

**HOUSE OF REPRESENTATIVES
FINAL BILL ANALYSIS**

BILL #:	HB 5005	FINAL HOUSE FLOOR ACTION:	
SPONSOR(S):	Appropriations Committee and McKeel	117 Y's	0 N's
COMPANION BILLS:	(SB 1810)	GOVERNOR'S ACTION:	Approved

SUMMARY ANALYSIS

House Bill 5005 passed the House on May 3, 2013, as SB 1810. The Florida Retirement System (FRS) is a multi-employer, contributory plan that provides retirement income benefits to 623,011 active members, 333,870 retired members and beneficiaries, and 40,556 members in the Deferred Retirement Option Program. It is the primary retirement plan for employees of the state and county governments, county school boards, state colleges and universities. The FRS also serves as the retirement plan for employees in cities and special districts that have elected to participate.

Members of the FRS have two primary plan options available for participation: the defined benefit plan, also known as the pension plan; and the defined contribution plan, also known as the investment plan.

Section 121.031, F.S., requires that an actuarial study of the FRS be provided by the administrator of the system (the Department of Management Services) and for the results to be reported to the Legislature by December 31 of each year. Thereafter, the Legislature uses this report in establishing uniform contribution rates in law during the next legislative session.

Effective July 1, 2013, the bill:

- Revises s. 121.71 F.S. to adjust the employer contribution rates for the FRS Normal Costs and Unfunded Actuarial Liability based on the 2012 Actuarial Valuation.
- Provides that a proper and legitimate state purpose is served by providing benefits that are managed, administered and funded in a sound actuarial manner.

The bill conforms the laws to the FY 2013-14 General Appropriations Act (GAA) as retirement contributions are included in the GAA.

The bill has a significant negative fiscal impact to the state and local governments; \$498.6 million in General Revenue (state, district school boards, state colleges and universities) and \$311.3 million to local governments (county agencies, municipalities and special districts electing to participate).

The bill was approved by the Governor on May 20, 2013, ch. 2013-53, L.O.F., and will become effective on July 1, 2013.

I. SUBSTANTIVE INFORMATION

A. EFFECT OF CHANGES:

Florida Retirement System

The Florida Retirement System (FRS) was established in 1970 when the Legislature consolidated the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund. In 1972, the Judicial Retirement System was consolidated into the pension plan. Prior to 1975, members of the FRS were required to make employee contributions. Regular Class members contributed four percent of their salary while Special Risk Class Members contributed six percent. The 2011 Legislature reinstated employee contributions whereby all Class members contribute three percent of their salary.

The Florida Government System Act¹ governs the FRS, which is a multi-employer, contributory plan that provides retirement income benefits to 623,011 active members, 333,870 retirees and 40,556 members of the Deferred Optional Retirement System (DROP)². It is the primary retirement plan for employees of the state and county government agencies, district school boards, community colleges and state universities. The FRS also serves as the retirement plan for 185 municipalities and 243 independent special districts that have irrevocably elected to participate³.

The membership of the FRS is divided into five membership classes⁴:

- Regular Class: 543,195 members (87.20 percent)
- Special Risk Class: 70,005 members (11.24 percent)
- Special Risk Administrative Support: 59 members (0.01 percent)
- Elected Officer Class: 2,206 members (0.35 percent)
- Senior Management Services Class: 7,546 members (1.21 percent)

Each class is funded separately based upon the costs attributable to the members of the class.

Members of the FRS have two primary plan options available for participation:

- The defined benefit plan, also known as the pension plan.
- The defined contribution plan, also known as the investment plan.

Section 121.031, F.S., requires that an actuarial valuation of the FRS be provided by the administrator of the system (the Department of Management Services) and for the results to be reported to the Legislature by December 31 of each year. Thereafter, the Legislature uses this report in establishing uniform contribution rates in law during the next legislative session

Investment Plan

In 2000, the Legislature created the Public Employee Optional Retirement Program (Investment Plan), a defined contribution plan offered to eligible employees as an alternative to the FRS defined benefit plan. The investment plan was available for participation as of July 1, 2002⁵. Benefits under the investment plan accrue in individual member accounts funded by employer and employee

¹ Chapter 121, F.S.

² *The Florida Retirement System Annual Report*, July 1, 2011 to June 30, 2012. The pension plan had 517,756 active members and the investment plan had 105,255 members.

³ *Id*

⁴ *Id*

⁵ Part II, chapter 121, F.S.

contributions. Investments are employee-directed into State Board of Administration (SBA) approved investment providers. Members of the investment plan contribute three percent of their salaries to their accounts⁶. The remainder of the allocation comes from employer contributions.

A member vests in the investment plan after one-year with an FRS employer. Vested benefits are payable upon termination of employment or death as a lump-sum distribution, roll-over distribution, or periodic distribution. The investment plan also provides disability benefits, which is essentially an option to collect disability benefits as provided in the defined benefit plan.

The SBA is primarily responsible for administering the investment plan⁷. The SBA is comprised of the Governor as chair, the Chief Financial Officer and the Attorney General.

Pension Plan (Defined Benefit Plan)

The pension plan is administered by the secretary of the Department of Management Services through the Division of Retirement. Investment management of retirement funds is handled by the State Board of Administration.

Participants of the pension plan are required to contribute three percent of their salary⁸.

Contribution Rates

FRS employers are responsible for contributing a percentage of a member's monthly salary to the FRS Contributions Clearing Account Trust Fund in the Division of Retirement to fund the program. The employer contribution is a "blended contribution rate" set by statute⁹, as amended by the Legislature based on an annual actuarial valuation. The rate consists of a blending of the actuarially determined contribution rates necessary to fund the pension plan's normal cost and the allocations being made into investment plan accounts. The purpose of the blending is to establish the same employer contribution rates regardless of whether an employee participates in the pension plan or the investment plan.

Effects of the Bill

The bill establishes the employer contribution rates for the normal costs and the unfunded actuarial liability (UAL) of the FRS, as determined by the July 1, 2012 Annual Valuation, necessary to adequately fund the program. The normal and UAL rates were 'blended' with the investment plan allocations and salaries to establish employer contribution rates. The employer contribution rates for fiscal years 2013-2014, compared to rates previously in effect, are contained in the following table.

Prior and New FRS Employer Contribution Rates

⁶ Section 121.71, F.S.

⁷ Section 121.4501, F.S.

⁸ *Id* 6

⁹ Sections 121.031 and 121.71, F.S.

Membership Class	"Blended" Normal Costs		Unfunded Actuarial Liability	
	FY 2012-13	FY 2013-14	FY 2012-13	FY 2013-14
Regular Class	3.55%	3.53%	0.49%	2.19%
Special Risk Class	11.01%	11.00%	2.75%	6.83%
Special Risk Administrative Class	3.94%	4.17%	0.83%	30.56%
Elected Officer Class				
Leg/Gov/SAs/PDs	6.51%	6.52%	0.88%	24.85%
Judges	10.02%	10.05%	0.77%	17.00%
County Officers	8.36%	8.44%	0.73%	23.36%
Senior Management	4.84%	4.81%	0.32%	12.27%
DROP	4.33%	4.63%	0.00%	7.01%

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

See Fiscal Comments Section

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

See Fiscal Comments Section.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The costs associated with funding the increases in the 'Blended' Normal Cost and Unfunded Actuarial Liability employe contribution rates are broken out in the following chart (millions of \$):

	Normal Cost Contribution		UAL Contribution		Total (cost)	
	GR	TF	GR	TF	GR	TF
Entities Funded by the State						
State	0.3	0.3	101.8	80.2	102.1	80.5
County School Boards	1.1		295.8		296.9	
State Universities	0.1		71.8		71.9	
State Colleges	-		27.7		27.7	
<i>Total</i>	<i>1.5</i>	<i>0.3</i>	<i>497.1</i>	<i>80.2</i>	<i>498.6</i>	<i>80.5</i>

Entities not Funded by the State						
Counties	0.7		263.4		264.1	
Municipalities/Special Districts/Other	-		47.2		47.2	
<i>Grand Total</i>	<i>2.2</i>	<i>0.3</i>	<i>807.7</i>	<i>80.2</i>	<i>809.9</i>	<i>80.5</i>