HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 123 Florida Retirement System Benefits
SPONSOR(S): Anderson
TIED BILLS: **IDEN./SIM. BILLS:** SB 252

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Governmental Operations Committee		Williamson	Everhart
2) Local Government Council			
3) Fiscal Council			
4) State Administration Council			
5)			

SUMMARY ANALYSIS

The Legislature has granted certain Florida Retirement System (FRS) employers the authority to provide annuities that offset reductions in retirement income due to early retirement or to cover out-of-state service. District school boards, community college district boards of trustees, certain hospitals, and counties are authorized to purchase annuities for their employees.

The bill extends to cities participating in the FRS the same authority to purchase retirement annuities for city employees who have met certain requirements. It authorizes cities participating in the FRS to purchase annuities for their employees in order to encourage early retirement or to provide “credit” for out-of-state service not otherwise credited under the FRS.

The bill authorizes cities to invest funds, purchase annuities, or provide local supplemental retirement programs for purposes of providing annuities to city employees. Such annuities must comply with constitutional requirements relating to retirement system benefit changes.

The bill may have a fiscal impact on state government. It will have a fiscal impact on cities participating in the FRS who choose to provide such annuities to their employees. *See* “FISCAL COMMENTS” section for further details.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government – The bill authorizes cities participating in the Florida Retirement System to invest funds, purchase annuities, or create local supplemental retirement programs for purposes of providing retirement annuities to their employees.

B. EFFECT OF PROPOSED CHANGES:

Background

Florida Retirement System

The Florida Retirement System (FRS) is a multi-employer, non-participatory pension plan covering more than 633,000 active employees, more than 226,000 annuitants, and more than 28,000 participants of the Deferred Retirement Option Program. As of June 30, 2004, state employees represent 21.83 percent of the FRS membership. The remaining members are employed by local agencies.[1]

Early Retirement Annuities[2]

The Legislature has granted certain FRS employers the authority to provide annuities that offset reductions in retirement income due to early retirement or to cover out-of-state service. District school boards are authorized to purchase annuities for certain school personnel,[3] community college district boards of trustees are authorized to purchase annuities for certain community college personnel,[4] hospitals that closed and terminated participation in the FRS are authorized to purchase annuities for certain hospital employees,[5] and counties are authorized to purchase annuities for certain county personnel.[6]

Effect of Bill

The bill extends to cities participating in the FRS the authority to purchase retirement annuities for city employees who have met certain requirements. It authorizes cities participating in the FRS to purchase annuities for their employees in order to encourage early retirement or to provide "credit" for out-of-state service not otherwise credited under the FRS.

In order to qualify for an early retirement annuity, a city employee must have:

- Twenty-five or more years of creditable service;
- Reached age 50; and
- Applied for retirement under the FRS.

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[1] Local agencies include all counties (23.46%), district school boards (48.3%), community colleges (2.84%), and cities and special districts (3.57%) that have chosen to participate in the FRS. Department of Management Services 2005 Substantive Bill Analysis, HB 123, February 1, 2005, at 3.
[2] The Internal Revenue Services provides that an "annuity" is a series of payments made under a contract and paid at regular intervals over a period of more than one full year. *Id.* Black's Law Dictionary (1990, at 90) provides that the term "annuity" refers to a fixed sum payable to a person either for life or for a term of years. At 90.
[3] Section 1012.685, F.S.
[4] Section 1012.87, F.S.
[5] Section 155.45, F.S.
[6] Section 121.182, F.S.

The early retirement annuity is based on the employee's years of creditable service and the average final compensation at the time of retirement, and can provide no more than the difference between a normal retirement benefit and an early retirement benefit.

In order for a city participating in the FRS to provide a retirement annuity for out-of-state service for which credit is not otherwise authorized, the city must document the service covered by the annuity as "valid." In addition, the annuity cannot be based on more than five years of out-of-state service and cannot exceed benefits that would have been payable if credit for such service was credited under the FRS.

The bill authorizes cities to invest funds, purchase annuities, or provide local supplemental retirement programs for purposes of providing annuities to city employees. Such annuities must comply with s. 14, Art. X of the State Constitution (state retirement systems benefit changes).

C. SECTION DIRECTORY:

Section 1 authorizes cities participating in the FRS to purchase annuities for city employees.

Section 2 provides an October 1, 2005, effective date.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   See "FISCAL COMMENTS."

2. Expenditures:

   See "FISCAL COMMENTS."

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   See "FISCAL COMMENTS" section.

2. Expenditures:

   See "FISCAL COMMENTS" section.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill does not regulate the conduct of persons in the private sector.

D. FISCAL COMMENTS:

Early retirements add costs to the FRS because benefits that are paid for a longer period of time are based on a shorter career of service and a shorter funding cycle. Under the FRS, approximately two-thirds of the added cost is paid by the employee in the form of a five percent reduction in benefits for each year remaining between the date of early retirement and the date the employee would reach his or her normal retirement age. The remaining amount is subsidized by the system through higher normal cost contribution rates. If the added cost was fully paid by the retiring employee, a benefit reduction of approximately seven percent would be required for each year remaining until normal retirement age.[7]

[7] Department of Management Services 2005 Substantive Bill Analysis, HB 123, February 1, 2005.

According to the Department of Management Services:

> There would be no immediate cost to the system. Future costs, if any, are dependent on the extent to which cities might exercise the authority provided under HB 123, which cannot be predicted. Should a significant number of employees benefit under this proposal, retirement experience would become unfavorable, thereby creating actuarial losses which serve to put upward pressure on contribution rates. This could eventually require changes in the rates of retirement. Any such costs would be reflected in future actuarial valuations of the FRS.[8]

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. The bill does not reduce the percentage of a state tax shared with counties or municipalities. The bill does not reduce the authority that municipalities have to raise revenue.

2. Other:

Since 1976, the Florida Constitution has required that benefit improvements under public pension plans in the State of Florida must be concurrently funded on a sound actuarial basis, as set forth below:

> SECTION 14. State retirement systems benefit changes.--A governmental unit responsible for any retirement or pension system supported in whole or in part by public funds shall not after January 1, 1977, provide any increase in the benefits to the members or beneficiaries of such system unless such unit has made or concurrently makes provision for the funding of the increase in benefits on a sound actuarial basis.

The bill appears to comply with the constitutional requirements.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

Not applicable.

[8] *Id.* at 6.