HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
CIVIL JUSTICE & CLAIMS
BILL RESEARCH & ECONOMIC IMPACT STATEMENT

BILL #: CS/HB 905

RELATING TO: Miscellaneous Retirement Provisions

SPONSOR(S): Committee on Governmental Operations, Representative Crady & others

STATUTE(S) AFFECTED: This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: ss. 121.011, 121.021, 121.051, 121.052, 121.053, 121.055, 121.091, 121.1115, 121.1120, 121.121, 121.122, 121.23,121.35, 123.01, 123.02, 123.03, 123.04, 123.05, 123.051, 123.06, 123.07, 123.08, 123.10, 123.11, 123.12, 123.13, 123.14, 123.15, 123.16, 123.17, 123.18, 123.19, 123.21, 123.22, 123.23, 123.24, 123.25, 123.26, 123.27, 123.28, 123.29, 123.30, 123.31, 123.32, 123.33, 123.34, 123.35, 123.36, 123.37, 123.38, 123.39, 123.40, 123.41, 123.42, 123.43, 123.44, and 123.45.

COMPANION BILL(S): CS/SB 1824 (s)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL OPERATIONS YEAS 4 NAYS 0
(2) CIVIL JUSTICE & CLAIMS YEAS 10 NAYS 0
(3) GENERAL GOVERNMENT APPROPRIATIONS
(4)
(5)

I. SUMMARY:

This bill makes a number of technical changes to the Florida Retirement System (FRS). It provides guidelines for a member to claim retirement credit for periods of suspension after reinstatement, and for periods of dismissal when the dismissal is rescinded and the member is reinstated; defines “phased retirement program;” allows newly elected or reelected officers to choose membership in the Senior Management Service Class (SMSC) in lieu of the Elected State and County Officers’ Class (ESCOC); allows the purchase of service with the Federal government as out-of-state service; allows FRS members the same right to purchase retirement credit for periods of non-FRS, public, in-state service as they now have to purchase out-of-state public service, up to a total of 5 years of combined in- and out-of-state service; and makes other minor technical changes.

This bill repeals the various obsolete sections of Chapter 123, Florida Statutes, pertaining to the Judicial Retirement System. The Judicial Retirement System has been closed to new members since July 1, 1972, when it was consolidated with the Florida Retirement System, and has no active members. This repeal of an obsolete chapter of the Florida Statutes will clean up and streamline Florida law.

Enacting the provisions in this bill will have minimal fiscal impact on the FRS. The fiscal impact on other state or local governments is outlined in the “Fiscal Comments” section of this analysis.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

The Florida Retirement System (FRS) is a tax-qualified, non-contributory, defined benefit system providing pension benefits to employees of more than 800 units of state and local government. It is run by a semi-autonomous state agency, the Division of Retirement, which pays nearly $2 billion annually to the annuitants and beneficiaries of the plan. It is structured as a non-contributory **defined benefit system**, that is, a system which assures the retiree of a guaranteed benefit at retirement expressed as a percentage of average final compensation. Retirees have the option of receiving benefits in one of four different annuity types based upon their income needs and estate planning preferences. Since the FRS became non-contributory in 1975, plan members do not build equity in the plan which they may withdraw or cash-out upon their separation from employment or retirement. In this sense the plan is to be distinguished from a **defined contribution arrangement** in which fixed employer and employee contributions fund a retirement account with an unguaranteed variable benefit over which the employee has complete ownership and portability.

The FRS is a relatively young system, having been created in the early 1970s through the merger of the former Teachers' Retirement System, State and County Officers' and Employees Retirement System, the retirement plan for the Highway Patrol, and the Judicial Retirement System. Despite its youth, the FRS is the nation's third largest public pension plan with the **lowest** administrative costs. Unlike many state pension plans the Legislature deliberately separates the payment of benefits from the investment of pension assets. A constitutional agency, the State Board of Administration (SBA), acts as the investment authority for pension funds. The SBA oversees $80 billion in assets, some $60 billion of which are part of the FRS pension trust. The SBA invests these assets in world-wide markets through its internal and external portfolio managers on behalf of the FRS and other state and local government agencies with whom it contracts. Additionally, many local governments maintain separate pension plans for their own employees which they separately manage. Of particular note are the firefighter and municipal police retirement plans authorized under Chapters 175 and 185, F.S., which predate the creation of FRS. The FRS is composed of several retirement classes each with its own payroll contribution rate, benefit accrual rate, and vesting period.

B. EFFECT OF PROPOSED CHANGES:

Section 1. **Section 121.011, F.S.,** is amended to replace the current indefinite period with a twenty-four month limit on the period of retirement service credit a member may retroactively receive for an employer suspension which ultimately results in reinstatement. The returning, reinstated employee must remain on the payroll for at least 30 days in order to receive the retirement service credit. The compensation amount to be used as the basis for FRS contributions will be the amount for the pay period immediately preceding the suspension period.

Active members of the FRS, or the other predecessor systems incorporated within the FRS, who are subject to a dismissal action which is subsequently rescinded, shall have their FRS employer contributions made retroactively to the date of the initial personnel action plus interest. In the event the dismissal action is subsequently changed to a suspension, it will be the employee's responsibility to make the contributions plus interest.

Section 2. Retirement programs applicable to the state university and community college systems permit the reemployment of eligible faculty retirees. Amendments to **s. 121.021(43), F.S.,** provide a definition for "phased retirement program" and continue the authorization of such programs subject to three criteria: the member retired and met the definition of termination under this section; the retired member is reemployed for not more than 780 hours during the first 12 months of retirement; and the retired member is reemployed with the university or community college from which he or she retired. Renewed membership for a retiree participating in a phased retirement program shall be determined in accordance with s. 121.22 or s.121.053, F.S.

Section 3. Amends **s. 121.051(2)(e), F.S., (1996 Supp.),** providing that any independent FRS participating agency that has failed to report the employees of a dependent governmental entity within its jurisdiction for membership in the FRS as required under this chapter shall enroll in the system, effective July 1, 1996, all employees filling a regularly established position who are not currently participating in a retirement plan provided by the dependent entity. Employees of the dependent entity participating in such a retirement plan on July 1, 1996, may remain in that plan or participate in the FRS and shall make such election in writing.

All eligible employees hired on or after July 1, 1996, by any such dependent entity shall be compulsory members of the FRS. Any independent participating agency shall be responsible for identifying all such dependent governmental entities within its jurisdiction and for providing to the Division of Retirement a list of all employees of such entities as of July 1, 1997.

Section 4. Currently, members of the Elected State Officers' Class (ESCOC) are compulsory participants in FRS. Amendments to **s. 121.052, F.S.,** in this bill, will permit any elected officer, within 6 months of assuming office, or within 6 months of this act becoming law for serving elected officers, to elect membership in the Senior Management Service Class in lieu of membership in the ESCOC.

This bill further provides that affected current or former members of the ESCOC, as well as other former elected officers who chose to join an FRS class other than the ESCOC, may purchase additional retirement credit to upgrade their service within the purview of the ESCOC by paying the required contributions plus interest. This clarification of the upgrade provisions for ESCOC service makes them equitable for all current and former elected officers.

Section 5. This section amends **s. 121.053, F.S.,** to remove the language allowing only Regular Class renewed membership service to be used in conjunction with creditable service earned under the renewed membership provisions of the ESCOC. This will allow retirees with renewed membership in the ESCOC to be able to use Senior Management Service Class renewed membership, as well as Regular Class renewed membership service, in conjunction with their ESCOC service toward a second benefit.

Section 6. This section amends **s. 121.055, F.S.,** to allow newly elected or reelected officers who choose membership in the Senior Management Service Class (SMSC) in lieu of the ESCOC to subsequently withdraw from the FRS and participate in the Senior Management Optional Annuity Program (SMSOAP) or a local lifetime monthly annuity plan.

Additionally, this section amends **s. 121.055(2)(b), F.S.,** providing, effective July 1, 1997, each local agency employer may, between July 1, 1997, and December 31, 1997, reassess its designation of positions for inclusion in the Senior Management Service Class, and may request removal from the class of any such positions that it deems appropriate. Such removal of any previously designated positions shall be effective on the first day of the month following written notification of removal to the Division of Retirement prior to January 1, 1998.

This section also amends **s. 121.055(6), F.S.,** concerning the SMSOAP. It provides that employer funded benefits shall be paid only as a lifetime annuity to the participant, a beneficiary, or estate, of the participant, except for a lump sum payment in two situations: a payment to the beneficiary upon the death of the participant, and a payment to a participant who has been terminated for at least six months when the account contains $3,500 or less.

The State Board of Administration (SBA) is authorized to review and make recommendations on SMSOAP investment products proposed by provider companies before they are offered to participants, and to advise the Division of Retirement on changes deemed necessary to ensure an acceptable mix of investment products. The Division will have final approval of any such products or changes.

Section 7. This section allows the employer of current and former members of the ESCOC and certain former elected officers to pay all or a portion of the upgrade of elected officer service, if paid before January 1, 1998. This provision is repealed effective January 1, 1998.

Section 8. This section amends **s. 121.091, F.S.,** to require that a member's beneficiary who is found guilty of unlawfully and intentionally killing the member, or pleads guilty or nolo contendere, must forfeit all rights to the deceased member's benefits; and to provide guidelines for establishing the effective date for the change of joint annuitant.

Section 9. Under **s.121.1115, F.S.,** members may purchase up to 5 years of FRS retirement credit for public service in another state. The individual cost varies, depending on the number of years of retirement credit the member purchases, the year in which the member began his or her FRS employment, and the amount of the first annual FRS salary. The employer may pay part or all of the cost. Under **s. 121.111, F.S.,** employers pay retirement contributions for members who serve in the military while on a leave-of-absence, and members whose initial date of employment is before January 1, 1987 may purchase retirement credit for wartime military service. **Section 121.1115, F.S.,** currently does not allow the purchase of service with the Federal government and prohibits the purchase of military service under that section.

This section amends **s. 121.1115, F.S.,** to allow purchase of service with the Federal government as out-of-state service, and the prohibition against claiming military service is removed. Service with the Federal government would include military service not otherwise claimed under **s. 121.111, F.S.,** as out-of-state service. This would include peacetime active duty service and service by a member whose initial date of employment was on or after January 1, 1987.

Section 10. This section creates **s. 121.1120, F.S.,** which allows an FRS member to purchase a total of up to 5 years of retirement credit (including both in-state and out-of-state service) in the FRS for periods of non-FRS public employment in Florida, employment in charter schools, or employment in any nonpublic, nonsectarian school or college in Florida that is accredited by the Southern Association of Colleges and Schools. Certain limitations and conditions are provided. Allowing members to purchase retirement credit for their non-FRS employment in Florida provides a more equitable situation since the purchase of out-of-state service is allowed. The cost to purchase retirement credit under this section shall be calculated in the same manner as set forth in **s. 121.1115(2), F.S.,** for purchase of credit for out-of-state service.

Section 11. Amends **s. 121.121(3), F.S.,** providing that future service of any member as defined in **s. 121.021(21), F.S.,** shall also include up to 2 work years of creditable service for authorized leaves of absence under certain conditions. The additional requirement added here is that the member return to active employment performing service with a Florida Retirement System employer in a regularly established position immediately upon termination of the leave of absence and remain on the employer’s payroll for one calendar month, except that a member who retires on disability while on a medical leave of absence shall not be required to return to employment.

Section 12. This section amends **s. 121.122, F.S.,** to allow a retiree reemployed in a Senior Management Service Class (SMSC) position to have renewed membership in the SMSC rather than the Regular Class.

Such retiree may participate in the Senior Management Service Optional Annuity Program in lieu of the SMSC.

Section 13. This section amends **s. 121.23, F.S.,** to provide for payment of reasonable attorney's fees and taxable cost for any disability order issued by the State Retirement Commission which sustains the application of the member. Such amount cannot exceed 50 percent of the initial yearly benefit of the member. This provision will allow members who appeal their disability applications to the State Retirement Commission the opportunity to have competent legal assistance. When they prevail, it will limit such attorney's fees to 50 percent of the initial yearly benefit the member receives. Currently, the average yearly benefit received by members retired on disability is $6,168, so the average individual payment for attorney's fees would be approximately $3,084.

Section 14. This section amends **s. 121.35, F.S.,** to provide that Optional Retirement Program (ORP) participants who do not select a provider company within 90 days from the time they become eligible to participate in the ORP, and participants who terminate without choosing a provider company, will be deemed to have elected membership in the FRS Regular Class or SMSC, as appropriate. All contributions paid to that point will be transferred to the FRS Trust Fund and the Health Insurance Subsidy Trust Fund and the member will be given retroactive FRS credit for the 90 day period or the period of their participation. The amended language also stipulates that employee contributions shall not exceed federal limits.

Employer funded benefits shall be paid only as a lifetime annuity to the participant, his beneficiary, or estate, except for a lump sum payment in two situations: a payment to the beneficiary upon the death of the participant, and a payment to a participant who has been terminated for at least six months when the account contains $3,500 or less.

The State Board of Administration (SBA) is authorized to review and make recommendations on investment products proposed by provider companies before they are offered to participants, and to advise the Division on changes deemed desirable to ensure an acceptable mix of investment products. The Division of Retirement will have final approval of any such products or changes.

Section 15. This section repeals **Chapter 123, F.S.,** the Judicial Retirement System. The Judicial Retirement System has been closed to new members since July 1, 1972, when it was consolidated with the Florida Retirement System, and has no active members. This section repeals an obsolete chapter of the Florida Statutes which will clean up and streamline Florida law.

Section 16. This section gives the Division of Retirement rulemaking authority for implementing all the provisions of this bill. A 1996 amendment to **s. 120.535, F.S.,** provides that "[a] grant of rulemaking authority is necessary but not sufficient to allow an agency to adopt a rule; a specific law to be implemented is also required." This section is added in order to give the Division the proper authority to adopt necessary rules to implement the provisions of this bill.

Section 17. Budget authority of $300,000 annually is appropriated to the Division for payment of attorney's fees and taxable costs as directed by the State Retirement Commission in matters connected to disability retirement determinations.

Section 18. An important state interest clause is provided. Article X, Section 14, of the State Constitution, requires that publicly funded retirement systems be funded on a sound actuarial basis.

Section 19. Provides that this act shall take effect upon becoming a law except as otherwise provided herein.

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?

Yes. This bill gives the Division of Retirement rulemaking authority for implementing all the provisions of this bill. It is necessary for them to have this authority.

(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?

Qualified FRS members will be allowed to purchase up to 5 years of retirement credit for periods of non-FRS public employment, (including both in-state and out-of-state service), by payment of the actuarially required contributions.

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

This bill does not eliminate or reduce an agency or program, however, it does repeal an obsolete chapter of the Florida Statutes.

(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. Lower Taxes:

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. Personal Responsibility:

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

This bill will allow qualified members of the FRS to purchase up to 5 years of retirement credit for periods of non-FRS public employment (including both in-state and out-of-state service) by payment of the actuarially required contributions. Other qualified members may be allowed to upgrade certain service by payment of the actuarially required contributions.

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

Yes. The beneficiaries may only receive credit for this service if the actuarially required contributions are paid into the system. Provision is allowed for an employer to elect to pay any portion of the required contribution provided such payment is made prior to January 1, 1998.

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

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

This bill provides an option to qualified individuals to purchase or upgrade retirement credit by payment of the actuarially required contributions.

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

No.

5. <u>Family Empowerment:</u>

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?

This bill requires that an FRS member's beneficiary who is found guilty of unlawfully and intentionally killing the member, or pleads guilty or nolo contendere, must forfeit all rights to the deceased member's benefits.

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:

Please see the section-by-section analysis under II. B, Effect of Proposed Changes.

III. <u>FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT</u>:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. <u>Non-recurring Effects</u>:

Please see Fiscal Comments.

2. <u>Recurring Effects</u>:

Please see Fiscal Comments.

3. Long Run Effects Other Than Normal Growth:

   Please see Fiscal Comments.

4. Total Revenues and Expenditures:

   Please see Fiscal Comments.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

   Please see Fiscal Comments.

2. Recurring Effects:

   Please see Fiscal Comments.

3. Long Run Effects Other Than Normal Growth:

   Please see Fiscal Comments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

   Please see Fiscal Comments.

2. Direct Private Sector Benefits:

   Please see Fiscal Comments.

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

   Please see Fiscal Comments.

D. FISCAL COMMENTS:

According to the Division of Retirement, enacting the provisions in this bill will have minimal fiscal impact on the FRS. There will be some slight savings and costs resulting from the amendments in this bill as follows:

♦ There will be no cost to the system for allowing members of the ESCOC to choose to transfer to the SMSC and to then elect to participate in the Optional Annuity Program. If such members do change classes, their employers will pay lower retirement contributions with the amount of savings dependent on the subclass of the ESCOC from which they transfer. For the employers of Justices and Judges, there will be a 7.97 percent savings in contributions; for the employers of the Governor, Lt. Governor, Cabinet Officers, Legislators, State Attorneys, and Public Defenders, there will be a 1.49 percent savings in contributions;

and for the employers of county elected officers there will be a 5.75 percent savings in contributions.

- ♦ There will be a 4.81 percent increase in the employer contribution rate for any retiree reemployed with renewed membership in the SMSC instead of the Regular Class. Based on the ratio of SMSC members to Regular Class Members, the number of renewed members currently in the Regular Class whose position would be assigned to the SMSC would be less than 10 persons of the more than one-half million members of the FRS.

- ♦ Up to $300,000 of budget authority, annually, is requested to be appropriated from the Florida Retirement System Trust Fund to pay attorney's fees if ordered by the State Retirement Commission.

IV. <u>CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION</u>:

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 counties or municipalities 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. <u>COMMENTS</u>:

This bill complies with the requirements of Article X, Section 14 of the State Constitution and Chapter 112, Part VII, Florida Statutes.

This bill is being sponsored at the request of the Division of Retirement. It is important and necessary for the proper administration of the FRS.

COMMITTEE ON CIVIL JUSTICE & CLAIMS

Staff of the Committee on Civil Justice and Claims has reviewed CS/HB 905. The bill would delete ch. 123, F.S. This chapter establishes a retirement system for judges. However, because all members of the system have converted to other retirement plans, the chapter has become obsolete.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The Committee on Governmental Operations, at its March 27, 1997, meeting, adopted seven amendments that accomplish the following:

1. Provides that when buying creditable service for a period of suspension where the employee has been reinstated, payments to the trust fund will be based on the members monthly compensation in effect for the pay period immediately preceding the period of suspension.

2. Adds the word "nonsectarian" in three places to provide for the purchase of retirement credit for in-state public service and in-state service in accredited nonpublic, **nonsectarian** schools and colleges, including charter schools.

3. Provides additional conditions in order to purchase creditable service for authorized leaves of absence.

4. Adds the condition that to purchase up to five years of in-state or out-of-state public service, the service claimed must have been service covered by a retirement or pension plan provided by the employer.

5. Adds the Health Insurance Subsidy Trust Fund in addition to the Florida Retirement System Trust Fund as a fund to receive appropriate contributions.

6. Provides an option that employees of a dependent entity who are participating in a retirement plan provided by the dependent entity on July 1, 1996, may remain in that plan or participate in the Florida Retirement System and shall make such election in writing.

7. Provides that any elected state or county officer eligible for membership in the Elected State and County Officers' Class may elect to participate in the Senior Management Service Optional Annuity Program instead. Also provides that effective July 1, 1997, each local agency employer may, between July 1, 1997 and December 31, 1997, reassess its designation of positions for inclusion in the Senior Management Service Class, and may request removal from the class of any such positions that it deems appropriate. Such removal of any previously designated positions shall be effective on the first day of the month following written notification of removal to the division prior to January 1, 1998.

The original bill, as amended, was reported favorably as a committee substitute.

Committee on Civil Justice & Claims - The Committee on Civil Justice and Claims, at its April 14, 1997 meeting, adopted three amendments to CS/HB 905.

1. **Amendment #1** - Amendment #1 revises subsections (5) and (7) of s. 121.30, F.S. It provides that no benefit payable under chapter 121 shall exceed the maximum amount, *including cost of living adjustments*, allowable by law for qualified pension plans under the Internal Revenue Code. Currently, the statute does not specify that cost of living adjustments should be included in this calculation. In addition, the amendment provides that optional annuity or retirement programs must be construed and administered so as to achieve qualified status under the Internal Revenue

Code. Finally, amendment #1 authorizes the Division of Retirement to adopt rules to achieve the purpose of s. 121.30, F.S.

2. **Amendment #2** - This amendment repeals certain obsolete sections relating to judicial retirement.

3. **Amendment #3** - This amendment attaches the substance of HB 663 onto HB 905.

   a. **Summary** - This amendment creates a Deferred Retirement Option Program (DROP) for all Florida Retirement System (FRS) members. The DROP allows a member who reaches normal retirement date or age, or who first reaches normal retirement date or age prior to the effective date of this bill, to elect to participate in DROP. Any member who elects to participate in DROP within 12 months of this date, may effectively retire, have his or her retirement benefits credited to the DROP and deposited into the FRS Trust Fund to draw interest while continuing to work for a period not to exceed a maximum of 60 months following the date on which the member first reaches normal retirement age or date.

   b. **Present Situation** - There is no program such as the DROP available to FRS members at the present time. When a member retires the member must terminate all FRS employment and abide by the reemployment after-retirement limitations applicable during the first 12 months of retirement. After termination members will begin receiving their retirement benefits. Early retirement provisions are common features of private sector and many public sector pension plans. The FRS does not have a deliberate means of accommodating early retirement, although any vested member may elect to retire subject to the 5 percent annual penalty. Educational institutions and local governments often develop supplemental annuity contracts for their retiring employees regardless of their membership status with FRS. These contracts obligate local funds, and fall outside of the permitted choices within FRS.

   c. **Effect of Proposed Changes** - This amendment will allow FRS members to retire, and continue working and receiving a salary while accumulating an amount of money equal to up to 60 months of retirement benefits that can later be received as a lump-sum or in installments as an annuity. Positions that would have been vacated upon retirement will continue to be filled by the DROP participant for up to 60 months.

      (1) **Impact on the Division of Retirement** - A new program of services will have to be established by the Division of Retirement. This program will require additional resources and at least 12 months lead time prior to the effective date of DROP commencement.

      (2) **Calculation of Benefits** - At the time the member enters the DROP, his or her retirement benefit will be calculated based on the option selected, years of service, and average final compensation (AFC) as of that date, and the resultant monthly retirement benefit will be paid into DROP and credited to the member. After the member enters the DROP he or she is retired for the purposes of the FRS and therefore, should the member become disabled while in the DROP, the member will not be eligible to receive disability benefits from the FRS but will receive the annual benefit

determined when DROP was established, plus cost of living adjustments. If the member should die while participating in DROP, the member's beneficiary will receive the accrued value of the member's individual DROP account; however, the member's survivors would only be eligible for a survivor (continuing) benefit if the member had chosen option 2, 3, or 4 when he or she retired at the beginning of the DROP. In-line-of-duty survivor benefits are not payable to DROP participants. Options are provided for payment of DROP balances.

(3) **Impact on Employer Contributions** - Agency retirement contributions will be less for employers of members who elect to participate in the DROP. During the member's participation in DROP, the member's employer will pay to the Division a contribution rate of 11.56 percent to fund the costs of DROP. The retirement benefits paid into the DROP will be increased by a 3 percent cost of living adjustment each year.

(4) **Health Insurance Subsidy** - The Health Insurance Subsidy will not be included in the amount paid into the DROP account. The member will begin receiving the Health Insurance Subsidy only when the member ceases participation in DROP and begins receiving direct payment of retirement benefits.

d. **Fiscal Impact** - To administer this program the Division of Retirement will need 14 additional permanent employees, and 2 OPS employees on contract for one year. For budget year 1997-98 and 1998-99, $813,923 and $650,723 respectively will be required in additional appropriations from the FRS Trust Fund. These appropriations include salaries, benefits, and the standard expense and OCO package for employees, and increased annual computer resource charges at the Technology Resource Center. Other than administrative costs, this amendment will not result in any fiscal impact on the FRS.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

Prepared by:	Legislative Research Director:
Jimmy O. Helms	Jimmy O. Helms

AS REVISED BY THE COMMITTEE ON CIVIL JUSTICE & CLAIMS:

Prepared by:	Legislative Research Director:
Charles R. Boning	Richard Hixson