

# Changes to FRS – *Fast Facts*

## Know the Facts:

### For those already retired or those already in the DROP:

- Benefits remain the same – there are NO changes.

### For employees hired after July 1, 2011:

- Retirement benefits will be calculated on the highest 8 fiscal years of compensation (rather than the highest 5)
- The retirement age (or required years of service) will increase. Normal retirement age will go from age 62 to age 65 or from 30 years of service up to 33 years of service.
- Vesting requirements will go from 6 years of service up to 8 years for those hired after July 1, 2011.

### For all other members of the FRS (including new hires):

- All members of the Florida Retirement System will be required to make a **3% contribution on gross compensation**. “Compensation” is defined as the monthly salary paid a member by his or her employer for work performed arising from that employment. *There is NO contribution requirement for those in DROP.*
- **FRS members will no longer receive the Cost of Living Adjustment (COLA) on service after July 1, 2011.**
  - The current legislation states that the COLA will return to 3% after July 1, 2016, so the maximum loss is expected to be five years of credit.
  - The formula for a member’s COLA will be: *service years prior to July 1, divided by total service years, multiplied by 3%*. For instance, if you have 25 years in as of July 1, and continue to work for another 5 years, your COLA calculation will be; 25 divided by 30 times 3%, or .83333 times 3%, or a COLA of 2.5% for your retirement.
  - This is probably the most damaging change to retirement benefits. COLA is a huge factor in member’s ongoing pension payments, as it increases the pension payment significantly over time. For a member retiring at age 60 (the FRS average) and living to 84, the COLA allows a member’s pension to double in that time frame.

## For members considering DROP:

- Despite pressure from many legislators to eliminate it, the Deferred Retirement Option Program will be maintained.
- However, the interest rate paid on the DROP accounts will go from 6.5% to 1.3% **for those who enroll after July 1, 2011.**
- It is important to remember that your DROP amount will not decrease ... only the interest earned will. The majority of the DROP benefit is simply your own pension being returned to you after the 5 years.

For example:

If you are a Florida Retirement System regular class participant with an average final compensation of \$50,000 per year and have your 30 years in, your pension would be \$2000 per month. Instead of that check going to you, it is deposited into your DROP account. After five years, at the current 6.5% interest rate, your DROP amount would be about \$148,000. Of that \$148,000, approximately \$127,000 is your pension contribution into the plan (which is unaffected) and the other \$21,000 is interest.

Calculating at the new interest rate of 1.3%, your DROP amount will be approximately \$132,000. The \$127,000 which is your pension contribution doesn't change, but the interest earned drops to approximately \$5,000. The difference will be approximately \$16,000 less interest over the 5 years with the lower rate.

Instead of \$148,000, you would now be getting approximately \$132,000...a decrease of approximately 13% over the 5 year period.

Even under the new law, DROP remains a valuable program for many.

## Important considerations:

- If you have reached normal retirement age and are considering DROP, keep in mind that it takes 30 days to enroll. FRS participants who want to enter DROP prior to the interest rate reduction that takes effect on July 1<sup>st</sup> need to enroll BEFORE JUNE 1<sup>st</sup>.
- Be aware that trying to lock in the COLA by retiring or entering DROP *early* could cost you money! Be sure to discuss your options with a financial advisor familiar with the Florida Retirement System.

The Florida Retirement System has advisors available to work with members of FRS at no charge. If you are considering changes to your status before the new laws take place, please be sure to contact them by calling **the toll-free MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, Monday through Friday from 9 am – 8 pm EST** or go to **www.MyFRS.com**.