AARP IN THE STATES

SNAPSHOT: Florida Retirement System

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

FRS Pension Works for Florida Stakeholders

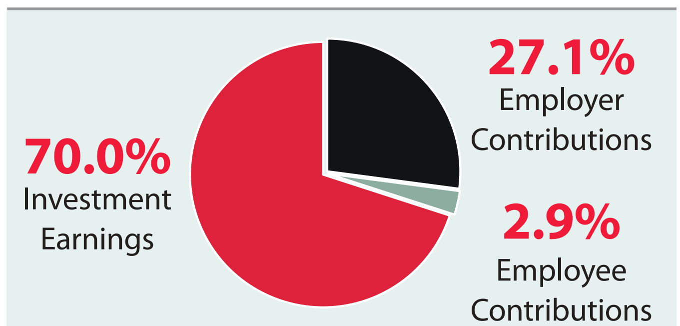
Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.

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

The 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 2014, taxpayers paid only 27.1% of the cost of benefits.



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

AARP Real Possibilities

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FRS Key Facts

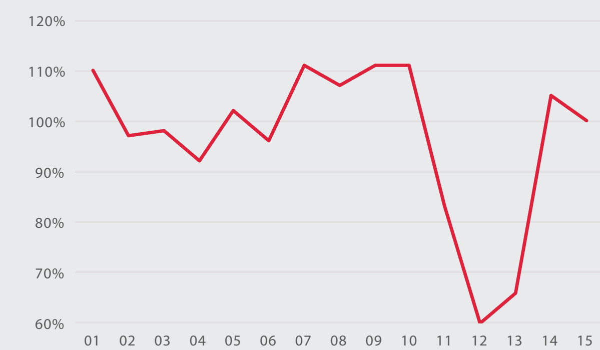
- FRS serves 514,629 active employees and 424,191 retired members and survivor beneficiaries.
- New employees contribute 3% to FRS.
- Employers contribute 5.8% to the fund for employees.
- The average monthly retirement benefit for members is $1,976.
- After a 30-year career, FRS will replace 48% of 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 2016 year, FRS had $145.5 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 becomes financially sound over time.

Florida Paid 96.7% of Weighted Average Percent of ADC from FY2001-FY2015 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 FRS to ensure long-term sustainability. These included:

- Increasing employee contributions to 3% of pay and eliminiating additional cost of living adjustments (COLA) for service after 7/1/11.
- Reducing benefits by requiring new employees to reach older ages and longer service for normal retirement benefits and changing the calculation of final average salary.

The Economic Impact of Florida Pensions:

$15.5 billion in economic output generated by retirees' spending from public pensions in Florida.

108,370 jobs paying $4.8 billion in wages supported by retirees spending from public pensions in Florida.

$2.4 billion in federal, state, and local tax revenues generated by retiree benefits and spending in Florida.

All data come from Florida, Public Plans Data, or the National Institute on Retirement Security.

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BY THE NUMBERS: Florida Retirement System

The **Florida Retirement System (FRS)** provides a defined benefit (DB) pension 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 to better serve taxpayers. DB pension payments also support the state's economy. Employees can choose to participate in a defined contribution (DC) plan.

Key facts about the plan and its benefits:

514,629
Total active members of Florida Retirement System.

48%
After a 30-year career, FRS will replace 48% of an employee's pre-retirement income.

$1,976
Typical pension benefit paid to retired FRS members each month.

Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New FRS employees contribute 3% of pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 27.1% of the cost of pension benefits.

70.0% Investment Earnings

27.1% Employer Contributions

2.9% Employee Contributions

The spending from the pension checks of the 424,191 retired public employees helps support:

$15.5 billion
in economic output in Florida.

108,370 jobs
paying those workers in Florida $4.8 billion in income.

$2.4 billion
in federal, state, and local tax revenues based on benefits and spending in Florida.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Florida taxpayers (employers) in these plans supported $6.15 in total economic activity in the state.

$1.00 → **$6.15**

All data come from Florida, Public Plans Data, or the National Institute on Retirement Security.

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Why Pensions Work
for Florida and Teachers

Pensions Help Deliver Quality Education in Florida

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.[1] 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.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, Florida can keep teachers in the classrooms and empower students to achieve their highest potential.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. 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 11 percent. In Florida, teachers experience a 25% wage gap when compared to other college graduates in the workforce.[2]

17% teacher wage gap **offset by...** 6% teacher benefit advantage **reduces... the teacher compensation gap to 11%**

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

92% 92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

81% 81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

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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.

1,836

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

$8B to $17.4B

The DB system savings in teacher turnover costs in school districts across Florida.

FRS Key Facts

- FRS serves 514,629 active employees and 424,191 retired members and survivor beneficiaries.
- New employees contribute 3% to the fund.
- Employers contribute 5.8% to the fund.
- The average monthly retirement benefit for members is $1,976.
- FRS has $145.5 billion in actuarial value of assets and $24.9 billion in unfunded actuarial accrued liability.[5]

The Economic Impact of Florida Pensions

$15.5 billion

in economic output generated by retirees' spending from public pensions in Florida.

108,370 jobs

paying $4.8 billion supported by retirees spending from public pensions in Florida.

$2.4 billion

in federal, state, and local tax revenues generated by retiree benefits and spending in Florida.[6]

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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. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.
[3] Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.
[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."
[5] All data, unless otherwise noted, as of fiscal year ended 2016.
[6] Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.