

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** PCB APC 16-03 State-Administered Retirement Systems

**SPONSOR(S):** Appropriations Committee

**TIED BILLS:** **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Appropriations Committee		Delaney	Leznoff

### SUMMARY ANALYSIS

The Florida Retirement System (FRS) is a multi-employer, contributory plan that, as of June 30, 2014, provides retirement benefits to 622,089 active members and 363,034 retired members and beneficiaries, and 38,058 members of the Deferred Retirement Option Program. It is the primary retirement plan for employees of the state and county government agencies, district school boards, state colleges and universities. The FRS also serves as the retirement plan for employees of cities and independent special districts that have made an irrevocable election to participate.

Members of the FRS have two 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.

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.

Effective July 1, 2016, the bill:

- Revises s. 121.71, F.S. to adjust the employer contribution rates for the FRS based on the 2015 Actuarial Valuation.
- Revises s. 121.74, F.S. to increase the employer contribution for FRS administrative and educational expenses.

The bill conforms the law to the House proposed 2016-17 General Appropriations Act (GAA) as retirement and administrative and educational contributions are included in the GAA.

The bill provides that a proper and legitimate state purpose is served, which includes providing benefits that are managed, administered, and funded in a sound actuarially manner.

The bill has a significant negative fiscal impact to the state and local governments: \$46.6 million in General Revenue (state, district school boards, state colleges and universities) and \$5.9 million in trust funds; \$14.1 million to local governments (county agencies, certain municipalities and special districts.)

# 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 pension plan. Prior to 1975, members of the FRS were required to make employee contributions. Regular Class members contributed four percent of their salary while Special Risk Class Members contributed six percent. The 2011 Legislature reinstated employee contributions whereby all Class members contribute three percent of their salary.

The Florida Retirement System Act<sup>1</sup> governs the FRS, which is a multi-employer, contributory plan that provides retirement income benefits to 622,089 active members, 363,034 retirees and 38,058 members of the Deferred Optional Retirement System (DROP)<sup>2</sup>. It is the primary retirement plan for employees of the state and county government agencies, district school boards, community colleges and state universities. The FRS also serves as the retirement plan for 186 municipalities and 262 independent special districts that have irrevocably elected to participate<sup>3</sup>.

The membership of the FRS is divided into five membership classes<sup>4</sup>:

- Regular Class<sup>5</sup>: 543,395 members (87.36 percent)
- Special Risk Class<sup>6</sup>: 68,593 members (11.03 percent)
- Special Risk Administrative Support<sup>7</sup>: 58 members (0.01 percent)
- Elected Officer Class<sup>8</sup>: 2,187 members (0.35 percent)
- Senior Management Services Class<sup>9</sup>: 7,793 members (1.25 percent)

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

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

- The defined benefit plan, also known as the pension plan.
- 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 defined benefit plan. The investment plan was available for participation as of July 1, 2002.<sup>10</sup> Benefits under the investment plan accrue in individual member accounts funded by employer and employee contributions. Investments are employee-directed into State Board of Administration (SBA) approved investment providers. Members

---

<sup>1</sup> Chapter 121, F.S.

<sup>2</sup> *The Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2014*. The pension plan had 512,364 active members and the investment plan had 109,725 members.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> Members who do not qualify for membership in another class (includes renewed members.)

<sup>6</sup> Members include law enforcement officers, firefighters, correctional officers, correctional probation officers, paramedics, emergency medical technicians, certain professional health care workers, and certain forensic workers.

<sup>7</sup> Members are former members of the special risk class who are transferred or reassigned to an administrative support position in certain circumstances.

<sup>8</sup> Members include holders of specified elected offices in either state or local government.

<sup>9</sup> Members are high level executive or legal staff as provided by law.

<sup>10</sup> Part II, chapter 121, F.S.

of the investment plan contribute three percent of their salaries to their accounts<sup>11</sup>. The remainder of the allocation comes from employer contributions.

A member vests in the investment plan after one-year with an FRS employer. Vested benefits are payable upon termination of employment or death as a lump-sum distribution, roll-over distribution, or periodic distribution. The investment plan also provides disability benefits, which is essentially an option to collect disability benefits as provided in the defined benefit plan.

The SBA is primarily responsible for administering the investment plan.<sup>12</sup> The SBA is comprised of the Governor as chair, the Chief Financial Officer and the Attorney General.

### Pension Plan (Defined Benefit Plan)

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

Participants of the pension plan are required to contribute three percent of their salary.<sup>13</sup>

### Contribution Rates

FRS employers are responsible for contributing a percentage of a member's monthly salary to the FRS Contributions Clearing Account Trust Fund in the Division of Retirement to fund the program. The employer contribution is a "blended contribution rate" set by statute<sup>14</sup>, as amended by the Legislature based on an annual actuarial valuation. The rate consists of a blending of the actuarially determined contribution rates necessary to fund the pension plan's normal cost and the allocations being made into investment plan accounts. The purpose of the blending is to establish the same employer contribution rates regardless of whether an employee participates in the pension plan or the investment plan.

### Administrative and Educational Expenses

Currently, Section 121.74, F.S., requires employers participating in the FRS to contribute an additional 0.04 percent of the employers' covered payroll to offset the costs of administering the investment plan and providing educational services to all members of the FRS. The assessment rate was 0.05 percent from fiscal years 2005-06 through 2009-2011. The assessment rate was reduced for Fiscal Year 2010-11 to ensure excess balances were reduced to comply with the federal tax code.

Since Fiscal Year 2011-2012 the balance has been reduced from \$36.0 million to a projected amount of \$3.4 million in Fiscal Year 2016-2017, and is projected to be negative in the following fiscal year. Without an increase the SBA will have insufficient funds to continue to operate and provide educational services to FRS active and retired employees.

## **Effects 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, 2015 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 2016-2017, compared to rates currently in effect, are contained in the table below.

## Proposed and Current FRS Employer Contribution Rates<sup>15</sup>

---

<sup>11</sup> Section 121.71, F.S.

<sup>12</sup> Section 121.4501, F.S.

<sup>13</sup> *Id.* 11

<sup>14</sup> Sections 121.031 and 121.71, F.S.

<sup>15</sup> Do not include the current or proposed Health Insurance Subsidy Contribution (1.66 percent) or Administrative Fee (.04 percent)

Membership Class	"Blended" Normal Costs		Unfunded Actuarial Liability		Combined Contribution Rates	
	7/1/2015	7/1/2016	7/1/2015	7/1/2016	7/1/2015	7/1/2016
Regular Class	2.91%	2.97%	2.65%	2.83%	5.56%	5.80%
Special Risk Class	11.35%	11.35%	8.99%	8.92%	20.34%	20.27%
Special Risk Administrative Class	3.71%	3.87%	27.54%	22.47%	31.25%	26.34%
Elected Officer Class						
Leg/Gov/SAs/PDs	6.48%	6.63%	37.62%	33.75%	44.10%	40.38%
Judges	11.39%	11.68%	22.62%	23.30%	34.01%	34.98%
County Officers	8.48%	8.55%	32.09%	32.20%	40.57%	40.75%
Senior Management	4.32%	4.38%	15.41%	15.67%	19.73%	20.05%
DROP	4.10%	4.17%	7.12%	7.10%	11.22%	11.27%

In addition, the bill increases the employer paid contribution rate for the State Board of Administration's administrative and educational expenses from .04 to .06 percent of payroll.

**B. SECTION DIRECTORY:**

Section 1: Amends section 121.71, F.S. to set the uniform employer contribution rates and the rates required to address the normal cost and unfunded actuarial liability for each class and subclass of the Florida Retirement System, effective July 1, 2016.

Section 2: Amends section 121.74, F.S. to increase the employer assessment to 0.06 percent of payroll to offset the costs of administering the investment plan and providing educational services to members of the Florida Retirement System, effective July 1, 2016.

Section 3: Provide that the act fulfills an important state interest.

Section 4: Provides an effective date of July 1, 2016.

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

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None.

2. Expenditures:

See Fiscal Comments Section.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

None.

2. Expenditures:

See Fiscal Comments Section.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None.

**D. FISCAL COMMENTS:**

The bill conforms the law to the House proposed 2016-17 General Appropriations Act (GAA) as retirement and administrative and educational contributions are included in the GAA. The costs associated with funding the increases in the 'Blended' Normal Cost and Unfunded Actuarial Liability employer contribution rates are illustrated in the following chart:

	Cost by Employer Group (\$ in millions)					
	FRS		SBA		TOTAL	
	GR	TF	GR	TF	GR	TF
<b>Entities Funded by the State</b>						
State	3.6	5.4	0.5	0.5	4.1	5.9
County School Boards	32.1		2.6		34.7	
State Universities	4.6		0.2		4.8	
State Colleges	2.8		0.2		3.0	
<i>Total</i>	<b>43.1</b>	<b>5.4</b>	<b>3.5</b>	<b>0.5</b>	<b>46.6</b>	<b>5.9</b>

<b>Other Entities not Funded by the State</b>						
Counties	9.2		1.5		10.7	
Municipalities/Special Districts/Other	3.1		0.3		3.4	
<i>Total</i>	<b>12.3</b>		<b>1.8</b>		<b>14.1</b>	
<i>Grand Total</i>	<b>55.4</b>	<b>5.4</b>	<b>5.3</b>	<b>0.5</b>	<b>60.7</b>	<b>5.9</b>

**III. COMMENTS**

**A. CONSTITUTIONAL ISSUES:**

1. Applicability of Municipality/County Mandates Provision:

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

2. Other:  
None.

**B. RULE-MAKING AUTHORITY:**

None.

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

None.

**IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**