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 Governmental Oversight and Accountability Committee

BILL: SB 198

INTRODUCER: Senator Thrasher

SUBJECT: State University System Optional Retirement Program

DATE: November 28, 2011 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Brown	Matthews	HE	**Favorable**
2.	McKay	Roberts	GO	**Pre-meeting**
3.			BC	
4.				
5.				
6.				

I. Summary:

This bill increases the number of companies that the Department of Management Services (DMS) is authorized to contract with for provision of State University System optional retirement plans from five to six companies.

The DMS continues to be limited in its contract selection to the potential pool of companies proffered by the Board of Governors of the State University System.

This bill substantially amends section 121.35 of the Florida Statutes.

II. Present Situation:

Chapter 121, F.S., addresses the Florida Retirement System (FRS). The FRS provides retirement benefits to public employees and officers, generally offering membership to agencies, branches, the judiciary, district school boards, and institutions, including institutions of higher education.[1] The Department of Management Services (DMS) is designated the administrator of the FRS.[2]

Chapter 83-197, Laws of Florida, established an optional retirement program for the State University System in s. 121.35, F.S. Through this program, participants elect coverage as an alternative to membership in the traditional FRS and direct their own investments, subject to those offered by way of provider and plan.[3] Participation is available to certain instructional and

[1] ss. 121.011 and 121.021(10), F.S.
[2] s. 121.021(5), F.S.
[3] s. 121.35 (1), F.S.

research faculty, administrative and professional personnel, and the Chancellor and university presidents.[4] Participation is mandatory for faculty members at a college with faculty practice plans.[5] Contracts are awarded through recommendation of the Board of Governors to the DMS, which, in turn, is authorized to designate up to five companies for contract purchase.[6] The investment products, retirement, and death benefits offered by provider companies are subject to State Board of Administration review.[7]

The DMS indicates that about 17,000 eligible members elected participation in optional retirement as of June 30, 2011. Effective July 1, 2011, employer contribution amounts to 7.42 percent for deposit in the participant's account and 0.01 percent for administrative costs. Employee contribution is mandated at 3 percent of salary, and can be supplemented by up to an additional 7.42 percent, at the prerogative of the employee.

The optional retirement program currently offers five investment provider choices. These are:

- ING (3,042 participants);
- Jefferson National Life Insurance Company (134 participants);
- MetLife Investors USA Insurance Company (1,853 participants);
- Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) (8,870 participants); and
- VALIC Retirement (4,615 participants).[8]

This constitutes a total number of plans at 18,514.[9] All contracts currently in place expire between March and December of 2014.[10]

III. Effect of Proposed Changes:

The bill provides that DMS must designate no more than six companies for inclusion in the optional retirement program for the State University System, up from the current five companies. Provided that the DMS selects six, consumers electing optional retirement would have increased choice.

Although existing contracts do not expire until 2014, a new provider could potentially enter into the program prior to that time, based on the bill's effective date of July 1, 2012. It is unknown whether a contract offered to such a provider would have an initial expiration date of 2014, to align with existing contract terms.

[4] s. 121.35 (2)(a), F.S.
[5] s. 121.051(1)(a)2., F.S.
[6] s. 121.35 (6)(b), F.S.
[7] s. 121.35 (6)(c), F.S.
[8] Bill Analysis, Department of Management Services (September 20, 2011.) The number of participants cited is as of June 30, 2011.
[9] As participants are authorized to select more than one provider category, this number is higher than that reflecting total number of participants (16,999.)
[10] The VALIC contract expires March 2014, followed by MetLife in April 2014, with the remaining contracts all set to expire December 2014. (Information received by phone from Todd Gunderson, Senior Benefits Analyst, DMS, on November 14, 2011.)

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

To the extent that an additional provider increases market-driven competition based on financial return, this provision may financially benefit the end consumer through higher returns or lower costs and fees.

C. Government Sector Impact:

The DMS does not anticipate an actuarial impact should this bill pass, as the number of participants and the funds available for investment remain the same. Therefore, a Milliman study is not required.

The Board of Governors of the State University System does not anticipate a fiscal impact on universities.

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.