SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

Date: March 16, 1998 Revised: ________ ________ ________ ________

Subject: Retirement Funds

	Analyst	Staff Director	Reference	Action
1.	Schmith	Yeatman	CA	Favorable
2.			GO	
3.			WM	
4.				
5.				

I. Summary:

The bill makes the following changes to the statutes governing investment of municipal police officers' and firefighters' pension funds: expands application of this statute to cover chapter plans, local law municipalities, local law plans, special fire control districts and local law special fire control districts, as applicable; allows these pension funds to invest up to 10 percent of plan assets in foreign securities without limitation; and makes the following changes regarding the boards of trustees for these funds:

Revises and updates the references to certain federal agencies which insure investments made in chartered savings institutions;

Increases from 30 percent to 50 percent the permissible equity investment of a fund without a required variance in the approved investment procedures;

Expands the authorized investments for pension funds;

Requires a simple majority vote of the board to approve official business coming before it;

Provides record-keeping duties of the plan secretary;

Provides the qualifications for the "professionally qualified independent consultant" who is required to triennially evaluate the fund's professional money managers for the board; and

Authorizes the board to employ independent legal counsel, an independent actuary, or other independent professional adviser at the expense of the fund.

This bill substantially amends sections 175.071 and 185.06 of the Florida Statutes.

II. Present Situation:

Sections 175.071 and 185.06, F.S., provide investment guidelines for firefighter and municipal police officer pension trust funds, respectively. Those statutes restrict investment activities to the following:

1. Time or savings accounts of a national bank, a state bank insured by the FDIC, or a savings, building and loan association insured by the FSLIC.

2. Obligations of the U.S. or obligations guaranteed as to principal and interest by the Government of the U.S.

3. Bonds issued by the State of Israel.

4. Bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the U.S., any state or organized territory of the U.S., or the District of Columbia provided:

   a. The corporation is listed on any one or more of the recognized national stock exchanges and holds a rating in one of the three highest classifications by a major rating service; and

   b. The board of trustees shall not invest more than five percent of its assets in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed five percent of the outstanding capital stock of that company or the aggregate of its investments *at cost exceed thirty percent of the total assets of the fund.*

Local law plans may request a variance on these investment procedures by municipal ordinance, special act of the Legislature, or resolution of the special fire control district (where applicable); *however, the trustees are prohibited from investing the pension or retirement funds in any stocks, bonds, or other securities owned or controlled by a government other than the United States or the several states.*

The State Board of Administration (SBA), pursuant to s. 215.44, F.S., is responsible for the investment of all funds related to the Florida Retirement System (FRS) Trust Fund. In addition, s. 215.47, F.S., clearly defines the scope of investment activities including authorized securities the board may use to meet their financial objects. Within the provisions of the law there are specific recommendations as to asset allocations relating to fund type and restricted proportional weighting within that portfolio of securities. For example, if more than 10 percent of an investment fund's portfolio is vested in corporate obligations or securities of any kind in a foreign corporation or foreign commercial entity, and their principal offices are not domiciled in the U.S. or in U.S. territories, the investment would be restricted and not authorized.

III. Effect of Proposed Changes:

The bill makes the following changes to the statutes providing for investment of firefighters' and police officers' pension funds:

- Expands coverage of these chapters to include all municipalities, special fire control districts (where applicable), chapter plans, local law municipalities, local law special fire control districts (where applicable), and local law plans;

- Revises and updates the references to federal agencies which insure investments made in chartered savings institutions. The FDIC is replaced by the Bank Insurance Fund and the FSLIC is replaced by reference to the Savings Association Insurance Fund administered by the FDIC;

- Expands the list of institutions in which the trustees may invest the pension funds to include a state or federal chartered credit union whose share accounts are insured by the National Credit Union Share Insurance Fund;

- Authorizes the trustees to invest pension funds in the stock of a corporation which does not hold a rating in one of the three highest classifications by a major rating service -- the amendment limits this investment restriction to bonds only; and

- Increases from 30 to 50 percent the aggregate investments of the fund which may be invested in U.S. corporate stocks or bonds; however, the bill contains a caveat that it not be construed to revoke any preexisting legal authority to make equity investments that exceed that amount;

- Permits trustees to invest up to 10 percent of plan assets in foreign *investments without limitation*;

- Requires a simple majority of the board, rather than an absolute majority of three members, to approve official business coming before the board of trustees;

- Provides record-keeping duties of the plan secretary;

- Provides for a triennial evaluation of professional money managers for the board by a professionally qualified independent consultant. The bill provides minimum qualifications of a professionally qualified independent consultant; and

- Authorizes a plan to hire independent legal counsel, an independent actuary, and such other professional, technical or other advisers as it deems necessary; however, the employment of any of these must be at the pension fund's expense. A fund may elect to use its parent local government's legal counsel, actuary or other professional or technical advisers, but shall do so only under terms and conditions acceptable to the board.

The bill provides an effective date of October 1, 1998.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

Pension funds may benefit by diversifying investments to include foreign investments.

VI. Technical Deficiencies:

None.

VII. Related Issues:

Provisions very similar to this bill are contained in SBs 266 and 270.

VIII. Amendments:

None.