STORAGE NAME: h1069.go
DATE: March 15, 1999

HOUSE OF REPRESENTATIVES
COMMITTEE ON
GOVERNMENTAL OPERATIONS
ANALYSIS

BILL #: HB 1069

RELATING TO: Retirement Annuities/School Board

SPONSOR(S): Representative Betancourt

COMPANION BILL(S): SB 2236 (similar)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) GOVERNMENTAL OPERATIONS
(2) EDUCATION APPROPRIATIONS
(3)
(4)
(5)

I. SUMMARY:

District school boards may now purchase annuities for certain qualifying employees. Such annuities are intended to compensate those employees for retirement benefits which are reduced due to early retirement.

Often, the monthly benefit payment of such annuities is under $10, and results in an administrative inconvenience to district school boards. Also, when the present value of supplemental retirement annuities is calculated, they often have a present value of less than $5,000.

This bill permits those district school boards, at the discretion of the district school boards, and when the present value of the remaining nonforfeitable retirement benefits payable to school personnel do not exceed $5,000, to pay such school personnel (or their beneficiaries) lump-sum amounts equal to the present value of those benefits, in lieu of purchasing annuities.

This bill provides that the present value of a benefit would be calculated using the applicable mortality table and “applicable interest rate” prescribed in s. 417(e)(3), of the Internal Revenue Code, and the interest rate which would be used by the Pension Benefit Guaranty Corporation.

There appears to be no significant fiscal impact on either state or local governments..

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

There are occasions when district school board personnel, and district school boards (boards) agree that such employees may take advantage of retirement provisions allowing retirement as early as at age 50, and with 25 years of service. There is a retirement benefit penalty for such early retirements, but statute permits boards to provide annuities intended to compensate for reductions in retirement benefit income. There are often a variety of annuity options offered, which may complement the regular retirement options elected by employees.

Boards are authorized to purchase annuities for all school personnel with 25 or more years of creditable service, who have reached 50 years of age, and who have applied for retirement under the Florida Retirement System (FRS).

The boards may also purchase such annuities for school personnel who have reached 55 years of age, and have applied for retirement under plan E of the Teachers' Retirement System (TRS).

The boards may also purchase annuities for members of the FRS with certain out-of-state teaching service.

All such annuities purchased by boards for any of the above personnel must comply with s. 14, Art. X, Florida Constitution, which requires a provision for funding for any state retirement benefit supported by public funds, and that it be provided on a sound actuarial basis.

According to representatives of the Dade County School Board, the monthly payments on such annuities may be as small as $3. Although most of these annuities are administered by third party providers, the boards also find their responsibilities to be inconvenient.

B. EFFECT OF PROPOSED CHANGES:

Boards may, at their discretion, have additional options to the existing purchase of annuities, as noted in A. PRESENT SITUATION. Specifically, if at any time the present value of the remaining nonforfeitable retirement benefits payable to such school personnel does not exceed $5,000, the board may pay such personnel a lump-sum amount equal to the present value of those benefits, in lieu of purchasing an annuity.

The present value of any benefit will be calculated using the applicable mortality table and "applicable interest rate" prescribed by s. 417(e)(3) of the Internal Revenue Code of 1986 (or any successor thereto).

The "applicable interest rate" is the interest rate which would be used by the Pension Benefit Guaranty Corporation as of the date of the distribution.

This bill provides for an effective date of upon becoming a law.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

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?

Yes. This bill entitles school employees to a fiscal retirement option not currently available.

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

Not applicable.

(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?

No.

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

No.

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

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

Yes. Retirees, or their beneficiaries may receive lump-sum amounts in lieu of small, protracted payments.

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:

Not applicable.

(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:

(1) parents and guardians?

No.

(2) service providers?

No.

(3) government employees/agencies?

Yes. This bill provides the discretion of paying the lump-sum amount to the boards.

D. STATUTE(S) AFFECTED:

Amends s. 231.495, F.S.

E. SECTION-BY-SECTION ANALYSIS:

See IIB., EFFECT OF PROPOSED CHANGES.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

No direct impact on state funds.

2. Recurring Effects:

No direct impact on state funds.

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:

The impact on local governments (local boards), is unknown, but it appears to be negligible

2. Recurring Effects:

Unknown, but effects appear to be negligible.

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

Unknown. It is possible that there may be some lost revenue to plan providers, insurance companies, and companies providing other employee investment opportunities.

2. Direct Private Sector Benefits:

None.

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

None.

D. FISCAL COMMENTS:

None.

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 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. COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

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