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DATE: March 27, 2001

HOUSE OF REPRESENTATIVES
FISCAL RESPONSIBILITY COUNCIL
ANALYSIS

BILL #: HB 1821
RELATING TO: Retirement Contribution Rates
SPONSOR(S): Fiscal Responsibility Council and Representative Murman

TIED BILL(S):

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

- (1) FISCAL RESPONSIBILITY COUNCIL YEAS 21 NAYS 0
 - (2)
 - (3)
 - (4)
 - (5)
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I. SUMMARY:

This legislation establishes the retirement contribution rates for each class and subclass of the FRS defined benefit program at the normal cost as determined by the FRS's consulting actuary. However, this legislation reduces those rates by recognizing a portion of the excess actuarial assets of the FRS Trust Fund. These reductions are intended to fund the portion of the increase in normal costs attributable to the 1999 experience study and the 2000 Actuarial Valuation. In addition, the rates are reduced by 2.6 percentage points in order to reduce the overall personnel costs incurred by employers participating in the FRS. This 2.6 percentage point reduction includes the continuation of the 1.0 percentage point reduction from FY 2000-01.

This legislation sets the contribution rate to be paid into each SUS ORP participant's account at 10.43%, the rate applicable in FY 2000-01. Any modification of this rate would be required by general law, rather than shifting up and down with the normal cost of the Regular Class of the FRS defined benefit program.

The revenues flowing into the FRS Trust Fund will be reduced by approximately \$528.3 million in FY 2001-02. This reduction is the result of the across-the-board 2.6 percentage point contribution rate reduction authorized in this legislation. Of this \$528.3 million, state agencies will benefit by approximately \$131.6 million and local governments (counties, school districts, cities, special districts and community colleges) will benefit by approximately \$396.8 million.

SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- 1. Less Government Yes No N/A
- 2. Lower Taxes Yes No N/A
- 3. Individual Freedom Yes No N/A
- 4. Personal Responsibility Yes No N/A
- 5. Family Empowerment Yes No N/A

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

B. PRESENT SITUATION:

Chapter 121, Florida Statutes, creates the Florida Retirement System (FRS) for the purpose of providing retirement benefits to employees and officers of the state, all counties, all school districts, and certain cities and special districts. To fund these retirement benefits, each participating employer pays a contribution to the Florida Retirement System Trust Fund based on a statutory percentage of each employee's gross monthly income.

In 1984, the Legislature enacted the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Act to provide a supplement to the monthly retirement benefit of retirees of the IFAS at University of Florida who receive a benefit under the Federal Civil Service Retirement System. The supplement is intended to compensate certain IFAS employees for the difference between their federal retirement benefit and the benefits an FRS employee receives. The contribution rates to be paid by the employer are set by statute to fund these supplements.

The FRS also has a defined contribution program for certain State University System employees. Rather than participating in the FRS defined benefit program, these employees participate in the SUS optional retirement program (SUS ORP). As an SUS ORP participant, these employees receive a contribution into their retirement accounts equal to the normal cost portion of the retirement contribution rate paid on behalf of Regular Class members of the FRS defined benefit program plus the amount paid for the Retiree Health Insurance Subsidy (HIS). For FY 2001-02, the normal cost of the Regular Class is 9.49%, and the HIS contribution is 0.94% of the employee's gross monthly salary.

Based on the 2000 Actuarial Valuation of the Florida Retirement System, the normal costs of each class or subclass and the IFAS Supplemental Retirement Program are:

Regular Class	9.91%
Special Risk Class	22.07%
Special Risk Admin. Support Class	12.55%
Elected Officers' Class – Judicial Subclass	20.61%
Elected Officers' Class – Leg.-Atty.-Cab. Subclass	15.14%
Elected Officers' Class – County	17.61%
Senior Management Service Class	11.73%
IFAS	6.96%

C. EFFECT OF PROPOSED CHANGES:

This legislation establishes the retirement contribution rates for each class and subclass of the FRS defined benefit program at the normal cost as determined by the FRS's consulting actuary. However, this legislation reduces those rates by recognizing a portion of the excess actuarial assets of the FRS Trust Fund. These reductions are intended to fund the portion of the increase in normal costs attributable to the 1999 experience study and the 2000 Actuarial Valuation. In addition, the rates are reduced by 2.6 percentage points in order to reduce the overall personnel costs incurred by employers participating in the FRS. This 2.6 percentage point reduction includes the continuation of the 1.0 percentage point reduction from FY 2000-01.

This legislation sets the contribution rate to be paid into each SUS ORP participant's account at 10.43%, the rate applicable in FY 2000-01. Any modification of this rate would be required by general law, rather than shifting up and down with the normal cost of the Regular Class of the FRS defined benefit program.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 amends s. 121.052, F.S., to increase the contribution rate for the subclasses of the Elected Officers' Class to the respective normal costs as determined by the consulting actuaries of the FRS.

Section 2 amends s. 121.055, F.S., to increase the contribution rate for the Regular Class, the Special Risk Class and the Special Risk Administrative Support Class to the respective normal costs as determined by the consulting actuaries of the FRS.

Section 3 amends s. 121.071, F.S., to increase the contribution rate for the Senior Management Service Class to the respective normal costs as determined by the consulting actuaries of the FRS.

Section 4 amends s. 121.040, F.S., to increase the contribution rate for the Institute of Food and Agricultural Sciences Supplemental Retirement program to the normal cost as determined by the consulting actuaries of the FRS.

Section 5 amends s. 121.35, F.S., to set the contribution rate for participants in the SUS ORP at 10.43% of gross monthly salary.

Sections 6 and 7 reduce the retirement contribution rates for selected classes and subclasses of the FRS defined benefit program and recognize a portion of the excess actuarial assets of the FRS Trust Fund to fund the cost of these rate reductions.

Section 8 repeals subsection (2) of section 20 of chapter 2000-169, Laws of Florida, relating to increasing retirement contribution rates.

Section 9 provides a legislative finding that the act fulfills an important state interest.

Section 10 provides that this act shall take effect July 1, 2001.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The revenues flowing into the FRS Trust Fund will be reduced by approximately \$528.3 million in FY 2001-02. This reduction is the result of the across-the-board 2.6 percentage point contribution rate reduction authorized in this legislation.

2. Expenditures:

Florida Retirement System Trust Fund

While the legislation does not expend additional funds from the FRS Trust Fund, the legislation does direct the state actuary to "recognize" a portion of the excess actuarial assets to offset the costs associated with the 1999 experience study, the 2000 Actuarial Valuation and the 2.6 percentage point reduction in contribution rates.

State Agency Funds

State agencies will enjoy a reduction in retirement costs associated with the 2.6 percentage point reduction. This reduction in retirement costs is estimated to be approximately \$131.6 million in state funding for FY 2001-02.

State agencies will also enjoy a cost savings of \$37 million in FY 2001-02 through the recognition of a portion of the excess actuarial assets of the FRS Trust Fund to offset the normal cost increases associated with the 1999 experience study and the 2000 Actuarial Valuation.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

Local governments (counties, school districts, cities, special districts and community colleges) will enjoy a reduction in retirement costs associated with the 2.6 percentage point reduction. This reduction in retirement costs is estimated to be approximately \$396.8 million in local funding for FY 2001-02.

Local governments will also enjoy a cost savings of \$111.3 million in FY 2001-02 through the recognition of a portion of the excess actuarial assets of the FRS Trust Fund to offset the normal cost increases associated with the 1999 experience study and the 2000 Actuarial Valuation.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

Article VII, Section 18, of the Florida Constitution, excuses local governments from complying with state mandates which impose additional fiscal burdens. Section (a) provides, "No county or municipality shall be bound by any general law requiring such county or municipality to spend funds or to take an action requiring the expenditure of funds" unless certain requirements are met. However, several exemptions and exceptions exist.

This bill requires participating cities and counties to expend additional funds because it will require them to make higher FRS contributions in FY 2002-03 and thereafter (absent other legislative action). However, subsection (a) contains an exception for laws which fulfill an important state interest and which apply to all persons similarly situated. This bill provides a determination and declaration of important state interest and treats all similarly situated FRS employers in the same manner. Thus, the bill meets the exception requirements of Art. VII, Section 18, of the Florida Constitution.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities and counties 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 and municipalities.

IV. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

V. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

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VI. SIGNATURES:

FISCAL RESPONSIBILITY COUNCIL:

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