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DATE: February 3, 2000

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
GOVERNMENTAL OPERATIONS
ANALYSIS**

BILL #: PCS/HB 235

RELATING TO: FRS/Vested After 5 Years

SPONSOR(S): Committee on Governmental Operations, Representative Lawson and others

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) GOVERNMENTAL OPERATIONS
 - (2) GENERAL APPROPRIATIONS
 - (3)
 - (4)
 - (5)
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I. SUMMARY:

Effective July 1, 2001, PCS/HB 235 will change the period of service required for a member to become vested (entitled to a benefit) under the Florida Retirement System from 10 years to 5 years. This applies to all active members in all classes of membership within the Florida Retirement System.

There will be a cost to state and local government employers to fund this benefit improvement which will require a contribution rate increase [**See Section III., Fiscal Analysis and Economic Impact Statement, For Recommended Rate Adjustments And Resulting Dollar Costs**].

This PCS provides for contribution rate increases to fund the reduction in vesting requirements on a sound actuarial basis as required by Article X, Section 14, of the State Constitution and also includes a legislative determination and declaration that the provisions of the PCS fulfill an important state interest.

- ☛ Special Risk Class 10 years of special risk service and age 55
25 years of special risk service and age 52 (may include up to 4 years' military service)
25 years of special risk service, regardless of age
30 years of any creditable service, regardless of age (may include up to 4 years' military service)
- ☛ Special Risk Administrative Support Class Requirements for Special Risk Class apply to service in this class if member has 10 years' special risk service; otherwise requirements for Regular Class apply.
- ☛ Elected Officers' Class 8 years of EOC service and age 62
10 years of any creditable service and age 62
30 years of any creditable service, regardless of age (may include up to 4 years' military service)
- ☛ Senior Management Service Class 7 years of SMSC service and age 62
10 years of any creditable service and age 62
30 years of any creditable service, regardless of age (may include up to 4 years' military service)

FRS member profiles (service and age): In 1998, the average FRS member had 11.1 years of service and was 44.7 years of age. About 64.2% of the membership was over age 40 and only 8.6% were under age 30. Based on the June 30, 1999, profile of FRS members, we find that:

- ☛ The FRS has 591,916 active members and records for about 1.2 million inactive (terminated) members.
- ☛ About 271,357 of the FRS active members (46%) are vested.
- ☛ About 42,562 of the inactive members (4%) are vested and could retire at a later date. An unknown number of the remaining 1.1 million inactive members will return to work and earn sufficient service credit to vest in the future.
- ☛ Of the 320,559 active members who are not vested (54%), 237,196 members (74%) have from 2 to 9+ years of service, while 83,363 members (26%) have less than 2 years of service.
- ☛ Of those who are not vested, about 132,999 (41%) have between 5 and 10 years of service. The average annual salary for a member having from 5-10 years of service is \$27,579.
- ☛ With the adoption of 5-year cliff vesting for the FRS, as proposed by PCS/HB 235, approximately 68% of the FRS active membership would be vested.

Short service employees in the FRS (those who don't work long enough to vest) currently get no retirement benefit. A shorter vesting period tends to benefit younger, more mobile employees who may switch jobs several times over the course of their working lives. It also tends to make a retirement plan more competitive and makes it easier for employers to recruit qualified employees.

C. EFFECT OF PROPOSED CHANGES:

This proposed committee substitute changes the vesting requirements for the FRS to allow all members to vest earlier. Members will qualify to receive a future benefit upon completing 5 years of creditable service. This PCS makes necessary changes wherever they occur in the statutes to change vesting requirements to five years.

This PCS also provides for contribution rate increases to each class of the Florida Retirement System to properly fund the costs of the reduction in vesting requirements. It also includes a legislative determination and declaration that the provisions of the PCS fulfill an important state interest.

If this legislation becomes law, 132,999 additional active FRS members with at least 5 but less than 10 years of service would immediately be vested (another 22% of the FRS active membership). As a result, approximately 68% of the active FRS membership would be vested. This should make it easier for FRS participating employers to recruit new employees by making the Florida Retirement System more attractive to new hires and more competitive with private sector employers (who, by federal law, must allow their employees to vest in 5 years or less, or in 7 years with graded vesting).

The primary impact of this bill on the Division of Retirement would be an increased workload. Part of this added workload would be temporary, resulting from the changes required in agency computer programs, publications, forms, and other documents to implement the changeover. Part of the increased workload would be ongoing, due to greater numbers of eligible potential retirees.

D. SECTION-BY-SECTION ANALYSIS:

Please See Section II.C, Above, Effect of Proposed Changes.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None

2. Expenditures:

To properly fund the cost of this bill, a contribution rate increase will be necessary for each class/subclass of membership in the FRS, as required by Article X, Section 14, of the State Constitution.

Based on the contribution rate increases recommended in Actuarial Special Study 99-1(A), the contribution rates for the membership classes and subclasses of the FRS must be increased by the following percentage amounts:

	Current Rate	Added Cost	Projected Rate
Regular Class	9.21%	0.49%	9.70%
Special Risk Class	20.22%	0.76%	20.98%
SR Admin. Supp. Class	11.53%	0.27%	11.80%
Elected Officers Class:			
Judicial	20.48%	0.41%	20.89%
Leg-Atty-Cabinet	14.31%	0.72%	15.03%
County	17.05%	0.37%	17.42%
Senior Mgmt. Serv. Class	11.19%	0.27%	11.46%

The following Fiscal Impact on State Agencies will be associated with the rate increases described above.

Amount	Amount	Amount
Year 1	Year 2	Year 3
<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
\$24,892,000	\$26,137,000	\$27,444,000

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

The following Fiscal Impact on Local Governments will be associated with the rate increases described in Section III.A.2.

Amount	Amount	Amount
Year 1	Year 2	Year 3
<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>
\$74,220,000	\$77,931,000	\$81,828,000

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

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

A. APPLICABILITY OF THE MANDATES PROVISION:

This PCS provides for increases in employer contribution rates to fund the provisions of the bill on a sound actuarial basis and, therefore, cities and counties will be required to spend money or take action requiring the expenditure of money. The potential mandate on local governments may qualify for a Type A Mandate Exception, which would remove the bill from super-majority voting requirements, in that it applies to all similarly-situated persons and provides a formal legislative determination and declaration that the PCS fulfills an important state interest.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This PCS does not reduce the authority of counties and municipalities to raise revenues.

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

This bill does not reduce the total aggregate percentage share of a state tax shared with counties and municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

It is not anticipated that the Division of Retirement will need additional rule-making authority to administer the provisions of this legislation.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

Prepared by:

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