

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Education Committee

BILL: SB 788

SPONSOR: Senator Clary

SUBJECT: School Personnel Reemployment/DROP

DATE: April 20, 2005 REVISED: 4/26/05 _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Woodruff</u>	<u>O'Farrell</u>	<u>ED</u>	<u>Fav/1 amendment</u>
2.	_____	_____	<u>GO</u>	_____
3.	_____	_____	<u>WM</u>	_____
4.	_____	_____	<u>RC</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

Please see last section for Summary of Amendments

- Technical amendments were recommended
- Amendments were recommended
- Significant amendments were recommended

I. Summary:

The bill authorizes the reemployment and extension of participation in the Deferred Retirement Option Program (DROP) of persons formerly serving as school district administrative personnel. Former administrators would be eligible to seek reemployment following one month of retirement or seek the district school superintendent's permission to participate in DROP beyond 60 months.

This bill substantially amends section 121.091 of the Florida Statutes.

II. Present Situation:

Florida Retirement System General Reemployment Conditions

In general, a Florida Retirement System (FRS) retiree who returns to work for an FRS employer during the first month of retirement voids his or her retirement. If the member is reemployed by an FRS participating employer during the 2nd through 12th months, the member's retirement benefits are suspended. After the 12th month, the member may be reemployed without any restrictions on reemployment.

School Board Reemployment of Certain Retired Members

Section 121.091(9)(b)3., F.S., provides, in pertinent part, that a district school board may reemploy a retired member as a substitute or hourly teacher, education paraprofessional, transportation assistant, bus driver, or food service worker on a noncontractual basis after the member has been retired for 1 calendar month.

A district school board may reemploy a retired member as instructional personnel on an annual contractual basis after he or she has been retired for 1 calendar month. This includes administrative personnel rehired as instructional personnel. Administrative personnel reemployed as administrators are not included in the list of those eligible for reemployment before the 12 month period has passed.

The reemployment by the district school board does not affect the average final compensation or years of creditable service of the retiree, or the Deferred Retirement Option Program (DROP) participant. Upon renewed membership in the FRS, the member is earning a second benefit (unrelated to the first benefit) and the employer must pay the applicable employer contributions as required in ss. 121.055(3), F.S., 121.071(1)(a) and (4), F.S, and 121.071, F.S.

Extended Participation in the Deferred Retirement Option Program

Members of the FRS may elect to participate in the Deferred Retirement Option Program (DROP) when they reach normal retirement age or at age 57, whichever is later. For purposes of the FRS, the member is a retiree; however, the retirement benefits are paid into the member's DROP account and earn 6.5 percent interest annually. The member may not receive the DROP accumulations until the member terminates employment with an FRS participating employer. Members may participate in DROP for no more than 60 months. If the member fails to terminate employment after the 60 months, the DROP accumulations are forfeited and the member is treated as if he had not retired (he receives additional service credit for those years in DROP and potentially an increased average final compensation). Instructional personnel as defined in s. 1012.01 (2) (a)-(d) in grades K-12 who have received authorization by the district school superintendent may participate in DROP for up to a continuous total of 96 months. Administrative personnel are not currently included in those eligible for an extension of participation in DROP.

III. Effect of Proposed Changes:**Expanded School Board Reemployment of Certain Retired Members**

This proposed legislation would allow retired school district administrative personnel the option to return to active employment one month after their benefits commence without having to suspend their retirement benefits. The participants who become reemployed will not have their benefits increased by virtue of either accruing additional service or earning a higher average final compensation. However, they will be reenrolled in the FRS as renewed participants and if they accrue six or more years of service they would earn a second benefit based on their reemployment service and reemployment average final compensation. Reemployed participants are treated like new employees and therefore, may elect participation in the Public Employee Optional Retirement Program (PEORP) as well as the second election option. Under this

proposal, administrative personnel currently participating in the Deferred Retirement Option Program (DROP) which defers receipt of retirement benefits while continuing employment with FRS, may elect to extend their participation in DROP for up to 96 months, 36 months more than the standard DROP participation.¹

Administrative Employees

According to the Department of Education the administrative employees defined in s.1012.01 (3), F.S., include: assistant, associate, or deputy superintendents and directors of major instructional areas and specialized instructional programs such as exceptional student education, career education, and similar areas. Also included are assistant, associate, or deputy superintendents and directors of major noninstructional areas, such as personnel, construction, facilities, transportation, data processing, and finance. School level administrators would include principals and assistant principals.

Assumptions and Analysis for Administrative Personnel Reemployment

According to the Milliman actuarial study, this proposal would reduce the average retirement age of administrative personnel. The current assumptions are based on historical data that most FRS participants have not elected to retire at the earliest age unreduced benefits are available (i.e., the earlier of age 62 and completion of six years of service or completion of 30 years of service). Under this proposal, even though eligible participants could continue to work after those ages without retiring and continue to accrue additional benefits, it was assumed that 50 percent of participants who are not already assumed to retire at first eligibility would not delay retirement after first becoming eligible. This is based on the premise that a participant would instead prefer to receive both their salary and the pension at the same time and possibly accrue a second pension if he or she is guaranteed reemployment. From the employer's contribution perspective, the contribution on behalf of the active individual accruing service credit is not impacted since the contribution to FRS is the same whether the participant continues working or becomes a reemployed retiree.

Additionally, DROP has affected retirement patterns, inducing participants to retire earlier. It was assumed that 20 percent of administrative personnel who, absent this provision, would have elected DROP would instead elect the liberalized reemployment. To the extent that these participants who would have retired when first eligible and elect DROP, instead elect to become a reemployed retiree, the additional costs are, in reality, a shifting of costs from the DROP Class to the Regular Class. Thus, these participants are excluded from the additional cost.

To value this benefit, the retirement assumptions used in the June 30, 2004 valuation were modified. Based on information provided by the Department of Education, there are approximately 10,361 administrative personnel employed by school boards participating in the FRS. It was assumed that all participants would retire no later than the earliest age at which unreduced retirement benefits are payable. Starting with the 10,361 Administrative Personnel and applying the assumptions described above, the assumption was that approximately 3,275 administrative personnel (0.62 percent of the Regular Class) would benefit from this proposal.

¹ Actuarial study of Senate Bill 788 by Milliman Consultants and Actuaries, April 19, 2005, p. 1.

The administrative personnel were assumed to be spread proportionately across the pool of Regular Class Employees. If instead, the administrative personnel are disproportionately higher paid, have longer service, or different average age at hire, the results would be different, and would be reflected in future valuations.

Because of this assumption change, there is an additional cost (\$28.6M) as noted previously, even if the total payroll remains constant. This is because participants will be retiring sooner than the current valuation assumes, meaning benefits will be paid for a longer period of time and they must be funded over each participant's shortened working career.²

Extended Participation in DROP

The bill authorizes administrative personnel as defined in s. 1012.01 (3), F.S., who have received authorization from the district school superintendent, to participate in the DROP beyond 60 months (up to the 96 months maximum participation period).

According to the Milliman actuarial study, it was assumed 20 percent of administrative personnel who, absent this (reemployment) provision, would have elected DROP would instead elect the liberalized reemployment. To the extent that these participants who would have retired when first eligible and elect DROP, instead elect to become a reemployed retiree, the additional costs are, in reality, a shifting of costs from the DROP Class to the Regular Class.³

Therefore, the actuarial study assumes the impact of offering an extension to the DROP would have a reduced impact if administrative personnel could choose to be reemployed after 1 month, begin a second retirement, and draw both salary and retirement pay.

The bill shall take effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

Article X, Section 14 of the State Constitution provides that benefits to members or beneficiaries of a retirement or pension system may only be increased if the benefits are

² Op cit, p. 2.

³ Op cit, p. 2.

provided on a sound actuarial basis. Accordingly, the bill may require an amendment to satisfy the state constitution and Part VII of chapter 112, F.S.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Administrative personnel reemployed by a school board after 1 month of retirement would be eligible to draw both a salary and retirement. Such individuals would also be eligible to start a second retirement from the state. Individuals authorized by the district school superintendent to participate in the DROP beyond 60 months, might participate up to 96 months.

C. Government Sector Impact:

The bill permits the reemployment or retention of administrative personnel under circumstances favorable to both the employee and employer. The impacts from these changes can be estimated more accurately in direction than in magnitude since so much of the effect rests on a voluntary action of the departing or returning employee to stay in the active workforce. According to the actuarial study, if reemployment is liberalized for administrative personnel as proposed in the bill, the projected increase in actuarial liabilities is \$28.6 million. This benefit change results in an increase in the Normal Cost rate of 0.01percent and an increase in the UAL rate of 0.01percent, and therefore, an overall increase in contribution levels of 0.02 percent, for the Regular Class.⁴

The retention of personnel in DROP for another three years will increase payroll costs to the employer since the DROP payroll contribution rate is greater than the normal cost rate for active employees in the Regular Class. Since DROP employees will be at the upper end of the salary scale the cumulative effect will be to make these employees relatively more expensive to the payroll than their replacements. Moreover, while employees will have the benefit of receiving as many as eleven additional pension checks due to the forgiveness of the 12-month suspense period prior to reemployment, that also makes their pension life expectancy in the FRS eleven months longer.

Each participant in DROP receives \$74,406 in proceeds for each \$1000 of initial monthly pension benefits for a 60-month participation. That benefit will increase proportionally with the addition of another three years' participation and the additive effects of compound interest. DROP pays a fixed rate of interest of 6.50 percent. The 10-year Treasury Bill is paying 4.25 percent as of April 22, 2005. In a sustained low-interest rate environment the cumulative effect of this fixed DROP rate and the ability or inability of

⁴ Op cit, p. 3.

the FRS to meet its expected 8 percent rate of return might produce a negative cash flow on the FRS Trust Fund.

VI. Technical Deficiencies:

To be actuarially sound, the bill may require either an amendment to remove the fiscal impact or an appropriation to fund the additional cost of the administrative reemployment option.

VII. Related Issues:

None

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

VIII. Summary of Amendments:

Barcode # 435026 by Education:

The amendment removed that portion of the bill which would have allowed administrative employees to be re-employed as administrators after one month of retirement. The amendment removes the fiscal impact which would have been placed on the Florida Retirement System. Language remains which allows, with permission by the district school superintendent, an administrative employee to participate in the Deferred Retirement Option Program for up to an additional 36 months (96 continuous months in total) providing administrative employees the same option offered to instructional employees.

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