

HOUSE OF REPRESENTATIVES LOCAL BILL STAFF ANALYSIS

BILL #: HB 605 Orlando Police Dept. Pension Fund
SPONSOR(S): Gardiner
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Local Affairs (Sub)</u>	<u>9 Y, 0 N</u>	<u>Nelson</u>	<u>Highsmith-Smith</u>
2) <u>Local Government & Veterans' Affairs</u>	<u>14 Y, 0 N</u>	<u>Nelson</u>	<u>Highsmith-Smith</u>
3) <u>State Administration</u>	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

SUMMARY ANALYSIS

This bill relates to the Orlando Police Department Pension Fund. It redefines credited service to include both full and fractional years of service, provides for a change in computation of monthly pension for members, provides for reinstatement into the pension plan for members who retire and become reemployed as sworn members, and provides a Deferred Retirement Option Plan (BACKDROP).

The bill has no impact on state revenues. According to the Economic Impact Statement, 98 percent of the increased cost of improved benefits will be paid by additional employee contributions; it is estimated that the measure will require an additional \$24,000 of local government funding in FY 2003-2004 and \$25,000 in FY 2004-2005.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|---|-----------------------------|---|
| 1. Reduce government? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. Lower taxes? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 5. Empower families? | 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. EFFECT OF PROPOSED CHANGES:

This bill amends chapter 22414, Laws of Florida (1943), as amended, relating to the Orlando Police Department Pension Fund. It redefines credited service to include both full and fractional years of service, provides for a change in computation of monthly pension for members, provides for reinstatement into the pension plan for members who retire and become reemployed as sworn members, and provides a Deferred Retirement Option Plan (BACKDROP).

Present Situation

The City of Orlando Police Department Pension Plan was created by chapter 22414, Laws of Florida (1943); and has been subsequently amended.

Current Law

Constitutional Provision/Public Retirement and Pensions

S. 14, art. X of the State Constitution, provides that a governmental unit responsible for any retirement or pension system supported wholly or partially by public pension funds may not after January 1, 1977, provide any increase in benefits to members or beneficiaries unless concurrent provisions for funding the increase in benefits are made on a sound actuarial basis.

Chapter 112, Florida Statutes

Part VII, chapter 112, F. S. the "Florida Protection of Public Employee Retirement Benefits Act," was adopted by the Legislature to implement the provisions of s. 14, art. X of the State Constitution. This law establishes minimum standards for operating and funding public employee retirement systems and plans.

Chapter 185, Florida Statutes

Chapter 185, F.S., provides the statutory authority for municipal police pensions. This act was established by the Legislature to provide a uniform retirement system for the benefit of police officers; retirement systems or plans are to be managed, administered, operated and funded in such a manner as to maximize the protection of the police officers' retirement trust funds. The State Division of Retirement is responsible for the daily oversight and monitoring for actuarial soundness of the retirement plans.

C. SECTION DIRECTORY:

Section 1: Chapter 22414, Laws of Florida (1943) is amended to define participants in the Orlando Police Department Pension Fund as those certified law enforcement officers employed on a permanent, full-time basis. Provides that participation in the Fund for said individuals is mandatory.

Provides that retirement under the plan shall be effective the first day of the month following the last day the member is in active pay status (or effective date of retirement for a BACKDROP Retirement Option Plan participant).

Section 2: Provides that for purposes of benefit calculation, "year of service" shall include both full and fractional years of service.

Provides that any member who is employed on or after July 1, 2003, may retire after 20 years and receive a pension of an amount equal to 70 percent of his average monthly salary.

Provides that members with more than 20 years active service additionally will receive two percent of their average monthly salary for each full year of service, limited to five years of additional service.

Section 3: Provides that a person who has retired and is reemployed as a sworn member of the Police Department shall be reinstated as a participant in the pension plan and will not be entitled to any pension benefit payment during the period of reemployment. Upon subsequent termination of employment, the member will be entitled to a recalculated pension payment.

Section 4: Provides for the BACKDROP Retirement Option Plan to allow any eligible member who has elected to participate in BACKDROP to receive a lump-sum payment, or other payment, in addition to a monthly pension, upon termination of employment.

Provides that any member who is an employee of the Police Department on July 1, 2003, or who initially becomes employed after July 1, 2003, may elect to participate in BACKDROP after 21 years of credited service as a full-time police officer with the City of Orlando.

Provides that a member may participate in BACKDROP only one time.

Provides the application process for BACKDROP participation. Application to the Board of Trustees shall include:

- a written election to participate, which is irrevocable;
- selection of BACKDROP participation and termination dates;
- a BACKDROP application for a service retirement pension;
- a designation of named beneficiaries; and
- any other relevant information as may be required by the Board.

Provides that a BACKDROP participant shall not accrue additional credited service under the pension plan after the effective date of BACKDROP participation.

Provides for benefits payable under BACKDROP. Provides that a member may retire with a retroactive date of retirement. Provides that the member may not select a retroactive retirement date earlier than the date upon which the member first became eligible for a service retirement pension, and in no more than 36 months prior to the date of BACKDROP election.

Provides that a member may participate in the BACKDROP for a period not to exceed 36 months.

Provides that BACKDROP participation may not commence or continue beyond the date when the member's combined years of credited service and time in BACKDROP equals 360 months.

Provides that, for 60 days after this act becomes law, that a member with more than 324 months of credited service as of the effective date of BACKDROP who does not elect to participate In BACKDROP shall forfeit the right to deviate from the conditions for participation.

Provides that individual BACKDROP accounts shall be established to account for each BACKDROP participant's accrued benefits.

Provides that in the case of a member who selects the BACKDROP option, the amount of that member's pension contributions made during the BACKDROP period shall not be refunded or credited.

Provides that a BACKDROP participant's account shall accrue earnings at eight percent simple interest compounded annually, unless the parties otherwise agree.

Provides that a BACKDROP participant will not be eligible to participate in cost-of-living increases during the BACKDROP period.

Provides that following the termination of employment, the BACKDROP participant shall elect to receive payment in lump sum, or to be paid directly to the custodian of an eligible retirement plan, or to be paid by a method that is adopted by the Board of Trustees in compliance with the Internal Revenue Code.

Provides for payment to named BACKDROP beneficiaries upon death of a BACKDROP participant.

Section 5: Provides that any additional cost resulting from the benefits of this bill shall be borne by the members of the pension plan.

Section 6: Provides an effective date of July 1, 2003.

II. NOTICE/REFERENDUM AND OTHER REQUIREMENTS

A. NOTICE PUBLISHED? Yes No

IF YES, WHEN? January 20, 2003

WHERE? The *Orlando Sentinel*, a newspaper of general circulation in Orange County.

B. REFERENDUM(S) REQUIRED? Yes No

IF YES, WHEN?

C. LOCAL BILL CERTIFICATION FILED? Yes, attached No

D. ECONOMIC IMPACT STATEMENT FILED? Yes, attached No

III. COMMENTS

A. CONSTITUTIONAL ISSUES: Not applicable.

B. RULE-MAKING AUTHORITY: Not applicable.

C. DRAFTING ISSUES OR OTHER COMMENTS:

Other Comments

The Economic Impact Statement states that the bill will allow for greater employee choices regarding pension options and improves the attractiveness of the City's plan as an employee benefit, thereby enhancing the city's ability to attract and retain employees in the post-9/11 employment environment. A stated disadvantage of the bill is that it could result in slightly earlier retirement patterns.¹

The bill has been reviewed by the Bureau of Local Retirement, Department of Management Services who opine that the bill satisfies the requirements of s. 14, art. X of the State Constitution and the provisions of chapter 112, F.S.² Their fiscal note states:

The December 3, 2002, actuarial impact statement determined an annual cost to the members of 2.74% of payroll (approximately \$899,000 in 2001/2002 dollars) for the fractional years of service credits, benefit increase to 70% from 60% and the BACKDROP option. The annual cost to the city for the re-employment of retired police officers is 0.07% of payroll (approximately \$46,000 in 2001/2002 dollars). (This is the cost for one retired police officer.)

IV. AMENDMENT/COMMITTEE SUBSTITUTE CHANGES

None.

¹ Economic Impact Statement prepared by G. Michael Miller, Chief Financial Officer representing the City of Orlando.

² Charles Slavin, Actuary (March 3, 2003).