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Subprime Mortgage-Related Questions

If you have questions about subprime mortgage issues as they relate to the Investment Plan, you can call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377 and speak with a financial planner. You can also visit MyFRS.com, click the green question mark button in the upper right corner of the home page, and search the Knowledge Base for Frequently Asked Questions and other information about “subprime mortgages.”

From The Files Of The MyFRS Financial Guidance Line

Debt Gets in the Way of Retirement Planning

By Dan Grumbles, Ernst & Young Financial Planner

This is the first in a series of articles by Ernst & Young financial planners highlighting situations in which they assisted FRS members who called the MyFRS Financial Guidance Line. Some information has been modified to protect the confidentiality of members.

The callers: A married couple in their 50s.

Why they called: They were concerned that they were carrying too much debt on credit cards. Their credit card debt, spread out among several cards, totaled more than \$15,000. Combined with a home equity line of credit (outstanding balance: more than \$20,000) plus a mortgage (remaining balance: more than \$180,000), credit card debt was straining the couple’s finances. The husband and wife were especially worried that by paying high, nondeductible interest on their cards, they were jeopardizing plans for each of them to retire at age 65.

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Did You Know?

The FRS offers a free 60-minute workshop entitled “Cash and Debt Management: Smart Spending.” This workshop was designed to help members evaluate current spending habits and create a spending plan. To determine if this workshop is being held in your area, check the workshop schedule on MyFRS.com or call the MyFRS Financial Guidance Line at 1-866-446-9377.



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.

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.

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.

* 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 or TTY 1-888-429-2160, or visit 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.



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.

Performance Summary as of December 31, 2007

Refer to page 2 for an explanation 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
BALANCED FUNDS						
Core Balanced Funds						
FRS Select Conservative Balanced Fund	\$11	\$335	1.76%	8.53%	7.41%	6.11%
PB: Conservative Balanced Aggregate Index ^{##}	—	—	1.49%	7.59%	6.77%	5.19%
FRS Select Moderate Balanced Fund	\$5	\$143	-0.95%	7.41%	12.02%	8.41%
PB: Moderate Balanced Aggregate Index ^{##}	—	—	-1.04%	7.00%	12.23%	7.29%
FRS Select Aggressive Balanced Fund	\$10	\$289	-2.20%	8.21%	14.67%	8.66%
PB: Aggressive Balanced Aggregate Index ^{##}	—	—	-1.94%	7.52%	15.20%	7.60%
MONEY MARKET FUNDS						
Core Money Market Funds						
FRS Select Yield Plus Money Market Active Fund	\$7	\$212	1.23%	5.37%	3.36%	4.08%
PB: Institutional Money Market Average Index	—	—	1.29%	5.44%	3.31%	4.00%
INFLATION-PROTECTED SECURITIES FUNDS						
Core Inflation-Protected Securities Funds						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund	\$2	\$60	5.01%	11.65%	6.21%	—
PB: Lehman Brothers TIPS Index	—	—	4.97%	11.64%	6.27%	—
BOND FUNDS						
Core Bond Funds						
FRS Select U.S. Bond Enhanced Index Fund	\$5	\$151	3.08%	7.15%	4.46%	6.03%
PB: Lehman Brothers Aggregate Bond Index	—	—	3.00%	6.97%	4.42%	5.97%
PIMCO Total Return Fund	\$56	\$1,835	3.89%	8.94%	5.16%	6.53%
PB: Lehman Brothers Aggregate Bond Index	—	—	3.00%	6.97%	4.42%	5.97%

	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 - continued						
Specialty Bond Funds						
Pyramis Intermediate Duration Pool Fund### PB: Lehman Brothers Intermediate Aggregate Bond Index^	\$20	\$619	2.22%	6.02%	4.38%	6.01%
	—	—	2.89%	7.02%	4.22%	5.83%
PIMCO High Yield Fund PB: PIMCO High Yield Custom Index^^^^	\$50	\$1,623	0.31%	3.73%	9.98%	6.20%
	—	—	-0.37%	3.18%	9.57%	5.69%
U.S. STOCK FUNDS						
Core U.S. Stock Funds						
FRS Select U.S. Stock Market Index Fund PB: Russell 3000 Index	\$2	\$60	-3.30%	5.22%	13.62%	6.18%
	—	—	-3.34%	5.14%	13.63%	6.20%
Pioneer Fund PB: S&P 500 Index	\$70	\$2,346	-4.57%	5.11%	12.99%	7.13%
	—	—	-3.33%	5.49%	12.83%	5.91%
Specialty U.S. Stock Funds						
FRS Select U.S. Large Value Stock Active Fund**** PB: Russell 1000 Value Index^^	\$19	\$595	-5.56%	-0.39%	15.21%	9.15%
	—	—	-5.80%	-0.17%	14.63%	7.68%
Prudential Mid-Cap Quantitative Core Equity Fund PB: S&P Mid-Cap 400 Index	\$35	\$1,109	-4.71%	8.29%	17.67%	11.59%
	—	—	-2.73%	7.98%	16.20%	11.21%
FRS Select U.S. Large Growth Stock Active Fund PB: Russell 1000 Growth Index	\$43	\$1,385	-0.05%	11.87%	11.36%	5.12%
	—	—	-0.77%	11.81%	12.10%	3.83%
Fidelity Growth Company Fund PB: Russell 3000 Growth Index	\$69	\$2,309	0.90%	20.17%	19.05%	9.80%
	—	—	-0.88%	11.40%	12.42%	3.83%
Fidelity Low-Priced Stock Fund*** PB: Russell 2500 Value Index^^	\$71	\$2,383	-2.88%	3.42%	18.13%	13.19%
	—	—	-6.97%	-7.27%	16.17%	9.66%
American Beacon Small-Cap Value Fund PB: Russell 2000 Value Index	\$85	\$2,919	-8.22%	-6.43%	16.20%	—
	—	—	-7.28%	-9.78%	15.80%	—
T. Rowe Price Small-Cap Stock Fund PB: Russell 2000 Index	\$91	\$3,155	-6.08%	-1.74%	13.56%	8.37%
	—	—	-4.58%	-1.57%	16.25%	7.08%
FOREIGN STOCK FUNDS						
Core Foreign Stock Funds						
FRS Select Foreign Stock Index Fund** PB: MSCI World ex U.S. Index	\$2	\$60	-1.59%	12.73%	22.24%	—
	—	—	-1.62%	12.44%	22.12%	—
American Funds Euro-Pacific Growth Fund** PB: MSCI EAFE Index	\$52	\$1,693	1.36%	19.29%	23.00%	12.25%
	—	—	-1.71%	11.63%	22.08%	9.04%
Global Stock Funds						
American Funds New Perspective Fund** PB: MSCI World Index	\$46	\$1,483	0.06%	16.32%	19.59%	12.27%
	—	—	-2.42%	9.04%	17.30%	7.34%

* Not annualized.

** These funds may have restrictions on your ability to trade. Please 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 was closed to new money effective August 1, 2004.

**** Replaced the American Funds Investment Company of America Fund, effective July 1, 2007.

^ 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.

**** The performance benchmark has been changed to a blended index comprised of the Merrill Lynch U.S. High Yield BB/B Rated Constrained Index for all monthly time periods on or after November 2005 and the Merrill Lynch U.S. High Yield BB/B Rated Index for all prior monthly time periods.

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.

Formerly the Fidelity Intermediate Duration Pool Fund. There was no change to the underlying product.



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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 send a notarized letter to CitiStreet, the Investment Plan Administrator. The letter should include your Social Security number and both your old and new addresses.

How I helped: I decided to guide the couple through a comprehensive review of their current financial situation and goals for retirement. I began by asking them to complete a few questionnaires. Based on their responses to these questionnaires, I furnished the couple with personalized, printed reports on, among other topics, cash flow, debt, and retirement funding.

Using the personalized reports as a springboard for planning, I helped the couple create a step-by-step action plan for paying off credit card debt. One discovery the couple made was that the husband was paying for life insurance he did not need; his wife has her own income, and her share of the couple's projected retirement income is significantly larger than his share. By canceling the husband's life insurance policy, the couple would be able to "find" an extra \$200 a month to pay toward credit card balances.

We also decided to consolidate the couple's credit card debt, moving balances from several higher-interest cards to one lower-rate card. By reducing their interest and paying more each month toward their card balances, the couple would be able to pay off their credit card debt two years earlier than previously anticipated.



Dan Grumbles is a Certified Financial Planner™ with Ernst & Young. He graduated from Miami University with a BA in Psychology. He also has an MBA in International Management from Thunderbird Graduate School in Glendale, Arizona and a graduate degree in Linguistics from the University of Michigan.

Call toll-free to speak with an unbiased financial planning and retirement professional who can answer your questions regarding debt. To speak with a financial planner, call 1-866-446-9377, Option 2, (TTY 1-888-429-2160), Monday through Friday from 9:00 a.m. to 8:00 p.m. ET.

Beneficiary Designation Reminder

Your enclosed FRS Quarterly Investment Plan Statement lists your current Investment Plan account beneficiary(ies). Please review these beneficiary(ies) to ensure they are current. If you wish to make a change, please complete and return an Investment Plan Beneficiary Designation Form (available on MyFRS.com or by calling CitiStreet at 1-866-446-9377, Option 4). If you name someone other than your spouse as a primary beneficiary, your spouse must sign the form where indicated. If you have any questions, please call CitiStreet.

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 1-866-446-9377 (TTY 1-888-429-2160), and **Visit** 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.

New Feature in Statements: Market Return and Risk Analysis

A new feature that measures your market return and risk level has been added to your Quarterly Investment Plan Statement (and online statement), as shown in the example below.

Your current risk level is determined using risk factors provided by Financial Engines for each of the investment funds you are participating in, and evaluating your balance in each fund. In the example, the member's risk level is Moderately Aggressive. This risk level is most suitable for a member who has 11 to 15 years until retirement. If the member is planning to retire either earlier or later than that time, he may want to consider changing his investment mix. If your current risk level does not correspond with your anticipated retirement date, please call an Ernst & Young financial planner at 1-866-446-9377, Option 2, for help in choosing investment funds that will more closely match your retirement goals.

Market Return & Risk Analysis



Your Level

High-risk or aggressive investments could grow fast, but also drop just as quickly. They have the potential for significant returns or losses over time. Lower-risk or conservative investments might experience less significant and less extreme changes in value. Conservative investments have the potential for more modest returns over time.

This level of risk may be most suitable for someone with 11-15 years until retirement. If you are not planning to retire or use these funds within that time, you may want to consider a change to your investments. If you are planning to retire within that time, are you saving enough to meet your retirement goals? The FRS offers the Financial Engines Advisor Service along with a variety of tools and services to help you make informed decisions about saving and investing for retirement. Please visit MyFRS.com or call the MyFRS Financial Guidance Line to speak with an Ernst & Young Financial Planner to get your retirement planning started.

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.