

DAVIES WEALTH MANAGEMENT

FRS Pension vs. Investment Plan: **The Decision Guide**

The most important retirement decision Florida public employees will make — and the factors most people overlook.

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What's Inside This Guide

A clear, unbiased comparison of both FRS retirement plans — written by a fee-only fiduciary with no products to sell and no preference for either plan.

UNDERSTANDING YOUR OPTIONS

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WHO THIS GUIDE IS FOR

New Florida public employees choosing between plans, current employees considering the one-time switch option, and anyone approaching FRS retirement who wants to understand their benefits. Covers teachers, law enforcement, state employees, county/city workers, and university staff.

FRS at a Glance: Two Plans, One Decision

The Florida Retirement System serves over 1 million active members and retirees. As a new FRS-eligible employee, you must choose between two fundamentally different retirement plans within your first 8 months of employment.

Pension Plan

Defined Benefit — The state guarantees a specific monthly payment for life based on a formula. You don't manage investments. The benefit is predictable.

VS

Investment Plan

Defined Contribution — Like a 401(k). You choose investments from available options. Your retirement depends on contributions + investment performance. You own the account.

CRITICAL DETAIL

You get ONE chance to switch between plans during your FRS career (the "2nd Election"). After that, your choice is permanent. This makes getting the decision right the first time extremely valuable.

The Pension Plan: How It Works

The FRS Pension Plan pays you a guaranteed monthly benefit for life after you retire. The amount is calculated using a formula — not based on how markets perform.

The Benefit Formula

$$\text{Years of Service} \times 1.60\% \times \text{Average Final Compensation} = \text{Annual Benefit}$$

Key Parameters

PARAMETER	ENROLLED BEFORE JULY 1, 2011	ENROLLED ON/AFTER JULY 1, 2011
Multiplier	1.60% per year of service	1.60% per year of service
Average Final Compensation	Highest 5 years	Highest 8 years
Vesting	6 years of service	8 years of service
Normal Retirement	Age 62 + 6 years, or 30 years any age	Age 65 + 8 years, or 33 years any age
Employee Contribution	3% of salary	3% of salary
COLA	None guaranteed	None guaranteed

EXAMPLE: PENSION BENEFIT CALCULATION

Maria, a teacher who retires at age 65 with 30 years of FRS service.

Average Final Compensation (highest 8 years): \$65,000/year

Annual benefit: 30 years × 1.60% × \$65,000 = **\$31,200/year (\$2,600/month)**

This benefit is guaranteed for life, regardless of market conditions.

Illustrative example only. Special Risk class members (law enforcement, firefighters) have a higher multiplier of 3.0%. Actual benefits depend on individual service history and compensation.

UNDERSTANDING YOUR OPTIONS

The Investment Plan: How It Works

The FRS Investment Plan works like a 401(k). Your employer contributes a percentage of your salary to your individual account, and you choose how to invest it from a menu of options.

Contribution Rates

FRS CLASS	EMPLOYEE CONTRIBUTION	EMPLOYER CONTRIBUTION	TOTAL ANNUAL CONTRIBUTION
Regular Class	3.00%	6.30%	9.30% of salary
Special Risk (Law Enforcement)	3.00%	14.00%	17.00% of salary
Senior Management	3.00%	7.67%	10.67% of salary
Elected Officials	3.00%	11.34%	14.34% of salary

Investment Options

The Investment Plan offers approximately 20 investment funds across these categories:

- U.S. stock funds (large, mid, small cap)
- International stock funds
- Bond funds (U.S. and international)
- Money market fund
- Target-date retirement funds
- Balanced/moderate funds
- Real estate (REIT) fund
- Self-directed brokerage account option

Key Advantages of the Investment Plan

1 Vesting in 1 year (vs. 6-8 years for Pension)

You own your account balance after just one year of service. If you leave state employment before the Pension Plan's 6-8 year vesting period, you forfeit all employer contributions under the Pension Plan.

2 Portability

You can roll your Investment Plan balance into an IRA or new employer's 401(k) if you leave Florida public employment. The Pension Plan benefit stays with FRS.

3 Estate value

Your full account balance passes to your beneficiaries. The Pension Plan's survivor benefits are more limited and depend on the payment option you choose at retirement.

4 Control over investments

You choose your allocation and can adjust it based on your age, risk tolerance, and goals. The Pension Plan gives you no investment choices.

THE TRADE-OFF

The Investment Plan gives you more control and portability but shifts the investment risk to you. The Pension Plan gives you guaranteed income but requires long tenure and offers less flexibility. Neither is universally "better" — it depends on your specific situation.

Side-by-Side Comparison: 12 Factors That Matter

FACTOR	PENSION PLAN	INVESTMENT PLAN
Plan type	Defined benefit (guaranteed)	Defined contribution (market-based)
Investment risk	Borne by the state of Florida	Borne by you
Vesting period	6 years (pre-2011) / 8 years (post-2011)	1 year
Retirement benefit	Guaranteed monthly income for life	Account balance (depends on returns)
Portability	Low — benefit stays with FRS	High — rollover to IRA or new employer plan
Investment control	None	Full — choose from 20+ funds
COLA (inflation)	No guaranteed adjustment	Depends on investment growth
Survivor benefits	Limited (depends on payout option)	Full account balance to beneficiaries
Early separation	Forfeit employer contributions if unvested	Keep balance after 1 year
Disability benefits	Yes (in-line-of-duty and regular)	Limited to account balance
DROP program	Available (defer retirement, accrue benefits)	Not available
Best for	Long-tenure, career public employees	Mobile employees, shorter tenure, higher risk tolerance

THE QUESTION THAT MATTERS MOST

How long do you plan to work in FRS-covered employment? If you'll stay 20-30 years, the Pension Plan's guaranteed benefit is extremely valuable. If you might leave within 5-10 years, the Investment Plan's portability and 1-year vesting protect you from losing employer contributions.

What Most People Get Wrong

1

Comparing raw contribution rates instead of total retirement value

The Pension Plan's employer contribution is higher on paper, but it funds a defined benefit formula — not your personal account. Comparing contribution percentages is misleading.

2

Ignoring the value of guaranteed income

A Pension benefit of \$30,000/year for life is equivalent to having roughly \$750,000 in a personal investment account (using a 4% withdrawal rate). Many employees don't realize how valuable this guarantee is.

3

Assuming they'll stay in public employment forever

Career plans change. If you leave before vesting (6-8 years), you forfeit all employer contributions under the Pension Plan. The Investment Plan protects you after just 1 year.

Who Benefits From Which Plan?

There's no one-size-fits-all answer. Here are four common profiles and which plan typically serves them better.

SCENARIO 1: THE CAREER TEACHER

Elena, age 25, starts teaching in Martin County. Plans to teach for 30+ years until retirement.

Best choice: Pension Plan

With 30 years of service and an average final salary of \$65,000, her pension would be approximately \$31,200/year guaranteed for life. To generate the same income from the Investment Plan, she'd need to accumulate roughly \$780,000 — possible but not guaranteed.

SCENARIO 2: THE YOUNG PROFESSIONAL

James, age 28, takes a state IT position. Not sure if he'll stay in public employment long-term. May move to private sector within 5-7 years.

Best choice: Investment Plan

He vests in 1 year instead of 8. If he leaves after 5 years, he keeps his full account balance and can roll it into an IRA. Under the Pension Plan, he'd forfeit all employer contributions (not yet vested at 5 years for post-2011 employees).

SCENARIO 3: THE LATE-CAREER SWITCHER

Diana, age 45, joins county government after 20 years in the private sector. Plans to work 15-20 more years.

Closer call — analyze both.

With only 15-20 years of FRS service, her pension benefit would be smaller. But she'd also have fewer years for investment growth in the Investment Plan. The answer depends on her other retirement assets, Social Security timing, and whether she has a pension from a prior employer.

SCENARIO 4: THE LAW ENFORCEMENT OFFICER

Carlos, age 23, joins the sheriff's office. Plans a full 25-year career. Special Risk class.

Best choice: Pension Plan (strongly favors)

Special Risk members get a 3.0% multiplier (vs. 1.6% for Regular class) AND higher employer contributions. With 25 years and a \$75,000 average salary: $25 \times 3.0\% \times \$75,000 = \$56,250/\text{year}$ guaranteed for life. The enhanced multiplier makes the Pension Plan exceptionally valuable for law enforcement and firefighters.

THE HYBRID APPROACH

Remember: FRS is one piece of your retirement. Many employees benefit from choosing the Pension Plan for guaranteed income AND investing separately in a 457(b) deferred compensation plan or personal IRA for additional growth and flexibility. You don't have to choose between security and growth — you can have both.

BREAK-EVEN ANALYSIS

The Break-Even Calculator: Years of Service Matter

The Pension Plan becomes increasingly valuable the longer you stay. Here's a simplified framework for thinking about the crossover point.

Estimated Break-Even Analysis (Regular Class)

YEARS OF FRS SERVICE	PENSION PLAN ADVANTAGE	INVESTMENT PLAN ADVANTAGE	VERDICT
1-5 years	Not yet vested (post-2011)	Vested at year 1, portable	Investment Plan
5-10 years	Small pension benefit	Account balance growing	Likely Investment Plan
10-15 years	Moderate guaranteed income	Decent portfolio growth	Depends on specifics
15-20 years	Meaningful lifetime income	Need strong returns to match	Likely Pension Plan
20-30 years	Very valuable guaranteed benefit	Needs exceptional returns	Pension Plan
30+ years	Maximum benefit, hard to replicate	Possible but requires discipline	Pension Plan strongly

Factors That Tilt Toward the Pension Plan

- You plan 20+ years of FRS service
- You're in Special Risk class (3.0% multiplier)
- You value guaranteed income over investment control
- You have other investment accounts for growth
- You want DROP program access
- Longevity runs in your family

Factors That Tilt Toward Investment Plan

- You may leave public employment within 10 years
- You're comfortable managing investments
- You want portability (rollover to IRA)
- You want your full balance to pass to heirs
- You have a spouse with a pension already
- You started FRS employment later in career

THE DROP PROGRAM (PENSION PLAN ONLY)

The Deferred Retirement Option Program lets you "retire" while still working for up to 5 years (8 years for Special Risk). Your pension benefit accumulates in a separate account earning interest while you continue earning your salary. This can add \$150,000-\$300,000+ to your retirement savings. DROP is only available to Pension Plan members — this is a significant benefit to factor into your decision.

FRS Decision Checklist

Work through this checklist before making your plan selection. Print it, fill it out, and bring it to a conversation with a fiduciary advisor.

About Your Career

- How many years do I plan to work in FRS? ____
- Am I Regular Class or Special Risk? ____
- What is my current salary? \$____
- What do I expect my salary to be at retirement? \$____
- Might I leave for the private sector? Y / N
- When was I enrolled in FRS? (Before/After 7/1/2011)

About Your Finances

- Do I have other retirement accounts? (IRA, 401k, etc.) Y / N
- Does my spouse have a pension? Y / N
- Am I comfortable choosing investments? Y / N
- What is my risk tolerance? Low / Medium / High
- Do I have dependents who need survivor benefits? Y / N

Decision Factors

- Is guaranteed lifetime income important to me? Y / N
- Is portability important (might leave FL public employment)? Y / N
- Do I want control over my investments? Y / N
- Is leaving a full account to heirs important? Y / N
- Am I interested in the DROP program? Y / N
- Have I used the MyFRS.com comparison tools? Y / N

Next Steps

- Review MyFRS.com plan comparison tools
- Calculate estimated pension benefit with your numbers
- Project Investment Plan growth with realistic returns
- Schedule a call with a fee-only fiduciary advisor
- Make your election within the enrollment window

When to Work With a Fiduciary Advisor

The FRS decision is one of the most consequential retirement choices Florida public employees make. Consider working with a fee-only fiduciary advisor when:

1 You're within your first 8 months of FRS employment

This is your initial election window. Getting expert guidance before this deadline ensures you don't make a decision you can't easily reverse.

2 You're considering using your 2nd Election to switch plans

This is your one and only chance to change. The financial implications can be significant — a fiduciary can model both scenarios with your actual numbers.

3 You're approaching retirement and need to coordinate FRS with other income

Social Security timing, other retirement accounts, tax planning, and healthcare all interact with your FRS benefit. A coordinated plan can save thousands.

You're in Special Risk class with unique benefit calculations

The 3.0% multiplier, earlier retirement eligibility, and higher contribution rates create a more complex analysis that benefits from professional modeling.

Your FRS Decision Deserves Independent Guidance

As a fee-only fiduciary, we have no products to sell and no preference for either plan. We'll model both options with your actual numbers and help you make the decision that's right for your career, your family, and your retirement.

[Schedule Your Free Consultation](#)

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