

### HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 1907     PCB FC 05-09     FRS/Payroll Contribution Rates  
**SPONSOR(S):** Fiscal Council  
**TIED BILLS:** **IDEN./SIM. BILLS:**

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.: Fiscal Council	19 Y, 0 N	Dobbs	Kelly
1) _____	_____	_____	_____
2) _____	_____	_____	_____
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

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#### SUMMARY ANALYSIS

The bill amends s. 121.71, Florida Statutes, to continue the current employer payroll contribution rates for the Florida Retirement System. The bill effectively lowers the statutorily established rates for Fiscal Year 2005-06, thereby, reducing total contributions by \$249 million to conform with the proposed General Appropriations Act.

The bill provides an effective date of July 1, 2005.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. HOUSE PRINCIPLES ANALYSIS:

The bill does not appear to implicate any of the House Principles.

### B. EFFECT OF PROPOSED CHANGES:

#### Background

The Florida Retirement System (FRS) is a multi-employer, non-contributory pension plan providing retirement income benefits to the more than 600,000 active and 200,000 retired members and beneficiaries of its more than 800 employers.

Since 1998 the FRS Trust Fund began to experience surpluses of assets over liabilities for the first time in the history of the payroll contribution rate structure.

The table below shows the contribution rates effective July 1, 2004, and July 1, 2005, for each class or subclass as established by the 2004 Legislature.

<u>Retirement Class</u>	<u>Current 7/1/2004 Rates</u>	<u>Current 7/1/2005 Rates</u>
Regular Class	6.20%	9.98%
Special Risk Class	17.34%	22.16%
Special Risk Admin. Support Class	8.73%	12.55%
Elected Officers' Class – Judicial Subclass	17.64%	20.78%
Elected Officers' Class – Leg.-Atty.-Cab. Sub	11.30%	15.82%
Elected Officers' Class – County	14.04%	17.73%
Senior Management Service Class	8.18%	11.64%
Deferred Retirement Option Program (DROP)	8.00%	11.56%

These contributions are paid into the Florida Retirement System Contributions Clearing Trust Fund. Amounts necessary to pay the benefits due under the defined contribution program are transferred into the participants' accounts (for retirement benefits) and into the disability account of the Florida Retirement System Trust Fund (for disability benefits). The remainder of these contributions is transferred to the Florida Retirement System Trust Fund to pay for the benefits due under the defined benefit program.

Based on the 2004 Actuarial Valuation of the Florida Retirement System, the System has an actuarial surplus of \$11.5 billion as of June 30, 2004. Actuarial liabilities increased by \$5.9 billion between July 1, 2003, and July 1, 2004, while the actuarial value increased \$4.8 billion during the same period.

Effects of bill

The bill amends s. 121.71, F.S., to continue the current employer payroll contribution rates for the Florida Retirement System as follows:

<u>Retirement Class</u>	<u>Current Statutory Rate for FY 2005-06</u>	<u>Proposed Rate for FY 2005-06</u>
Regular Class	9.98%	6.20%
Special Risk Class	22.16%	17.34%
Special Risk Admin. Support Class	12.55%	8.73%
Elected Officers' Class – Judicial Subclass	20.78%	17.64%
Elected Officers' Class – Leg.-Atty.-Cab. Sub	15.82%	11.30%
Elected Officers' Class – County	17.73%	14.04%
Senior Management Service Class	11.64%	8.18%
Deferred Retirement Option Program (DROP)	11.56%	8.00%

C. SECTION DIRECTORY:

Section 1 changes the statutorily mandated employer contribution rates for Fiscal Year 2005-06.

Section 2 provides an effective date of July 1, 2005.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

See D. Fiscal Comments.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

See D. Fiscal Comments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The bill will effectively lower the employer contribution rates in statute for Fiscal Year 2005-06, thereby, reducing total contributions by \$249 million. This amount will be absorbed by the actuarial surplus, projected to be \$10.5 billion on July 1, 2005.

**III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

Article X, Section 14, Florida Constitution, requires all public sector pension plans to pre-fund all promised pension benefits in a sound actuarial manner to avoid the intergenerational transfer of unfunded risk.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

## **FULL ANALYSIS**

### **I. SUBSTANTIVE ANALYSIS**

- A. HOUSE PRINCIPLES ANALYSIS:
  
- B. EFFECT OF PROPOSED CHANGES:
  
- C. SECTION DIRECTORY:

### **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

- E. FISCAL IMPACT ON STATE GOVERNMENT:
  - 3. Revenues:
  
  - 4. Expenditures:
  
- F. FISCAL IMPACT ON LOCAL GOVERNMENTS:
  - 3. Revenues:
  
  - 4. Expenditures:
  
- G. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:
  
- H. FISCAL COMMENTS:

### **III. COMMENTS**

- D. CONSTITUTIONAL ISSUES:
  - 1. Applicability of Municipality/County Mandates Provision:
  
  - 2. Other:

E. RULE-MAKING AUTHORITY:

F. DRAFTING ISSUES OR OTHER COMMENTS:

#### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**