



• July 2011 •

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## Legislative Update

The Florida Legislature completed its 2011 session and passed Senate Bill 2100 (Chapter 2011-68, Laws of Florida), making substantive changes to the Florida Retirement System (FRS). The bill was signed into law by Governor Rick Scott and is effective July 1, 2011. Additional information can be found by clicking “2011 Retirement Legislation” in the Alerts & Hot Topics box on the *MyFRS.com* home page.

## Applicable to All FRS Members

### Employee Contributions

The law requires all FRS Investment Plan and Pension Plan members<sup>1</sup> to make 3% employee contributions on a pretax basis. This change will require both you and your employer to pay the retirement contributions needed to fund your retirement benefits, as shown in the tables that follow. Your employer will automatically deduct this amount from your gross salary beginning in July 2011.

The amount contributed by your employer (called the “blended contribution rate”) is the same whether you participate in the Investment Plan or the Pension Plan and is equal to a percentage of your gross monthly salary, based on your employment class (e.g., Regular Class, Special Risk Class, etc.). The blended rates are as follows.

**Blended Contribution Rates**

Membership Class	Paid by You	Paid by Your Employer	Total Paid by You and Your Employer
<b>Regular Class</b>	3%	3.77%	6.77%
<b>Special Risk Class</b>	3%	12.96%	15.96%
<b>Special Risk Administrative Support Class</b>	3%	4.90%	7.90%
<b>Elected Officers’ Class</b> (Judges)	3%	10.55%	13.55%
<b>Elected Officers’ Class</b> (Legislature/Cabinet/Public Defender/ State Attorney)	3%	7.90%	10.90%
<b>Elected Officers’ Class</b> (County and Local)	3%	10.00%	13.00%
<b>Senior Management Service Class</b>	3%	5.13%	8.13%

<sup>1</sup> Except those in DROP or reemployed retirees not eligible for FRS membership.

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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 provide a diversified 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 balance 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 (TIPS). TIPS 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 entity 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. 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.

## Members' Social Security Numbers

FRS Investment Plan member records are filed according to the member's Social Security number. The State Board of Administration of Florida (SBA) collects member Social Security numbers because it is imperative for the SBA to have the ability to identify Investment Plan members properly and definitively.

## Telecommunications Relay Services 711

Members who are deaf, hard of hearing, or speech-impaired can communicate with the FRS using a national service called Telecommunications Relay Services (TRS) 711.

\* Note that there can be risk in holding a large portion of your account balance in a single fund (unless that fund is a reasonably diversified fund, such as a balanced fund). For further information on diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, or Telecommunication Relay Service (TRS 711), or visit [MyFRS.com](http://MyFRS.com). Additional information on investing and diversification can be found on the U.S. Department of Labor's website at [www.dol.gov/ebsa/investing.html](http://www.dol.gov/ebsa/investing.html).



## 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.
- **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 designed to approximate the returns of their benchmarks. Benchmarks do not have costs.
- **Management Type** is the type of investment strategy used by a fund.
  - **P Passively Managed** (or Index) funds follow a strategy to produce the same level and pattern of investment returns generated in a market index (such as the S&P 500® index) by buying and holding the same securities as the index itself. Index funds carry a very low fee.
  - **A Actively Managed** funds try to predict securities price movements in order to beat a market index. The higher fees associated with Actively Managed funds are used to support the research needed to predict market changes.

## Performance Summary as of June 30, 2011

**P** = Passively Managed Type

**A** = Actively Managed Type

Refer to page 2 for a definition of these asset classes.

	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
<b>BALANCED FUNDS</b>						
<b>Core Balanced Funds</b>						
FRS Select Conservative Balanced Fund <b>A</b>	\$5	\$152	1.52%	7.28%	4.67%	4.20%
<i>PB: Conservative Balanced Aggregate Index</i>	---	---	1.55%	6.83%	4.10%	3.67%
FRS Select Moderate Balanced Fund <b>A</b>	\$5	\$139	1.37%	16.41%	3.82%	4.96%
<i>PB: Moderate Balanced Aggregate Index</i>	---	---	1.39%	16.12%	3.41%	4.65%
FRS Select Aggressive Balanced Fund <b>A</b>	\$4	\$123	0.97%	21.57%	2.85%	4.40%
<i>PB: Aggressive Balanced Aggregate Index</i>	---	---	0.93%	21.14%	2.81%	4.43%
<b>MONEY MARKET FUNDS</b>						
<b>Core Money Market Funds</b>						
FRS Select Yield Plus Money Market Active Fund <b>A</b>	\$6	\$179	0.05%	0.26%	2.22%	2.34%
<i>PB: Institutional Money Market Average Index</i>	---	---	0.01%	0.08%	2.40%	2.39%
<b>INFLATION-PROTECTED SECURITIES FUNDS</b>						
<b>Core Inflation-Protected Securities Funds</b>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund <b>P</b>	\$2	\$60	3.62%	7.76%	7.00%	---
<i>PB: Barclays Capital TIPS Index</i>	---	---	3.66%	7.74%	6.91%	---
<b>BOND FUNDS</b>						
<b>Core Bond Funds</b>						
FRS Select U.S. Bond Enhanced Index Fund <b>P</b>	\$5	\$151	2.32%	3.96%	6.83%	5.92%
<i>PB: Barclays Capital Aggregate Bond Index</i>	---	---	2.29%	3.90%	6.52%	5.75%
PIMCO Total Return Fund <b>A</b>	\$60	\$1,979	1.83%	5.80%	8.73%	7.21%
<i>PB: Barclays Capital Aggregate Bond Index</i>	---	---	2.29%	3.90%	6.52%	5.75%

P = Passively Managed Type  
A = Actively Managed Type

	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
<b>BOND FUNDS - continued</b>						
<b>Specialty Bond Funds</b>						
Pyramis Intermediate Duration Pool Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$12	\$376	2.17%	4.13%	6.01%	5.58%
<i>PB: Barclays Capital Intermediate Aggregate Bond Index</i>	---	---	2.17%	3.99%	6.39%	5.53%
FRS Select High Yield Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$46	\$1,483	1.19%	13.59%	9.46%	8.79%
<i>PB: Barclays Capital US HYld Ba-2% Issuer Cap</i>	---	---	1.58%	14.19%	9.82%	8.70%
<b>U.S. STOCK FUNDS</b>						
<b>Core U.S. Stock Funds</b>						
FRS Select U.S. Stock Market Index Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">P</span>	\$2	\$60	-0.05%	32.41%	3.45%	3.50%
<i>PB: Russell 3000 Index</i>	---	---	-0.03%	32.37%	3.35%	3.44%
Pioneer Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$74	\$2,496	-0.32%	32.20%	3.24%	3.39%
<i>PB: S&amp;P 500 Index</i>	---	---	0.10%	30.69%	2.94%	2.72%
<b>Specialty U.S. Stock Funds</b>						
FRS Select U.S. Large Value Stock Active Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$19	\$595	-0.45%	30.85%	1.92%	5.29%
<i>PB: Russell 1000 Value Index</i>	---	---	-0.50%	28.94%	1.15%	3.98%
Prudential Mid-Cap Quantitative Core Equity Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$35	\$1,109	-0.27%	43.16%	7.17%	8.76%
<i>PB: S&amp;P Mid-Cap 400 Index</i>	---	---	-0.73%	39.38%	6.60%	7.94%
FRS Select U.S. Large Growth Stock Active Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$36	\$1,146	2.98%	35.72%	5.94%	2.47%
<i>PB: Russell 1000 Growth Index</i>	---	---	0.76%	35.01%	5.33%	2.24%
Fidelity Growth Company Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$64	\$2,124	1.83%	41.88%	7.91%	4.93%
<i>PB: Russell 3000 Growth Index</i>	---	---	0.64%	35.68%	5.36%	2.43%
Fidelity Low-Priced Stock Fund** <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$74	\$2,496	2.27%	34.60%	6.36%	10.59%
<i>PB: Russell 2500 Value Index</i>	---	---	-1.47%	34.54%	3.54%	8.36%
American Beacon Small-Cap Value Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$82	\$2,802	-3.33%	34.63%	4.43%	9.88%
<i>PB: Russell 2000 Value Index</i>	---	---	-2.65%	31.35%	2.24%	7.53%
T. Rowe Price Small-Cap Stock Fund <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$92	\$3,195	-0.51%	43.95%	6.83%	8.16%
<i>PB: Russell 2000 Index</i>	---	---	-1.61%	37.41%	4.08%	6.27%
<b>FOREIGN STOCK FUNDS</b>						
<b>Core Foreign Stock Funds</b>						
FRS Select Foreign Stock Index Fund*** <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">P</span>	\$2	\$60	1.11%	32.15%	2.35%	6.42%
<i>PB: MSCI World ex U.S. Index</i>	---	---	0.86%	30.33%	2.02%	6.13%
American Funds Euro-Pacific Growth Fund*** <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$50	\$1,623	1.09%	29.48%	5.46%	8.16%
<i>PB: MSCI All Country World ex U.S. Index^</i>	---	---	0.61%	30.27%	2.35%	6.32%
<b>Global Stock Funds</b>						
American Funds New Perspective Fund*** <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">A</span>	\$55	\$1,799	0.26%	29.98%	5.92%	7.05%
<i>PB: MSCI World Index</i>	---	---	0.47%	30.51%	2.28%	4.20%

Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.

\* Not annualized.

\*\* This fund was closed to new money effective August 1, 2004.

\*\*\* These funds may have restrictions on your ability to trade. Please review the excessive fund trading policy.

† Fees and expenses are only one of several factors that you should consider when making investment decisions.

†† The performance information presented reflects past performance. Past performance is not necessarily an indication of future performance.

^ In January 2010, the benchmark was changed from the MSCI EAFE Index to the MSCI ACWI ex U.S. Index to reflect the revised primary benchmark listed in the Fund's prospectus. For periods ending prior to January 31, 2010, the performance benchmark reflects the MSCI EAFE Index.



Legislative Update (continued from page 1)

The contribution made to your Investment Plan account is not equal to the total blended contribution rate. The Investment Plan contribution, which is greater than the blended rate, includes your 3% employee contribution, your employer's contribution, plus an additional amount from the FRS Trust Fund. The Investment Plan contribution rates are as follows.

Investment Plan Contribution Rates			
Membership Class	Paid by You	Paid by Your Employer	Total Paid by You and Your Employer
Regular Class	3%	6.00%	9.00%
Special Risk Class	3%	17.00%	20.00%
Special Risk Administrative Support Class	3%	8.35%	11.35%
Elected Officers' Class (Judges)	3%	15.90%	18.90%
Elected Officers' Class (Legislature/Cabinet/Public Defender/State Attorney)	3%	10.40%	13.40%
Elected Officers' Class (County and Local)	3%	13.20%	16.20%
Senior Management Service Class	3%	7.95%	10.95%

In addition to those contributions paid by your employer to fund your retirement benefit, your employer contributes additional amounts to fund your Health Insurance Subsidy benefit (1.11%), disability benefits (will vary depending on employment class), and FRS Investment Plan administration costs and educational program costs for all FRS members (.03%).

### Keep Your Name and Address Current

Please be sure to report any change in your name or mailing address to your employer, in order to ensure you receive important information from your employer and the FRS. All active FRS employees must change their personal information through their FRS employer. Inactive or retired Investment Plan members can make an address change online or for name changes, send a letter to Aon Hewitt, the Investment Plan Administrator. The letter should include your old name, new name, last 4 digits of your Social Security number and a copy of the court order, marriage certificate, or driver's license reflecting your new name.

**Important:** Because the contribution is deducted from your pay on a pretax basis, your take-home pay is reduced by less than the full 3%. As a result, more money goes into your retirement plan than comes out of your paycheck. So, for an FRS member whose employee contribution is \$75.00, the net impact on their take-home pay may be \$63.75.<sup>2</sup>

- **Vesting of Employee Contributions** – You are always fully vested in your own contributions. This means that if you terminate FRS-covered employment prior to meeting your plan's vesting requirements, you will be entitled to withdraw your own contributions (3 calendar months after termination). However, taking such a withdrawal may not be a sound financial decision because, if you take a withdrawal, you will forfeit any unvested employer contributions and service credit and you will be declared a retiree. As a retiree, you will not be permitted to participate in the FRS if you are reemployed by any FRS employer in the future.

<sup>2</sup> If you need assistance in determining your estimated take-home pay, you can use either the online Take-home Pay Calculator, accessible via the Alerts & Hot Topics box on [MyFRS.com](http://MyFRS.com), or ask an Ernst & Young financial planner to determine the amount. An Ernst & Young financial planner can also assist you in budgeting. Ernst & Young planners are available through the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2 (TRS 711).

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## Applicable to All FRS Pension Plan Members

### Excessive Fund Trading Policy

The SBA has an Excessive Fund Trading Policy to help protect all Investment Plan members by preventing any short-term excessive fund trading within the FRS Investment Plan. The policy is available on the “Investment Funds” page of [MyFRS.com](http://MyFRS.com).

### About Fund Transfers

The FRS Investment Plan generally permits you to change your investment options daily (some funds restrict your ability to move your money under certain circumstances under an excessive fund trading policy). Transfer requests processed before 4:00 p.m. Eastern time (or market close, if earlier) will be effective on the day the request is made. Transfer requests received after that time will be processed the next business day. You may change or cancel your request at any time before market close by logging onto [MyFRS.com](http://MyFRS.com) or calling the FRS Investment Plan Administrator at 1-866-446-9377, Option 4. If your completed request is delayed for any reason, it will be processed as soon as administratively feasible.

### De Minimis Accounts

Inactive FRS Investment Plan members with account balances over \$1,000 are subject to a \$6/quarter account maintenance fee. If applicable, this fee will appear on your quarterly statement after it has been applied to your FRS Investment Plan account. Further information is available in the Investment Plan Summary Plan Description on [MyFRS.com](http://MyFRS.com).

The new law impacts:

- Vesting for members joining the Pension Plan for the first time on or after July 1, 2011.
- Average Final Compensation (AFC) for members joining the Pension Plan for the first time on or after July 1, 2011.
- Normal Retirement Date for members joining the Pension Plan for the first time on or after July 1, 2011.
- DROP interest rate for Pension Plan members whose DROP participation date is effective on or after August 1, 2011.
- Cost of Living Adjustment (COLA) for Pension Plan service earned on or after July 1, 2011.

For details, please click the [Frequently Asked Questions \(FAQs\)](#) link posted in the [Alerts & Hot Topics](#) section of [MyFRS.com](http://MyFRS.com).

## Changes Proposed but Not Enacted

A number of other FRS changes were proposed but ultimately did not become law. Therefore:

- There were no changes to the reemployment after retirement provisions.
- Renewed membership in the FRS for retirees remains closed.
- The Pension Plan remains open to new members.
- All members continue to have a 2<sup>nd</sup> Election available to switch plans, if they have not used it yet. However:
  - Investment Plan members must buy into the Pension Plan and the cost could be unaffordable.
  - Pension Plan members will not vest in any money transferred to the Investment Plan until they have 6 years of service (8 years if a new employee). If the member terminates employment prior to vesting, the amount transferred from the Pension Plan may be forfeited.
- The Investment Plan’s 1-year vesting requirement has not changed.
- No changes were made to the Health Insurance Subsidy.
- No changes for current Pension Plan retirees.

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, incorporate 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.