

The Florida Senate
COMMITTEE MEETING EXPANDED AGENDA

BUDGET
Senator Alexander, Chair
Senator Negron, Vice Chair

MEETING DATE: Thursday, February 17, 2011
TIME: 10:30 a.m.—12:00 noon
PLACE: *Pat Thomas Committee Room, 412 Knott Building*

MEMBERS: Senator Alexander, Chair; Senator Negron, Vice Chair; Senators Altman, Benacquisto, Bogdanoff, Fasano, Flores, Gaetz, Hays, Joyner, Lynn, Margolis, Montford, Rich, Richter, Simmons, Siplin, Sobel, Thrasher, and Wise

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
	Budget Work Session		
	Overview of the State Employee Pension Plans and the Governor's recommended changes to these plans - Sarabeth Snuggs, Director, Division of Retirement, Florida Department of Management Services		
	Introduction - Jack Miles, Secretary, Department of Management Services		
	Shared Services Model Proposed in the EOG Budget Recommendations - Brett Rayman, Policy Coordinator of General Government, Office of Planning and Budgeting, Governor's Office		
	Tools for Assessing the State Budget		



Florida Retirement System

February 16, 2011

Senate Budget Committee

Florida Retirement System (FRS)

Pension Plan	Investment Plan
<ul style="list-style-type: none"> • Defined Benefit Plan 	<ul style="list-style-type: none"> • Defined Contribution Plan
<ul style="list-style-type: none"> • Vested after six years of service 	<ul style="list-style-type: none"> • Vested after one year of service
<ul style="list-style-type: none"> • Provides a lifetime monthly benefit when you retire based on a set formula 	<ul style="list-style-type: none"> • You choose how to receive the balance of your investment account when you retire
<ul style="list-style-type: none"> • Benefit is based on the following formula: AFC* x Years of Service x Accrual Rate 	<ul style="list-style-type: none"> • Account balance is based on the following formula: Contributions + Earnings - Losses

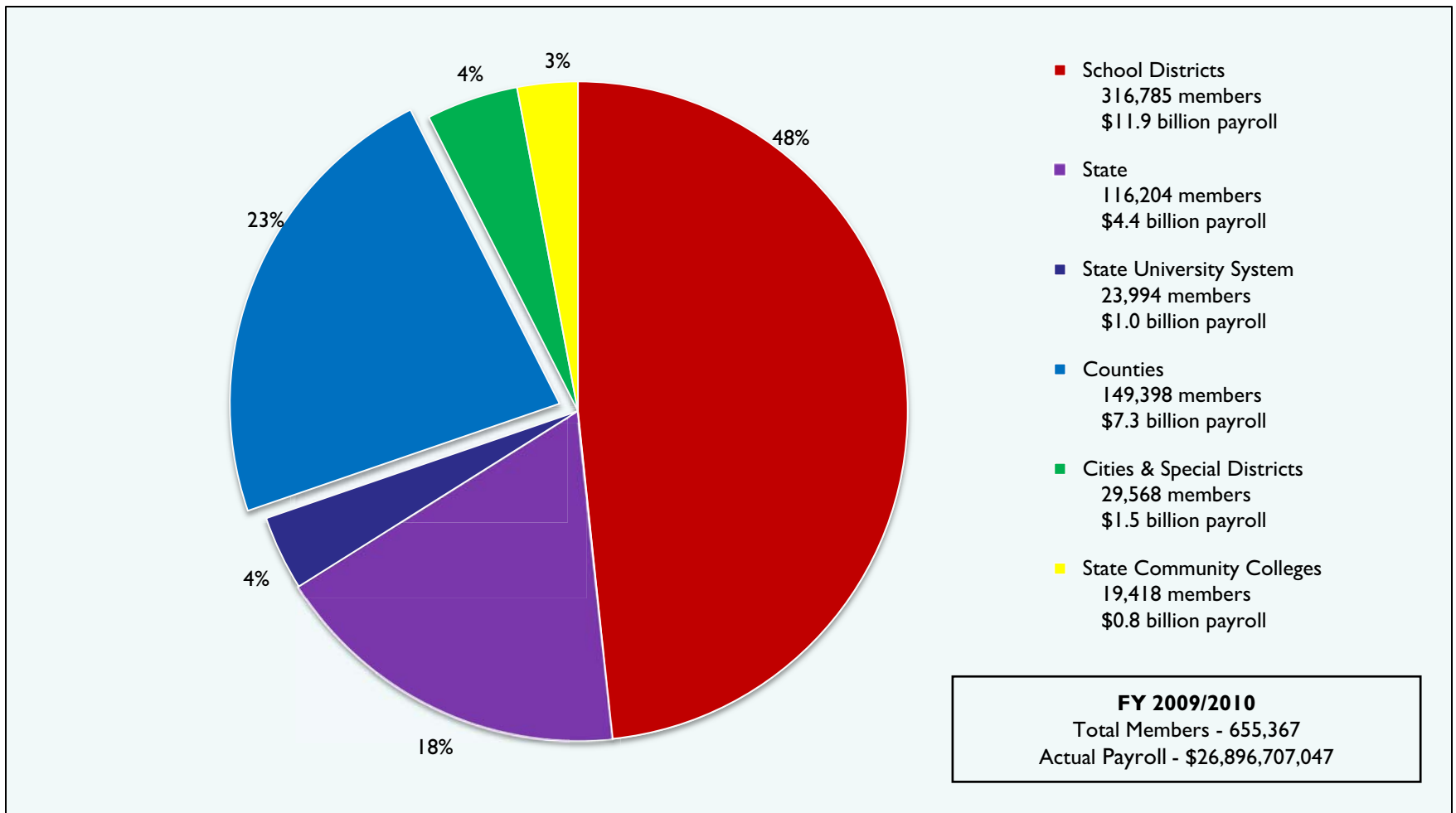
* AFC = Average Final Compensation

FRS Active Membership by Employer Group

Employer Group	Pension Plan	Investment Plan	Total	Percent of Membership
School Boards	273,357	43,428	316,785	48%
County Governments	127,498	21,900	149,398	23%
State	96,817	19,387	116,204	18%
Cities and Special Districts	24,952	4,616	29,568	4%
State Universities	19,683	4,311	23,994	4%
Community Colleges	15,278	4,140	19,418	3%
Total	557,585	97,782	655,367	100%

6/30/2010

FRS Active Membership by Employer Type



% = Percent of Total Active Members on 6/30/10

FRS Active Membership by Membership Class

Membership Class	Pension Plan	Investment Plan	Total	Percent of Membership
Regular Class	485,331	84,867	570,198	87.00%
Special Risk Class	64,734	10,332	75,066	11.46%
Senior Management Service Class	5,693	2,055	7,748	1.18%
Elected Officers' Class	1,774	510	2,284	0.35%
Special Risk Administrative Support Class	53	18	71	0.01%
Total	557,585	97,782	655,367	100%

6/30/2010

FRS Average Annual Salary

	Regular Class	Senior Management Service Class	Special Risk Class	Special Risk Administrative Support Class	Elected Officers' Class	Average Salary
School Boards	\$37,642	\$98,294	\$57,493	N/A	\$38,279	\$37,790
County Governments	\$42,955	\$99,088	\$61,535	\$53,810	\$76,008	\$49,263
State	\$36,423	\$64,773	\$37,923	\$43,794	\$123,046	\$38,595
Cities and Special Districts	\$47,394	\$107,620	\$66,751	\$73,778	\$14,590	\$50,311
State Universities	\$43,249	\$172,361	\$52,727	N/A	N/A	\$43,642
Community Colleges	\$40,873	\$131,932	\$48,909	N/A	\$60,439	\$41,904
Average Salary	\$39,188	\$80,855	\$53,435	\$44,922	\$78,296	\$41,449

6/30/2010

FRS Accrual Rates by Membership Class

Membership Class	Accrual Rates
Regular Class	1.60% - 1.68%
Special Risk Class	3.00%
Senior Management Service Class	2.00%
Elected Officers' Class	
Judges	3.33%
All Other Elected Officials	3.00%
Special Risk Administrative Support Class	1.60% - 1.68%

6/30/2010

Deferred Retirement Option Program (DROP)

- Established in 1998
- Allows members to retire and continue working for up to:
 - 5 Years: Most members
 - 8 Years: K – 12 Instructional Personnel
- Pension benefits accumulate in the FRS Trust Fund
 - Earn 6.5% interest, annually
 - Earn 3.0% cost of living adjustment, annually
- Members must terminate FRS employment after completing DROP

DROP Participants as of June 30, 2010	DROP Payouts July 1, 2009 – June 30, 2010
33,577	\$672,820,378

Health Insurance Subsidy (HIS)

- The HIS is a supplemental benefit program that provides monthly benefits to eligible FRS retirees and their surviving beneficiaries to help them cover some of the cost of health insurance coverage. The amount received is based on the member's length of service.
- Since July 1, 2001, the HIS has been \$5 per month for each year of creditable service, with a minimum HIS payment of \$30 per month and a maximum HIS payment of \$150 per month.

HIS Recipients as of June 30, 2010	HIS Payments July 1, 2009 – June 30, 2010
269,999	\$338,891,598

Pension Plan Annuitants By System as of June 30, 2010

<u>System/Class</u>	<u>Count</u>	<u>Average Annual Benefit</u>
FRS – Regular Class	267,301	\$15,567
Special Risk Class	25,248	\$31,536
Senior Management Service Class	2,267	\$41,975
Elected Officers' Class	2,050	\$42,414
Special Risk Administrative Support Class	165	\$33,153
TRS	4,967	\$29,215
SCOERS	769	\$9,111
TRS-SB	571	\$1,882
IFAS	158	\$10,155
Highway Patrol	47	\$18,238
JRS	6	\$20,130
<u>General Revenue</u>		
National Guard	727	\$18,049
Noncontributory (112.05, F.S.)	51	\$14,324
Judicial Retirement	9	\$75,023
Teachers (238.171, F.S.)	1	\$2,105
Total/Average	304,337	\$17,465

FRS Actuarial Requirements

- FLORIDA CONSTITUTION prohibits the state from providing any increased retirement benefits unless the state has made or concurrently makes provisions for the funding of those benefits on a sound actuarial basis (Art. X, s. 14, Florida Constitution)
- FLORIDA STATUTES implement the constitutional provision
 - “Florida Protection of Public Employee Retirement Benefits Act” establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida (ss. 112.60 – 112.67, F.S.)
 - Section 121.031(3), F.S., requires an annual actuarial study of the FRS

Funding Methodology

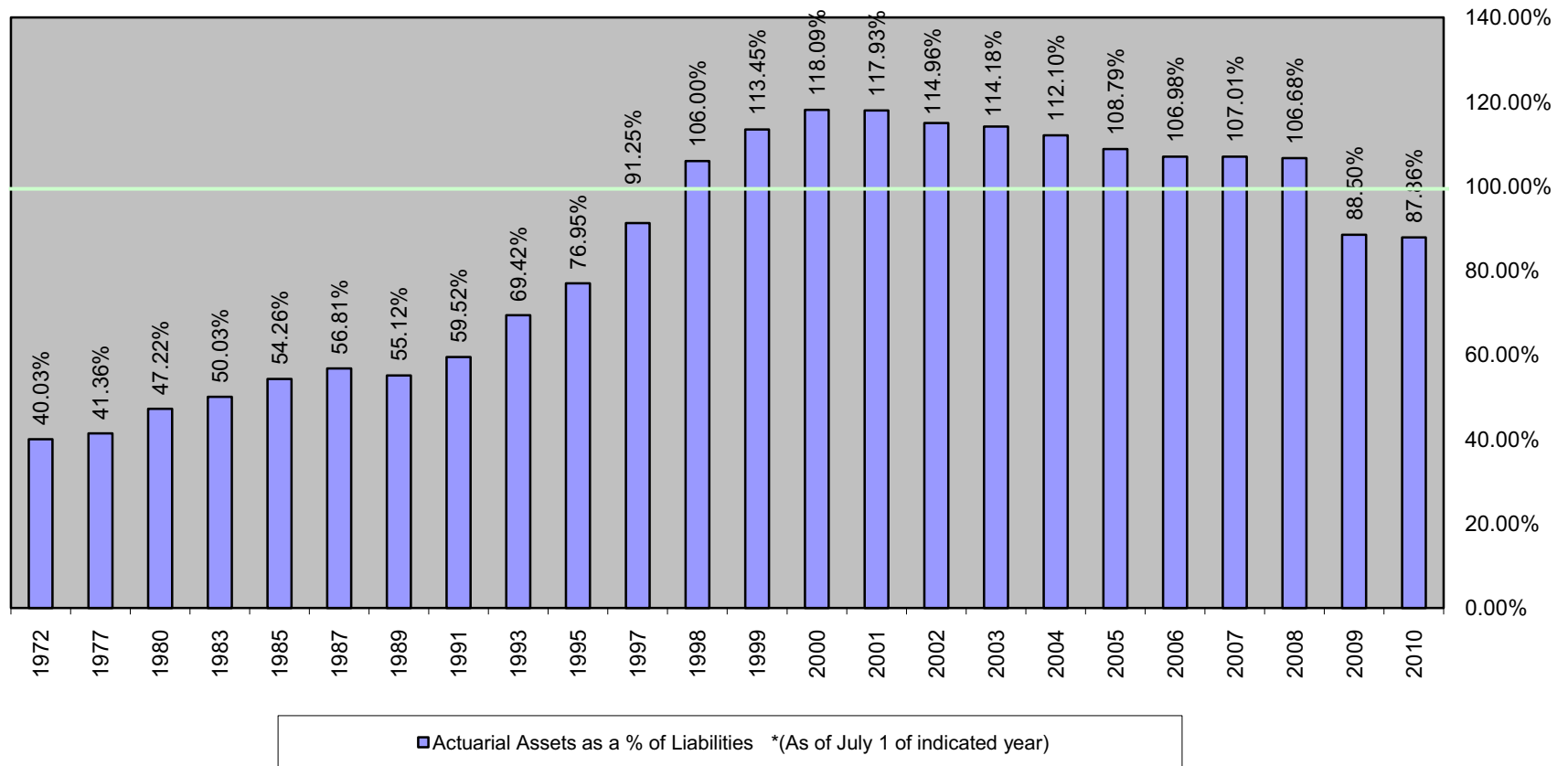
- Actuarial valuation is performed annually on Defined Benefit (DB or Pension) Plan
 - Valuation determines the actuarial funding status of the DB Plan, as well as proposes employer contribution rates sufficient to fund the Normal Cost of the plan and amortization of the Unfunded Actuarial Liability (UAL), if any
- Blended Rate Study is performed subsequent to the actuarial valuation which ‘blends’ the Normal Cost rates with the Defined Contribution (DC or Investment) Plan deposit rates to establish a uniform employer contribution rate

Actuarial Funding Status

- As of July 1, 2010, the DB Plan had an actuarial funding level of 87.9%
 - UAL of \$16.7 billion
 - Actuarial deficit is due to market declines in 2008 and 2009 and plan experience

Historical Actuarial Funding Ratio

Actuarial Funding Status of the FRS Pension Plan*
July 1, 1972 through June 30, 2010



Governor's Recommendations on Pension Reform



Structural Changes to the Florida Retirement System

- Implement Contributory System with employees contributing 5 percent of gross salary to the Florida Retirement System, effective July 1, 2011.
 - Pretax Basis
 - 100% vested in employee contribution on day one
 - Fully refundable to the employee when employee terminates from the FRS.
- Implement compulsory enrollment in defined contribution investment plan for all new Florida Retirement System members, effective July 1, 2011.



Changes to FRS Pension Plan

- Revises the service accrual rates for service earned after July 1, 2011:
 - 2.0 percent for Special Risk Class members
 - 1.6 percent for all other classes (Regular, Senior Management Service, and Elected Officers)
- Closes the Deferred Optional Retirement Program (DROP) to new participation, effective July 1, 2011.
- Eliminates the cost of living adjustment (COLA) on retirement benefits for all service earned after July 1, 2011.
- Reduces Minimum Disability Retirement Benefits
 - Special Risk minimum in-line-of-duty disability is reduced from 65% to 50%
 - Minimum disability retirement benefits for judges retiring as disabled pursuant to the Constitution are reduced from two-thirds of salary to one-third of salary.



Changes to FRS Investment Plan

- Retirement contributions into participant accounts will be 11.25 percent for Special Risk Class members
- Retirement contributions into participant accounts will be 9 percent for all other members
- Disability retirement program continues as currently structured (election to move back to pension plan). The state actuary will determine the level of contributions necessary to fund this benefit.



Retiree Health Insurance Subsidy (HIS)

- No new service may be earned after July 1, 2011. Current retirees are unaffected (continue to receive the same level of HIS). Current FRS members will no longer earn additional credits but will retain service credits earned prior to July 1, 2011.



Optional Retirement Plans

- The State University Optional Retirement Plan (SUSORP), the Community College Optional Retirement Plan (CCORP), and the Senior Management Optional Annuity Plan (SMSOAP), will be closed as of July 1, 2011.

Note: Participants in these plans will become compulsory members of the FRS investment plan (like all other new FRS enrollees). This means that these employees will begin contributing 5% of salary (like everyone else) and receiving 9% retirement contributions into the investment accounts (rather than the current 10.43% for ORP and 12.49% for OAP). Current participants will maintain their current optional retirement accounts.



GOVERNOR RICK SCOTT

“Let’s Get to Work”



Policy and Budget Recommendations

Major Reforms At a Glance

Agency Shared Services

Transfers administrative services from all state agencies including the Judicial Branch to the Department of Management Services:

- Finance and accounting
- Procurement
- Legal
- Leasing
- Mail room
- Print shops
- Personnel management
- Training
- Records management
- Fleet management
- Contract administration (Some may remain)
- Grants management
- Supply room and warehouse operations
- Property management
- Call center support
- Local area network management
- End-user computing management support



Tools for Assessing the State Budget



Senate Budget Committee 2/17/2011



Traditional Budget Cutting Procedures

Staff traditionally did the following:

- Identified duplicative programs which were consolidated and reduced;
- Eliminated non-core programs; and
- Appropriated by budget cut targets to achieve savings; thus forcing agencies to do more with less.



Historical Results

- Appropriation staff were able to identify since FY 2007-08 over \$9.8 Billion in annualized recurring cuts from the state budget.

Current Situation

- To date the State is facing over a \$4 Billion shortfall.
- There are no more easy cuts available.



Tough Choices

A Look At Mission Critical Services

- **Core Mission.** Is the budget entity, function, or activity shown central to or “core” to the agency’s **legal mandates?**



Tough Choices

Critical Spending Areas

- **Statewide Critical Spending.** Is the budget entity, function, or activity shown critical for:
 - Education;
 - Public Safety;
 - Health and Welfare; and
 - State Obligations;



Tough Choices

Mission Critical Agency Functions

TRIAGE METHODOLOGY FOR BUDGET REDUCTIONS:

- (1) Not Core, Not Critical, Not Required:
Reduction = Eliminate
- (2) Core but Not Critical, Not Required:
Reduction = Maintain only what is needed to achieve the agency core mission.
- (3) Critical or Required:
Reduction = Evaluate Efficiency/Streamlining Options



Tough Choices

Organizational Charts

- Reviewing organizational charts to identify where consolidation opportunities exist not only within agencies but other agency entities as well.
- Realign supervisor to employee ratios to reflect best management practices.
- Look for duplicate functions.

Example:

- Pharmacies currently exist in AHCA and DOH. Do we need both? Is there an opportunity to consolidate the two into one and achieve savings?



Tough Choices

State Contract Management System

- Identify contracts that have been underperforming or not **mission critical**:
- Look for shared services where state term contracts may be utilized.
 - Leverage Best in Class Pricing;
 - Consolidate Contracts;
 - Achieve Economies of Scale;
- Eliminate cost escalators in contracts.
- Example: There are 8 pharmaceutical contracts that can be consolidated into one agreement.



Tough Choices

Other Efficiencies

- Reengineering the method state government delivers it's core state services;
 - *Time Intensive; and*
 - *Initial savings are minimal, but deliver long term savings and improved service delivery.*
- Empower agencies to actively use a shared services procurement model; and
- Make smart technology choices where possible.