



News on *Investing* for *Retirement*

Issue Date: January 2006

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

Have You Had Your Annual Financial Checkup?

It's that time of year again when you should get an annual financial checkup to make certain you are on track to meet your retirement goals. Your Personal Retirement Forecast Statement is a good place to start.

However, as an FRS member, you can get a free checkup at any time by calling the toll-free MyFRS Financial Guidance Line and talking with a financial planner from Ernst & Young. These planners are experienced and unbiased, and can help you set up a plan to meet your retirement and financial goals.

- >> Are you getting the most from your employer's deferred compensation (457, 403(b), or 401(k)) supplemental retirement plan?
- >> Are you eligible to increase your contributions to the plan under the federal catch-up provisions?

- >> Are you in the retirement plan that will provide you the best benefit when you retire, or should you switch plans?
- >> Is your named beneficiary the person you want to receive any benefits due if you die?
- >> Do you need help managing debt after receiving your holiday bills?

The planners can help you answer these questions and any others you may have. Don't delay, call today! Begin this new year by preparing for your future.

And don't forget that you also have the following free online services available to you at MyFRS.com:

ADVISOR SERVICE: You can use this service to get personalized retirement income forecasts that include your FRS and Social Security benefits. You can also get specific Investment Plan fund recommendations for your Investment Plan account.

If you upgrade the service for \$15 per year, you can add all of your outside assets, such as your 457, 403(b), 401(k), or IRA funds and get recommendations and benefit projections on all your assets.

2nd ELECTION CHOICE

SERVICE: After you make your initial FRS plan selection, you have one additional opportunity during your active FRS working career to change your choice of plans. The 2nd Election Choice Service lets you compare estimated benefits under both plans to determine if you are still in the best plan for your circumstances.

Log in to MyFRS.com to use the services listed above, or call the MyFRS Financial Guidance line at 1-866-446-9377, Option 1, and one of the financial planners will run the services for you.

Coming Soon — Your Updated Personal Retirement Forecast Statement

This spring, you will receive an updated Personal Retirement Forecast Statement. The FRS has asked Financial Engines to provide

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Want help with fees and investments?

- >> Call the toll-free MyFRS Financial Guidance Line at 1-866-44-MyFRS, option 1 (1-866-446-9377; TTY 1-888-429-2160); or
- >> Log on to www.MyFRS.com.

you with the Statement to give you information on your projected FRS Investment Plan and projected Social Security retirement benefits. The Statement will also help you understand how much additional income you may need to save to have enough income to live comfortably in retirement.

To take full advantage of the Statement, you should call the toll-free MyFRS Financial Guidance Line and speak to one of the unbiased financial planners.

You may also go online at MyFRS.com to explore your FRS retirement plan choices, the mix of your options, or your ability to switch FRS plans.

These Statements will be mailed to all FRS members with at least 12 months of FRS service over a period of five to six weeks. So, don't be disappointed if your neighbor gets

his or her Statement a few days before yours arrives.

Is A 2nd Election Right For You?

After you make your initial Florida Retirement System (FRS) retirement plan selection, you may change plans once during your active FRS working career. This plan change – called your 2nd Election – is not for everyone, but it could be right for you.

If you selected the FRS Investment Plan with your initial election opportunity, you may use your 2nd Election to switch to the FRS Pension Plan. However, to switch to the Pension Plan, you must “buy in” to the plan using your Investment Plan account balance. If your Investment Plan account balance is not sufficient to cover the cost of the “buy in,” you may



need to use additional money from your other personal resources. The FRS will calculate your “buy in” cost based on whether you had previous FRS Pension Plan service before joining the Investment Plan.

>> If you had previous Pension Plan service, the “buy in” cost will be a present value calculation (called accumulated benefit obligation, or ABO) using all your FRS service as if you had never joined the Investment Plan.

>> If you did not have previous Pension Plan service before joining the Investment Plan, your “buy in” cost will be the total cost (called the actuarial accrued liability) to provide a Pension Plan benefit for all service earned up to the time of your “buy in.” This amount will be greater than a present value calculation.

Excessive Fund Trading Policy Reminder

In November 2003, the State Board of Administration of Florida (SBA) implemented a policy to prevent short-term excessive trading within the FRS Investment Plan. The policy was mailed to all participants, and is available online at MyFRS.com or by calling the toll-free MyFRS Financial Guidance Line.

A minimum seven-day holding period applies to any non-exempt transfers into an international or global stock fund. Additionally, multiple round-trips in and out of any investment fund totaling \$75,000 or more within a 30-day period could lead to restrictions on your ability to make future transfers.

Effective in March 2006, some aspects of the policy will be updated, which may affect your trades. If you have questions, please call the MyFRS Financial Guidance Line or log in to the website in March to review the new policy.

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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, 2005

	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	1.31%	4.38%	3.68%	--
PB: Conservative Balanced Aggregate Index**	--	--	1.06%	4.03%	2.94%	--
FRS Select Moderate Balanced Fund	\$7	\$222	2.02%	6.82%	5.14%	--
PB: Moderate Balanced Aggregate Index**	--	--	1.87%	6.78%	4.48%	--
FRS Select Aggressive Balanced Fund	\$14	\$429	2.72%	8.66%	4.21%	--
PB: Aggressive Balanced Aggregate Index**	--	--	2.20%	8.26%	3.70%	--
MONEY MARKET FUNDS						
<i>Core Money Market Funds</i>						
FRS Select Yield Plus Money Market Active Fund	\$7	\$212	1.06%	3.54%	2.53%	--
PB: Institutional Money Market Average Index	--	--	0.90%	3.16%	2.40%	--
INFLATION-PROTECTED SECURITIES FUNDS						
<i>Core Inflation-Protected Securities Funds</i>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund	\$2	\$60	0.07%	2.77%	--	--
PB: Lehman Brothers TIPS Index	--	--	0.11%	2.84%	--	--

* Not annualized.

	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	0.59%	2.47%	5.93%	6.22%
PB: Lehman Brothers Aggregate Bond Index	--	--	0.59%	2.43%	5.87%	6.16%
Pimco Total Return Fund	\$56	\$1,835	0.45%	2.78%	6.41%	6.68%
PB: Lehman Brothers Aggregate Bond Index	--	--	0.59%	2.43%	5.87%	6.16%
<i>Specialty Bond Funds</i>						
Fidelity Intermediate Duration Pool Fund	\$20	\$619	0.58%	2.19%	6.00%	6.15%
PB: Lehman Brothers Intermediate Aggregate Bond Index [^]	--	--	0.55%	2.01%	5.51%	5.97%
Pimco High Yield Fund	\$50	\$1,623	1.23%	4.58%	8.07%	7.34%
PB: Merrill Lynch BB/B High Yield Index	--	--	0.81%	3.36%	8.10%	6.73%
U.S. STOCK FUNDS						
<i>Core U.S. Stock Funds</i>						
FRS Select U.S. Stock Market Index Fund	\$2	\$60	2.03%	6.16%	1.60%	9.12%
PB: Russell 3000 Index	--	--	2.04%	6.12%	1.58%	9.09%
Pioneer Fund	\$61	\$2,015	2.69%	6.84%	1.42%	10.45%
PB: S&P 500 Index	--	--	2.09%	4.91%	0.55%	9.07%
<i>Specialty U.S. Stock Funds</i>						
American Funds Investment Company of America Fund	\$31	\$976	2.43%	7.12%	4.19%	11.09%
PB: Russell 1000 Value Index ^{^^}	--	--	1.27%	7.05%	5.28%	10.94%
Prudential Mid-Cap Quantitative Core Equity Fund	\$35	\$1,109	2.55%	11.58%	8.74%	--
PB: S&P Mid-Cap 400 Index	--	--	3.34%	12.55%	8.61%	--
FRS Select U.S. Large Growth Stock Active Fund	\$47	\$1,520	5.14%	13.32%	-3.23%	--
PB: Russell 1000 Growth Index	--	--	2.98%	5.26%	-3.58%	--
Fidelity Growth Company Fund	\$67	\$2,235	6.16%	13.77%	-2.01%	10.38%
PB: Russell 3000 Growth Index	--	--	2.86%	5.17%	-3.15%	6.48%
Fidelity Low-Priced Stock Fund ^{***}	\$71	\$2,383	1.91%	8.94%	17.53%	16.41%
PB: Russell 2500 Value Index ^{^^^}	--	--	0.92%	7.74%	13.43%	13.89%
American Beacon Small-Cap Value Fund	\$89	\$3,076	0.76%	5.79%	18.68%	--
PB: Russell 2000 Value Index	--	--	0.66%	4.71%	13.55%	--
T. Rowe Price Small-Cap Stock Fund	\$94	\$3,275	3.27%	8.44%	9.34%	12.16%
PB: Russell 2000 Index	--	--	1.13%	4.55%	8.22%	9.26%
FOREIGN STOCK FUNDS						
<i>Core Foreign Stock Funds</i>						
FRS Select Foreign Stock Index Fund ^{**}	\$2	\$60	3.91%	14.68%	5.17%	--
PB: MSCI World ex U.S. Index	--	--	3.94%	14.47%	4.92%	--
American Funds Euro-Pacific Growth Fund ^{**}	\$53	\$1,728	7.14%	21.36%	7.91%	10.92%
PB: MSCI EAFE Index	--	--	4.12%	14.02%	4.94%	6.18%
<i>Global Stock Funds</i>						
American Funds New Perspective Fund ^{**}	\$54	\$1,764	4.52%	11.54%	6.25%	11.92%
PB: MSCI World Index	--	--	3.16%	10.02%	2.64%	7.47%

* 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.

*** This fund is closed to new money effective 8/1/04.

^ Effective July 1, 2005 the performance benchmark was changed from the Lehman Intermediate Government/Corporate Index to the Lehman Intermediate Aggregate Index for all time periods to more closely align with the Fund's investment process.

^^ Effective July 1, 2005 the performance benchmark was changed from the S&P 500 Index to the Russell 1000 Value Index for all time periods to more closely align with the Fund's investment process.

^^^ Effective July 1, 2005 the performance benchmark was changed from the Russell 2000 Index to the Russell 2500 Value Index for all time periods to more closely align with the Fund's investment process.




Effective July 1, 2005 performance benchmarks for certain underlying Funds were changed for all time periods to more closely align with the underlying Funds' investment process. Please refer to the Fund Profiles for the current allocations to the underlying funds and their respective benchmarks.



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.

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After the FRS calculates your “buy in” cost, your Investment Plan account balance will be transferred to the Pension Plan to cover the cost of the “buy in.” If you do not have enough in your Investment Plan account to cover the “buy in” cost, you must make up the difference from your own personal funds. The cost of the “buy in” increases monthly. If you have a surplus left over in your Investment Plan account after buying in to the Pension Plan, you may keep the excess in an Investment Plan account and continue to manage those funds. However, your remaining Investment Plan balance will not be available for distribution until you retire and begin receiving your Pension Plan benefit.

As always, free help is available from the FRS to help you determine if a 2nd Election is best for you. You should review your plan options carefully and always get unbiased guidance. **Once you make a 2nd Election, that decision is final.** You will not be given another opportunity to change your FRS retirement plan.

The FRS offers two ways to get free help:

-  Call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377, Option 1, and an unbiased financial planner will provide you with personalized information based on your individual situation.
-  Log in to MyFRS.com and select the 2nd Choice Service tab to see your projected retirement benefits under both retirement plans. You can change the initial assumptions to better match your life circumstances.

FRS Member Bulletin Board

If you prefer to review this newsletter and other important information electronically, you can log in to MyFRS.com and enter your Social Security number and PIN. Then click on the green button in the top right of the screen that resembles a stick pin. The stick pin will be red in color if you have a new message posted.

This bulletin board is used from time to time to post important retirement information. All items posted will remain active for a limited time before they are removed. So, you might wish to visit the site periodically to see if a new message has been posted.

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.