

**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.)

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Prepared By: The Professional Staff of the Committee on Governmental Oversight and Accountability

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BILL: SB 242

INTRODUCER: Senator Brandes

SUBJECT: Publicly Funded Retirement Plans

DATE: February 16, 2015

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Peacock	McVaney	GO	<b>Pre-meeting</b>
2.			CA	
3.			AP	

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**I. Summary:**

SB 242 requires local government pension plans, in conducting the actuarial valuations of their pension plans, to use mortality table methodologies consistent with the methodologies used in the most recently published actuarial valuation report of the Florida Retirement System (FRS). In most instances, the mortality tables used will recognize longer lifetimes for annuitants and result in higher annual contributions being required to be paid into the pension funds in the near term.

Similarly, the bill revises the mortality tables to be used in the actuarial disclosures in financial statements submitted to the Department of Management Services. This modification does not impact the actuarial funding of the various pension plans but does provide some information that may be useful when comparing local pension plans and the Florida Retirement System.

To the extent the use of the updated mortality tables result in increases to the normal costs or unfunded liabilities of local government pension plans, this bill will result in higher contributions being paid into the local government pension plans in the near term.

The bill provides for an effective date of July 1, 2015.

**II. Present Situation:**

**Florida Local Retirement Systems and Plans**

The Division of Retirement of the Department of Management Services (DMS) reports<sup>1</sup> that as of September 30, 2014, there are 491 defined benefit plans sponsored by 249 local governments in Florida. The vast majority of the plans, 486, are local government defined benefit systems that

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<sup>1</sup> Division of Management Services, *Florida Local Government Retirement Systems*, 2014 Annual Report, available online at: [http://www.dms.myflorida.com/workforce\\_operations/retirement/local\\_retirement\\_plans/local\\_retirement\\_section/local\\_government\\_annual\\_reports](http://www.dms.myflorida.com/workforce_operations/retirement/local_retirement_plans/local_retirement_section/local_government_annual_reports) (last visited on February 12, 2015).

provide benefits to 87,097 retirees, with 97,677 active employees, and total plan assets of \$30.5 billion.<sup>2</sup> The average annual pension in these local defined benefit plans is \$25,252, and the average annual required contribution rate as a percentage of payroll is 31.96 percent. The total unfunded actuarial accrued liability for all the defined benefit plans as of September 30, 2014, was \$10.5 billion.

### **Actuarial Reporting for Local Government Pension Plans**

Public pension plans, including the municipal police and firefighter pension plans, are required to have regularly scheduled actuarial reports prepared and certified by an enrolled actuary, at least every three years. The actuarial reports must include at least the following information:

- Adequacy of employer and employee contributions;
- A plan to amortize any unfunded liability, and a description of actions taken to reduce the unfunded liability;
- A description and explanation of actuarial assumptions;
- A schedule illustrating the amortization of unfunded liabilities, if any;
- A comparative review illustrating the actual salary increases granted and the rate of investment return realized over the 3-year period preceding the actuarial report with the assumptions used in both the preceding and current actuarial reports;
- A disclosure of the present value of the plan's accrued vested, nonvested, and total benefits, as adopted by the Financial Accounting Standards Board, using the Florida Retirement System's assumed rate of return; and
- A statement by the enrolled actuary that the report is complete and accurate and that the techniques and assumptions used are reasonable and meet the requirements of state law.

The actuarial cost methods used to establish the annual normal costs of the plans must be those methods approved in the Employee Retirement Income Security Act of 1974.<sup>3</sup>

The actuarial reports must be submitted to the DMS. DMS is required to review each report to determine whether the actuarial valuation is complete, accurate, and based on reasonable assumptions.<sup>4</sup>

The board of trustees for a local government pension plan, with guidance from its professional advisors, is permitted to choose the mortality table to be used in the actuarial valuation report in the determination of actuarially required contributions for the plan. The table below shows the various mortality tables used by local government retirement plans and the frequency of use among the plans.

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<sup>2</sup> The other 6 plans are school board early retirement programs that provide benefits to 1,686 retirees, with active plan membership of 4,506, and total plan assets of \$64.8 million.

<sup>3</sup> Section 112.63(1)(f), F.S.

<sup>4</sup> Section 112.63(4)(a), F.S.

<b>Mortality Table</b>	<b>Number of local government plans using this table</b>
1983 Group Annuity Mortality (GAM 83)	20
1994 Group Annuity Mortality (GAM 94)	10
1994 Group Annuity Mortality with Scale AA (GAR 94)	7
Uninsured Population 1994 (UP 94)	4
Retirement Plans 2000 (RP 2000)	437
Internal Revenue Service Prescribed	8
Other	3
<b>Total</b>	<b>489</b>

Section 112.664, F.S., requires additional reporting requirements for all publicly-funded defined benefit retirement plans, other than FRS. The following information must be provided to DMS annually, within 60 days after receipt of the certified actuarial report submitted after the close of the plan year that ends after June 30, 2014, and thereafter in each year in which an actuarial valuation of the plan is done:

- Annual financial statements in compliance with the requirements of the Government Accounting Standards Board's Statement No. 67, Financial Reporting for Pension Plans and Statement No. 68 Accounting and Financial Reporting for Pensions using RP-2000 Combined Healthy Participant Mortality Tables, by gender, with generational projection by Scale AA.
- Annual financial statements similar to GASB, but which use an assumed rate of return and assumed discount rate 200 basis points less than a plan's assumed rate of return.
- The number of months or years for which the current market value of assets is adequate to sustain the payment of expected retirement benefits.
- The recommended contributions to the plan based on financial statements stated as an annual dollar value and a percentage of valuation payroll.

Plans that fail to submit timely the required information within 60 days after receipt of the plan's actuarial report will be deemed to be in noncompliance. DMS may notify the Department of Revenue (DOR) and Department of Financial Services (DFS) of the noncompliance, and DOR and DFS must withhold funds payable to the plan sponsor, which are not pledged towards bond debt service. The bill gives plan sponsors administrative rights if these actions are taken.

### **Mortality Tables**

Section 430 of the Internal Revenue Code (IRC) outlines minimum funding standards for single-employer defined benefit pension plans. Section 430(h)(3) of the IRC provides that the Secretary of the Treasury must by regulation prescribe mortality tables to be used in determining any present value or making any computation under section 430 of the Code, implemented as the RP-2000 Mortality Tables.<sup>5</sup>

The FRS uses different mortality tables for its general employee and special risk classes for non-disability retirement. The 2014 FRS Valuation used the RP 2000 mortality table with Scale BB

<sup>5</sup> RP-2000 Mortality Tables are available at [http://www.pensionsoft.com/references\\_mort\\_other.html](http://www.pensionsoft.com/references_mort_other.html) (last visited on March 20, 2013).

with varying mixes of white collar and blue collar; non-disability retirement retirements have a separate mortality basis for Special Risk Class members compared to all other membership classes. Disability retirements have a common mortality basis for all classes. The disability requirement for FRS members is total and permanent from all forms of employment as certified by two licensed physicians.

### **Required Minimum Funding Standards for Public Pensions**

Under current law, total contributions to a public sector retirement plan must be sufficient to fund the normal cost of the retirement plan and to amortize the unfunded actuarial liability over a period not to exceed 40 years.<sup>6</sup> If an unfunded liability arises from a plan amendment, changes in actuarial assumptions, changes in funding methods or actuarial gains or losses, the liability must be amortized within 30 plan years.<sup>7</sup> The laws establishing the municipal police<sup>8</sup> and firefighter<sup>9</sup> pension plans have similar provisions.

### **III. Effect of Proposed Changes:**

**Section 1** amends s. 112.63, F.S., to require the actuarial valuations of local government pension plans to use mortality table methodology consistent with the most recently published actuarial valuation report of the FRS. The RP-2000 mortality table with Scale BB was used for the 2014 Actuarial Valuation of the Florida Retirement System.

While the FRS uses RP-2000 mortality table with Scale BB, additional adjustments are made based on gender, membership class, and varying mixes of white collar and blue collar work. For example, different mortality bases are used for non-disability retirements in the Special Risk Class compared to the mortality bases used for non-disability retirements in other membership classes. At first glance, one would assume that the mortality assumptions used for FRS Special Risk Class would be an acceptable assumption to use for the police and firefighter pension plans. However, the FRS Special Risk Class has a broader membership than those local pension plans.<sup>10</sup> This broader membership base may result in a different mix of white collar and blue collar jobs.

**Section 2** amends s. 112.664, F.S., to revise the information included in a defined benefit retirement system or plan's annual report to DMS to include financial statements that use mortality table methodology consistent with the most recently published actuarial valuation report of the FRS. In general, this change will require local plans to use Scale BB rather than Scale AA with the RP-2000 mortality table.

**Section 3** provides that the Legislature determines that the bill fulfills an important state interest as related to publicly funded retirement plans.

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<sup>6</sup> Section 112.64(2), F.S.

<sup>7</sup> Section 112.64(4), F.S.

<sup>8</sup> Section 185.07, F.S.

<sup>9</sup> Section 175.091, F.S.

<sup>10</sup> Section 121.0515, F.S., defines membership in the FRS Special Risk Class also to include correctional officers, certain emergency medical technicians and paramedics, certain nurses and other health professionals, certain forensic laboratory technicians, and certain employees of a medical examiner's office.

**Section 4** provides an effective date of July 1, 2015.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

To the extent this bill requires a local government to expend funds to comply with its terms, the provisions of section 18(a) of Article VII of the State Constitution may apply. If those provisions do apply, in order for the law to be binding upon the cities and counties, the Legislature must find that the law fulfills an important state interest, and one of the following relevant exceptions must apply:

- The expenditure is required to comply with a law that applies to all persons similarly situated; or
- The law must be approved by two-thirds of the membership of each house of the Legislature.

Since this bill requires all public sector pension plans to use the same mortality methodologies, it appears the bill applies to all persons similarly situated (state, municipalities and special districts sponsoring pension plans). The bill also contains a finding that the bill fulfills an important state interest (section 3). Thus, it appears the bill is binding upon cities and counties that sponsor retirement plans.

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.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

It is unclear whether the information required under s. 112.644 (1)(a), F.S., to be reported by each public sector plan will differ from the information contained in the plan's actuarial valuation under the provisions of this legislation. Under current law, the actuarial valuation could use any mortality table the plan sponsor deemed appropriate and the information reported pursuant to s. 112.644, F.S., requires the use of RP-2000 with Scale AA. Under the bill, the mortality tables used in the valuation and the information reported pursuant to s. 112.644, F.S., will be the same – those that are consistent with the mortality table methodologies used by the FRS.

**VIII. Statutes Affected:**

This bill substantially amends sections 112.63 and 112.664 of the Florida Statutes.

**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.