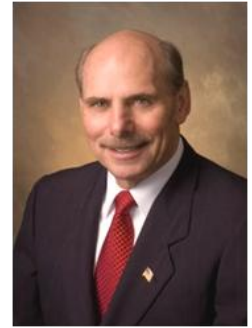




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PUBLIC SECTOR QUARTERLY NEWSLETTER

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FLORIDA STATE PENSION PLAN FUNDING RATIO PROJECTED AT 93 PERCENT

The Florida State Board of Administration published the following release on August 5, 2009:

Tallahassee, FL – Following a tumultuous year in the financial markets, the State Board of Administration (SBA) released the preliminary 2008-09 fiscal year investment performance report showing a – 18.96 percent decline in the Florida Retirement System Trust fund (FRS) assets. Despite some of the worst market declines in most asset classes since the fund's inception, the fund remains relatively healthy on an absolute basis and when compared to other U. S. public pension funds.

The FRS entered the fiscal year with \$126.9 billion in assets and a 106 percent funded ratio. The funded ratio is an actuarial calculation that compares the actuarial value of assets to the actuarial value of liabilities and is commonly used to evaluate the relative

health of the fund. The year- end net asset value, after investment returns and distribution to retirees, was \$99.77 billion, resulting in a preliminary estimate of a 93 percent funded ratio. Official actuarial analysis will not be complete until the fall. Ash Williams, executive director and Chief Investment Officer of the SBA, commented, "We were fortunate to enter the most dramatic decline in the history of modern financial markets in better shape than most pension funds, and it appears we have performed comparable to, or better than, most financial indices and other public pension funds. So, in relative terms, the remains in solid shape with a funding ratio that may be the envy of most pension funds."

The fund recently enjoyed one of the highest funding ratios of state pension funds in the U.S. In 2007, only seven of the 50 state public pension fund programs were funded at 100 percent or better with Florida ranked third at that time. The average funding level for state pension funds at that time was 83 percent; however, most experts recognize that those levels have likely

dropped dramatically due to the recent year's weakness in the financial markets.

Being funded at less than 100 percent is not new to the FRS Pension Plan. The plan was underfunded for 25 years from inception through 1997. Its first surplus came in 1998 when funding levels jumped from 91 percent to 106 percent and peaked at 118 percent in 2000. The fund had enjoyed a positive funding ratio for 11 consecutive years.

While still ahead of its five-year and 10-year benchmarks, the highly diversified fund missed its own performance benchmarks for the year by 1.07 percent in part due to underperformance in the Fixed Income, Private Equity and Strategic asset classes. Real Estate, Domestic Equities and Foreign Equities all exceed their benchmarks for the period. Mr. Williams's assessment was optimistic, but cautious regarding expected performance over the next year stating, "We are certainly glad this difficult year is behind us, and I believe we are well positioned to benefit from the recovery. I expect to see continued challenges in certain asset classes including Fixed Income and Real Estate, as well as some attractive opportunities for patient, disciplined investors." Mr. Williams took over leadership of the SBA in October 2008.

The State Board of Administration is an agency of Florida state government that provides a variety of investment services to various government

agencies. These include managing the assets of the Florida Retirement System Trust Fund, the Lawton Childs Endowment Fund, the Local Government Surplus Funds Trust Fund, the Hurricane Catastrophe Fund, and a variety of other mandates. The SBA currently invests in eight asset classes: Domestic Equities, Foreign Equities (both developed and emerging markets), Fixed Income, High Yield, Private Equity, Strategic Investments, Real Estate and Cash.

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Going Forward:

Since the date (August 5, 2009) of the above SBA release, the financial markets have improved significantly. Given the eight assets classes in which the SBA is currently investing and the fact that most financial indices have also shown improvement, one could reasonably assume the Florida State Pension Plan funding ratio has improved comparably to date*.

IRS Announces Pension Plan Limitations for 2010

The Internal Revenue Service Announced on October 15, 2009, the TSA (403b) and Deferred Compensation (457b) plan maximum elective deferral will remain the same as in 2009 (\$16,500). The age 50+ catch-up provision maximum elective deferral will also remain the same as in 2009 (\$5, 500).



Section 415 of the Internal Revenue code provides for dollar limitations on benefits and contributions under qualified plans.

The IRS annually adjusts these limits for cost-of-living increases. The cost of living index for the quarter ending on September 30, 2009, was less than the cost-of-living index for the quarter ending on September 30, 2008.

Under section 415 (d), the adjustments are to be made pursuant to adjustment procedures which are similar to those used to adjust benefit amounts under the Social Security Act section 15(i)(2)(a).

Therefore, in accordance with the procedures under the Social Security Act for adjusting benefit program amounts, any decline in the applicable index cannot result in a reduced limitation.

Conservative Investment Strategy

CPS Investment Advisors continues to engage in passive/active management of investment portfolios, primarily utilizing low cost index stock and bond funds. The current anecdotal evidence strongly supports the benefit of this long term conservative strategy.

You should take the time to contact your trusted financial advisor and discuss these important issues. Retirement/financial planning should be an ongoing process throughout your lifetime.

If you have any questions regarding these matters presented in this newsletter or Retirement Income Planning issues in general, please do not hesitate to contact me at CPS Investment Advisors, mlawton@cpalliance.com or 863-688-1725.

Financial Glossary: Investment Strategy

An investors plan of distributing assets among various investments, taking into consideration such factors as objectives, risk tolerance, and planning horizon.

Re-Quote of the Quarter:

“Taking the time to educate yourself and invest your knowledge in planning for your financial future, costs you nothing.

Ensuring that you have financial security and peace of mind during your retirement years, is ‘priceless’.”

- M. L. Lawton

Sources: Florida State Board of Administration;
Internal Revenue Service;
www.indexsmorningstar.com; www.wikipedia.org

*Note: not approved or endorsed by the Florida Retirement System

