STORAGE NAME: h1045a.gg
DATE: April 15, 1997

HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
GENERAL GOVERNMENT APPROPRIATIONS
BILL RESEARCH & ECONOMIC IMPACT STATEMENT

BILL #: HB 1045

RELATING TO: The Florida Retirement System (modifying the method for calculating benefits for certain members of the Elected State and County Officers' Class)

SPONSOR(S): Representative Ziebarth & others

STATUTE(S) AFFECTED: s. 121.052

COMPANION BILL(S): SB 12 (i)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL OPERATIONS YEAS 4 NAYS 0
(2) GENERAL GOVERNMENT APPROPRIATIONS YEAS 9 NAYS 2
(3)
(4)
(5)

I. SUMMARY:

Several elected officials, after leaving office, have obtained higher-paying positions covered by the Florida Retirement System (FRS). Because FRS benefits are calculated based upon the retirees' 5 highest years of salary, such officials may receive substantially increased benefits when they retire. It is possible that they could collect benefits which greatly exceed the benefits they would have received based upon their salaries as elected officials.

This bill will gradually eliminate this potentiality. It will direct the FRS to calculate benefits on a dual basis for members who take high-paying jobs following their service as elected officials. In other words, benefits for elective and nonelective service will be calculated separately.

However, this bill recognizes the inequity of taking away a promised benefit. Its constraints will only apply prospectively -- to benefits earned on or after January 1, 1998. Elected officials will only be affected upon the concurrence of two events. First, their initial membership in the Elected State and County Officers' Class (ESCOC) must occur on or after January 1, 1998. Second, they will need to earn creditable service in another class of the FRS at some point thereafter.

HB 1045 will only impact a narrow spectrum of persons. Consequently it will not result in a significant fiscal impact.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Every full-time and part-time employee working in a regularly established position for a state agency, county, district school board, state university, or community college, must participate in the FRS. Cities and special districts can choose whether or not to join the FRS. Elected officials and certain others may opt to withdraw from the system.

The FRS is a statewide, defined benefit pension plan. It includes five membership classes: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected State and County Officers' Class (ESCOC), and Senior Management Service Class. Approximately 90 percent of FRS members belong to the Regular Class, while only 0.34 percent belong to the Elected State and County Officers' Class.

Members of the FRS earn one month of service credit for each month in which a salary is paid for services performed. Once a member attains normal retirement age, he or she can retire with full benefits. The FRS computes benefits on the basis of average final compensation (AFC) and service credit. Section 121.021(24), F.S., defines AFC as "the average of the 5 highest fiscal years of compensation for creditable service prior to retirement, termination, or death." Retirement credit for service is expressed as a percentage of AFC. It is calculated by multiplying the "accrual rate" by the years of service credit earned.

The ESCOC has a relatively high rate of accrual (3 percent). By obtaining a high-paying public sector job after serving as an elected official, a member of ESCOC can improve the value of his or her AFC. This, in turn, will boost retirement benefits. Even though elected officials rarely take advantage of this opportunity, publicized incidents tend to generate public concern.

B. EFFECT OF PROPOSED CHANGES:

This bill will prospectively eliminate the opportunity for an elected official to boost his or her retirement benefits by obtaining a high-paying public sector job upon leaving office. This bill will address the problem of "windfall" benefits by requiring dual calculation of benefits. It will only apply to members whose initial date of membership in the ESCOC is on or after January 1, 1998, and who follow their time in office with service in another class of the FRS.

A former elected official who meets the criteria outlined above will have his or her benefits calculated in three stages:

1. That portion of a member's benefit derived from service in elective office ESCOC must be calculated separately, using an AFC based on that service alone.

2. That portion of the member's benefit derived from all other creditable service in the FRS or an existing system, regardless of when the service occurred, must be calculated separately, based on the service and AFC attributable to that service.

3. The two benefit components will be totaled and paid as one benefit.

Such member must satisfy the requirements for vesting and normal retirement age based on the member's total creditable service as provided in ss. 121.052(8), and 121.021(29), F.S. If less than 5 years of creditable service has been completed for either portion of the benefit, the AFC for that portion of the benefit must be the average of the total years of compensation for that service.

C. APPLICATION OF PRINCIPLES:

1. <u>Less Government:</u>

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

Any elected official who follows his or her elected service with membership in another class of the FRS will have the benefits for these two types of service calculated separately. The benefits will be totaled and paid as one benefit. This will eliminate the opportunity for a former member to improve the value of his or her average final compensation based on the higher accrual rate for ESCOC service.

b. If an agency or program is eliminated or reduced:

This bill does not eliminate or reduce an agency or program.

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. <u>Lower Taxes:</u>

   a. Does the bill increase anyone's taxes?

      No.

   b. Does the bill require or authorize an increase in any fees?

      No.

   c. Does the bill reduce total taxes, both rates and revenues?

      No.

   d. Does the bill reduce total fees, both rates and revenues?

      No.

   e. Does the bill authorize any fee or tax increase by any local government?

      No.

3. <u>Personal Responsibility:</u>

   a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

      Any elected official who follows his or her elected service with membership in another class of the FRS will have the benefits for these two types of service calculated separately. The benefits will be totaled and paid as one benefit. This will eliminate the opportunity for a former elected official to increase the value of his or her average final compensation based on the higher accrual rate for ESCOC service.

   b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

      N/A

4. <u>Individual Freedom:</u>

   a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

      N/A

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

No.

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

This bill does not purport to provide services to families or children.

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

No.

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

This bill does not create or change a program providing services to families or children.

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. SECTION-BY-SECTION RESEARCH:

Section 1. Amends s. 121.052, F.S. Section 1 provides for dual calculation of retirement benefits, for a member of the ESCOC whose initial date of membership in such class is on or after January 1, 1998, and who subsequently earns creditable service in any other class of the FRS. That portion of a member's benefit derived from service in elective office must be calculated separately, based on the service and average final compensation (AFC) attributable to that service in elective office. That portion of a member's benefit derived from all other creditable service in the FRS or an existing system, regardless of when the service occurred, must be calculated separately, based on the service and AFC attributable to that service. Benefit amounts will be combined and paid as one benefit.

An affected member must satisfy the requirements for vesting and normal retirement age based on the member's total creditable service as provided in ss. 121.052(8), and 121.021(29), F.S. If less than 5 years of creditable service has been completed for either portion of the benefit, the AFC for that portion of the benefit must be the average of the total years of compensation for that service.

Section 2. Provides an effective date of July 1, 1997.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

Any provisions of this bill, which would result in a savings, would not have an immediate impact on the FRS Trust Fund, therefore no contribution rate change is warranted.

3. Long Run Effects Other Than Normal Growth:

   None.

4. Total Revenues and Expenditures:

   None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   None.

2. Recurring Effects:

   The provisions of this bill , which would result in a savings, would not have an immediate impact on the FRS Trust Fund, therefore no contribution rate change is warranted.

3. Long Run Effects Other Than Normal Growth:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   None.

2. Direct Private Sector Benefits:

   None.

3. Effects on Competition, Private Enterprise and Employment Markets:

   None.

D. FISCAL COMMENTS:

The following examples are comparisons of retirement benefit calculations under current law and the proposed bill. Both calculations assume eight years of ESCOC service as a legislator (performed after January 1, 1998) with a salary of $22,560 per year, followed by five years of Regular Class service with a salary of $75,000 per year. The member is age 62 at retirement.

#1 Under Current Law

Percentage Value - .32
AFC - $75,000
Annual Benefit - $24,000

#2 Under Separate Benefit Calculation of Proposed Bill

Legislative Portion:
Percentage Value - .24
AFC - $22,560
Legislative Benefit - $5,414.40

Regular Class Portion:
Percentage Value - .08
AFC - $75,000
Regular Class Benefit - $6,000

Combined Annual Benefit - $11,414.40

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

Legislative History: HB 899, a similar proposal, was passed as a Committee Substitute by the Committee on Governmental Operations on March 27, 1996. CS/HB 899 was withdrawn from the House Committee on Appropriations on April 23, 1996, and referred to the Committee on Rules and Calendar. CS/HB 899 was withdrawn from Rules and Calendar on May 1, 1996, and placed on the House Calendar. It was subsequently amended to conform with SB 458 and died on the House Calendar on May 4, 1996.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

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