

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 7211 PCB GO 06-31 Institute of Food & Agricultural Sciences Supplemental Retirement Program

SPONSOR(S): Governmental Operations Committee, Rivera

TIED BILLS: **IDEN./SIM. BILLS:** SB 1042

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.: Governmental Operations Committee	4 Y, 0 N	Mitchell	Williamson
1) _____	_____	_____	_____
2) _____	_____	_____	_____
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

SUMMARY ANALYSIS

This committee bill was approved by the Governmental Operations Committee pursuant to House Rule 7.9.

The bill consolidates the supplemental retirement benefit program of the Institute of Food and Agricultural Sciences into the Florida Retirement System. The bill requires the transfer of assets and the assumption of liabilities and obligations. The bill provides that these participants are not members of the Florida Retirement System. The bill makes conforming changes to the supplemental benefit program, sets the required employer contribution rate, and removes an investment limitation. The bill makes a legislative finding about fulfilling an important state interest.

This bill does not appear to create, modify, or eliminate rulemaking authority.

This bill does not appear to have a fiscal impact on the revenues of state government. By setting the required employer contribution rate for supplemental benefit program participants, this bill appears to have a fiscal impact on the expenditures of state government. This contribution rate is lower than the current contribution rate and is expected, along with the consolidation, to eliminate the need for annual contribution rate increases and additional subsidies from the General Revenue Fund.

This bill does not appear to have a fiscal impact on the revenues or expenditures of local governments.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government – Government cost savings are anticipated from the consolidation of this supplemental retirement benefit program into the Florida Retirement System.

B. EFFECT OF PROPOSED CHANGES:

Background on the Institute of Food and Agricultural Science

The Institute of Food and Agricultural Sciences (“IFAS”) is a federal-state-county partnership at the University of Florida that was created in 1964 and is “dedicated to developing knowledge in agriculture, human and natural resources, and the life sciences, and enhancing and sustaining the quality of human life by making that information accessible.”¹

- IFAS has 13 research and education centers with a total of 19 locations (including demonstration sites) throughout Florida.² IFAS also has Florida Cooperative Extension Service offices in all 67 counties that the counties operate and maintain.³
- For Fiscal Year 2004-2005, IFAS had a budget of \$262 million. Approximately 52 percent or \$136.4 million of that budget was General Revenue.⁴
- As of December 5, 2005, IFAS had approximately 2,262 full-time equivalent employees:

	On Campus	Off-Campus	County	Total
<i>State Supported</i>				
Faculty	355	164	255	774
Staff	583	405	18	1006
Totals	938	569	273	1780
<i>Grant Supported</i>				
Faculty	148	56	30	234
Staff	181	59	8	248
Totals	329	115	38	482

Supplemental Retirement Benefits Program: Background and Eligibility

Eighty-one of these IFAS employees⁵ are participants in a supplemental retirement benefits program (“IFAS SRBP”) the Legislature created in 1984.⁶ The Legislature enacted this IFAS Supplemental Retirement Act to “provide a supplement to the monthly retirement benefits being paid under the federal Civil Service Retirement System to certain retired employees of the Institute of Food and Agricultural

¹ Univ. of Fla., Inst. of Food and Ag. Sci., *IFAS Facts*, available at <http://analysis2001.ifas.ufl.edu/facts150.htm> (last updated Feb. 1, 2006; last visited Mar. 19, 2006) (IFAS was created by the then governing body for higher education through the reorganization of existing programs).

² *Id.* (IFAS has 1,255 buildings, 3,190,448 gross square feet, and 16,591 acres throughout the state.).

³ *Id.*
⁴ *Id.* (This is the General Revenue breakdown: 22 percent for teaching (pass through), 46 percent for research, 24 percent for extension and 8 percent is for other.).

⁵ Milliman, Inc., Actuarial Valuation of the IFAS Supplemental Retirement Program as of July 1, 2005, Exhibit B (Mar. 1, 2006) (on file with the Div. of Ret., Fla. Dep’t of Mgmt. Serv) [hereinafter Milliman, 2005 IFAS Valuation].

⁶ Ch. 84-358, Laws of Fla.

Sciences at the University of Florida, whose positions were ineligible for coverage under a state-supported retirement system.”⁷

There are six eligibility requirements for participation in the IFAS SRBP:

- (1) The person must have held both state and federal appointments while employed at the institute, and have completed 10 years of creditable service with the institute, subsequent to December 1, 1970.
- (2) The person must be participating in the federal Civil Service Retirement System based on service at the institute.
- (3) The person must have retired from the institute on or after January 1, 1985, and must have been eligible for benefits under the federal Civil Service Retirement System commencing immediately upon the termination of service with the institute.
- (4) The person must have attained the age of 62.
- (5) The person must not be entitled to any benefit from a state-supported retirement system or from social security based upon service as a cooperative extension employee of the institute.
- (6) The person must have been employed with the institute prior to, and on, July 1, 1983.⁸

It is this sixth criteria (IFAS employment prior/on July 1, 1983) which “closes” participation in the IFAS SRBP. In addition to the active employees, there are 97 retired participants and beneficiaries and 36 participants who are no longer employed by IFAS but have vested benefits.⁹ Thus, there are a total of 228 participants in the IFAS SRBP.¹⁰

IFAS SRBP: Calculation and Funding

The amount of the IFAS SRBP benefit is the deficiency between the amount earned by the employee under the federal Civil Service Retirement System and the amount the employee would have received under the Florida Retirement System¹¹ and the primary insurance under Social Security at age 62.¹²

The IFAS SRBP is funded from two sources: a monthly contribution by IFAS of a specified percentage of an employee’s gross monthly salary¹³ and returns on investments. Yet, since 2002, these sources have been insufficient to fund the required supplemental benefits. This funding insufficiency can be attributed to three factors:

- (1) *The closed nature of the plan.* With a closed plan, as more participants retire, there are a smaller number of active employees to bear the burden of any increased costs for the program.¹⁴

⁷ Fla. Stat. § 121.40(1) and (2) (2005).

⁸ Fla. Stat. § 121.40(4) (2005).

⁹ Milliman, 2005 IFAS Valuation.

¹⁰ *Id.*

¹¹ Fla. Stat. § 121.40(5)(a) (2005) (“An amount equal to the option one retirement benefit that the employee would have been entitled to receive at his or her normal retirement age under the Florida Retirement System, attributable only to creditable service after December 1, 1970, as a cooperative extension employee of the institute, excluding any past or prior service credit, had such employee been a member of the Florida Retirement System.”).

¹² Fla. Stat. § 121.40(5)(b) (2005).

¹³ Fla. Stat. § 121.40(12) (2005).

¹⁴ There are currently 81 active participants who can fund program insufficiencies through contributions for the 113 retired participants. Milliman, 2005 IFAS Valuation. This is in contrast to the Florida Retirement System which has three active employees for each person receiving a benefit. Fla. Senate, Comm. on Gov’t Over. and Prod., *Interim Project Report 2006-132: The Supplemental Retirement Program of the Institute of Food and Agricultural Sciences at the University of Florida*, (Sept. 2005) (available at

(2) *The nature of the benefit.* Because part of the IFAS supplemental benefit payment is based on Social Security, it “varies inversely as a percentage of pay.”¹⁵ That is, it has higher costs, as a percentage of pay, at lower salary levels than at higher salary levels.

(3) *More limited returns on investments.* Returns on investments are more limited than those of the Florida Retirement System because the State Board of Administration is required to “consider investment techniques...which are directed toward developing minimum risk procedures supporting a prescribed liability schedule.”¹⁶ This has resulted in “underlying investments that are not diversified and simply not able to satisfy the benefit demands.”¹⁷

With limited investment returns, only one other funding mechanism was available to address the increased benefit demands: increase the employer payroll contributions. From July 1, 2003 to July 1, 2005, the employer contribution rate was set at 13.83 percent – almost double the previous amounts of 6.96 percent and 7.17 percent.¹⁸ Based on the actuarial valuation of the IFAS SRBP, the employer contribution rate was set at 20.23 percent for the period between July 1, 2005 through June 30, 2006.¹⁹ The Legislature, however, appropriated \$500,000 from the General Revenue Fund to fund the increased employer contribution for the IFAS SRBP.²⁰

IFAS SRBP: Going Forward

The increased benefit demands on the IFAS SRBP are expected to continue. In fact, the most recent valuation of the IFAS SRBP recommends a contribution rate of 26.86 percent, effective July 1, 2006.²¹ In its consideration of this issue, staff for the Committee on Governmental Oversight and Productivity noted three methods for addressing the recurring funding imbalance: (1) continue to raise the employer contribution rate as required; (2) place a limit on the employer contribution rate and provide annual supplemental appropriations to cover the increased costs; or (3) merge the IFAS SRBP with the Florida Retirement System.²² Merging the IFAS SRBP with the Florida Retirement System was the recommended option:

“Active and retired members and beneficiaries would not notice a change as their benefits would not be compromised. Due to the small asset and liability base of IFAS, its incorporation within the FRS would condition only a small adverse dollar impact. The FRS has more than \$112 billion in assets and includes a \$10 billion actuarial surplus. Under this option, no additional payroll costs would be passed along to its 840 member employers...”

...Unlike the two other options that provide only annual or biennial relief, this alternative will permanently address the IFAS funding imbalance. After such transfer, the employer payroll costs will decline significantly and reflect the rates charged for the Regular Class in the Florida Retirement System.”²³

http://www.flsenate.gov/data/Publications/2006/Senate/reports/interim_reports/pdf/2006-132go.pdf (last visited Mar. 19, 2005) [hereinafter Interim Project Report].

¹⁵ Milliman, 2005 IFAS Valuation.

¹⁶ Fla. Stat. § 121.40(13) (2005).

¹⁷ Interim Project Report at 2.

¹⁸ Fla. Stat. 121.40(12) (2005).

¹⁹ Ch. 2005-93, Laws of Fla.

²⁰ Ch. 2005-70, Laws of Fla., §8(5) (“From the funds in Specific Appropriation 2091, \$500,000 is appropriated from the General Revenue Fund to the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida to fund the increased employer contribution for the IFAS retirement plan.”).

²¹ Milliman 2005 IFAS Valuation.

²² Interim Project Report at 2.

²³ *Id.*

Transferring the IFAS SRBP to the Florida Retirement System

This proposed committee bill implements the recommendation to transfer the IFAS SRBP to the Florida Retirement System.

The bill consolidates the IFAS SRBP into the Florida Retirement System. The bill requires the transfer of assets and the assumption of all liabilities related to the payment of supplemental monthly benefits to retired employees of the IFAS and their surviving beneficiaries as well as all obligations in regard to funding and administering benefits accrued for the benefit of retired employees of the IFAS and their surviving beneficiaries.

The bill provides that participation in the IFAS SRBP does not constitute membership in the Florida Retirement System.

The bill makes conforming changes to the IFAS Supplemental Retirement Act, sets the required contribution rate at 17.57 percent, and removes the investment limitation.

The bill provides a legislative finding that it fulfills an important state interest.

The bill takes effect July 1, 2006.

C. SECTION DIRECTORY:

Section 1: Creates section 121.047, Florida Statutes, to consolidate the IFAS SRBP with the Florida Retirement System.

Section 2: Amends section 121.40, Florida Statutes, to make conforming changes and remove investment limitations.

Section 3: Makes a legislative finding of important state interest.

Section 4: Provides an effective date of July 1, 2006.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

This bill does not appear to have a fiscal impact on state government revenues.

2. Expenditures:

The bill amends the contribution rate for participants of the IFAS SRBP, which is designed to fund the program in a way that is cost-neutral to the Florida Retirement System. When applied to the July 2005 payroll of IFAS, the 17.57 percent contribution rate yields the following estimated expenditures for IFAS:

Year 1 – FY 2006-2007	\$1,012,134
Year 2 – FY 2007-2008	\$ 975,086
Year 3 – FY 2008-2009	\$ 872,535

This rate is lower than the current rate of 20.23 percent and is expected to eliminate the need for annual increases to the contribution rate or further subsidies from the General Revenue Fund like the \$500,000 provided in 2005.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

This bill does not appear to have a fiscal impact on local government revenues.

2. Expenditures:

This bill does not appear to have a fiscal impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill does not appear to have a direct economic impact on the private sector.

D. FISCAL COMMENTS:

The Enrolled Actuary retained by the Department of Management Services has concluded that "once an appropriate rate is determined, it should not harm the Florida Retirement System and should benefit the IFAS program to be consolidated within the system."²⁴

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

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

2. Other:

Retirement System Benefit Changes

Benefit increases to publicly funded retirement systems are governed by section 14 of article X of the Florida Constitution:

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.

This bill does not increase the benefits to the members or beneficiaries. According to the Department of Management Services, this bill complies with the requirements of section 14 of article X of the Florida Constitution.²⁵

B. RULE-MAKING AUTHORITY:

This bill does not appear to create, modify, or eliminate rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

²⁴ Fla. Dep't of Mgmt. Serv., SB 1042 (2006) Staff Analysis (Feb. 6, 2006) (on file with dep't).

²⁵ *Id.*

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

None.