

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 24, 1998 Revised: 3/26/98 _____

Subject: Florida Retirement System

	<u>Analyst</u>	<u>Staff Director</u>	<u>Reference</u>	<u>Action</u>
1.	<u>Lombardi</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable/CS</u>
2.	<u>Keating</u>	<u>Smith</u>	<u>WM</u>	<u>Fav/5 amendments</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The committee substitute technically amends and clarifies the calculation of retirement benefits under the existing system for dual normal retirement ages and post retirement service class upgrades. The committee substitute also addresses the nullification of a member's joint annuitant designation in the event of a dissolution of marriage and stipulates that if a member dies before his or her effective date of retirement on or after January 1, 1999, the deceased member's spouse shall automatically be the member's beneficiary unless otherwise stipulated by the member. The committee substitute provides that if a member dies before vesting and qualifying for retirement benefits, the deceased members designated annuitant may purchase additional service in order to qualify and vest retirement benefits in the retirement system. Lastly, the committee substitute will act as the implementation bill for health insurance subsidy contribution rate changes and retirement contribution rate changes to take effect on July 1, 1998, and result from the 1997 Biennial Actuarial Valuation of the Florida Retirement System.

This bill amends the following sections of the Florida Statutes: 112.363, 121.011, 121.052, 121.055, 121.071, 121.091, 121.122, and 121.40. The bill repeals sections 121.0505 and 121.0516, Florida Statutes.

II. Present Situation:

Section 112.363(3)(c), F.S. - Effective January 1, 1991, each eligible retiree shall receive a monthly retiree health insurance subsidy of \$3 per month for each year of service at retirement, with a maximum of \$90 and a minimum of \$30 per month, to be used to help defray the cost of health insurance.

Section 112.363(8)(d), F.S. - This section sets HIS contribution rates at 0.66 percent, effective January 1, 1995, of gross compensation for each employer who is a member of a state-administered plan.

Section 112.363(9), F.S. - This section states that no HIS payment shall be subject to assignment, execution, or attachment or any legal process whatsoever and that payments are only for those participants in the program or their beneficiaries.

Section 121.091(2), F.S. (1996 Supp.) - In the event a member of the Florida Retirement System (FRS) accumulates retirement benefits by having performed duties in different classifications of employment, then that member's benefit is computed separately with respect to each age and salary within each of the respective classes.

Section 121.091(6), F.S., as amended by section 2 of chapter 97-154 and section 8 of chapter 97-180, L.O.F. - This section provides for "Optional Forms of Retirement Benefits and Disability Retirement Benefits." Currently, before a member receives the first monthly retirement payment he or she must elect to receive the benefit based upon the four following options:

- * Elect to receive the maximum retirement benefit payable during the member's lifetime;
- * Elect a reduced lifetime retirement benefit and in the event the member dies within a period of 10 years after retirement, the surviving beneficiary is guaranteed the same retirement benefit for any remainder of the 10-year term and not to exceed 10 years;
- * Elect a reduced retirement benefit for both the member and the joint annuitant and after the death of either, the survivor continues to receive the same benefit for the remainder of their lifetime;
- * Elect a reduced retirement benefit for both the member and the joint annuitant and after the death of either, the survivor continues to receive a benefit equal to 66.67 percent of the original benefit received jointly, for the remainder of their lifetime.

Under this section a retired member is allowed to change the designation of their joint annuitant only twice through a notarized joint annuitant form filed with the Division of Retirement.

Section 121.091(7), F.S. (1996 Supp.) - Currently, if the member dies before vesting and qualifying for retirement benefits, there is no provision for a member's designated joint annuitant to purchase additional service credit using the deceased member's accumulated hours of annual, sick, and compensatory leave to qualify and vest retirement benefits in the retirement system.

Section 121.091(8), F.S. - The provisions of this section provide for the hierarchy of beneficiary designees.

Section 121.40, F.S. - This section provides supplemental retirement benefits to cooperative extension personnel at the Institute of Food and Agricultural Sciences. The contribution is made on the basis of gross monthly salaries and is paid to employees of the institute who hold both state

and federal appointments and who participate in the federal Civil Service Retirement System. Currently the contribution rate is 5.64 percent.

III. Effect of Proposed Changes:

Section 112.363(3)(d), F.S. - This section is amended, and paragraph (d) is added to increase the Health Insurance Subsidy (HIS) payment, effective January 1, 1999, to eligible retirees from \$3 to \$4 per month for each year of service at retirement, with a maximum of \$120 and a minimum of \$40 per month, to be used to help pay the cost of health insurance.

Section 112.363(8)(e), F.S. - This section is amended, and paragraph (e) is added subsequent to increasing health insurance subsidy payments. HIS contribution rates to fund the payment will be increased from 0.66 percent to 0.80 percent of gross compensation for each employer who is a member of a state-administered plan.

Section 112.363(9), F.S. - This section is amended to provide for 6 months of HIS retroactive payments for late applicants.

Section 121.011, F.S. - This section is amended adding provisional language that places the liability and responsibility to preserve payments and benefits to its members and their beneficiaries on the Florida Retirement System.

Sections 121.0505 & 121.0516, F.S. - These sections provide for the implementation of retirement contribution rate changes resulting from chapters 95-277 and 95-285, L.O.F. These sections will be repealed in lieu of the proposed retirement contribution rate changes.

Sections 121.052, 121.055, & 121.071, F.S. - These sections are amended to reflect retirement contribution rate changes to take effect on July 1, 1998, and result from the 1997 Biennial Actuarial Valuation of the Florida Retirement System. All membership classes will experience a decrease in contribution rates with the exception of the Senior Management Service Class which will experience an increase in retirement contribution rates. Contribution rate changes are summarized in the following table:

Florida Retirement System Contribution Rate Changes		
Membership Class	New Rates	Old Rates
1. Elected State & County Officers		
Legislators	22.33%	23.07%
Governor, Lt. Governor, Cabinet	22.33%	23.07%
State Attorneys, Public Defenders	22.33%	23.07%
Justices, Judges	27.21%	29.55%

Florida Retirement System Contribution Rate Changes

Membership Class	New Rates	Old Rates
County Elected Officers	26.99%	27.33%
2. Senior Management Service	23.10%	21.58%
3. Regular Members	15.51%	16.77%
4. Special Risk	24.38%	26.44%
5. Special Risk Admin.	14.64%	17.20%

Section 121.091(2), F.S. (1996 Supp.) - This bill technically amends and clarifies benefit payments under the existing system and adds the Senior Management Service Class and Elected State and County Officers' Class to the instructions for calculating benefits using dual normal retirement ages.

Section 121.091(6)2, F.S., as amended by section 2 of chapter 97-154 and section 8 of chapter 97-180, L.O.F. - This section is amended, adding that in the event of a dissolution of marriage, a divorced retired member may nullify the designation of their joint annuitant who would have received benefits after their death. The benefit is then adjusted and payed as though the former spouse predeceased the retired member.

Section 121.091(7), F.S. (1996 Supp.) - This section is amended to provide that a member's designated joint annuitant, if the member dies before vesting and qualifying for retirement benefits, may purchase additional service credit using the deceased member's accumulated hours of annual, sick, and compensatory leave to qualify and vest retirement benefits in the retirement system. The additional creditable service is purchased only for the months needed to qualify for retirement benefits on an hour-for-hour basis, in the event the deceased member's accumulated leave is sufficient to cover the additional months required for vesting. The average final compensation shall include only the lump sum payment for any creditable accumulated annual leave not used for such purchase.

Section 121.091(8), F.S. - This section is amended to provide that if a member dies before his or her effective date of retirement on or after January 1, 1999, the spouse of the deceased member shall automatically be beneficiary unless otherwise stipulated by the member.

Section 121.122, F.S. - This section is amended to clarify that a member with renewed membership in the Senior Management Service Class may upgrade any post retirement service in the Regular Class to Senior Management Service Class status provided the member pays the difference between the contribution rate for the two classes.

Section 121.40, F.S. - This section is amended changing the contribution rate for the supplemental retirement benefit to Institute of Food and Agriculture Sciences personnel from 5.64 percent to 5.60 percent.

This bill shall take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

This bill initially falls under subsection (b) of s. 18 of Art. VII, State Constitution. Subsection (b) requires a two-thirds vote of the membership of each house in order to enact a general law reducing the authority that municipalities and counties had on February 1, 1989, to raise revenues in the aggregate. By adding an exemption to the state sales tax, the bill has the effect of adding an exemption to the local option county sales surtax. Since the annual local revenue loss is estimated to be less than \$1.4 million, the bill will be exempt from the requirements of subsection (b) due to the insignificant negative fiscal impact as permitted under subsection (d) of s. 18, Art. VII. (See subsection (d) of s. 18, Art. VII, State Constitution, for various types of general laws, including those with insignificant fiscal impact.)

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:

There are no economic implications regarding any of the statutory changes with the exception of the proposed contribution rate changes associated with HIS and the individual retirement classes. All funding in the retirement system is predicated on vesting procedures associated

with actuarial valuations, meaning that if there is an immediate requirement for a member is to draw a benefit from the system, sufficient funds already exist to provide that benefit. In the event of a member's premature for vesting and qualifying for retirement benefits, funds that would have otherwise been paid to the member's beneficiary are used to purchase the necessary time to qualify and vest. Because the out-of-pocket cost is paid at the election of the beneficiary, there are no extra contributions needed from the FRS.

Although the HIS contribution rate has increased from 0.66 percent to 0.80 percent resulting in an increased cost of \$25.6 million to FRS employers, the net savings to FRS employers for fiscal year 1998-1999 will be \$216.9 million. The savings is based on an estimated statewide annual payroll of \$17.3 billion and rate in employer retirement contributions. Of the total FRS membership, 25 percent of the savings will be realized at the state level and approximately 75 percent will be realized at the local government level.

It should be noted that the health insurance subsidy (HIS) is made available only to those vested members and their beneficiaries. The opportunity to purchase additional service credit in order to qualify for vesting retirement benefits provides an added benefit to the joint annuitant or beneficiary in that the HIS pays in perpetuity for life to aid in defraying the cost of health insurance.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Ways and Means:
Technical.

#2 by Ways and Means:
Technical.

#3 by Ways and Means:
Increases the retirement contribution rate for Institute of Food and Agricultural Service from 5.60 percent to 7.17 percent.

#4 by Ways and Means:
Provides that for participation of a Florida Retirement System (FRS) members in any other retirement plan, benefits that accrue under the FRS shall be considered "primary" for aggregate limitation applicability under IRS code Section 415. (WITH TITLE AMENDMENT)

#5 by Ways and Means:

Authorizes a member of the FRS who is required to resign his office as a law enforcement officer because he is a candidate for a public office which is currently held by his superior officer who is also a candidate for reelection to the same office, shall, upon return to covered employment, be eligible to purchase retirement credits. (WITH TITLE AMENDMENT)

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
