

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: PCB GOA 10-05 Retirement
SPONSOR(S): Government Operations Appropriations Committee
TIED BILLS: **IDEN./SIM. BILLS:**

| | REFERENCE | ACTION | ANALYST | STAFF DIRECTOR |
|--------------|---|--------|---------|----------------|
| Orig. Comm.: | Government Operations Appropriations Committee | | Delaney | Topp |
| 1) | | | | |
| 2) | | | | |
| 3) | | | | |
| 4) | | | | |
| 5) | | | | |

SUMMARY ANALYSIS

Section 121.031, F.S., requires that an actuarial study of the Florida Retirement System (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 establishes uniform contribution rates in law during the next legislative session. Participating employers in the Florida Retirement System must make monthly contributions to fund the FRS based upon those rates.

The bill revises s. 121.71, F.S., to establish the required employer payroll contribution rates for each membership class and subclass of the defined benefit plan and the optional retirement plans within the FRS for the fiscal years beginning July 1, 2010 and July 1, 2011.

The bill provides a determination and declaration of important state interest and treats all similarly situated FRS employers in the same manner. Thus, the bill meets the exception requirements of Article VII, Section 18, of the Florida Constitution, which excuses local government from state mandates unless certain requirements are met.

The bill conforms the laws to the proposed House of Representatives FY 2009-10 General Appropriations Act (GAA) as the retirement contributions are funded in the GAA.

The fiscal impact to the state is \$252.2 million in General Revenue and \$42.2 million in trust funds. The fiscal impact to local governments and other entities participating in the FRS is \$166.4 million.

The bill provides an effective date of July 1, 2009.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation:

Section 121.71, F.S., authorizes the uniform contribution rates by member class and subclass for the defined benefit and optional retirement plans within the Florida Retirement System (FRS).

Section 121.031, F.S., requires that an 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. The annual Valuation was received in December 2009 for the plan year ending June 30, 2009¹. Thereafter, the Legislature establishes uniform contribution rates in law during the next legislative session. Participating employers in the FRS must make monthly contributions to fund the system based upon those rates.

Due to the recent economic decline, the value of the assets in the FRS declined significantly resulting in the fund having Unfunded Actuarial Liability (UAL) for the first time since July 1, 1997. Consequently, there are no longer any surplus funds available to offset the Normal Cost rates, which had been the practice since the surplus developed.

During the 2009 Session, the Legislature enacted chapter 2009-209 L.O.F. The bill substantially amended many provisions of the FRS including extending the reemployment exclusionary period from 1 to 6 months, eliminated renewed membership (double-dipping), and prohibiting elected officials from earning interest on their DROP after 60 months. The changes were significant enough to warrant the Division of Retirement to request a study to determine the impact of the bill. The results were reported to the Director of the Division of Retirement in a letter dated February 16, 2010². In general, the blended Normal Cost rates were lower than those in the original Valuation.

¹ Milliman, "Florida Retirement System Actuarial Valuation of July 1, 2010.

² Letter from Milliman to the Director of the Division of Retirement dated February 16, 2008.

Effects of bill:

This legislation revises s. 121.71, F.S., to establish the required employer payroll contribution rates for each membership class and subclass of the defined benefit plan and the optional retirement plans within the FRS for the fiscal years beginning July 1, 2009 and July 1, 2010. The rates proposed are based on the blending of the defined benefit and the optional retirement plan rates as calculated by the consulting actuary using weighted average rates for each plan reflecting the impact of ch. 2009-209 L.O.F., as discussed above. The rates for July 1, 2011 are set at the blended Normal Cost plus the UAL to ensure that the FRS remains funded in an actuarially sound manner in the event the 2011 Legislature fails to enact a bill in this regard.

| Membership Class | Current Law | | Bill Proposed | |
|-------------------|------------------------|------------------------------------|------------------------|-------------------------------------|
| | Effective July 1, 2009 | Effective July 1, 2010 Normal Cost | Effective July 1, 2010 | Effective July 1, 2011 Normal + UAL |
| Regular | 8.69% | 9.63% | 9.76% | 11.34% |
| Special Risk | | | | |
| Regular | 19.76% | 22.11% | 22.15% | 28.12% |
| Administrative | 11.39% | 12.10% | 11.24% | 27.21% |
| Elected Officers | | | | |
| Leg-Atty-Cab | 13.32% | 15.20% | 14.38% | 31.43% |
| Judicial | 18.40% | 20.65% | 19.33% | 30.39% |
| County Officers | 15.37% | 17.50% | 16.62% | 36.37% |
| Senior Management | 11.96% | 13.43% | 11.70% | 20.97% |
| DROP | 9.80% | 11.14% | 14.23% | 19.20% |

B. SECTION DIRECTORY:

Section 1. Amends s. 121.71, F.S., to amend the Florida Retirement System contribution rates that are to become effective July 1, 2010, and to establish the rates to become effective on July 1, 2011.

Section 2. Requires the actuary to consider, as part of the June 30, 2010 Valuation, other funding mechanisms for the DROP.

Section 3: Provides that the bill takes effect July 1, 2010.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues: None

2. Expenditures: The estimated cost increase by employer group is noted below:

| | General Revenue | Trust Funds |
|--------------------|-------------------------|-----------------|
| State Agencies | \$ 40.5 million | \$ 42.2 million |
| Universities | \$ 16.8 million | |
| Community Colleges | \$ 12.1 million | |
| School Boards | <u>\$ 182.8 million</u> | |
| Total | \$ 252.2 million | |

Note: Typically, the state funds any increases in required employer FRS contributions for Community Colleges and School Boards as well.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues: None

2. Expenditures: The cost increase by employer group is noted below:

| | |
|----------|------------------------|
| Counties | \$ 143.9 million |
| Others | <u>\$ 22.5 million</u> |
| Total | \$ 166.4 million |

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision appears to apply because this bill requires counties and participating cities to spend funds or take action requiring the expenditure of funds. However, the bill provides a declaration of important state interest and applies to all similarly situated persons thus satisfying the requirements of s. 18, Art. VII, State Constitution.

2. Other:

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES