SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 1298

SPONSOR: Senator Lawson

SUBJECT: Florida Retirement System

DATE: April 13, 2001 REVISED: 04/17/01

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wilson	Wilson	GO	Fav/1 amendment
2.			AGG	
3.			AP	
4.				
5.				
6.				

I. Summary:

This bill applies the 3 percent fixed cost-of-living adjustment payable annually to retirees from the Florida Retirement System to those inactive members with vested rights who have not yet drawn benefits. The bill in its amended form also provides a funding mechanism and a declaration of important state interest.

This bill amends s. 121.091 of the Florida Statutes.

II. Present Situation:

The Florida Retirement System (FRS) is a defined benefit (DB), non-participatory, multi-employer pension plan covering the employees, survivors, and dependents of some 800 Florida state agency and local government employers. It offers a monthly benefit payable in the form of an annuity over a retiree's lifetime that is calculated as a percentage of the highest five years' of a member's average final pay. The FRS is composed of several sub-classes of membership with separate benefit accrual rates: Regular (1.60 percent-1.68 percent); Special Risk (3.00 percent); Special Risk, Administrative Support (1.6 percent); Senior Management (2.0 percent); Justices and Judges (3.33 percent); and Elected Officers (3.0 percent).[1] Normal, unreduced retirement occurs at the earlier completion of 30 years of service or age 62, or 25 years of service and age 55 for the two special risk classes. Members must satisfy minimum service periods in order to qualify, or vest for benefits. Effective July 2001, the three separate vesting periods of 7, 8, and 10 years will be collapsed into one uniform 6-year period.

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[1] Accrual rate is the pension value per year of creditable service. Accrual rate multiplied times total creditable service length in years multiplied times average final compensation (inclusive of up to 500 hours of annual leave) equals an Option 1 benefit for the life of the named retiree only. There are three other reduced payment options that incorporate survivors' benefits.

Incorporated within the DB plan is a disability retirement provision that provides in-line-of-duty and non-duty retirement payments.

The FRS is a predominantly local government plan with state officers and employees comprising only about 25 percent of the total membership. The other principal employer categories are district school boards, counties, and community colleges. Membership is compulsory for state agencies and constitutional entities. Municipalities and independent special districts may participate as optional members upon resolution of their governing authorities. Withdrawal of optional membership can be effected only by statute and was last done in 1995 for public hospitals.

Benefit administration is the responsibility of a state agency, the Division of Retirement in the Department of Management Services. Investment activities are conducted by a constitutional agency, the State Board of Administration, headed by the Governor, Comptroller, and Treasurer in their collegial capacity as Trustees of the Florida Retirement System. Article X, s. 14, State Constitution, provides that all public pension plans in the State of Florida must fund promised benefits in advance in a sound actuarial manner.

The FRS was created in 1970 as the successor benefit plan to the separate Teachers' Retirement System, Highway Patrol retirement plan, and State and County Officers' and Employees Retirement System. The predecessor teachers' plan was approaching insolvency and its combination with the other solvent plans rescued it from collapse. In 1972 the FRS incorporated the last independent state retirement plan, the Judicial Retirement System. Today it covers about 600,000 active employees and nearly 200,000 retirees. Active members may choose to participate in a Deferred Retirement Option Program (DROP) during the last five years of their service.[2] Under its provisions participants have their monthly pension benefit paid into an interest bearing account. Upon termination of employment they receive the additional options of a full or partial lump sum payment of that amount plus its accrued 6.5 percent interest or they may transfer the account balance tax-free into a qualified retirement plan.

Retired members receive a 3 percent fixed cost-of-living allowance each July 1 on their monthly benefit. Members who have terminated employment with vested rights, that is, the right to receive a benefit, do not have these benefits indexed to inflation until commencement of pension payments. State of Florida employees have the option of maintaining their health insurance coverage at retirement at full cost less a monthly Health Insurance Subsidy payment equal to $5 per month per year of service, not to exceed $150.

III. Effect of Proposed Changes:

Section 1. The bill amends s. 121.091, F.S., to apply the 3 percent annual cost-of-living benefit adjustment to the benefit due to inactive members with vested rights.

Section 2. The bill is effective July 1, 2001.

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[2] Participation in DROP requires the member to qualify for normal retirement. Retirees seeking early benefits incur a 5 percent per year penalty measured from age 55/age 62 and are barred from participation.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Article VII, s. 18, State Constitution, provides authority to counties and municipalities for them to legally refuse to be bound by a general law. Generally, the provision requires funding of all legislative mandates on units of local government unless one or more enumerated circumstances is found to be present. A declaration in a general law of an important state interest is usually sufficient to overcome the invalidation. In its present form SB 1298 does not contain this declaration.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

Article X, s. 14, State Constitution, requires that all public sector pension plans in the State of Florida prefund their benefits in a sound actuarial manner. To be in compliance with that provision SB 1298 will have to include a funding mechanism sufficient to pay the promised benefits.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Employees who have terminated their active employment with an FRS employer will have those benefits indexed to inflation by a maximum 3 percent per annum under this bill.

C. Government Sector Impact:

On March 30, 2001, the Department of Management Services provided an estimate from its own Division of Retirement professional staff and external consulting actuary on the fiscal impact of the bill, as follows:

Impact of Indexing Benefits for Vested Terminated Members Who Defer Retirement for 10 or 20 Years from Termination Date

Member	Years of Benefit Deferral	AFC At Termination	AFC Indexed	Annual Benefit Now	Indexed Benefit	Monthly Benefit Now	Indexed Monthly Benefit
1	0	$ 29,472	$ 29,472	$ 4,716	$ 4,716	$ 393	$ 393
2	10	$ 21,574	$ 28,994	$ 3,452	$ 4,639	$ 288	$ 387
3	20	$ 10,666	$ 19,264	$ 1,707	$ 3,082	$ 142	$ 257

The Department further reports that as of June 30, 2000, 49,016 inactive members had vested and terminated their FRS-covered employment. Another 125,317 active non-vested employees were also on FRS payrolls. Many of them will vest on July 1, 2000, under the 6-year uniform vesting provisions of ch. 2000-169, L.O.F.

The DMS is unable to further estimate the impact of funding this bill due to the absence of a specific actuarial impact statement.

VI. Technical Deficiencies:

As noted, above, the deficiencies stem from the absence of necessary funding and important state interest provisions to bring the bill into constitutional compliance.

It is possible to overcome the funding deficiency noted above by inclusion of a statement obligating future FRS surplus amounts and allocating them to the benefit enhancement provided in this bill.

VII. Related Issues:

The indexed benefits provision was contained in CS/SB 356 in the 1999 Session, a predecessor bill to the optional retirement plan for public employees enacted by the 2000 Legislature.

VIII. Amendments:

#1 by Governmental Oversight and Productivity Committee:
Includes a declaration of important state interest and provides a funding mechanism, to include an assessment of a yet to be determined portion of the available actuarial surplus of the Florida Retirement System Trust Fund. The effective date of the benefit changed is delayed one year until, July 1, 2002. (WITH TITLE AMENDMENT)