



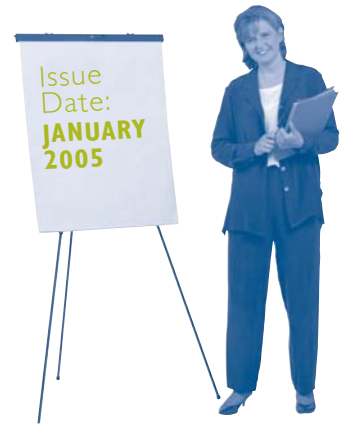
News on *Investing* for *Retirement*

A Quarterly Newsletter for **FRS Investment Plan Participants**

Start 2005 with the Right Investments!

The beginning of the New Year is a great time to review your retirement accounts to make sure you have the right mix of funds for your situation. The Florida Retirement System (FRS) makes it easy! With the MyFRS Financial Guidance Program, you can learn how to choose your Investment Plan funds based on certain factors – such as your age, other family savings you may have, and your comfort with risk and managing your account.

The best way to get personalized help is to call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377 (TTY: 1-888-429-2160). Choose option 2 to talk to an experienced, unbiased financial planner. The financial planners have access to state-of-the-art planning tools, like Financial Engines' Personal Online Advisor Service. Or, you may log into MyFRS.com (using your PIN), where you can directly access the Service and receive individual guidance on which investment funds best fit together for your personal risk level.



How Are Other People Investing?

It's natural to wonder how your investment decisions compare with choices others have made. Financial Engines' Personal Online Advisor Service can show you:

- >> How much risk the average U.S. investor in your age group takes – and the combination of FRS Investment Plan funds that can match that risk level;
- >> The combination of investment funds with the highest expected returns, after deducting fees, based on other risk levels you can choose; and
- >> Your projected total FRS retirement income, including Social Security and FRS benefits.

Notice To **Inactive** Participants

Please see the notice on page 6 for important information!

Within the FRS Investment Plan, the three FRS Select balanced funds are among the top five most utilized investment funds. The FRS Select Moderate Balanced Fund, designed to have the average risk level of all U.S. investors, is the most popular fund – with nearly 20% of all member assets. See page 3 for more information on these funds.

Your co-workers’ overall investment choices in the FRS Investment Plan are generally consistent with what financial planners would suggest. Financial planners focus on **asset allocation** – one of the most important factors in determining the value of your retirement investments in both the long and short term. Asset allocation refers to the “mix” of investment products defined by asset classes, or types of investments: money market, inflation-protected securities, bonds, and stocks (U.S. and foreign). Take a look at the table below to see how our participants are investing:

Average Asset Allocation By Age FRS Investment Plan Participants as of 10/31/04					
	Under 30	30-39	40-49	50-59	60 and Older
Money Market	6%	9%	13%	18%	18%
Inflation-Protected Securities	7%	4%	5%	7%	9%
Bonds	18%	17%	17%	17%	18%
Stocks (U.S. and Foreign)	70%	71%	65%	59%	55%
Total	100%	100%	100%	100%	100%

Due to rounding, totals may be higher than 100%.

How Age Impacts Your Investments

Financial planners typically suggest that younger people invest a higher

portion in stocks than other types of investments. They encourage older investors to decrease the portion invested in stocks and consider less volatile investments, like money market funds, inflation-protected securities, and bonds. Why?

>> Stocks carry more risk over the short term and typically show gains over a long period of time. Younger employees (the “Under 30’s”) – who have a lot of time for their stock funds to make money in spite of short-term gains and losses – can generally handle a higher degree of risk. But the “Over 60’s,” who are closer to retirement, have placed a larger percentage of their assets in more conservative investment options.

>> Money market funds are a good example of a conservative investment option that carries little short-term risk. Thus, the “Over 60’s” have put about 18%

of their account balances in the FRS Select Yield Plus Money Market Fund. Younger employees, however, have allocated only

6%-13% in this Fund, since they may end up with a lower account balance at retirement if they rely too heavily on low-earning conservative investments.



>> Inflation-protected securities, which fall between these two extremes, have the unique feature of being indexed to inflation. This means they provide a return that preserves or protects the purchasing power of FRS Investment Plan contributions over long time periods. The FRS Select U.S. Treasury Inflation-Protected Securities Index Fund also receives interest payments that are reinvested into the Fund. These interest payments have averaged 3% over the past year.

Putting It To Work For You

Does this information mean that you should change all your investments to reflect these trends? No – what’s right for the Jones’ might not be right for you. Call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377 (TTY: 1-888-429-2160) or log on to MyFRS.com and use the free resources to determine if you are making the most of your Investment Plan dollars.

Quarterly Fund Performance Summary

Overview

This Performance Summary is organized by asset class. *Thinking about asset classes is a very effective way to simplify investing and improve the odds of meeting your retirement goals. Asset classes are groups of similar investments whose values react to changes in the economy in the same basic way. Investing in a mix of asset classes, or diversifying, helps you control your risk. In this Summary, we use five asset classes: money market, inflation-protected securities, bonds, U.S. stocks, and foreign stocks. We also have a special category called balanced funds that are a mixture of various asset classes.*

>> Balanced Funds

These funds are particularly good for “one-stop shopping.” They seek favorable long-term returns by keeping costs low and investing across multiple asset classes to diversify and control risk. They invest in various investment funds in different proportions to keep their overall level of risk relatively steady over time. The proportions and specific funds included in each Balanced Fund may change over time. Financial Engines, a federally registered investment advisor and fiduciary to the FRS, will periodically provide updated investment fund mixes to the FRS that they believe will provide the best trade-off between expected risk and return.

>> Money Market Funds

These funds invest in short-term securities (financial instruments or obligations) that are high quality and can be sold quickly with little loss of value. The funds have limited risk of declining in value; however, over the long term, returns have been modest, basically keeping pace with inflation. Money market funds are not FDIC insured or guaranteed.

>> Inflation-Protected Securities Funds

These funds invest in *United States Treasury inflation-protected securities* or “TIPS.” TIPS are a relatively new type of investment and provide two types of return. First, there’s a fixed interest rate that’s been around 2% to 4% since TIPS were first issued in 1997. Second, there’s a return of *principal* (the starting amount of your investment) and *interest* (the additional earnings you get over time) that is “protected,” or indexed to inflation. As inflation rises, so does the amount of principal and interest you receive. So if the fixed rate is 3% and inflation is 3%, you receive a total interest rate of about 6%. The day-to-day value of inflation-protected securities varies with changes in inflation and interest rates, but these funds offer a promise of keeping up with inflation that is unique to this type of investment.

>> Bond Funds

These funds invest primarily in *bonds*, which are like IOUs – a company or government agency borrows money and pays it back with interest to the bondholder (the person making the loan). The quality of a bond is reflected in the credit rating of the company or agency that issues the bond. The short-term risk of bond funds is relatively low. However, over time, the value of a bond is affected by interest rates, inflation, and other factors. When inflation or interest rates go up, the value of bonds goes down because they pay a fixed rate of interest (the market sees other investments as being more attractive). Therefore, bonds and bond funds don’t always protect the value of your retirement savings against inflation.

>> U.S. Stock Funds

These funds invest primarily in *equity shares* or *stocks* issued by U.S. companies. The short-term risk of stocks has been much higher than bonds. However, over long periods of time, stocks have generally done better than bonds, one of the main reasons that stocks are typically recommended for retirement investing. Some risk is necessary to achieve long-term investment growth.

>> Foreign Stock Funds

These funds invest primarily in *equity shares* or *stocks* issued by foreign companies. Compared to U.S. stocks, foreign stocks are affected by additional risk factors such as foreign laws and regulations, differences in accounting practices, political risk (foreign governments are sometimes unstable), and currency risk (differences in the relative value of domestic and foreign money). Over the long term, foreign stocks have not done quite as well as U.S. stocks, but they have provided diversification benefits.

↳ Experts say that **90% of your investment success** will be based on getting the *right mix* of investments in your retirement savings. The MyFRS Financial Guidance Program can help guide you to the right mix of investments for your personal situation and minimize unnecessary cost and risk. (See the details at the end of this document.)

What's in the Summary

Below you'll find a brief description of the information in the Performance Summary.

- >> **Core Funds** invest in a very broad portion of an asset class and can help you form the "core" of your portfolio.
- >> **Specialty Funds** invest in a portion of an asset class and can help you "fine-tune" your portfolio.
- >> **Annual Fees** are the current fees the fund charges to cover its management, operating, and marketing expenses. The tables show the fees that would apply to a \$10,000 account (divide the annual fees shown by 10,000 to put them on a percentage basis). Actual fees are proportional to the amount you invest in that fund. For example, if the annual fee for a \$10,000 investment in a fund is \$2 but you only invest \$1,000, you would be charged $(\$1,000 \div \$10,000) \times \$2$, or 20 cents for a year. Fees may change in the future.
- >> **Long-Term Fees** are the value in "Today's Dollars" of the total fees that would be charged over 30 years, assuming a \$10,000 initial investment.
- >> **"PB"** stands for performance benchmark. It allows you to see how well the fund is doing relative to the performance of the market sector it is trying to beat. Note that index funds are only trying to approximate the returns of their benchmarks. Benchmarks do not have costs.



Performance Summary as of December 31, 2004

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BALANCED FUNDS						
<i>Core Balanced Funds</i>						
FRS Select Conservative Balanced Fund	\$11	\$325	3.49%	6.36%	3.64%	--
PB: Conservative Balanced Aggregate Index	--	--	3.38%	6.16%	2.03%	--
FRS Select Moderate Balanced Fund	\$6	\$191	7.88%	11.29%	4.18%	--
PB: Moderate Balanced Aggregate Index	--	--	7.66%	10.78%	2.03%	--
FRS Select Aggressive Balanced Fund	\$15	\$465	9.91%	13.09%	1.95%	--
PB: Aggressive Balanced Aggregate Index	--	--	9.61%	12.22%	-0.05%	--
MONEY MARKET FUNDS						
<i>Core Money Market Funds</i>						
FRS Select Yield Plus Money Market Active Fund	\$7	\$212	0.48%	1.40%	3.08%	--
PB: iMoneynet Total Institutions-Taxable Index	--	--	0.47%	1.43%	3.05%	4.33%
INFLATION-PROTECTED SECURITIES FUNDS						
<i>Core Inflation-Protected Securities Funds</i>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund	\$2	\$60	2.45%	8.36%	--	--
PB: Lehman Brothers TIPS Index	--	--	2.51%	8.46%	10.84%	--

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BOND FUNDS						
<i>Core Bond Funds</i>						
FRS Select U.S. Bond Enhanced Index Fund	\$5	\$151	0.96%	4.28%	7.78%	7.77%
PB: Lehman Brothers Aggregate Bond Index	--	--	0.95%	4.34%	7.71%	7.72%
Pimco Total Return Fund	\$56	\$1,835	1.35%	4.98%	8.23%	8.30%
PB: Lehman Brothers Aggregate Bond Index	--	--	0.95%	4.34%	7.71%	7.72%
<i>Specialty Bond Funds</i>						
Fidelity Intermediate Duration Pool Fund	\$20	\$619	0.87%	3.94%	7.63%	7.26%
PB: Lehman Brothers Intermediate Gvt/Credit Index	--	--	0.43%	3.04%	7.21%	7.15%
Pimco High Yield Fund	\$50	\$1,623	4.19%	9.53%	-5.74%	11.79%
PB: Merrill Lynch BB/B High Yield Index	--	--	3.58%	9.91%	6.81%	8.37%
U.S. STOCK FUNDS						
<i>Core U.S. Stock Funds</i>						
FRS Select U.S. Stock Market Index Fund	\$2	\$60	10.17%	11.97%	-1.17%	11.88%
PB: Russell 3000 Index	--	--	10.16%	11.95%	-1.16%	11.87%
Pioneer Fund	\$61	\$2,015	9.80%	12.15%	0.19%	12.37%
PB: S&P 500 Index	--	--	9.23%	10.88%	-2.30%	12.07%
<i>Specialty U.S. Stock Funds</i>						
FRS Select U.S. Large Growth Stock Active Fund	\$15	\$445	8.94%	4.61%	-8.40%	--
PB: Russell 1000 Growth Index	--	--	9.17%	6.30%	-9.29%	9.59%
American Funds Investment Company of America Fund	\$35	\$1,109	7.71%	10.09%	3.59%	13.35%
PB: S&P 500 Index	--	--	9.23%	10.88%	-2.30%	12.07%
Prudential Mid-Cap Quantitative Core Equity Fund	\$35	\$1,109	11.23%	20.24%	9.72%	--
PB: S&P Mid-Cap 400 Index	--	--	12.16%	16.49%	9.56%	16.10%
Fidelity Growth Company Fund	\$56	\$1,835	13.62%	12.40%	-5.74%	12.68%
PB: Russell 3000 Growth Index	--	--	9.66%	6.93%	-8.87%	9.30%
Fidelity Low-Priced Stock Fund	\$72	\$2,421	13.89%	22.54%	19.60%	18.04%
PB: Russell 2000 Index	--	--	14.09%	18.33%	6.61%	11.53%
AMR AAdvantage Small-Cap Value Fund	\$89	\$3,076	12.86%	22.95%	21.50%	--
PB: Russell 2000 Value Fund	--	--	13.20%	22.25%	17.23%	15.17%
T. Rowe Price Small-Cap Stock Fund	\$96	\$3,356	12.54%	18.77%	10.92%	14.56%
PB: Russell 2000 Index	--	--	14.09%	18.33%	6.61%	11.53%
FOREIGN STOCK FUNDS						
<i>Core Foreign Stock Funds</i>						
FRS Select Foreign Stock Index Fund**	\$2	\$60	15.03%	20.47%	--	--
PB: MSCI World ex U.S. Index	--	--	15.15%	20.38%	-0.77%	5.94%
Fidelity Diversified International Fund**	\$86	\$2,958	14.00%	19.94%	4.32%	13.24%
PB: MSCI EAFE Index	--	--	15.32%	20.25%	-1.13%	5.62%
<i>Global Stock Funds</i>						
American Funds New Perspective Fund**	\$59	\$1,943	12.40%	14.53%	2.45%	12.81%
PB: MSCI World Index	--	--	11.95%	14.72%	-2.45%	8.09%

* Not annualized.

** These funds may have restrictions on your ability to trade. Please also review the excessive fund trading policy. Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.

BEFORE YOU CHANGE YOUR INVESTMENT PLAN FUNDS, get professional guidance. Find out which funds fit your needs and risk tolerance. **Remember, past performance of a fund does not guarantee future results!**

CALL the MyFRS Financial Guidance Line at 1-866-44MyFRS (1-866-446-9377; TTY 1-888-429-2160), or **VISIT** www.MyFRS.com for:

- >> Free guidance and in-depth information on all investment funds offered under the FRS Investment Plan, including Financial Engines' *Fund Score Cards* and the *Fund Profiles*, *Fund Details*, and *Investment Fund Summary*, which are updated regularly. These reports discuss the fees, investment strategies, and other factors that may significantly affect the fund's performance.
- >> A status of all the funds under the SBA's investment manager monitoring guidelines.
- >> Daily account transfers or withdrawals, if the fund does not have transfer restrictions.

Notice to Inactive FRS Investment Plan Participants

If you are not employed by an FRS-covered employer, you will receive a mailing that explains two important changes taking effect April 1, 2005:

If your FRS Investment Plan account balance...	Then...
is \$1,000 or less,	it will be automatically cashed out
is over \$1,000,	a \$6 account maintenance fee will be automatically deducted from your account on a quarterly basis

Call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377 (TTY: 1-888-429-2160), option 4, if you have questions.

This Performance Summary is intended for use in connection with the FRS Investment Plan, pursuant to Florida law, and is not intended for use by other investors. Sections 121.4501(8)(b)4 and 121.4501(15)(b), Florida Statutes, incorporates the federal law concept of participant control, established by regulations of the U.S. Department of Labor under Section 404(c) of the Employee Retirement Income Security Act of 1974. If you exercise control over the assets in your Investment Plan account, pursuant to Section 404(c) regulations and all applicable laws governing the operation of the Investment Plan, no program fiduciary shall be liable for any loss to your account which results from your exercise of control.