

Does the Florida Retirement System (FRS) Meet Defined Contribution Plan Design Gold Standards?



Gold Standard	FRS Investment Plan
<p>Defined Plan Objectives <i>Ensure plan objectives are defined in writing as part of a comprehensive benefits policy statement.</i></p>	<p>No</p>
<p>Communication and Education <i>Ensure members are educated on the available choices and have all relevant information to make competent retirement choices.</i></p>	<p>Yes</p>
<p>Auto Enrollment <i>Enroll new employees into the FRS Investment Plan by default.</i></p>	<p>Yes</p>
<p>Adequate Contributions <i>Replace approximately 80% of a worker's final salary.</i></p>	<p>No</p>
<p>Retirement Specific Portfolio Design <i>Offer "one-touch" investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.</i></p>	<p>Some</p>
<p>Benefit Portability <i>Safeguard the ability to recruit highly mobile 21st Century employees.</i></p>	<p>Yes</p>
<p>Offer Distribution Options <i>Provide members with a variety of asset distribution methods while limiting borrowing.</i></p>	<p>Some</p>
<p>Disability Coverage <i>Offer a separate disability insurance benefit from a quality insurer.</i></p>	<p>Some</p>

Objective	Gold Standard	FRS Investment Plan
Defined Plan Objectives	Defines objectives in writing as part of a comprehensive “benefits policy statement” or at least within a “retirement plan policy statement.”	<i>There is little reference in the FRS Investment Plan material that specifically speaks to plan objectives. The “Summary Plan Description” states, “Each FRS plan is designed to provide you with a good foundation for financial security when considered along with Social Security, other retirement programs, and your own personal savings (including savings accounts, IRAs, and deferred compensation programs offered through your employer, among other resources).” This statement falls short of stating plan objectives as it is too general and without supporting detail.</i>
Communication and Education	Educated members on the available choices and relevant information needed to make competent retirement decisions.	<i>The plan sponsor offers various tools for communicating with and educating employees about the different retirement plans available. Once a choice is made by the employee to join the FRS Investment Plan an appropriate amount of material is available including investment education. The plan also offers robo-advice to participants at no additional charge.</i>
Auto Enrollment	Defaults members into a defined contribution retirement option if no other option is selected upon hire.	<i>New hires are enrolled into the FRS Investment Plan by the end of their eighth month of employment when no other option is selected. Contributions are made retroactive to the date of employment when members are defaulted into the FRS Investment Plan, providing the member with maximum asset mobility by default.</i>
Adequate Contributions	Replace approximately 80% of a worker’s final salary.	<i>A major challenge facing the FRS Investment Plan is the inadequacy of the combined 6.3% FRS Investment Plan contribution rate (3% Employee /3.3% Employer) to fund lifetime financial security, even in combination with Social Security and reasonable personal savings. Retirement experts agree that a total contribution rate of between 12% and 15% is necessary over a career to adequately fund retirement when combined with Social Security and personal savings.</i>
Retirement Specific Portfolio Design	Offer “one-touch” investment options for employees who are not sophisticated investors and do not want to avail themselves of in-plan investment advice.	<i>The FRS Investment Plan offers a solid mix of proprietary investment funds with acceptable fees and a series of reasonably priced target-date funds for participants preferring a “one-choice” option. However, it would be preferable to see some guaranteed investments included in the target-date portfolio constructions. Additionally, the lack of deferred annuities offered within the plan serves to limit a member’s financial flexibility.</i>
Benefit Portability	Safeguard the ability to recruit highly mobile 21st Century employees.	<i>Employer contributions into the FRS Investment Plan are fully vested after one year of service. Accumulations attributable to employee contributions are, of course, immediately vested. While much shorter than the FRS pension plan, the one-year vest is somewhat longer than ideal. Full and immediate vesting would be preferred.</i>
Offer Distribution Options	Provide members with a variety of asset distribution methods while limiting borrowing.	<i>The standard distribution method offered under the FRS Investment Plan is a lump-sum withdrawal upon separation of service. The employee can roll this distribution over to an IRA or take periodic distributions. Despite a lifetime annuity option being available to members, generally the distribution choices offered by the FRS Investment Plan limit its attractiveness as a true, core retirement option.</i>
Disability Coverage	Offer a separate disability insurance benefit from a quality insurer.	<i>The FRS Investment Plan’s disability coverage is the same as the FRS Pension Plan. In fact, FRS Investment Plan assets are transferred to the FRS Pension Plan upon a member becoming disabled to help fund the benefit. While the consistency between plans is ideal, the FRS disability benefit is not available until an employee has eight years of creditable service.</i>