

STORAGE NAME: h0635.go

DATE: February 9, 2000

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

BILL #: HB 635

RELATING TO: The Florida Retirement System

SPONSOR(S): Representative Pruitt

TIED BILL(S):

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

- (1) GOVERNMENTAL OPERATIONS
 - (2) GENERAL APPROPRIATIONS
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

This bill revises the calculation of the average final compensation (AFC) from the highest 5 fiscal years' salaries to the highest 3 fiscal years' salaries for municipal, county, and fire control district firefighters enrolled in the Florida Retirement System (FRS). No other Special Risk members are included in this bill.

This bill does not comply with Article X, Section 14 of the Florida Constitution and Chapter 112, Part VII, Florida Statutes, requiring that improvements of retirement benefits be actuarially funded.

This bill is effective upon becoming law.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Florida Statutes, section 121.021(24), defines "average final compensation" as the average of the 5 highest years of compensation for creditable service prior to retirement, termination or death. Upon retirement, the average of the 5 highest years of compensation applies to any member of the Florida Retirement System, in accordance with section 121, Florida Statutes.

C. EFFECT OF PROPOSED CHANGES:

This bill amends section 121.021(24) and redefines average final compensation from the highest 5 fiscal years' salaries to the highest 3 fiscal years' salaries for municipal, county and fire control district firefighters enrolled in the Florida Retirement System.

This revision has a positive effect on the retirement benefits that municipal, county, and fire district firefighters participating in the Florida Retirement System will receive. The percentage increase of the retirement benefit increases if the member earns a substantial salary increase at the end of the member's career.

Five other states have retirement systems with a 3-year AFC that are used for comparison purposes. Those systems with a 3-year AFC are: the California State Teachers' Retirement System, the New York State Teachers' Retirement System, the Ohio State Teachers' Retirement System and the Texas Teachers' Retirement System. In addition, the California Public Employees' Retirement System has a 1-year AFC. According to the 1997 Survey of State and Local Government Employee Retirement Systems, sponsored by the Public Pension Coordinating Council, there are 47 statewide retirement systems that provide an average final compensation period of 3 years or less.

D. SECTION-BY-SECTION ANALYSIS:

This section need be completed only in the discretion of the Committee.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None because the changes proposed by this bill are not funded.

2. Expenditures:

There will be an increase in cost to the system to provide this benefit improvement. This bill does not include a contribution rate increase. Based on Special Study 99-1(B) a 3-year AFC for all Special Risk Class members would require a contribution rate increase of 2.65%.

The Division of Retirement would require additional funding for the increase in personnel and resources required to administer this additional benefit.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None because the changes proposed by this bill are not funded.

2. Expenditures:

This bill does not include a contribution rate increase to provide for this improvement. Based on Special Study 99-1(B), a 3-year AFC for all Special Risk Class members would require a contribution rate increase of 2.65%.

The actual amount of the expenditures is unknown as this bill provides this benefit only to municipal, county, and fire control district firefighters who participate in the FRS. This bill does not include funding and additional actuarial studies would have to be performed to ascertain more specific amounts of expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

This bill does not provide funding as required by the Florida Constitution and the Florida Statutes to implement a 3-year AFC for municipal, county, and fire control district fire fighters who participate in the Florida Retirement System.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not comply with the requirements of Article X, Section 14 of the Florida Constitution and Chapter 112, Part VII, Florida Statutes, requiring that improvement of retirement benefits be actuarially funded. In order to comply, the retirement contribution rates for the Special Risk Class, of which the firefighters belong, would have to be increased by 2.65%, as determined by Special Study 99-1(B).

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

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

N/A

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

See section IV.A. above.

B. RULE-MAKING AUTHORITY:

N/A

C. OTHER COMMENTS:

The effective date does not provide enough time for the Division of Retirement to make the appropriate changes. The entire reporting and calculating programs must be revised because only a small class of the Special Risk members will be affected.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON GOVERNMENTAL OPERATIONS:

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