

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Military Affairs and Domestic Security Committee

BILL: SB 810

INTRODUCER: Sen. Aronberg

SUBJECT: Florida Retirement System

DATE: January 22, 2010 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Pardue	Skelton	MS	Favorable
2.	_____	_____	GO	_____
3.	_____	_____	WPSC	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

Senate Bill 810 removes a provision of s. 121.111, F.S., which limits participation in the Florida Retirement System (FRS) credit for wartime military service buy-in by persons whose initial qualified employment began after December 31, 1986. The effect of this change will be to allow qualified FRS Pension Plan members to purchase retirement credit for wartime military service at a greatly reduced rate.

There is no appropriation proposed with this bill. The bill will require state and local governments to increase their FRS employer contribution in order to fund the proposed benefit.

This bill substantially amends section 121.111 of the Florida Statutes.

II. Present Situation:

Under current law, members of the FRS Pension Plan who served all or part of their active military service during a wartime period¹ and whose initial date of FRS employment was prior to January 1, 1987 are eligible to purchase service credit for such military service under the wartime service provisions of s. 121.111(2), F.S.

Those service members whose initial date of FRS employment is January 1, 1987 or later are not eligible to purchase service credit under s. 121.111(2), F.S. However, they may be eligible to purchase service credit for such military service under the out-of-state/federal service provisions of s. 121.1115, F.S.

¹Wartime period as defined in s. 121.021(20)(b), F.S.

The cost to the member to purchase credit for service under the wartime service provisions program in s. 121.111(2), F.S., is much less expensive than the cost to purchase credit under the out-of-state/federal service provisions of s. 121.1115, F.S.

To illustrate the difference, the Department of Management Services (DMS) provided the following example:

A member hired on July 1, 1987, with an initial annual salary of \$21,000 and 4 years of wartime military service would have been able to purchase FRS credit for such service, in 2007, for \$11,840 if computed using the wartime service formula.² Credit purchased under the out-of-state/federal service provision would cost the member \$59,196.³

Article X, Section 14 of the Florida Constitution requires that a governmental unit responsible for any retirement or pension system supported by any public funds shall not provide any increase in benefits unless provision has been made for funding the increase on an actuarially sound basis.

Legislative intent to implement Article X, Section 14 of the Constitution is found in s. 112.61, F.S.:

“...it is the intent of this act to prohibit the use of any procedure, methodology, or assumptions the effect of which is to transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers. Actuarial experience may be used to fund additional benefits, provided that the present value of such benefits does not exceed the net actuarial experience accumulated for all sources of gains and losses.”

According to DMS, the wartime service credit provision underwent repeated review between 1977 and 1985 because the cost to the member to purchase the benefit was not sufficient to fund the cost of the benefit.⁴ According to the department’s analysis, “To help address the fiscal impact and to avoid litigation from future members, the 1985 Legislature⁵ amended section 121.111, F.S., to close this benefit for future members. This approach was taken in lieu of increased employer contributions and/or an increased member purchase formula to properly fund the benefit.”⁶

Current law allows members to purchase service credit under the FRS Pension Plan for up to 5 years of in-state or out-of-state public employment or federal employment under section 121.1115, F.S. This provision includes military service as eligible for purchase of service credit

² The cost to purchase retirement credit for each year of wartime military service is 4% of the annual salary earned during the member’s first year of creditable service plus interest at 6.5% compounded annually from the first year of membership in the FRS. A maximum of 4 years of military service can be purchased under this provision.

³ The cost to purchase retirement credit for each year of military service under the out-of-state provision of the FRS is 20% of the annual salary earned during the member’s first year of creditable service or 20% of \$12,000, whichever is greater, plus interest at 6.5% compounded annually from the first year of membership in the FRS. A maximum of 5 years of military service can be purchased under this provision.

⁴ DMS Analysis of SB 1614, March 16, 2007.

⁵ See chapter 85-220, Laws of Florida.

⁶ *Id.*

at a higher rate that is actuarially sound and meets the performance requirements of Chapter 121, F.S.

III. Effect of Proposed Changes:

Senate Bill 810 removes a provision of s. 121.111, F.S., which limits participation in the FRS credit for wartime military service buy-in by those persons whose initial FRS qualified employment began after December 31, 1986. The effect of this change will be to allow all qualified FRS Pension Plan members to purchase retirement credit for wartime military service under the provisions of s. 121.111(2), F.S. at a greatly reduced cost over the current provisions of s. 121.1115, F.S.

In order to fund the additional benefits proposed in this bill, the current employer contribution rates are increased effective July 1, 2010 by the following percentages:

Regular Class	0.11 percentage points
Special Risk Class	0.16 percentage points
Special Risk Administrative Support Class	0.21 percentage points
Judicial subclass of the Elected Officers' Class	0.20 percentage points
Legislative-Attorney-Cabinet subclass of the Elected Officers' Class	0.19 percentage points
County Officers' subclass of the Elected Officers' Class	0.22 percentage points
Senior Management Service Class	0.18 percentage points

The bill directs the Division of Statutory Revision to adjust the contribution rates as set forth in sections 121.052, 121.055, 121.071, Florida Statutes and states a finding that the act provides an important state interest.

This bill provides for an effective date of July 1, 2010.

Other Potential Implications:

None.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The bill will cause local governments to have to increase their required employer contribution rate in order to maintain the actuarial soundness of the FRS.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

The increase in retirement benefits provided for in this bill is likely subject to the provisions of Article X, Section 14 of the Florida Constitution relating to actuarial soundness. (See Government Sector Impact in this analysis.)

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

This bill will result in a substantial savings for qualified FRS members who wish to participate in a retirement system buy-in over the cost as provided for under current Florida Statutes.

C. Government Sector Impact:

The Department of Management Services’ consulting actuaries, Milliman Inc., completed an actuarial special study dated February 16, 2005, detailing the contribution rate increases associated with allowing the purchase of (1) military service for employees hired after December 31, 1986, and (2) service periods of hostility as established by the United States Department of Veterans Affairs. The study concluded that the change proposed in this bill would cause the required employer contribution rate to increase for all FRS membership classes.

According to the department, the member credit purchase rate under the wartime service provision of s. 121.111(2), F.S., is insufficient to offset the additional retirement benefit costs. Therefore, an increase in the employer contribution rate, as provided in this bill, is necessary to maintain FRS actuarial soundness. This bill does not contain an appropriation that would offset the additional cost.

The below table shows estimated additional employer costs to fund the proposed benefit.

Fiscal Year	2010-2011	2011-2012
State	\$7,684,000	\$7,992,000
Local	\$29,365,000	\$30,539,000
Total	\$37,049,000	\$38,531,000

Source: Florida Department of Management Services

It should be noted that assumptions made at the time of the study may be less valid today due to the current economic climate. According to Department of Management Services officials, an actuarial experience study for the period 2003 to 2008 showed that disability rates declined while member longevity increased. The net effect would likely result in a further increase above the cost estimates from the Milliman special study.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Additional Information:

A. Committee Substitute – Statement of Substantial Changes:

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

B. Amendments:

None.

This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.
