The Florida Senate

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Committee on Governmental Operations

LOCAL GOVERNMENT PENSION PLANS

Statement of the Issue

A 2007 Interim Report of the Florida Senate discussed the funding status of the more than 500 local government pension plans. The Division of Retirement was requested to provide an electronic data file on all of these plans for submission to the Legislature's Office of Program Policy and Government Accountability. That request was renewed again this year to examine the plans in the aggregate and report on their financial profiles. The three principal categories of analysis were employee census, asset base, and funded ratio. Improvements in the funded ratio, all other matters equal, would indicate less financial stress on the sponsor. Deterioration in the funded ratio would indicate that management actions would be required to provide a fuller funding of the promised benefits.

Discussion

A principal feature of state and local government organization is the development of customized retirement systems that provide benefits supplemental to those provided through the Social Security Act. Government tends to be a long-term employer and it designs its compensation systems to emphasize a workforce in which core functions require durability throughout economic cycles. There are some 500 local government retirement systems providing specialized benefits to general employees and law enforcement and firefighting units of government in Florida. In 2007 that asset base exceeded $21 billion for nearly 160,000 active and retired participants. Cumulative annual payrolls approached $4.8 billion. As long-term employers, the government investment horizon tends to reflect the nominal public career length ranging from two to three decades. That requires plan managers concentrate their assets in equities, that is, ownership interests in private, customarily exchange-listed companies. The recent two years has witnessed considerable volatility in equities, and this disruption has occurred as local governments are experiencing the departure of active employees to retirement and new limitations to their revenue base.

The 2007 report profiled the typical plan as one with an active headcount of 50 or fewer, assets below $10 million, and a funded ratio of less than eighty percent. The report noted some forty percent of the plans with a ratio of assets to liabilities of less than seventy percent. It made recommendations on management practices for consideration by the state oversight agency, the Division of Retirement in the Department of Management Services, but deferred making recommendations on the local plans themselves pending completion of another reporting cycle.

The division did report in 2007 that it was experiencing an unusual incidence – some three per month - of plans seeking termination, with subsequent enrollments as members of the multi-employer Florida Retirement System (FRS). Whether that is a sign of financial stress or a desire to achieve benefits at reduced administrative expense is yet to be determined. What can be documented is that the normal costs the of that successor system, the FRS, are less than fifty percent of the nominal payroll costs of the local plans today. A recently issued pension study of major city and county plans by a large investment management firm, Wilshire Consulting, indicated sustained shortfalls in most plans it reviewed with funded ratios stabilizing, but at levels lower than full funding. One large Florida local plan was performing worse than 96% of its surveyed peers.

As the local plan years close on September 30, 2008, the data file and analysis should become available prior to the end of the calendar year.