

closed group.¹ The FRS is a contributory system, with most members contributing three percent of their salaries.²

The FRS is a multi-employer, contributory plan, governed by the Florida Retirement System Act in Chapter 121, F.S. As of June 30, 2013, the FRS had 621,774 active members, 347,962 retired members and beneficiaries, 16,018 disabled retirees, and 38,724 active participants of the Deferred Retirement Option Program (DROP).³ 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, Florida College institutions, and state universities, and also includes the 185 cities and 251 special districts that have elected to join the system.⁴

The membership of the FRS is divided into five membership classes:

- Regular Class⁵ consists of 536,506 active members, plus 6,461 in renewed membership;
- Special Risk Class⁶ includes 68,800 active members;
- Special Risk Administrative Support Class⁷ has 58 active members;
- Elected Officers' Class⁸ has 2,094 active members, plus 152 in renewed membership; and
- Senior Management Service Class⁹ has 7,450 members, plus 210 in renewed membership.¹⁰

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.

¹ The Florida Retirement System Annual Report, July 1, 2012 – June 30, 2013, at 16. Available online at: https://www.rol.frs.state.fl.us/forms/2012-13_Annual_Report.pdf

² 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. Members in the Deferred Retirement Option Program do not contribute to the system.

³ Florida Retirement System 2012-2013 Annual Report, at 10.

⁴ *Id.*, at 38.

⁵ The Regular Class is for all members who are not assigned to another class. Section 121.021(12), F.S.

⁶ The Special Risk Class is for members employed as: law enforcement officers, firefighters, correctional officers, probation officers, paramedics and emergency technicians, among others. Section 121.0515, F.S.

⁷ The Special Risk Administrative Support Class is for a special risk member who moved or was reassigned to a nonspecial risk law enforcement, firefighting, correctional, or emergency medical care administrative support position with the same agency, or who is subsequently employed in such a position under the Florida Retirement System. Section 121.0515(8), F.S.

⁸ The Elected Officers' Class is for elected state and county officers, and for those elected municipal or special district officers whose governing body has chosen Elected Officers' Class participation for its elected officers. Section 121.052, F.S.

⁹ The Senior Management Service Class is for members who fill senior management level positions assigned by law to the Senior Management Service Class or authorized by law as eligible for Senior Management Service designation. Section 121.055, F.S.

¹⁰ All figures from Florida Retirement System 2012-2013 Annual Report, at 47.

A member vests immediately in all employee contributions paid to the investment plan.¹¹ With respect to the employer contributions, a member vests after completing one work year with an FRS employer.¹² Vested benefits are payable upon termination or death as a lump-sum distribution, direct rollover distribution, or periodic distribution.¹³ The investment plan also provides disability coverage for both inline-of-duty and regular disability retirement benefits.¹⁴ An FRS member who qualifies for disability while enrolled in the investment plan must apply for benefits as if the employee were a member of the pension plan. If approved for retirement disability benefits, the member is transferred to the pension plan.¹⁵

The State Board of Administration (SBA) is primarily responsible for administering the investment plan.¹⁶ The SBA is comprised of the Governor as chair, the Chief Financial Officer, and the Attorney General.¹⁷

Pension Plan

The pension plan is administered by the secretary of the Department of Management Services through the Division of Retirement.¹⁸ Investment management is handled by the State Board of Administration.

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.¹⁹ For members enrolled on or after July 1, 2011, the member vests in the pension plan after eight years of creditable service.²⁰ Benefits payable under the pension plan are calculated based on years of service x accrual rate x average final compensation.²¹ For most members of the pension plan, normal retirement occurs at the earliest attainment of 30 years of service or age 62.²² 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 55.²³ 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

¹¹ Section 121.4501(6)(a), F.S.

¹² 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.

¹³ Section 121.591, F.S.

¹⁴ See s. 121.4501(16), F.S.

¹⁵ 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.

¹⁶ Section 121.4501(8), F.S.

¹⁷ Section 4, Art. IV, Fla. Const.

¹⁸ Section 121.025, F.S.

¹⁹ Section 121.021(45)(a), F.S.

²⁰ Section 121.021(45)(b), F.S.

²¹ Section 121.091, F.S.

²² Section 121.021(29)(a)1., F.S.

²³ Section 121.021(29)(b)1., F.S.

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 60.²⁴

Optional Retirement Programs

Eligible employees may choose to participate in one of three retirement programs instead of participating in the FRS:

- Members of the Senior Management Service Class may elect to enroll in the Senior Management Service Optional Annuity Program;²⁵
- Members in specified positions in the State University System may elect to enroll in the State University System Optional Retirement Program;²⁶ and
- Members in specified positions at a Florida College institution may elect to enroll in the State Community College System Optional Retirement Program.²⁷

Contribution Rates

FRS employers are responsible for contributing a specified percentage of the member’s monthly compensation to the Division of Retirement to be distributed into the FRS Contributions Clearing Trust Fund. The employer contribution rate is a blended contribution rate set by statute, which is the same percentage regardless of whether the member participates in the pension plan or the investment plan.²⁸ The rate is determined annually based on an actuarial study by the Department of Management Services that calculates the necessary level of funding to support all of the benefit obligations under both FRS retirement plans.

In the annual actuarial valuation of the Florida Retirement, based on July 1, 2013, plan assets and liabilities, Milliman, Inc., the state actuary, determined the following key data relating to the FRS pension plan.

	Valuation Results		
	July 1, 2011	July 1, 2012	July 1, 2013
Actuarial Liability	\$144.1 B	\$147.2 B	\$153.3 B
Actuarial Value of Assets	\$126.1 B	\$127.9 B	\$131.7 B
Unfunded Actuarial Liability	\$ 18.0 B	\$ 19.3 B	\$ 21.6 B
Funded Percentage	87.5%	86.9%	85.9%

²⁴ Sections 121.021(29)(a)2. and (b)2., F.S.

²⁵ The Senior Management Service Optional Annuity Program (SMSOAP) was established in 1986 for members of the Senior Management Service Class. Employees in eligible positions may irrevocably elect to participate in the SMSOAP rather than the FRS. Section 121.055(6), F.S.

²⁶ Eligible participants of the State University System Optional Retirement Program (SUSORP) are automatically enrolled in the SUSORP. However, the member must execute a contract with a SUSORP provider within the first 90 days of employment or the employee will default into the pension plan. If the employee decides to remain in the SUSORP, the decision is irrevocable and the member must remain in the SUSORP as long as the member remains in a SUSORP-eligible position. Section 121.35, F.S.

²⁷ If the member is eligible for participation in a State Community College System Optional Retirement Program, the member must elect to participate in the program within 90 days of employment. Unlike the other optional programs, an employee who elects to participate in this optional retirement program has one opportunity to transfer to the FRS. Section 1012.875, F.S.

²⁸ Section 121.70(1), F.S.

The following are the current employer contribution rates for each class and the blended rates recommended by the state actuary beginning in July 2014:²⁹

Membership Class	Current Rates Effective July 1, 2013		Recommended Rates to be effective July 1, 2014	
	Normal Cost	UAL Rate	Normal Cost	UAL Rate
Regular Class	3.53%	2.19%	3.53%	2.54%
Special Risk Class	11.00%	6.83%	11.01%	7.51%
Special Risk Administrative Support Class	4.17%	30.56%	4.18%	36.59%
Elected Officer's Class				
• Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, Public Defenders	6.52%	24.85%	6.30%	38.66%
• Justices and Judges	10.05%	17.00%	10.10%	21.77%
• County Officers	8.44%	23.36%	8.36%	33.58%
Senior Management Service Class	4.81%	12.27%	4.80%	15.04%
Deferred Retirement Option Program	4.63%	7.01%	4.30%	6.72%

For all membership classes, except the DROP and certain members with renewed membership, employees contribute three percent of their compensation towards retirement.³⁰

After employer and employee contributions are placed into the FRS Contributions Clearing Trust Fund, the allocations under the investment plan are transferred to third-party administrators to be placed in the employee's individual investment accounts, whereas contributions under the pension plan are transferred into the FRS Trust Fund.³¹

Retiree Health Insurance Subsidy

Section 112.363, Florida Statutes, provides for a retiree health insurance subsidy. This subsidy is paid from the Retiree Health Insurance Subsidy Trust Fund to eligible retirees in the FRS. The amount of the monthly subsidy is \$5 for each year of service in the FRS, but not less than \$30 nor more than \$150.

The subsidy is funded through a contribution by employers participating in the FRS. The current contribution is 1.20% of the employer's monthly payroll. The contribution is paid to the Department of Management Services for deposit in the Retiree Health Insurance Subsidy Trust Fund. This program is funded on a "pay-as-you-go" basis rather than on an actuarial basis. This means that the revenues and expenditures of the trust fund are designed to match each other on an annual basis, with minimal reserves accumulated.

²⁹ Section 121.71(4) and (5), F.S.

³⁰ Section 121.71(3), F.S.

³¹ See sections 121.4503 and 121.72(1), F.S.

Participants of the university, community college, and senior management service defined contribution retirement programs receive contributions directly into their retirement accounts during the years of employment; these participants will not receive the health insurance subsidy during retirement. Participants of the FRS investment plan will not receive the health insurance subsidy contributions directly but will be eligible to receive the health insurance subsidy upon retirement.

Sections 121.052, 121.055, and 121.071, F.S., also set forth the employer-paid contributions for the retiree health insurance trust fund for the various FRS membership classes.

A recent cash flow analysis of the Retiree Health Insurance Subsidy Trust Fund indicates the following key cash flow data for Fiscal Year 2010-2011 through Fiscal Year 2014-2015. Under current law and current administration and assuming only two percent payroll growth for Fiscal Year 2013-2014 and Fiscal Year 2014-2015, the trust fund is expected to deplete its reserves by September 2015. After that date, the trust fund may not have sufficient revenues to pay the full monthly benefits to retirees.

Retiree Health Insurance Subsidy Trust Fund Changes in Fund Balance				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Fund Balance – beginning of Year	\$271,349,733	\$220,345,962	\$157,929,287	\$91,235,843
Revenues	\$323,439,767	\$328,556,683	\$354,504,733	\$361,165,791
Expenditures	\$374,443,538	\$390,973,358	\$421,198,177	\$438,137,462
Excess of Revenues over Expenditures	(\$51,003,771)	(\$62,416,675)	(\$66,693,444)	(\$76,971,671)
Fund Balance – end of year	\$220,345,962	\$157,929,287	\$91,235,843	\$14,264,172
Reserves (balance / monthly expenses)	7.1 months	4.8 months	2.6 months	0.4 month

Administrative and Educational Expenses

Section 121.74, F.S., requires all employers participating in the FRS to pay additional contributions equal to 0.03 percent of the employer’s covered payroll. The required contribution rate is scheduled to increase to 0.04 percent beginning July 1, 2014. The assessment rates have been as high as 0.15 percent in Fiscal Year 2002-2003 (the third year of the investment plan) and were 0.05 percent from Fiscal Year 2005-2006 through Fiscal Year 2009-2010. In Fiscal Year 2010-2011, the Legislature reduced the assessment rate to ensure that the forfeiture account balances were reduced in a timely and appropriate manner to comply with the federal tax code.

These contributions are used to offset a portion of the costs incurred by the State Board of Administration in providing education services to all members of the FRS and in administering

the FRS investment plan. The table below shows the assessment rate and the revenues and expenditures associated with the contributions. While the revenues into the Administrative Trust Fund have remained consistent over time, the estimated expenditures from the trust fund appear to grow dramatically in the near future. This is a result of the State Board of Administration spending down monies that have been forfeited by investment plan members. As the forfeiture account balance reaches zero, more of the overall costs incurred by the SBA will be borne by the Administrative Trust Fund – resulting in the fund experiencing a deficit by the middle of Fiscal Year 2016-2017 based on current law assessment rates.

State Board of Administration Administrative Trust Fund				
Fiscal Year	Assessment Rate	Revenues	Expenditures	End of Year Balance
2011-2012	0.03%	\$ 7.86 M	\$ 9.94 M	\$36.03 M
2012-2013	0.03%	\$ 7.90 M	\$ 7.71 M	\$36.65 M
2013-2014	0.03%	\$ 8.06 M	\$16.66 M	\$29.46 M
2014-2015	0.04%	\$10.85 M	\$21.64 M	\$19.60 M
2015-2016	0.04%	\$10.75 M	\$22.72 M	\$ 8.01 M
2016-2017	0.04%	\$10.64 M	\$23.86 M	(\$ 5.47) M

III. Effect of Proposed Changes:

The bill increases the employer-paid contributions for the retiree health insurance subsidy program. Also, the bill revises the employer-paid normal cost rates and unfunded actuarial liability (UAL) rates for the FRS, as determined by the July 1, 2013 Annual Valuation as necessary to adequately fund the costs of retirement benefits during Fiscal Year 2014-2015.

Section 1 amends s. 112.363, F.S., beginning July 1, 2014, to increase the employer paid contribution to the Retiree Health Insurance Trust Fund from 1.20 percent of gross compensation to 1.30 percent of gross compensation for each member of the Florida Retirement System.

Section 2 amends s. 121.052, F.S., beginning July 1, 2014, to increase the employer paid contribution to the Retiree Health Insurance Trust Fund from 1.20 percent of gross compensation to 1.30 percent of gross compensation for each member of the Elected Officers’ Class of Florida Retirement System.

Section 3 amends s. 121.055, F.S., beginning July 1, 2014, to increase the employer paid contribution to the Retiree Health Insurance Trust Fund from 1.20 percent of gross compensation to 1.30 percent of gross compensation for each member of the Senior Management Service Class of Florida Retirement System.

Section 4 amends s. 121.071, F.S., beginning July 1, 2014, to increase the employer paid contribution to the Retiree Health Insurance Trust Fund from 1.20 percent of gross compensation to 1.30 percent of gross compensation for each member of the Regular, Special Risk, and Special Risk Administrative Support classes of Florida Retirement System.

Section 5 amends s. 121.71, F.S., to set the employer-paid contributions to the Florida Retirement System Trust Fund for each member of the FRS.

Section 6 amends s. 121.74, F.S., to change the label of the employer-paid contributions to “employer assessments” for those funds used for education services for all FRS members and to offset the costs of administering the investment plan.

Sections 7 and 8 provide findings that the bill fulfills important state interests.

The bill provides an effective date of July 1, 2014.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Subsection (a) of s. 18, Art. VII of the Florida Constitution provides that “no county or municipality shall be bound by any general law requiring such county or municipality to spend funds . . . unless the legislature has determined that such law fulfills an important state interest and unless: . . . the expenditure is required to comply with a law that applies to all persons similarly situated . . .”.

This bill includes legislative findings that the bill fulfills important state interests, and the bill applies to all persons similarly situated (those employers participating in the Florida Retirement System), including state agencies, school boards, community colleges, counties, and municipalities.

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:

Florida Retirement System

With the enactment of SB 2506, the revenues expected to flow into the Florida Retirement System Trust Fund in Fiscal Year 2014-2015 will increase by approximately \$131.5 million from employers, when compared to the revenues generated in Fiscal Year 2013-2014. The increases by employer group for Fiscal Year 2014-2015 are noted below.

Employer Group	New Contributions
State Agencies	\$ 29.48 M
Universities	12.26 M
Colleges	4.14 M
School Boards	37.97 M
Counties	39.68 M
Other	8.00 M
Total	\$131.53 M

Retiree Health Insurance Trust Fund

With the enactment of this legislation, the revenues expected to flow into the Retiree Health Insurance Trust Fund will increase by approximately \$30.1 million annually. The increases by employer group for Fiscal Year 2014-2015 are noted below. With these increased contributions, the trust fund is not expected to deplete its reserves until April 2016.

Employer Group	New Contributions
State Agencies	\$ 4.67 M
Universities	1.29 M
Colleges	1.04 M
School Boards	13.40 M
Counties	8.04 M
Other	1.65 M
Total	\$30.09 M

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends the following sections of the Florida Statutes: 112.363, 121.052, 121.055, 121.071, 121.71, and 121.74.

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.
