The Florida Senate BILL ANALYSIS AND FISCAL IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

	Prepared By:	The Professional Staff	of the Banking and	I Insurance Committee
BILL:	SB 910			
INTRODUCER:	Senators Hays and Bennett			
SUBJECT:	Public Employees			
DATE:	January 27, 2012 REVISED:			
ANALYST		STAFF DIRECTOR	REFERENCE	ACTION
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I. Summary:

The Division of Retirement of the Department of Management Services (DMS) is responsible for administering the Florida Retirement System and monitoring the actuarial soundness of local government retirement systems that are not part of the Florida Retirement System, as well as pension plans for firefighters and municipal police officers established in chs. 175 and 185, F.S., respectively. In addition, the DMS is responsible for approving the distribution of insurance premium tax revenues to qualified municipal police officer and firefighter pension plans.

In recent years, many state and local governments have experienced budget shortfalls and an increase in the demand for government services due to the economic downturn. This steep market decline has resulted in many governments having reduced assets available to meet future pension obligations while having increased annual required contributions for pensions.

The bill makes the following changes affecting state and local government pension plans:

Workers' Compensation Presumption Provisions

- Revises s. 112.18, F.S., the workers' compensation presumption by requiring a claimant to be less than 37 years old and to be employed with the current employer for at least 5 years to be entitled to the presumption.
- Expands the requirement of a pre-employment screening to apply to correctional officers and correctional probation officers, as well as firefighters and law enforcement officers.
- Revises the evidentiary level for an employer to rebut the presumption from "competent evidence" to "a preponderance of the evidence."

 Allows for the consideration of various risk factors in determining whether a presumption is overcome.

• Applies exclusion from the presumption for workers' compensation claims to state and local firefighters.

Chapters 175 and 185 Requirements

- Eliminates the requirement that a minimum of 300 hours of overtime must be included in the definition of "salary" for police officers plans under ch. 185, F.S.
- Removes the requirement that the DMS determine whether or not a local law plan meets the minimum benefits and standards.
- Removes the provision that allows the firefighters and police officers to elect whether to use the state moneys in the existing defined benefit plan for extra benefits, or place it in a supplemental plan for extra benefits.
- Eliminates the requirement that the premium tax moneys must be used in their entirety to provide "extra benefits."
- Removes the definition of "extra benefits," which are benefits in addition to or greater than those provided to general employees of the municipality or district and in addition to those in existence for firefighters and police officers on March 12, 1999.
- Provides that the plan benefits and the use of the state funds will be contingent upon the
 terms of the collective bargaining agreement, if applicable. If no new agreement is reached
 by the end of the contract term, then the benefits will revert to the statutory minimums and
 the state funds may be used by the municipality or fire district to offset their required
 contributions. (Includes the same provision pertaining to supplemental plan municipalities.)
- Authorizes cities and fire districts to establish one or more new plans, or benefit levels within a plan, based on a member's date of hire as long as the new plan or benefit level provides pension benefits that, in the aggregate meet or exceed the minimum benefits set forth, as determined by the plan's actuary.
- Allows cities and districts to transfer all of its police and firefighters into a defined contribution plan or enroll their police and firefighters in the FRS.
- Removes the board of trustees authority to administer the plan's termination and provides that the board may, subject to the prior approval of the municipality or fire district, determine the date of distribution and the asset value required to fund the nonforfeitable benefits, determine if additional assets from the plan sponsor are needed, determine the method of distribution of the asset value, and distribute the asset value.
- Requires the boards of trustees for chs. 175 and 185, F.S., pension plans for firefighters and police officers to provide a detailed report of its expenses to the plan sponsor, the DMS, and to every member of the plan.
- Requires the boards to operate under an administrative expense budget, which must be submitted to the plan sponsor and members prior to the beginning of the fiscal year.

This bill substantially amends the following sections of the Florida Statutes: 112.18, 175.061, 175.071, 175.231, 175.231, 175.351, 175.361, 185.02, 185.05, 185.06, 185.34, 185.35, and 185.37.

II. Present Situation:

Overview of State and Local Government Retirement Systems

The Division of Retirement in the Department of Management Services is responsible for monitoring Florida's state and local government defined benefit pension plans for compliance with Florida laws. However, the local boards of trustees are responsible for overseeing these local plans on a day-to-day basis. The local government plans include local pension plans under the provisions of part VII of ch. 112, F.S., and municipal police and firefighters plans established under the provisions of chs. 175 and 185, F.S., respectively.

The Municipal Police Officers' Retirement Trust Fund and the Firefighters' Pension Trust Fund are administered by a local governing board of trustees, which are created in participating cities and special fire control districts, and subject to the regulatory oversight of the Division of Retirement.¹ The membership of the board consists of five members: two residents appointed by the governing body of the municipality or a special fire control district, two police officers or firefighters selected by the active membership, and one member selected by the other four members and approved by the appropriate governing body pro forma, who are subject to two-year terms.²

The board of trustees has the authority to invest and reinvest pension trust fund assets into annuities and life insurance contracts in amounts sufficient to provide entitled benefits and initial and subsequent premiums.³ Under current law, if the trust fund is not sufficient to provide entitled benefits, the municipality pays any additional contributions necessary to maintain the actuarial soundness of the plan.⁴

Actuarial Soundness and Minimum Funding Standards for Pension Plans

Article X, s. 14, of the State Constitution requires the funding of public retirement benefits on a sound actuarial basis:

SECTION 14: State retirement systems benefit changes.- A governmental unit responsible for any retirement or pension system supported in whole or in part by public funds shall not after January 1, 1977, provide any increase in the benefits to the members or beneficiaries of such system unless such unit has made or concurrently makes provision for the funding of the increase in benefits on a sound actuarial basis.

Part VII of ch. 112, F.S., creates minimum operation and funding standards for public employee retirement plans. It is applicable to all units of state, county, special district, and municipal governments participating in or operating a retirement system for public employees, which is funded in whole or in part by public funds.

¹ Sections 175.061 and 185.05, F.S.

 $^{^{2}}$ Id.

³ Sections 175.071 and 185.06, F.S.

⁴ Sections 175.091(1)(d) and 185.07(1)(d), F.S.; *see also* ss. 175.051 and 185.04, F.S., stating, "[f]or any municipality, chapter plan, local law municipality, or local plan under this chapter, actuarial deficits, if any, arising under this chapter are not the obligation of the state."

Pursuant to ch. 112, F.S., a local government may not change retirement benefits unless the administrator of the system, prior to adoption of the change by the governing body and prior to the last public hearing thereon, has issued a statement of the actuarial impact of the proposed change upon the local retirement system and furnished a copy of such statement to the Division of Retirement in the Department of Management Services. The statement also is required to indicate whether the proposed changes comply with s. 14, Art. X of the State Constitution and with s. 112.64, F.S., which relates to administration of funds and amortization of unfunded liability.

Municipal Firefighters' Pension Trust Fund and Police Officers' Retirement Trust Fund

Funding

Municipal and special district firefighters and all municipal police officers retirement trust fund systems or plans must be managed, administered, operated, and funded to maximize the protection of firefighters' and police officers' pension trust funds.⁶ Funding for these pension plans comes from four sources: net proceeds from an excise tax levied by a city upon property and casualty insurance companies (known as the premium tax), employee contributions, other revenue sources, and mandatory payments by the city of any extra amount needed to keep the plan solvent. Most firefighters and police officers participate in these plans.

Each qualified insurer must pay an annual tax on specified insurance premiums received during the preceding calendar year. These taxes must be paid to the Department of Revenue on March 1 of each year in an amount equal to 1.75 percent of the gross amount of receipts on the specified policies, and 1.00 percent on annuity policies or contacts, to be distributed into the General Revenue Fund. The insurer is allowed to take credits for the municipal taxes imposed on property and casualty insurance policies used to fund firefighter and police pension trust funds. 8

The Firefighters' Pension Trust Fund is financed through an excise tax of 1.85 percent imposed on fire insurance companies, fire insurance associations, or other property insurers on the gross amount of receipts of premiums from policyholders on all premiums collected on property insurance. This excise tax is imposed on the policies located within the municipality or special fire control district. It is payable to the Department of Revenue, and the net proceeds are transferred to the appropriate fund at the Division of Retirement. 10

The Police Officers' Retirement Trust Fund is financed through an excise tax on casualty insurance policies that amount up to 0.85 percent of the gross receipts on premiums for policies issued within the municipality. Similar to the Firefighters' Pension Trust Fund, the excise tax is payable to the Department of Revenue, and the net proceeds are transferred to the appropriate fund at the Division of Retirement. 12

⁵ Section 112.63, F.S.

⁶ Sections 175.021(1) and 185.01(1), F.S.

⁷ Section 624.509, F.S.

⁸ Section 624.51055, F.S.

⁹ Section 175.091(1), F.S.

¹⁰ Section 175.121, F.S.

¹¹ Section 185.08, F.S.

¹² Section 185.10, F.S.

Benefits

Prior to the 1999 Legislative Session, the statutes contained different benefit levels for "chapter" and "local law" plans. With the amendments in 1999, all cities and districts receiving premium tax proceeds had to meet the same minimum chapter-plan benefit levels in order to be eligible for the state moneys. The legislation also provided that minimum benefits could not be reduced by local charter, ordinance, resolution, or by special act of the Legislature, nor could the minimum benefits or minimum standards be reduced or offset by any other local, state, or federal law that may include firefighters or police officers in its operation, except as provided under s. 112.65, F.S. ¹⁴ ¹⁵

Local plans were allowed to continue to use the amount of premium tax proceeds for the calendar year 1997 to fund their existing benefits, but were required to enact any missing minimum benefits as the increases in state funds became available. The law also provides that local plans in effect on October 1, 1998, must comply with the minimum benefit provisions of ch. 175 or 185, F.S., only to the extent that additional premium tax revenues become available to fund incrementally the cost of such compliance. Once a plan complies with such minimum benefit provisions, as subsequent additional premium tax revenues become available, they must be used to provide extra benefits. Sections 175.351 and 185.35, F.S., define the term "extra benefits," to mean benefits in addition to or greater than those provided to general employees of the municipality, and in addition to those in existence for firefighters and police officers, respectively, on March 12, 1999.¹⁷

Any benefits in place on March 12, 1999, must be provided in order to maintain compliance with ch. 175 or 185, F.S., and eligibility for premium tax revenues. According to the DMS, any benefit improvements by a local plan enacted since March 12, 1999, can be reduced, or eliminated. Of the 346 participating plans as of September 30, 2010, 31 have still not met all the required chapter minimum benefits, and of those, 13 are police plans that have failed to satisfy the 300 hours of overtime-minimum benefit. 19

Disability Presumptions

In most cases, in order to receive in line of duty (employment-related) benefits for a disability there must be competent medical evidence documenting that the disability was caused by a job-related illness or accident. However, s. 112.18, F.S., provides a special presumption regarding the disability or death of a firefighter, law enforcement officer, correctional probation officer, or correctional officer that is caused by tuberculosis, heart disease, or hypertension. In such cases, it is presumed that the cause of the death or disability was accidental and that it was suffered in the line of duty unless the contrary is shown by competent evidence. However, any such firefighter or law enforcement officer must have successfully passed a physical examination upon entering into any service as a firefighter or law enforcement officer, which examination failed to reveal any evidence of any

¹³ Chapter 99-1, L.O.F.

¹⁴ Sections 175.021(2) and 185.01(2), F.S.

¹⁵ Sections 175.381 and 185.39, F.S.

¹⁶ Section 175.351(2), F.S.

¹⁷ Sections 175.351 and 185.02, F.S.

¹⁸ Memorandum from Patricia Shoemaker, Division of Retirement of the Department of Management Services, to Randy Knight, City Manager of Winter Park, dated December 14, 2011.

¹⁹Department of Management Services SB 910 analysis, dated December 1, 2011.

such condition. This section is applicable only with reference to pension and retirement benefits. These provisions do not contain any age or years of service restrictions.

The presumption for workers' compensation claims is different. For any workers' compensation claim filed under this section and ch. 440, F.S., occurring on or after July 1, 2010, a law enforcement officer, correctional officer, or correctional probation officer suffering from tuberculosis, heart disease, or hypertension is presumed not to have incurred disease in the line of duty as provided in this section if the law enforcement officer, correctional officer, or correctional probation officer meets certain conditions.

Disability of Firefighters Suffered in Line of Duty

For any local government plan established under ch. 175, F.S., any condition or impairment of health of a firefighter caused by tuberculosis, hypertension, or heart disease resulting in total or partial disability or death is presumed to have been accidental and suffered in the line of duty unless the contrary is shown by competent evidence, provided that such firefighter shall have successfully passed a physical examination before entering into such service, which examination failed to reveal any evidence of such condition. There are no restrictions on age or years of service in these provisions.

Disability of Police Officers Suffered in Line of Duty

For any local government plan adopted pursuant to ch. 185, F.S., any condition or impairment of health of any and all police officers employed in the state caused by tuberculosis, hypertension, heart disease, or hardening of the arteries, resulting in total or partial disability or death, is presumed to be accidental and suffered in line of duty unless the contrary be shown by competent evidence. Any condition or impairment of health caused directly or proximately by exposure, which exposure occurred in the active performance of duty at some definite time or place without willful negligence on the part of the police officer, resulting in total or partial disability, shall be presumed to be accidental and suffered in the line of duty, provided that such police officer shall have successfully passed a physical examination upon entering such service, which physical examination including electrocardiogram failed to reveal any evidence of such condition, and, further, that such presumption shall not apply to benefits payable under or granted in a policy of life insurance or disability insurance. There are no restrictions on age or years of service in these provisions.

III. Effect of Proposed Changes:

Chapter 112

Section 1 amends s. 112.18, F.S., by establishing an age limitation of less than age 37 and a service requirement of at least 5 years with their current employer for firefighters, law enforcement officers, correctional officers, or correctional probation officers for the purposes of qualifying for the disability presumption for tuberculosis, heart disease, or hypertension. This could have an impact on the number of denials because a person that does not meet this criterion will automatically not be eligible for in-line-of-duty under the presumption. In addition, the evidentiary level to rebut the presumption is changed from "competent evidence" to "a preponderance of the evidence." The bill provides risk factors that may be considered in denying or overcoming the presumption. Firefighters are added to the list of positions subject to the

workers compensation presumption provisions for claims filed under this section and ch. 440, F.S., occurring on or after July 1, 2010.

Chapters 175 and 185 Plans

Sections 2 and 8 amends ss. 175.061 and 185.05, F.S., by requiring the board to provide a detailed accounting report of its expenses for each fiscal year to the plan sponsor and to the DMS and to make such report available to all members. Such report shall include all administrative expenses relating to the advisors. The board is required to operate under an administrative expense budget and that a copy of such budget shall be furnished to the plan sponsor, and be made available to the members at the beginning of the fiscal year. The administrative budget must regulate the administrative expenses of the board and any changes to the budget must be submitted to the plan sponsor and be made available to the public before the board may implement such changes.

Section 7 amends s. 185.02(4), F.S., by eliminating the requirement that a minimum of 300 hours of overtime must be included in the definition of salary for police officer plans under this chapter.

Sections 3 and 9 amends ss. 175.071 and 185.06, F.S. by placing a condition upon a board's ability to hire advisors. The board must have included any advisors it deems necessary to hire in its administrative budget at the beginning of the year or file an amended budget with the plan sponsor and make it available to the members before hiring any additional advisors.

Sections 4 and 10 amends ss. 175.231 and 185.34, F.S., by placing an age limitation of less than 37 and a service requirement of at least 5 years for purposes of qualifying for the presumptive provision and the evidentiary level to rebut the presumption is changed from "competent evidence" to "a preponderance of the evidence." Additionally, the bill adds risk factors that may be considered by the board in denying or overcoming the presumption.

Sections 5 and 11 amends ss. 175.351 and 185.35, F.S., pertaining to "local law" plans by deleting the following provisions:

- The requirement that the DMS determine whether a local law plan meets the minimum benefits and standards.
- The provision that allows the firefighters and police officers to elect whether to use the state moneys in the existing defined benefit plan for extra benefits, or place it in a supplemental plan for extra benefits.
- The requirement that the premium tax moneys must be used in their entirety to provide "extra benefits."
- The definition of "extra benefits" as benefits in addition to or greater than those provided to general employees of the municipality or district and in addition to those in existence for firefighters on March 12, 1999.

The following provisions are added:

• The plan benefits and the use of the state moneys will be contingent upon the terms of the collective bargaining agreement, if applicable. If no new agreement is reached by the end of the contract term, then the benefits would revert to the statutory minimums and the state

moneys could be fully used by the municipality or fire district to offset their required contributions.

- Includes the same provision pertaining to "supplemental plan municipalities" indicating that the plan benefits and the use of the state moneys will be contingent upon the terms of the collective bargaining agreement, if applicable. If no new agreement is reached at the end of the contract term, then the benefits will revert to the statutory minimums and the state moneys may be fully used by the municipality or fire district to offset their required contributions.
- Allows municipalities and fire districts to unilaterally establish one or more new plans, or benefit levels within a plan, based on a member's date of hire as long as the new plan or benefit level provides pension benefits that taken together meet or exceed the minimum benefits set forth in this chapter as determined by the plan's actuary.
- Adds an additional provision to allow cities and districts to transfer all of its police and firefighters into a defined contribution (DC) Plan or enroll their police and firefighters in the FRS. The plan sponsor may use the state moneys to help fund the current plan benefits, for any additional plan or benefit level, for a DC plan, or for making its contribution to the FRS.

Sections 6 and 12 amend ss. 175.361 and 185.37, F.S., relating to the termination of firefighter and municipal police officer plans and the distribution of fund. The bill removes the board of trustees authority to administer the plan's termination and provides that board may, subject to the prior approval of the municipality or fire district, determine the date of distribution and the asset value required to fund the nonforfeitable benefits, determine if additional assets from the plan sponsor are needed, determine the method of distribution of the asset value, and shall distribute the asset value.

Section 13 provides that the act fulfills an important state interest.

Section 14 provides that the act shall take effect on July 1, 2012.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

To the extent this bill would require a local government to expend funds to comply with its terms, the provisions of section 18(a) of article VII of the State Constitution may apply. If those provisions do apply, in order for the law to be binding upon the cities and counties, the Legislature must find that the law fulfills an important state interest (section 13 of the bill) and one of the following relevant exceptions must apply:

- Funds estimated at the time of enactment to be sufficient to fund such expenditures are appropriated;
- Counties and cities are authorized to enact a funding source not available for such local government on February 1, 1989, that can be used to generate the amount of funds necessary to fund the expenditures;
- The expenditure is required to comply with a law that applies to all persons similarly situated; or

• The law must be approved by two-thirds of the membership of each house of the Legislature.

Article X, s. 14 of the State Constitution requires that benefit improvements under public pension plans in the State of Florida to be funded concurrently on a sound actuarial basis, as set forth below:

SECTION 14. State retirement systems benefit changes.--A governmental unit responsible for any retirement or pension system supported in whole or in part by public funds shall not after January 1, 1977, provide any increase in the benefits to the members or beneficiaries of such system unless such unit has made or concurrently makes provision for the funding of the increase in benefits on a sound actuarial basis.

Article X, s. 14 of the State Constitution is implemented by statute under part VII of chapter 112, F.S., the "Florida Protection of Public Employee Retirement Benefits Act" (act). The act establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida. It prohibits the use of any procedure, methodology, or assumptions the effect of which is to transfer to future taxpayers any portion of the costs, which may reasonably have been expected to be paid by the current taxpayers.

This bill appears to meet the requirements of Article X, s. 14 of the State Constitution.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

According to the DMS, case law from the Public Employee Relations Commission and the courts hold that when a collective bargaining agreement ends and the parties are negotiating a new CBA, the "status quo" remains in effect until a new agreement is reached or an impasse is resolved according to s. 447.403, F.S. The provision of this bill requiring reversion to the minimum benefits during a period during which the parties are negotiating under an expired contract may be found in violation of the rights of the parties to maintain the status quo during re-negotiations. It is not clear whether a court would elevate this to a constitutional concern over the rights of public employees to bargain collectively terms and conditions of employment.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

According to DMS, the FRS participating municipalities and fire districts may want to be able to use state premium tax moneys to help fund their retirement benefits and contribute to the FRS. Under current law, once a municipality or fire district elects to join the FRS, state contributions stop and the premium tax moneys remain a part of the state tax revenues. This will have a negative impact on the General Revenue Fund and, if other cities and districts are successful in obtaining funding under chs. 175 and 185, F.S., there could be an even larger loss of revenue for the state.

B. Private Sector Impact:

None.

C. Government Sector Impact:

To the extent that local governments are allowed to use premium tax revenues for more of their pension funding needs each year, there would be more revenue available to help pay these expenses.

The implementation of the bill would likely reduce the number of workers' compensation presumption claims, which would reduce the costs associated with such claims, including attorney fees. The bill would not necessarily reduce the number of workers compensation claims in general. Rather, claimants who would no longer be entitled to the presumption would have the same burden of proof as other claimants in establishing that their injuries are work related and compensable.

Division of Risk Management/Department of Financial Services

According to the Division of Risk Management in the Department of Financial Services (DFS), the bill could significantly reduce the number of employees eligible to claim the presumption, which would likely reduce the overall costs of presumption claims. For accident dates occurring from July 1, 2002, through June 30, 2011, the Division of Risk Management has paid through December 7, 2011, over \$32.5 million on heart and hypertension presumption claims for the 82.8 percent of those claims in DFS database for which age and hire date information was available. Claims by employees who would have been excluded, in accordance with the provisions of the bill represented 97.9 percent of that \$32.5 million. The approximately \$727,000 remaining dollars was paid on claims where the claimant was less than 37 years old and who had 5 or more consecutive years of employment on the date of accident.

Due to the average length of time being 4 or more years for a workers' compensation claim to fully develop so that most claim costs have been paid, the DFS apportioned the estimated yearly cost reduction resulting from the bill. The DFS estimated that one-fourth (\$865,000) of the yearly savings would result in the first fiscal year (after passage of the bill) one-half (\$1,730,000) in the next fiscal year and three fourths (\$2,595,000) of the

amount in the third fiscal year, with the full estimated average amount of \$3,460,000 being realized in later years.

Department of Management Services

According to DMS, implementation of the bill would require an estimated annual recurring cost of \$50,000 for medical professional services. Since the Division of Retirement does not currently use medical experts to help evaluate disability eligibility, the workers compensation evaluation process would be used as a guideline. The Division of Worker's Compensation of the Department of Financial Services has an Expert Medical Advisors Certification List with medical professionals who can perform evaluations and testify at hearings.

According to the DMS, SB 910 requires an actuarial special study to determine the fiscal impact to the Florida Retirement System.

VI. Technical Deficiencies:

The DMS noted provisions in the bill that may need further clarification. The provisions in ss. 175.351(6) and 185.35(6), F.S., appear to allow local law plans to create multiple plans, or benefit levels within a plan based on the date of hire, and further allows a local law plan municipality to join the FRS or to establish a defined contribution plan. This appears to create a conflict within the local law provisions as ss. 175.351(1) and 185.35(1), F.S., require the local law plan to meet the defined benefit minimum provisions of ss. 175.162(2)(a) and 185.16(2), F.S. It is unclear what "minimum" benefits that must be provided for a newly created "local law" plan. For example, it is unclear whether they could they pass a levying ordinance and set up a defined contribution plan or join FRS.

In addition, these provisions appear to apply only to local law plans since they are found in ss. 175.351 and 185.35, F.S. It is unclear whether a "chapter" plan must continue to meet all the minimum benefits and standards for a defined benefit plan in order to be eligible for state premium tax moneys.

If the Legislature intends to allow municipalities and districts to participate in both the chs. 175 and 185 plans and the FRS, then the prohibition in ss. 175.041(3) and 185.03(2) F.S., will also need to be amended to eliminate a conflict.

VII. Related Issues:

None.

VIII. Additional Information:

A. Committee Substitute – Statement of Substantial Changes: (Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

²⁰ See Rule 69L-30.008 Florida Administrative Code.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.