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## PUBLIC SECTOR NEWSLETTER

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### FRS has estimated surplus for Fiscal Year 07-08

The Florida State Board of Administration (SBA) FRS Pension Plan is estimated to be in a surplus situation as of June 30, 2006, i.e., the FRS Pension Plan had assets exceeding future benefit payments by about 107.3% or \$7.6 billion.

A February 2007 Standard & Poor's report identified the FRS Pension Plan as having the highest ratio of the actuarial value of assets to the actuarial value of liabilities (funded ratio) of any United States public pension fund.. Today, the FRS Pension Plan remains as one of the most financially sound public sector pension plans in the country.

Given the current state of the U.S. and world economy and the substantial losses in the financial markets during 2008, the FRS Pension Plan remains financially solvent.

Under the SBA's stewardship, the FRS is one of only a handful of public pension systems to maintain full funding. Additionally, under Florida law, accrued FRS Pension Plan Benefits are guaranteed to be paid regardless of investment performance.

### The Cost of Active vs. Passive Investing

Kenneth R. French, Dartmouth College - Tuck School of Business, concludes the typical investor would increase their average annual return by 0.67% over the 1980 to 2006 period if the investor switched from an active to a passive investment strategy. Comparing fees, expenses, and trading costs French concludes investors spend 0.67% of the aggregate value of the market each year searching for superior returns.

CPS Investment Advisors has developed a successful passive-active balanced investment strategy and continues to manage portfolios primarily utilizing low cost index stock and bond funds. The current academic research strongly supports the benefit of this long term conservative strategy.

### Glossary

Passive Management: An investment strategy that mirrors a market index and does not attempt to beat the index. Also known as passive investing or a passive strategy.

Risk Averse: A description of an investor who, when faced with two investments with similar expected return (but different risks), will prefer the one with the lower risk.

## Are you a Retired Public Safety Officer?

Public safety officer retirees may take a tax exclusion of up to \$3,000 for accident, health insurance or tax qualified long-term care insurance. See page 24 of the 2008 1040 Instructions booklet available on the IRS Web site ([www.irs.gov](http://www.irs.gov)), for more information.

## 5 Keys to Successful Retirement Planning:

1. Determine how much retirement income you will need during retirement.
2. You will need three (3) main retirement income sources.
  - Social Security
  - Your FRS Retirement Plan
  - Outside savings (403b, 457b, DROP, TSA, IRA, ect.)
3. Put time on your side.
4. Tax deferred savings/investments.
5. Make sure you don't outlive your money (longevity).

## Questions Worth Asking:

If you decide to hire someone to help you with your financial planning, consider your options carefully because there are many different levels of service and related costs. Before you select an investment advisor or financial planner ask:

- About the candidates background, training, education and, if certified, whether continuing education is required to remain certified?
- Are fees based on hourly costs, a percentage of your assets being managed or a combination of these methods?
- Can the advisor/planner effectively explain to you the impact of fees and charges and show how they affect your account balance over time?
- Has the advisor/planner created investment plans for others in similar financial conditions, and are sample plans available to review?
- Does the advisor/planner have references?

**Quote of the Quarter:** “Steady as you grow”

**-Chas P.Smith**

Credits: FRS Bulletin Fall 2007, Kenneth R. French, Dartmouth College – Tuck School of Business, FRS Retiree Newsletter January 2009



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