

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 Committee on Community Affairs

BILL: SB 1198

INTRODUCER: Senator Montford

SUBJECT: Florida Retirement System

DATE: April 4, 2014

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	White	Yeatman	CA	Pre-meeting
2.			GO	
3.			AP	

I. Summary:

SB 1198 modifies the type of previous employment that would qualify a pension plan member of the Florida Retirement System (FRS) to purchase retirement credits that may be applied towards FRS retirement service credit. Pension Plan members employed in an accredited charter school would be authorized to purchase retirement credit.

II. Present Situation:

The Florida Retirement System

The FRS is the fourth largest public retirement system in the United States. It is a multi-employer, contributory plan, governed by the Florida Retirement System Act in ch. 121, F.S., and administered by the Department of Management Services (DMS).¹ The FRS consists of 1,000 total employers; it is the primary retirement plan for employees of state and county government agencies, district school boards, community colleges, and universities, and also includes the 185 cities and 251 special districts that have elected to join the system.² Members of the FRS are required to make employee contributions of 3 percent of their salary.³ As of June 30, 2012, the FRS had 623,011 active members, 334,682 retired members and beneficiaries, and 40,556 active members of the Deferred Retirement Option Program (DROP).⁴

¹ Section 121.021(5), F.S.

² The Florida Retirement System Annual Report, July 1, 2011 – June 30, 2012, at 38, available at https://www.rol.frs.state.fl.us/forms/2011-12_Annual_Report.pdf (last visited Feb. 14, 2013).

³ Prior to 1975, members of the FRS were required to make employee contributions of either 4 percent for Regular Class employees or 6 percent for Special Risk Class members. Employees were again required to contribute to the system after July 1, 2011.

⁴ Florida Retirement System 2011-2012 Annual Report, at 54, 62, and 66.

Members of the FRS have two primary plan options available for participation:

- The defined benefit plan, also known as the Pension Plan; and
- The defined contribution plan, also known as the Investment Plan.

Investment Plan

In 2000, the Legislature created the Public Employee Optional Retirement Program (Investment Plan), a defined contribution plan offered to eligible employees as an alternative to the FRS Pension Plan. Benefits under the Investment Plan accrue in individual member accounts funded by both employee and employer contributions and earnings. Benefits are provided through employee-directed investments offered by approved investment providers.

A member vests immediately in all employee contributions paid to the Investment Plan.⁵ With respect to the employer contributions, a member vests after completing one work year with an FRS employer.⁶ Vested benefits are payable upon termination or death as a lump-sum distribution, direct rollover distribution, or periodic distribution.⁷ The Investment Plan also provides disability coverage for both inline-of-duty and regular disability retirement benefits.⁸ An FRS member who qualifies for disability while enrolled in the Investment Plan must apply for benefits as if the employee was a member of the Pension Plan. If approved for retirement disability benefits, the member is transferred to the Pension Plan.⁹

Pension Plan

The Pension Plan is administered by the secretary of the DMS through the Division of Retirement.¹⁰ Investment management is handled by the SBA. Any member initially enrolled in the Pension Plan before July 1, 2011, vests in the Pension Plan after completing six years of service with an FRS employer.¹¹ For members enrolled on or after July 1, 2011, the member vests in the Pension Plan after eight years of creditable service.¹² Benefits payable under the Pension Plan are calculated based on years of service x accrual rate x average final compensation.¹³

⁵ Section 121.4501(6)(a), F.S.

⁶ If a member terminates employment before vesting in the Investment Plan, the nonvested money is transferred from the member's account to the SBA for deposit and investment by the SBA in its suspense account for up to five years. If the member is not reemployed as an eligible employee within five years, then any nonvested accumulations transferred from a member's account to the SBA's suspense account are forfeited. Section 121.4501(6)(b) – (d), F.S.

⁷ Section 121.591, F.S.

⁸ See s. 121.4501(16), F.S.

⁹ Pension Plan disability retirement benefits, which apply for Investment Plan members who qualify for disability, compensate an inline-of-duty disabled member up to 65 percent of the average monthly compensation as of the disability retirement date for special risk class members. Other members may receive up to 42 percent of the member's average monthly compensation for disability retirement benefits. If the disability occurs other than in the line of duty, the monthly benefit may not be less than 25 percent of the average monthly compensation as of the disability retirement date. Section 121.091(4)(f), F.S.

¹⁰ Section 121.025, F.S.

¹¹ Section 121.021(45)(a), F.S.

¹² Section 121.021(45)(b), F.S.

¹³ Section 121.091, F.S.

For most members of the Pension Plan, normal retirement occurs at the earliest attainment of 30 years of service or age 62.¹⁴ For public safety employees in the Special Risk and Special Risk Administrative Support Classes, normal retirement is the earliest of 25 years of service or age 55.¹⁵ Members initially enrolled in the Pension Plan on or after July 1, 2011, have longer vesting requirements. For members initially enrolled after that date, the member must complete 33 years of service or attain age 65, and members in the Special Risk classes must complete 30 years of service or attain age 60.¹⁶

Purchase of Retirement Credits

The FRS Pension Plan members may receive credit for periods of employment with specified employers towards their FRS years of service. Retirement credit is provided for military service,¹⁷ and may be purchased for service with federal or state government,¹⁸ as well as nonpublic schools or colleges.¹⁹ Pension Plan members may purchase up to five years of retirement credit, on a year-for-year basis, for their period of employment with in-state charter schools, charter technical career centers, or any non-public school or college in Florida that is accredited by the Southern Association of Colleges and Schools.²⁰

Service credited for employment with charter schools, centers, and non-public schools and colleges is credited as service in the Regular Class, subject to s. 112.65, F.S. The cost to purchase retirement credit is calculated as 20 percent of the member's annual compensation for the first full work year of creditable service earned under the FRS, but not less than \$12,000, plus interest at 6.5 percent compounded annually from the date of first annual salary earned until full payment is made.²¹ Members may not receive credit if they are eligible to receive or are receiving a pension or benefit from a retirement or pension plan based on or including the same service.

III. Effect of Proposed Changes:

Section 1 amends s. 121.1122(1)(b), F.S., to allow FRS members to purchase retirement credit or periods of employment with an in-state charter school or in-state non-public school or charter technical career center or accredited non-public school or college for each year of FRS service.

By removing the requirement that the school or college be accredited under the authority of the Southern Association of Colleges and Schools, the bill provides only that the in-state non-public school or college be accredited, without specifying how the nonpublic school or college will be accredited or by which accreditation authority.

Section 2 provides an effective date of July 1, 2014.

¹⁴ Section 121.021(29)(a)1., F.S.

¹⁵ Section 121.021(29)(b)1., F.S.

¹⁶ Sections 121.021(29)(a)2. and (b)2., F.S.

¹⁷ Section 121.111, F.S.

¹⁸ Section 121.1115, F.S.

¹⁹ Section 121.1122, F.S.

²⁰ Section 121.1122(1)(b), F.S.

²¹ Section 121.1115(2), F.S.

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:

None.

C. Government Sector Impact:

Indeterminate. The State Board of Administration (SBA) notes that the bill might offer an effective recruitment tool for school districts, in that it would permit employees who worked for an in-state charter school or in-state non-public school or charter technical career center or accredited non-public school or college who become employed with an FRS-employer to purchase this non-FRS service.²²

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends section 121.1122 of the Florida Statutes.

²² SBA, *Bill Analysis of SB 1198* (Feb. 27, 2014).

IX. Additional Information:

- A. **Committee Substitute – Statement of 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.
