HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 787 Deferred Compensation Programs
SPONSOR(S): Mealor
TIED BILLS: **IDEN./SIM. BILLS:**

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

SUMMARY ANALYSIS

The bill permits county employees to join deferred compensation programs sponsored by the state of Florida through the Department of Financial Services.

Since the program is funded by charges to participants, there is no fiscal impact on state or local governments.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

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

B. EFFECT OF PROPOSED CHANGES:

Present Situation

Section 112.215, F.S., authorizes all governments in Florida to create deferred compensation programs but only state employees may enroll in the one sponsored by the Department of Financial Services. According to the Florida Association of Counties, every Florida county currently has a deferred compensation plan for its employees.

The state's deferred compensation plan permits an individual employee to defer from federal taxation a portion of gross income up to an annually indexed amount for placement in a fund or funds of a prequalified investment provider. Account earnings are similarly sheltered from federal taxation until a distribution occurs.

The Chief Financial Officer directs the program through the Department of Financial Services (DFS), which acts as the sponsoring agency. It competitively selects several investment providers along with a third-party financial administrator. DFS is to seek the advice of State Board of Administration, the investment entity for the State of Florida and the Florida Retirement System, before approving investment vehicles or products. DFS periodically reviews provider company funds and may terminate them if their performance falls below a designated level. Five of the six participating firms are insurance companies; the sixth is a mutual fund.

The participating state employee bears all of the investment risk and is responsible for the payment of associated fees and costs charged by the provider. The state's fees and associated participant costs, or total investment management expenses, generally fall within a range between institutional, the lowest, and retail, the highest. The state plan operates under a long-term contract that was last amended in 1997.

The 2001 Survey of 457 Plans by the National Association of Defined Contribution Administrators states that 47% of the 36 responding state plans allow local governments to choose to participate in the state plan.

Proposed Changes

The bill amends s. 112.215, F.S., to permit county employees, not just state employees, to participate in the state deferred compensation program (457 plan).

According to staff of the Department of Financial Services, Internal Revenue Service regulations permit 457 plans to include multiple jurisdictions.

C. SECTION DIRECTORY:

Sections 1 and 2 amend s. 20.121, F.S., current law and the effective date of October 1, 2005, respectively, to eliminate a specific reference to the Government Employees Deferred Compensation Plan's serving state employees.

Section 3 amends s. 112.215, F.S., to allow counties and their employees to participate in the state's deferred compensation plan.

Section 4 provides that the act is effective upon becoming a law.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None. This bill does not create, modify, amend, or eliminate a state revenue source.

2. Expenditures:

   None. This bill does not create, modify, amend, or eliminate a state expenditure because participants would pay all fees.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None. This bill does not create, modify, amend, or eliminate a local revenue source.

2. Expenditures:

   None. This bill does not create, modify, amend, or eliminate a local expenditure because participants would pay all fees.

B. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

To the extent that counties add the state plan as another option for their employees or drop their vendors and transition to offering solely the state plan, current providers of deferred compensation services to counties may lose business, while the providers under the state plan may gain business. However, there is some degree of overlap between vendors in the state and various county plans.

To the extent that the state plan's fees are lower than the counties' plan, participants would experience savings.

C. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

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

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

Not applicable.