funding of public employee pensions is shared by employees and employers. New FRS employees contribute 3% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 25.2% of the cost of pension benefits in Florida.



Key facts about the plan and its benefits:

500,111
Total active members of Florida Retirement System.

48%
After a 30-year career, a pension benefit from FRS will replace 48% of an employees' pre-retirement income.

$1,894
Average pension benefit paid to retired FRS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Florida taxpayers (employers) in these plans supported $6.67 in total economic activity in the state.

$1.00 → **$6.67**

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

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PRIMER: Florida Retirement System

The Florida Retirement System (FRS) provides benefits to qualified state employees and public school educators.

The FRS Pension Works for Florida Stakeholders

Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.

The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.

Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

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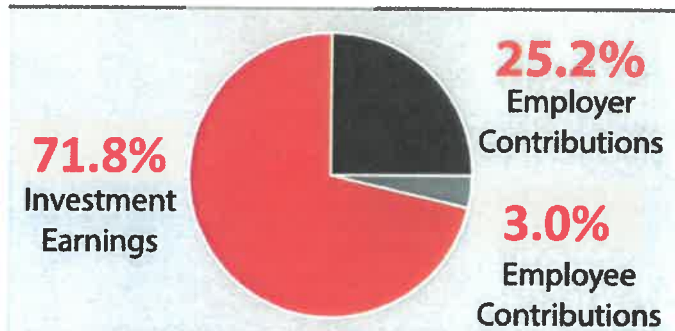

Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10% cost savings from pooling longevity risk + **11%** cost savings from optimal asset allocation + **27%** cost savings due to higher returns and lower fees = **48%** **total cost savings**

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

- FRS serves 500,111 active employees and 456,312 retired members and survivor beneficiaries.
- New employees contribute 3% of pay to FRS.
- Employers contribute 6.54% to the fund.
- The average monthly retirement benefit for members is $1,894.
- After a 30-year career, a pension benefit from FRS will replace 48% of an employee's final average salary.

Historical FRS Funding Experience

Florida established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, FRS had $161 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Florida Paid 95.02% of Weighted Average Percent of ADC from FY2001-FY2019 for FRS

Florida Made Plan Changes to FRS in Recent Years

Following the global stock market crash in 2008-2009, Florida policymakers proactively made changes to PERS to ensure long-term sustainability. These included:

- For new hires as of 1/1/18, changed the default plan from the Florida Retirement System, a defined benefit plan, to the FRS Investment Plan, a defined contribution plan, and extended the period in which new hires are required to elect a plan, from 6 months to 9 months.

The Economic Impact of Florida Pensions:

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Why Pensions Work
for Florida and Teachers

Pensions Help Deliver Quality Education in Florida

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Florida can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Florida, as enrollment in traditional teacher preparation programs has *declined by 32%* between 2009-2010 and 2017-2018.

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Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2019. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Florida, teachers experience a 19.3% wage gap when compared to other college graduates in the workforce.[2]

19% teacher wage gap **offset by...** 9% teacher benefit advantage **reduces... the teacher compensation gap to 10%**

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.

83% 83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

74% 74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.[4]

7.9%

Percentage of Florida teachers who leave education.

1,784

The number of Florida teachers retained each year due to the DB pension.

$9.4M to $20.5M

Savings created by the DB system through reduced teacher turnover costs in school districts across Florida.

FRS Key Facts

- FRS serves 500,111 active employees and 456,312 retired members and survivor beneficiaries.
- New employees contribute 3% to the fund.
- Employers contribute 6.54% to the fund.
- The average monthly retirement benefit for members is $1,894.
- FRS has $161 billion in assets and $30.3 million in unfunded actuarial accrued liability.[5]

The Economic Impact of Florida Pensions

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[1] Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).
[2] Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.
[3] Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.
[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.
[5] All data, unless otherwise noted, as of fiscal year ended 2019.
[6] Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.

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