

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.)

BILL: CS/SB 812

SPONSOR: Governmental Oversight and Productivity Committee and Senator Klein

SUBJECT: Florida Retirement System

DATE: March 15, 2000 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>FP</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The bill permits the purchase of wartime service credit by members of the Florida Retirement System (FRS) under its more favorable repurchase conditions.

This bill amends s. 121.111 and creates an undesignated section of the Florida Statutes, to be later incorporated within the retirement rate tables contained in ss. 121.052, 121.055, and 121.071, F.S.

II. Present Situation:

The FRS is a multi-employer, defined benefit retirement plan providing annuitized pension coverage for the some 600,000 active and 175,000 retired employees and covered dependents of its 800 state, county, municipal, and special district employer-members.

The plan permits the purchase of prior service credit from other public and private sector plans provided the periods of covered employment were included within a pension plan. The purchase of prior service credit is generally at the behest of the employee who must bear the cost in arrears at a compound interest rate charge of 6.5 percent per annum. Military service credit may be claimed for up to four years and wartime service receives a preferred repurchase interest rate of 4 percent per annum from July 1, 1945 until July 1, 1975 and 6.5 percent per annum thereafter. No credit may be claimed for dual eligibility such that an employee may receive two retirement system benefit payments for the same service period.

Chapter 1, F.S., specifies the wartime service periods upon which ch. 121, F.S., calculates its benefits. Section 121.111, F.S., currently permits prior wartime service purchase *only* when initial FRS employment occurs *prior* to January 1, 1987. The member otherwise must be vested and the prior service credit may be claimed only at the Regular Class accrual rate, or, 1.6 percent per year.

III. Effect of Proposed Changes:

The bill permits purchase of wartime service as additional years of employment for members of the FRS employed after January 1, 1987. The bill increases employer payroll contribution rates to fund the benefit and directs the submission of a subsequent reviser's bill to amend the rate tables in ch. 121, F.S.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

The Division of Retirement advises that provisions of other federal law require that service credit be awarded in such a manner as to not establish a preference for wartime or peacetime service.

The applicant must pay for the claimed service at the predetermined statutory rate. Nonetheless, the rates charged for the service repurchase, as with all other types of repurchase credit, are subsidized such that the cost recovery is partially borne by the normal cost rate. This results in additional payroll contributions being required from each participating FRS employer.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The nominal incidence of cost is borne primarily, but not exclusively, by the employee who must separately apply and pay for the recognition of the service period.

B. Private Sector Impact:

The cost is borne nominally by the employee, although provision is made for alternative payment by individual employers. It is not possible to determine how many individuals will avail themselves of this benefit although the direction of impact would suggest that a sustained reduction in the number of active uniformed military personnel will make utilization of this benefit consistent with that decline.

C. Government Sector Impact:

Amounts remitted to the FRS Trust Fund must be sufficient to fully fund the enhanced benefit in compliance with Art. X, s. 10 of the State Constitution and Part VII of ch. 112, F.S.

Military service also may be claimed for repurchase under s. 1231.1115, F.S., as out-of-state or federal service but the interest rate in arrears will be set at 6.5 percent per annum with an imputed minimum annual salary of \$12,000. For service dates prior to 1975, when the FRS was a contributory plan, the applicant must also bear a 4 percent salary co-payment.

On October 27, 1999 the consultant actuarial firm to the FRS issued an impact analysis of such a proposal. That analysis concluded additional payroll contribution rate increases would be required to fully fund the benefit, as follows:

- Regular Class, .03 percent
- Senior Management Services Class, .06 percent
- Special Risk, Regular, .05 percent
- Special Risk, Administrative Support, .08 percent
- Judges, .04 percent
- Cabinet/ Legislator/Attorney, .02 percent
- County Elected Officers, .03 percent

The contribution rate increase would cost \$6,216,000 for FY 00-01(\$1,582,000 for state agencies and \$4,634,000 for local government agencies). These amounts would rise to \$6,527,000 and \$6,853,000 in FYs 01-02 and 02-03, respectively.

VI. Technical Deficiencies:

None.

VII. Related Issues:

Neither the current law nor this bill requires that an individual have served in a combat theater or been involved in active operations against an aggressor, regardless of any congressional declaration of war. Current law simply recognizes that all persons in service between the enumerated dates are eligible for repurchase credit, at their initiative and expense.

The engrossing of these changes within existing s. 121.111, F.S., would assure that a person discharged under less than honorable conditions would not be eligible for the repurchase, a restriction now provided explicitly by s. 1.01(14), F.S.

VIII. Amendments:

None.

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