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: Ways and Means Committee

BILL: CS/SB 1042

INTRODUCER: Ways and Means Committee and Governmental Oversight and Productivity Committee

SUBJECT: Institute of Food/Pension Plan

DATE: April 4, 2006 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wilson	Wilson	GO	**Favorable**
2.	McVaney	Coburn	WM	**Fav/CS**
3.				
4.				
5.				
6.				

I. Summary:

This bill implements a recommendation from an approved Interim Project Report[1] that called for the merger of the separately constituted supplemental retirement program for designated employees at the University of Florida's Institute of Food and Agricultural Sciences into the Florida Retirement System.

This bill creates s. 121.047, F.S., and substantially amends s. 121.40, F.S.

II. Present Situation:

Supplemental Retirement Act for the Institute of Food and Agricultural Sciences

In 1984, the Florida Legislature created a supplemental retirement plan for cooperative extension service employees at the University of Florida's Institute of Food and Agricultural Sciences. The effective date of the Supplemental Retirement Program was July 1, 1985. Employees hired on or before July 1, 1983, were eligible for the program if they held both state and federal appointments while employed at the Institute, were not entitled to any benefit from a state-supported retirement system or Social Security based on their service as an Institute employee, and were participants in the Federal Civil Service Retirement System. In establishing the supplemental plan, the Legislature intended to equalize benefits received by IFAS and FRS members (including social security). Upon retirement from the Institute, qualifying IFAS employees would receive a supplemental benefit equal to the difference between their federal benefit and an FRS benefit for equivalent service, plus social security.

[1] Florida Senate, *The Supplemental Retirement Program of the Institute of Food and Agricultural Sciences at the University of Florida*, Report No. 2006-132, September 2005.

Like the FRS Pension Plan, the IFAS plan is a defined benefit plan. For service after December 1, 1970, retirement credit accrues under IFAS at the rate of 1.6% of the participant's average monthly compensation in his/her highest 5 years of credited service — essentially the same as the accrual rate for members of the Regular Class of the FRS. And, like the FRS, which has been employee-noncontributory since 1975, the IFAS plan is funded solely through employer contributions made for active participants, together with investment earnings.

Because any Institute employees hired after July 1, 1983, qualify for FRS and social security benefits, they are ineligible to receive the supplement. Therefore, the IFAS supplemental plan is effectively a "closed system." With a fixed population, the ranks of active participants shrink over time. Unlike the FRS, which has about three active employees for every annuitant, the roughly 200 remaining IFAS participants are pretty evenly divided between active participants and annuitants. As the ratio of annuitants to active participants increases, there is an ever-greater demand for contributions and investment earnings to generate funding sufficient to provide the promised benefits, coupled with an ever-diminishing stream of payroll on which contributions are based. This has led to an unsustainable funding situation.

IFAS investment restrictions

Complicating IFAS funding problems, paragraph (13)(a) of s. 121.40, F.S., requires that IFAS funds be invested only in the most conservative, lowest-risk securities:

121.40 Cooperative extension personnel at the Institute of Food and Agricultural Sciences; supplemental retirement benefits.—

(13) INVESTMENT OF THE TRUST FUND.—
(a) The State Board of Administration shall invest and reinvest available funds of the trust fund in accordance with the provisions of ss. 215.44-215.53. *The board shall consider investment techniques*, such as contingent immunization or the development of a dedicated portfolio, *which are directed toward developing minimum-risk procedures for supporting a prescribed liability schedule*. [*emphasis supplied*]

This requirement is meant to protect IFAS investments against potential losses, but it also has the effect of inhibiting the program's capacity to realize gains. Limiting investments to low-risk, low-yielding instruments cannot support the plan's benefit requirements without additional funding. The consulting actuary for both the FRS and IFAS, Milliman Inc., has noted that maintaining this funding strategy could add to investment losses and further escalate contribution rates.

Funding imbalance

For several years, relatively small biennial increases to the IFAS contribution rate have kept program funding within manageable bounds. But beginning in 2002 the growing funding imbalance required a big increase in employer contribution rates — from 7.17% to 13.83% of affected payroll. The consulting actuary proposed another significant rate increase in the 2004 biennial IFAS plan valuation. Based on data available for fiscal year 2004, a rate of 20.23%

was recommended for IFAS beginning July 1, 2005, to support the plan in an actuarially sound manner. While the Legislature did set the FY 2005/06 contribution rate at 20.23% of payroll, it also appropriated funding ($500,000) to IFAS to offset the higher retirement contribution rates for FY 2005-2006 only.

III. Effect of Proposed Changes:

The bill implements a recommendation of a Senate committee interim project, as follows:

Section 1 creates s. 121.047, F.S., to consolidate the assets and liabilities of the IFAS supplemental retirement program within the system trust fund of the FRS effective July 1, 2006, but continues the IFS structure as a separate entity distinguishable from the FRS.

Section 2 amends s. 121.40, F.S., to delete specific reference to the IFAS supplemental pension plan and to substitute future reference to the FRS. Because the FRS System trust Fund will assume the assets and liabilities, separate references to an immunized investment strategy and biennial IFAS plan actuarial valuations are repealed.

The section also amends the biennial employer payroll contribution rate to reflect future funding requirements. The contribution rate is reduced from 20.33% to 17.57%. The new rate will be effective July 1, 2006.

Section 3 provides a statement of important state interest in compliance with s. 18 of Art. VII, State Constitution and to effect the full actuarial funding requirements of s. 14 of Art. 10, State Constitution for public sector pension plans.

Section 4 provides that that bill shall take effective on July 1, 2006.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

Effective July 1, 2006, the contributions will be reduced from the current 20.23 percent of covered payroll to 17.57%. IFAS will incur approximately $300,000 in additional recurring retirement contributions beginning in the 2006-2007 fiscal year.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

None.