FLORIDA RETIREMENT SYSTEM (FRS)

# Challenges Linger for Florida's Pension System Despite Reforms

Despite past pension reforms and a recor-high unfunded pension liability of $36 billion as of 2020, the Florida Retirement System (FRS) continues to offer a debt generating defined benefit **Pension Plan** option based on unrealistic assumptions and a defined contribution **Investment Plan** option that falls short in providing adequate retirement security.

Problem #1: FRS Pension Plan Not on the Path to Solvency

- Investment returns below the system's expectations have been the largest contributor to the unfunded liability, adding $16.4 billion in debt since 2008

- Lowering the investment return assumption from 7.2% to 7.0% was a step in the right direction, but this is still higher than the 6.77% recommended by Milliman

- Averaging the equity risk premiums from three consulting firms, the Florida State Board of Administration's 2020 asset-liability study recommended a 6.46% investment return assumption

- Overly optimistic assumptions used to determine FRS Pension Plan contribution levels ignore modern market and demographic conditions, which creates unnecessary risk and volatility

Problem #2: Inadequate Contributions into Defined Contribution Plan

- Members of the defined contribution Investment Plan contribute 3% of their income to their individual account

- The state contributes a total of 6.86% of payroll for those in the Investment Plan, but 3.56% of that is being used to pay down already accrued Pension Plan debt

- The resulting aggregate 6.3% contribution rate falls far below industry standards for retirement benefit adequacy, which call for 10-15% of annual income to provide adequate retirement income

3.00%
TO THE FUND
EMPLOYEES

3.30%
TO THE FUND

EMPLOYER

3.56%
TO PAY OFF PENSION DEBT
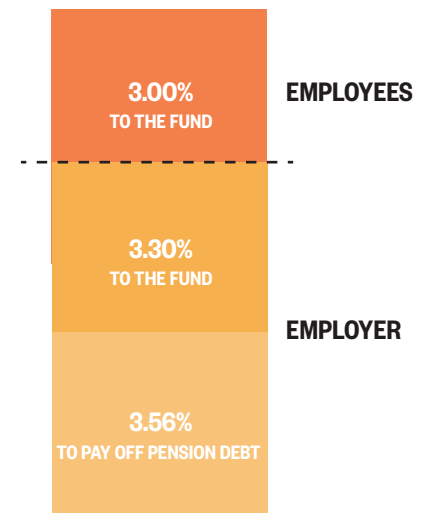
3.0% CONTRIBUTION FROM EMPLOYEES AND 3.3% CONTRIBUTION FROM THE STATE GOES INTO A MEMBER'S DEFINED CONTRIBUTION ACCOUNT

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