



# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government – Government cost savings are anticipated from the consolidation of this supplemental retirement benefit program into the Florida Retirement System.

### B. EFFECT OF PROPOSED CHANGES:

#### Florida Retirement System

Chapter 121, F.S., is the Florida Retirement System Act and it governs the Florida Retirement System (FRS). The FRS is administered by the secretary of the Department of Management Services through the Division of Retirement.<sup>1</sup>

The FRS is the primary retirement plan for employees of state and county government agencies, district school boards, community colleges, and universities. The FRS also serves as the retirement plan for participating employees of the 158 cities and 192 independent special districts in Florida that have elected to join the system.<sup>2</sup>

The FRS offers a defined benefit plan that provides retirement, disability, and death benefits for over 600,000 active members and over 252,000 retirees, surviving beneficiaries, and over 31,000 Deferred Retirement Option Program participants.<sup>3</sup> Members of the FRS belong to one of five membership classes:

1. Regular Class <sup>4</sup>	583,213 members	87.73% of membership
2. Special Risk Class <sup>5</sup>	72,078 members	10.84% of membership
3. Special Risk Administrative Support Class <sup>6</sup>	74 members	0.01% of membership
4. Elected Officers' Class <sup>7</sup>	2,195 members	0.33% of membership
5. Senior Management Service Class <sup>8</sup>	7,259 members	1.09% of membership <sup>9</sup>

Each class is funded separately through an employer contribution of a percentage of the gross compensation of the member based on the costs attributable to members of that class and as provided in chapter 121, F.S.<sup>10</sup>

#### Background on the Institute of Food and Agricultural Science

The Institute of Food and Agricultural Sciences ("IFAS") is a federal-state-county partnership at the University of Florida that was created in 1964 and is "dedicated to developing knowledge in agriculture, human and natural resources, and the life sciences, and enhancing and sustaining the quality of human life by making that information accessible."<sup>11</sup>

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<sup>1</sup> Section 121.025, F.S.

<sup>2</sup> FL Dept. of Mgmt Svcs., *Florida Division of Retirement Main Page* (visited Feb. 12, 2007) <[www.frs.state.fl.us](http://www.frs.state.fl.us)>

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

<sup>4</sup> Section 121.021(12), F.S.

<sup>5</sup> Section 121.0515(2), F.S.

<sup>6</sup> Section 121.0515(7), F.S.

<sup>7</sup> Section 121.052, F.S.

<sup>8</sup> Section 121.055(12), F.S.

<sup>9</sup> FL Dept. of Mgmt Svcs., *Florida Division of Retirement Main Page* (visited Feb. 12, 2007) <[www.frs.state.fl.us](http://www.frs.state.fl.us)>

<sup>10</sup> See, e.g., s 121.055(3)(a)1., F.S.

<sup>11</sup> Univ. of Fla., Inst. of Food and Ag. Sci., *IFAS Facts*, available at <http://analysis2001.ifas.ufl.edu/facts150.htm> (last updated Jan. 18, 2007; last visited Mar. 2, 2007) (IFAS was created by the then governing body for higher education through the reorganization of existing programs).

- IFAS has 13 research and education centers with a total of 19 locations (including demonstration sites) throughout Florida.<sup>12</sup> IFAS also has Florida Cooperative Extension Service offices in all 67 counties that the counties operate and maintain.<sup>13</sup>
- For Fiscal Year 2005-2006, IFAS had a budget of \$273 million. Approximately 53 percent or \$142.8 million of that budget was General Revenue.<sup>14</sup>
- As of November 29, 2006, IFAS had approximately 2,262 full-time equivalent employees:

	On Campus	Off-Campus	County	Total
<i>State Supported</i>				
Faculty	352	171	266	789
Staff	586	424	19	1029
Totals	938	595	285	1818
<i>Grant Supported</i>				
Faculty	153	50	31	234
Staff	184	54	9	247
Totals	337	104	40	481

#### Supplemental Retirement Benefits Program: Background and Eligibility

IFAS operates a supplemental pension plan separate from the FRS for designated cooperative extension employees who are retired from the federal civil service. The IFAS Supplemental Retirement Benefits Program (IFAS SRBP) plan, created by the Legislature in 1984,<sup>15</sup> is closed to new entrants but retains a participant census of about 81 active employees and 109 retired participants.<sup>16</sup> The Legislature enacted this IFAS Supplemental Retirement Act to “provide a supplement to the monthly retirement benefits being paid under the federal Civil Service Retirement System to certain retired employees of the Institute of Food and Agricultural Sciences at the University of Florida, whose positions were ineligible for coverage under a state-supported retirement system.”<sup>17</sup>

There are six eligibility requirements for participation in the IFAS SRBP:

- (1) The person must have held both state and federal appointments while employed at the institute, and have completed 10 years of creditable service with the institute, subsequent to December 1, 1970.
- (2) The person must be participating in the federal Civil Service Retirement System based on service at the institute.
- (3) The person must have retired from the institute on or after January 1, 1985, and must have been eligible for benefits under the federal Civil Service Retirement System commencing immediately upon the termination of service with the institute.
- (4) The person must have attained the age of 62.
- (5) The person must not be entitled to any benefit from a state-supported retirement system or from social security based upon service as a cooperative extension employee of the institute.

<sup>12</sup> *Id.* (IFAS has 1,255 buildings, 3,190,448 gross square feet, and 16,591 acres throughout the state.).

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

<sup>14</sup> *Id.* (This is the General Revenue breakdown: 22 percent for teaching (pass through), 46 percent for research, 24 percent for extension and 8 percent is for other.).

<sup>15</sup> Ch. 84-358, Laws of Fla.

<sup>16</sup> Milliman, Inc., Actuarial Valuation of the IFAS Supplemental Retirement Program as of July 1, 2006 (Jan. 17, 2007) (on file with the Div. of Ret., Fla. Dep’t of Mgmt. Serv, and the Committee on State Affairs) [hereafter Milliman, 2006 IFAS Valuation].

<sup>17</sup> Section 121.40(1) and (2), F.S.

(6) The person must have been employed with the institute prior to, and on, July 1, 1983.<sup>18</sup>

It is this sixth criterion (IFAS employment prior/on July 1, 1983) which “closes” participation in the IFAS SRBP. In addition to the 81 active employees, there are about 109 retired participants.

#### IFAS SRBP: Calculation and Funding

The amount of the IFAS SRBP benefit is the deficiency between the amount earned by the employee under the federal Civil Service Retirement System and the amount the employee would have received under the Florida Retirement System<sup>19</sup> and the primary insurance under Social Security at age 62.<sup>20</sup>

The IFAS SRBP is funded from two sources: a monthly contribution by IFAS of a specified percentage of an employee’s gross monthly salary<sup>21</sup> and returns on investments. Yet, since 2002, these sources have been insufficient to fund the required supplemental benefits. This funding insufficiency can be attributed to three factors:

- (1) *The closed nature of the plan.* With a closed plan, as more participants retire, there are a smaller number of active employees to bear the burden of any increased costs for the program.<sup>22</sup>
- (2) *The nature of the benefit.* Because part of the IFAS supplemental benefit payment is based on Social Security, it “varies inversely as a percentage of pay.”<sup>23</sup> That is, it has higher costs, as a percentage of pay, at lower salary levels than at higher salary levels.
- (3) *More limited returns on investments.* Returns on investments are more limited than those of the Florida Retirement System because the State Board of Administration is required to “consider investment techniques...which are directed toward developing minimum risk procedures supporting a prescribed liability schedule.”<sup>24</sup> This has resulted in “underlying investments that are not diversified and simply not able to satisfy the benefit demands.”<sup>25</sup>

With limited investment returns, only one other funding mechanism was available to address the increased benefit demands: increase the employer payroll contributions. From July 1, 2003 to July 1, 2005, the employer contribution rate was set at 13.83 percent – almost double the previous amounts of 6.96 percent and 7.17 percent.<sup>26</sup> Based on the actuarial valuation of the IFAS SRBP, the employer contribution rate was set at 20.23 percent for the period between July 1, 2005 through June 30, 2006.<sup>27</sup> The Legislature, however, appropriated \$500,000 from the General Revenue Fund to fund the increased employer contribution for the IFAS SRBP.<sup>28</sup>

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<sup>18</sup> Section 121.40(4), F.S.

<sup>19</sup> Section 121.40(5)(a), F.S. (“An amount equal to the option one retirement benefit that the employee would have been entitled to receive at his or her normal retirement age under the Florida Retirement System, attributable only to creditable service after December 1, 1970, as a cooperative extension employee of the institute, excluding any past or prior service credit, had such employee been a member of the Florida Retirement System.”).

<sup>20</sup> Section 121.40(5)(b), F.S.

<sup>21</sup> Section 121.40(12), F.S.

<sup>22</sup> There are currently 81 active participants who can fund program insufficiencies through contributions for the 109 retired participants. This is in contrast to the Florida Retirement System which has three active employees for each person receiving a benefit. Fla. Senate, Comm. on Gov’t Ops., *Interim Project Report 2007-127: The Supplemental Retirement Program of the Institute of Food and Agricultural Sciences at the University of Florida*, (Oct. 2006) (available at [http://www.flsenate.gov/data/Publications/2007/Senate/reports/interim\\_reports/pdf/2007-127go.pdf](http://www.flsenate.gov/data/Publications/2007/Senate/reports/interim_reports/pdf/2007-127go.pdf)) (last visited Mar. 2, 2007) [hereafter *Interim Project Report*].

<sup>23</sup> Milliman, 2006 IFAS Valuation at 2.

<sup>24</sup> Section 121.40(13), F.S.

<sup>25</sup> *Interim Project Report* at 2.

<sup>26</sup> Section 121.40(12), F.S.

<sup>27</sup> Ch. 2005-93, L.O.F.

<sup>28</sup> Ch. 2005-70, L.O.F., s 8(5) (“From the funds in Specific Appropriation 2091, \$500,000 is appropriated from the General Revenue Fund to the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida to fund the increased employer contribution for the IFAS retirement plan.”).

## IFAS SRBP: Going Forward

The increased benefit demands on the IFAS SRBP are expected to continue. In fact, in the biennial valuation performed on the IFAS plan released January 17, 2007 for the plan year ending July 1, 2006, the consulting actuary noted that employer contribution rates compensating for the negative cash flow and immunized portfolio would have to rise from 20.23 percent to 28.23 percent.<sup>29</sup> In its consideration of this issue, the staff of the Senate Committee on Governmental Operations noted three methods for addressing the recurring funding imbalance: (1) continue to raise the employer contribution rate as required; (2) place a limit on the employer contribution rate and provide annual supplemental appropriations to cover the increased costs; or (3) merge the IFAS SRBP with the Florida Retirement System.<sup>30</sup> Merging the IFAS SRBP with the Florida Retirement System was the recommended option:

“Active and retired members and beneficiaries would not notice a change as their benefits would not be compromised. Due to the small asset and liability base of IFAS, its incorporation within the FRS would condition only a small adverse dollar impact. The FRS has more than \$112 billion in assets and includes a \$10 billion actuarial surplus. Under this option, no additional payroll costs would be passed along to its 900 member employers...

...Unlike the two other options that provide only annual or biennial relief, this alternative will permanently address the IFAS funding imbalance. After such transfer, the employer payroll costs will decline significantly and reflect the rates charged for the Regular Class in the FRS.”<sup>31</sup>

### Proposed Changes: Transferring the IFAS SRBP to the Florida Retirement System

This proposed committee bill implements the recommendation to transfer the IFAS SRBP to the Florida Retirement System.

The bill consolidates the IFAS SRBP into the Florida Retirement System. The bill requires the transfer of assets and the assumption of all liabilities related to the payment of supplemental monthly benefits to retired employees of the IFAS and their surviving beneficiaries as well as all obligations in regard to funding and administering benefits accrued for the benefit of retired employees of the IFAS and their surviving beneficiaries.

The bill provides that participation in the IFAS SRBP does not constitute membership in the Florida Retirement System.

The bill makes conforming changes to the IFAS Supplemental Retirement Act, reduces the required contribution rate to 18.75 percent, and removes the investment limitation.

The bill provides a legislative finding that it fulfills an important state interest.

The bill takes effect July 1, 2007.

#### C. SECTION DIRECTORY:

Section 1 creates s. 121.047, F.S., to consolidate the IFAS SRBP with the Florida Retirement System.

Section 2 amends s. 121.40, F.S., to make conforming changes and remove investment limitations.

Section 3 makes a legislative finding of important state interest.

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<sup>29</sup> Milliman, 2006 IFAS Valuation at 1. The statutory rates do not correspond to the rates contained in the valuation report due to the use of cash subsidies provided separately in the General Appropriations Act(s) for the years specified.

<sup>30</sup> Interim Project Report at 2.

<sup>31</sup> *Id.*

Section 4 provides an effective date of July 1, 2007.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

The bill amends the contribution rate for participants of the IFAS SRBP, which is designed to fund the program in a way that is cost-neutral to the Florida Retirement System. The bill reduces the employer contribution rate from 20.23 percent to 18.75 percent effective July 1, 2007.

Implementation will no longer necessitate the appropriation of \$300,000 or more annually to subsidize the insufficient payroll revenues flowing into the IFAS plan. Absent this change, the payroll contribution rate for the succeeding plan year will be 28.23 percent of covered payroll.

The Division of Retirement advises that there will be a slight additional cost to the FRS Trust Fund after the consolidation but the effect will not result in any change to the payroll contribution rate charged all other plan members. The additional liability represents the difference between the plan assets and obligations for current and future salaries.<sup>32</sup>

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

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

This bill does not appear to have a direct economic impact on the private sector.

### D. FISCAL COMMENTS:

The enrolled actuary states that the IFAS employer contribution rate could be reduced to 18.75 percent of payroll and not impact the FRS unfunded actuarial liability if the IFAS assets and liabilities are incorporated into the Regular Class of the FRS.<sup>33</sup>

## III. COMMENTS

### A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not appear to require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not appear to reduce the percentage of a state tax shared with counties or municipalities. This bill does not appear to reduce the authority that counties or municipalities have to raise revenue.

2. Other:

Retirement System Benefit Changes

<sup>32</sup> CS/SB1488 (2007) Senate Staff Analysis and Economic Impact Statement at 5. (on file with the Committee on State Affairs)

<sup>33</sup> Milliman, 2006 IFAS Valuation at 4.

Benefit increases to publicly funded retirement systems are governed by section 14 of article X of the Florida Constitution:

SECTION 14. State retirement systems benefit changes.--A governmental unit responsible for any retirement or pension system supported in whole or in part by public funds shall not after January 1, 1977, provide any increase in the benefits to the members or beneficiaries of such system unless such unit has made or concurrently makes provision for the funding of the increase in benefits on a sound actuarial basis.

This bill does not increase the benefits to the members or beneficiaries; therefore, this bill complies with the requirements of section 14 of article X of the Florida Constitution.

**B. RULE-MAKING AUTHORITY:**

This bill does not appear to create, modify, or eliminate rulemaking authority.

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

None.

**D. STATEMENT OF THE SPONSOR:**

No statement submitted.

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

Not applicable.