

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 5007      PCB APC 18-04      State-Administered Retirement Systems  
**SPONSOR(S):** Appropriations Committee, Trujillo  
**TIED BILLS:**            **IDEN./SIM. BILLS:** SB 7014

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Appropriations Committee	26 Y, 0 N	Delaney	Leznoff

### SUMMARY ANALYSIS

The Florida Retirement System (FRS) is a multiple-employer, contributory plan that provides retirement income benefits for employees of the state and county government agencies, district school boards, state colleges, and universities and it also serves as the retirement plan for participating employees of the cities and independent hospitals and special districts that have elected to join the system. Members of the FRS have two plan options available for participation: the pension plan, which is a defined benefit plan, and the investment plan, which is a defined contribution plan.

Current law requires an annual actuarial valuation of the FRS be provided by the administrator of the Department of Management Services and for the results to be reported to the Legislature by December 31 of each year. Thereafter, the Legislature uses the results of the actuarial valuation to establish uniform employer contribution rates during the next Legislative Session to ensure the FRS is funded in a sound actuarial manner.

Effective July 1, 2018, the bill revises the employer contribution rates for the FRS based on the 2017 Actuarial Valuation.

The bill conforms the law to the House proposed 2018-19 General Appropriations Act (GAA) as retirement contributions are included in the GAA.

The application of the rates recommended in the 2017 Actuarial Valuation of the FRS, will have a significant negative fiscal impact to the state and local governments: \$86.2 million in General Revenue (state, district school boards, state colleges and universities) and \$13.5 million in trust funds; and \$76.6 million to local governments.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### Background

###### Florida Retirement System

The Florida Retirement System (FRS) was established in 1970 when the Legislature consolidated the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund. In 1972, the Judicial Retirement System was consolidated into the FRS, and in 2007, the Institute of Food and Agricultural Sciences Supplemental Retirement Program was consolidated under the Regular Class of the FRS as a closed group.<sup>1</sup>

The FRS is a multiple-employer, contributory plan<sup>2</sup> governed by the Florida Retirement System Act.<sup>3</sup> As of June 30, 2017, the FRS provides retirement income benefits to 637,643 active members,<sup>4</sup> 406,374 retired members and beneficiaries, and 32,233 members of the Deferred Retirement Option Program (DROP).<sup>5</sup> It is the primary retirement plan for employees of state and county government agencies, district school boards, state colleges, and universities. The FRS also serves as the retirement plan for participating employees of the 173 cities and 260 independent hospitals and special districts that have elected to join the system.<sup>6</sup>

Section 121.031, F.S., requires that an annual actuarial study of the FRS be provided by the administrator of the system (the Department of Management Services) and for the results to be reported to the Legislature by December 31 of each year. Thereafter, the Legislature uses the report in establishing the uniform contribution rates in law during the next regular legislative session.

The membership of the FRS is divided into five membership classes:<sup>7</sup>

- Regular Class<sup>8</sup> consists of 555,716 members (87.15 percent of the membership);
- Special Risk Class<sup>9</sup> includes 71,612 members (11.23 percent);
- Special Risk Administrative Support Class<sup>10</sup> has 76 members (0.01 percent);
- Elected Officers' Class<sup>11</sup> has 2,167 members (0.34 percent); and
- Senior Management Service Class<sup>12</sup> has 8,028 members (1.26 percent).

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<sup>1</sup> *Florida Retirement System Pension Plan And Other State Administered Systems Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2017*, at 33. A copy of the report can be found online at:

[http://www.dms.myflorida.com/workforce\\_operations/retirement/publications/annual\\_reports](http://www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports) [hereinafter *Annual Report*].

<sup>2</sup> Prior to 1975, members of the FRS were required to make employee contributions of either 4 percent for Regular Class members or 6 percent for Special Risk Class members. Members were again required to contribute to the system after June 30, 2011.

<sup>3</sup> Chapter 121, F.S.

<sup>4</sup> As of June 30, 2017, the FRS Pension Plan, which is a defined benefit plan, had 520,014 members, and the investment plan, which is a defined contribution plan, had 117,629 members. *Annual Report*, *supra* note 1, at 144.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*, at 180.

<sup>7</sup> *Annual Report*, *supra* note 1, at 144.

<sup>8</sup> The Regular Class is for all members who are not assigned to another class. Section 121.021(12), F.S.

<sup>9</sup> 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.

<sup>10</sup> 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 FRS. Section 121.0515(8), F.S.

<sup>11</sup> 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.

<sup>12</sup> 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.

Each class is funded separately based upon the costs attributable to the members of that class.

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

- The pension plan, which is a defined benefit plan; and
- The investment plan, which is a defined contribution plan.

Certain members, as specified by law and position title, may, in lieu of FRS participation, participate in optional retirement plans.

#### FRS 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 pension plan. The earliest that any member could participate in the investment plan was July 1, 2002.

The State Board of Administration (SBA) is primarily responsible for administering the investment plan.<sup>13</sup> The SBA is comprised of the Governor as chair, the Chief Financial Officer, and the Attorney General.<sup>14</sup>

A member vests immediately in all employee contributions paid to the investment plan.<sup>15</sup> With respect to the employer contributions, a member vests after completing one work year with an FRS employer.<sup>16</sup> Vested benefits are payable upon termination or death as a lump-sum distribution, direct rollover distribution, or periodic distribution.<sup>17</sup>

Benefits under the investment plan accrue in individual member accounts funded by both employee and employer contributions and investment earnings. Benefits are provided through employee-directed investments offered by approved investment providers. The amount of money contributed to each member's account varies by class as follows:

<b>Membership Class</b>	<b>Percentage of Gross Compensation<sup>1</sup></b>
Regular Class	6.30%
Special Risk Class	14.00%
Special Risk Administrative Support Class	7.95%
Elected Officers' Class	
• Justices and Judges	13.23%
• County Elected Officers	11.34%
• Others	9.38%
Senior Management Service Class	7.67%

<sup>1</sup> Includes the three percent employee contribution.

#### FRS Pension Plan

The pension plan is a defined benefit plan that is administered by the secretary of the Department of Management Services (DMS) through the Division of Retirement.<sup>18</sup> Investment management is handled by the SBA.

<sup>13</sup> Section 121.4501(8), F.S.

<sup>14</sup> Section 4(e), Art. IV, Fla. Const.

<sup>15</sup> Section 121.4501(6)(a), F.S.

<sup>16</sup> 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, 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.

<sup>17</sup> Section 121.591, F.S.

<sup>18</sup> Section 121.025, F.S.

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.<sup>19</sup> For members initially enrolled on or after July 1, 2011, the member vests in the pension plan after eight years of creditable service.<sup>20</sup> A member vests immediately in all employee contributions paid to the pension plan.

For most members of the pension plan, normal retirement occurs at the earliest attainment of 30 years of service or age 62.<sup>21</sup> For members in the Special Risk and Special Risk Administrative Support Classes, normal retirement is the earliest of 25 years of service or age 55.<sup>22</sup> Members initially enrolled in the pension plan on or after July 1, 2011, must complete 33 years of service or attain age 65, and members in the Special Risk and Special Risk Administrative Support Classes must complete 30 years of service or attain age 60.<sup>23</sup>

### Contribution Rates

FRS employers are responsible for contributing a set percentage of the member's monthly compensation to the division 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.<sup>24</sup> The rate is determined annually based on an actuarial study by DMS that calculates the necessary level of funding to support all of the benefit obligations under both FRS retirement plans.

### **Effect of the Bill**

The bill establishes the employer contribution rates for the normal costs and the unfunded actuarial liability (UAL) of the FRS, as determined by the July 1, 2017 Annual Valuation, necessary to adequately fund the program. The normal and UAL rates were 'blended' with the investment plan allocations and salaries to establish employer contribution rates. The proposed employer contributions for fiscal year 2018-2019 compared to the rates currently in effect, are contained in the table below.

Membership Class	"Blended" Normal Costs		Unfunded Actuarial Liability		Combined Contribution Rates	
	7/1/2017	7/1/2018	7/1/2017	7/1/2018	7/1/2017	7/1/2018
Regular Class	2.90%	3.04%	3.30%	3.50%	6.20%	6.54%
Special Risk Class	11.86%	12.18%	9.69%	10.60%	21.55%	22.78%
Special Risk Administrative Class	3.83%	3.64%	29.08%	29.62%	32.91%	33.26%
Elected Officer Class						
Leg/Gov/SAs/PDs	6.45%	6.65%	42.69%	48.38%	49.14%	55.03%
Judges	11.67%	12.00%	26.25%	27.05%	37.92%	39.05%
County Officers	8.54%	8.50%	35.24%	38.48%	43.78%	46.98%
Senior Management	4.29%	4.45%	16.70%	17.89%	20.99%	22.34%
DROP	4.29%	4.41%	7.43%	7.96%	11.72%	12.37%

### Important State Interest

The bill declares that it fulfills an important state interest. It provides that a proper and legitimate state purpose is served by the bill, which includes providing benefits that are managed, administered, and funded in an actuarially sound manner.

<sup>19</sup> Section 121.021(45)(a), F.S.

<sup>20</sup> Section 121.021(45)(b), F.S.

<sup>21</sup> Section 121.021(29)(a)1., F.S.

<sup>22</sup> Section 121.021(29)(b)1., F.S.

<sup>23</sup> Section 121.021(29)(a)2. and (b)2., F.S.

<sup>24</sup> Section 121.70(1), F.S.

B. SECTION DIRECTORY:

Section 1 amends s. 121.71, F.S., relating to uniform rates.

Section 2 provides that the act fulfills an important state interest.

Section 3 provides an effective date of July 1, 2017.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

See Fiscal Comments.

2. Expenditures:

See Fiscal Comments.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

See Fiscal Comments.

2. Expenditures:

See Fiscal Comments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None

D. FISCAL COMMENTS:

Based on the results of the special studies, the benefit changes proposed by the bill are projected to have a total negative fiscal impact of \$17.3 million in fiscal year 2017-18. The results of the annual actuarial valuation are expected to have a total negative fiscal impact of \$176.2 million in fiscal year 2018-19. Further detail on the costs is provided in the following chart:

	Cost by Employer Group (\$ in millions)	
	Cost to Fully Fund the FRS - Annual Actuarial Valuation	
<b>Entities Funded by the State</b>	GR	TF
State	19.8	13.5
County School Boards	54.4	
State Universities	7.2	
State Colleges	4.7	
<i>Total</i>	<b>86.1</b>	<b>13.5</b>

<b>Other Entities not Funded by the State</b>	
Counties	66.5
Municipalities/Special Districts/Other	10.1
<i>Total</i>	<b>76.6</b>
<i>Grand Total</i>	<b>176.2</b>

### III. COMMENTS

#### A. CONSTITUTIONAL ISSUES:

##### 1. Applicability of Municipality/County Mandates Provision:

The mandates provision of Art. VII, s. 18 of the State Constitution may apply because this bill requires cities and counties to spend money or take an action that requires the expenditure of money; however, an exception may apply as the Legislature has determined that this bill satisfies an important state interest and similarly situated persons are all required to comply.

##### 2. Other:

#### B. RULE-MAKING AUTHORITY:

None

#### C. DRAFTING ISSUES OR OTHER COMMENTS:

None

### IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES