HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 5703 PCB CEED 10-05 Retirement
SPONSOR(S): Full Appropriations Council on Education & Economic Development and Rivera
TIED BILLS: **IDEN./SIM. BILLS:**

	REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.:	Full Appropriations Council on Education & Economic Development	17 Y, 0 N	Delaney	Voyles
1)				
2)				
3)				
4)				
5)				

SUMMARY ANALYSIS

Section 121.031, F.S., provides for an annual actuarial study of the Florida Retirement System (FRS) and for a report of the results to the Legislature by December 31 of each year. Thereafter, the Legislature establishes uniform contribution rates in law annually. Participating employers in the FRS are required to make monthly contributions, based on these rates, to fund the system.

The July 1, 2009 Actuarial Valuation was completed and submitted to the Legislature in December of 2009. For the first time since July 1, 1997, the fund was no longer operating in a surplus. In fact, the results of the Valuation determined that the fund had dropped from an actuarial funded ratio of 106.7 percent the previous year to 88.5 percent. The primary reason for the decline was a significant drop in market values. As of July 1, 2009, the date on which the Valuation is based, the market value of the FRS was $99.9 billion, down from $126.9 billion on July 1, 2008. By design and necessity, the value of the fund is a snapshot taken at a specific point in time. By chance, the Valuation date was at a point in a record economic downturn where the value of the fund was particularly low. In comparison, as of March 15, 2010, the market value of the fund, per the State Board of Administration, had returned to $115.6 billion. The fund being in a deficit creates an unfunded actuarial liability (UAL), which under various current statutes must be funded.

There are also 489 defined benefit plans for municipalities and special districts whose actuarial funding is overseen by the Department of Management Services, but are not participants in the FRS. Total plan assets were valued at $23.1 billion as of September 30, 2009.

This bill temporarily suspends, for up to three years, the requirements for public retirement plans to pay the full contribution rate if the public retirement plan was actuarially funded at 90 percent or more for the valuation performed in the plan year ending during calendar year 2008. Approximately, 30 percent of local government retirement plans that reported data to the Division of Retirement, as well as the FRS, meet this requirement. The FRS covers nearly 1000 public employers, including required participation by state government, state universities, county school boards, state community colleges, and county governments, as well as optional participation by municipalities and certain other public entities.

The bill conforms the laws to the proposed House of Representatives Fiscal Year 2010-11 General Appropriations Act as the retirement contributions are funded in the GAA.

Based on the results of the 2009 FRS Valuation, the annual system-wide increase in contributions necessary to fund the UAL for the state would be approximately $428.4 million in General Revenue and $84.7 million in trust funds. For cities and other public entities electing to participate in the FRS, the increase in contributions necessary to fund the UAL would be $350.3 million. The fiscal impacts on local governments, which do not participate in the FRS, will be dependent on how many are eligible for and ultimately opt to use the exemption.

The bill provides an effective date of July 1, 2010.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background:

The Florida Retirement System (FRS) is a multiple employer, non-contributory retirement plan providing retirement income benefits to more than 668,000 active members and 290,000 retired members and beneficiaries of more than 960 state and local government public employers[1]. Originally established in 1970, the FRS is the successor to the Teachers' Retirement System, the Highway Patrol Pension Fund, the Judicial Retirement System and the State and County Officers, and Employees' Retirement System. Defined Benefit plan payments are administered by the Department of Management Services through its Division of Retirement with fund asset investment management performed by the State Board of Administration. The defined contribution plan alternative was implemented effective July 1, 2002, which is administered by the State Board of Administration with administrative support provided by the Division of Retirement and other third-party vendors.

Section 121.031, F.S., provides for an annual actuarial study of the Florida Retirement System (FRS) defined benefit plan and for a report of the results to the Legislature by December 31 of each year. Thereafter, the Legislature establishes uniform contribution rates in law annually that allow FRS employers to pay the same contribution rate for each membership class or subclass regardless of whether their employees participate in the defined benefit plan or the defined contribution plan. Participating employers in the FRS are required to make monthly contributions, based on these rates, to fund the system.

The July 1, 2009 Actuarial Valuation[2] was completed and submitted to the Legislature in December of 2009. For the first time since July 1, 1997, the FRS Pension Plan was no longer operating with an actuarial surplus. In fact, the 2009 FRS Valuation results showed the fund had dropped from a funded ratio of 106.7 percent to 88.5 percent. The primary reason for the decline was a significant drop in market values. As of July 1, 2009, the FRS Trust Fund had a market value of $99.0 billion, down from $126.9 billion as of July 1, 2008. The defined benefit plan valuation is a snapshot taken as of a specific point in time. In 2009, the valuation date was at a point in a severe economic decline where

[1] Data obtained from the Department of Management Services, Division of Retirement's, Florida Retirement System Annual Report, July 1, 2008 – June 30, 2009.

[2] Milliman, "Florida Retirement System Actuarial Valuation as of July 1, 2009."

the market was particularly low. In comparison, as of March 15, 2010, the State Board of Administration reported the market value of the FRS trust fund had returned to $115.6 billion.

The defined benefit plan being underfunded creates an unfunded actuarial liability (UAL), which triggers an amortization that must be funded within a 30-year period per various current statutes. Based on the results of the 2009 FRS valuation the annual system-wide increase in contributions necessary to fund the FRS' UAL would be approximately $466.7 million.

There are also 489 defined benefit retirement plans for municipalities and special districts whose actuarial funding is overseen by the Department of Management Services. The local government plans provide retirement income benefits to 102,188 active employees and 62,515 retirees or beneficiaries[3]. Total plan assets were valued at $23.1 billion as of September 30, 2009.[4] A significant portion of the plans were not fully funded in 2008, before the onset of the recent economic decline.

Provisions of Bill:

This bill provides public plans the option to temporarily elect to not fund their UAL if they meet a specific funding requirement. Retirement plans with an actuarial funded ratio of 90 percent or greater in the plan year ending in calendar year 2008, calculated using Government Accounting Standards Board Statement (GASB) 25, for plan years beginning in 2010, 2011, and 2012, would be eligible for this option. However, the total contribution to the retirement system or plan must be the greater of the normal cost or the contribution rate in effect for the previous year. The bill would apply to approximately 30 percent of local government retirement plans, including police and firefighter pension plans, which reported data to the Division of Retirement, and the FRS. The FRS covers nearly 1,000 public employers including state government, state universities, county governments (excluding Duval County) and all school boards and state community colleges are required to participate in the FRS. Municipalities, public charter schools, metropolitan planning districts and independent special districts may make an irrevocable choice to participate in the FRS.

B. SECTION DIRECTORY:

Section 1: Amends s 121.05, F.S., to provide an exception to any required UAL contribution for reemployed retirees covered by a state-administered retirement plan, as provided in newly created in s. 112.64(2)(b), F.S.

Section 2: Amends s. 121.64, F.S., to create paragraph (b) in subsection (2) to provide plans with a GASB Statement 25 funded ratio of 90 percent or more in plan year ending in 2008 a choice to limit contributions to the plan to the greater of normal cost or the contribution rate in effect for the previous year for plan years 2010, 2011 and 2012. In addition, any retirement plan that utilizes this reduced funding option must report that fact in their actuarial valuations. It also restricts public retirement systems or plans from extending the amortization of any UAL beyond the period already established under the plan or the 40 year period currently in law.

Section 3: Amends s. 121.051, F.S., to provide an exception to the UAL contribution, as provided in the newly created in s. 112.64(2)(b), F.S., on the salaries of employees electing to participate in the State Community College Optional Retirement Program (SCORP) as provided under s. 1012.875, F.S.

Section 4: Amends s. 121.053, F.S., to exempt FRS employers from making UAL retirement contributions on salaries of certain reemployed retirees holding elected office covered by the Elected Officers' Class or the Regular Class, as provided in the newly created in s. 112.64(2)(b), F.S.

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[3] Data obtained from the Department of Management Services, Division of Retirement's, Florida Local Government Retirement Systems 2009 Annual Report.

[4] Ibid.

Section 5: Amends s. 121.055, F.S., to exempt FRS employers from making UAL retirement contributions on the salaries of certain local government senior managers who elected to withdraw from the Senior Management Service Class (SMSC) or state senior managers who elected to withdraw from the SMSC to participate in the Senior Manager Service Optional Annuity Program (SMSOAP) as provided in the newly created s. 112.64(2)(b), F.S. State and local elected officials may choose to participate in the SMSC instead of the Elected Officers' Class and once in the SMSC may choose to withdraw from the FRS to participate in the SMSOAP.

Section 6: Amends s. 121.091, F.S., to provide an exemption to the UAL contribution, as provided in newly created s. 112.64(2)(b), F.S., on the salaries of retirees of state-administered retirement systems and former FRS DROP participants who are initially reemployed on or after July 1, 2010.

Section 7: Amends s. 121.053, F.S., to provide an exemption to the UAL contribution, as provided in newly created s. 112.64(2)(b), F.S., on the salaries of retirees initially reemployed on or after July 1, 2010, who are ineligible for renewed membership.

Section 8: Amends s. 121.35, F.S., to provide an exemption to the UAL contribution, as provided in newly created s. 112.64(2)(b), F.S., on the salaries of participants of the State University System Optional Retirement Program participants.

Section 9: Amends s. 1012.875, F.S., to provide an exemption to the UAL contribution, as provided in newly created s. 112.64(2)(b), F.S., on the salaries of participants of the State Community College optional Retirement Program.

Section 10: Certifies these provisions fulfill an important state interest.

Section 11: Provides an effective date of July 1, 2010. .

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues: None

2. Expenditures: Provides a statutory exemption from funding the UAL allowing the state to fund the FRS at the normal cost rates. The cost avoidance by employer group is estimated at:

	General Revenue	Trust Funds
State Agencies	$ 93.7 million	$ 42.2 million
Universities	$ 48.7 million	
Community Colleges	$ 22.2 million	
School Boards	$ 263.8 million	
Total	$ 428.4 million	

Note: Typically, the state funds any increases in required employer FRS contributions for the State University System; and for Community Colleges and School Boards as well.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

2. Expenditures: Provides a statutory exemption from funding the UAL, which allows the local governments participating in the FRS to pay normal cost rates. The cost avoidance by employer group is estimated at:

Counties	\$ 304.5 million
Others	\$ 45.8 million
Total	\$ 350.3 million

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

   The mandates provision does not appear to apply because the bill does not require local governments to expend additional funds. Regardless, the bill includes a statement of important interest and applies to all similarly situated persons.

2. Other:

B. RULE-MAKING AUTHORITY:

C. DRAFTING ISSUES OR OTHER COMMENTS:

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES