

State Affairs Committee

**Thursday, January 27, 2011
8:30 AM
Morris Hall**

**Dean Cannon
Speaker**

**Seth McKeel
Chair**

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

State Affairs Committee

Start Date and Time: Thursday, January 27, 2011 08:30 am
End Date and Time: Thursday, January 27, 2011 10:00 am
Location: Morris Hall (17 HOB)
Duration: 1.50 hrs

Staff Presentation on the Florida Retirement System
Staff Presentation on Florida Local Government Retirement Systems

NOTICE FINALIZED on 01/20/2011 16:20 by Love.John

State and Local Government Public Employee Pensions

Florida House of Representatives

State Affairs Committee

January 27, 2011

Florida Retirement System (FRS) and Non-FRS Retirement Systems

- All state and county employees in regularly established positions must be members of the Florida Retirement System (FRS). Cities and special districts can choose to participate.
- Cities and special districts not participating in “FRS” have the option of creating their own system. Under the local option, there are three types of plans:
 - General employee plans
 - Firefighter plans
 - Police officer plans

Focus of Proposed Changes: FRS and Firefighter and Police Officer Local Plans

- Proposed changes primarily focus on:
 - The “FRS” system
 - The non-“FRS” firefighter and police officer local plans and not the general employee plans
- The Legislature has left most of the details of general employee local non-FRS plans to the cities and special districts and has not authorized a funding source to assist local governments in paying for the plans

Florida Retirement System

Florida Retirement System

“At a Glance”

Florida Retirement System (FRS):

- Annual employer contributions **\$3.4 billion**
- Active participants **655,367**
- Annuitants **304,337**
- Funding ratio as of July 1, 2010 **87.9 percent**
- Market value of assets as of July 1, 2010 **\$109.5 billion**
- Projected annual contribution for state employees **\$667.9 million**

Topics of Discussion:

- Membership
- FRS plan options
- Costs, funding and impact to the budget
- Benefits
- Deferred Retirement Option Program

Florida Retirement System

- Established in 1970
- Provides retirement, disability and death benefits
- Funded through employer contributions and investment earnings
- Managed by the Department of Management Services and the State Board of Administration
- 655,367 active participants as of June 2010

Membership

Florida Retirement System

Participants

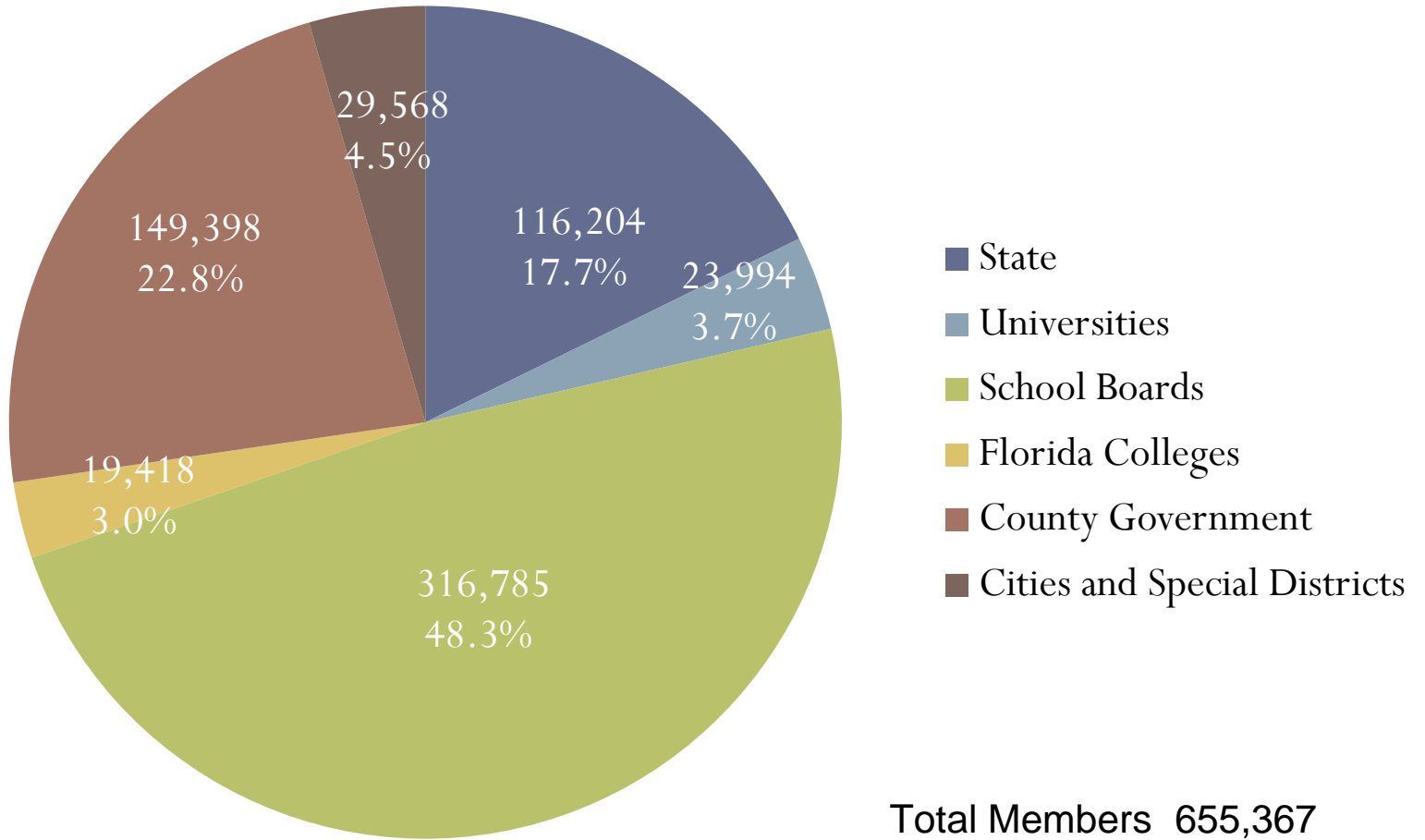
Required:

- State
- School boards
- County governments
- Universities
- Florida colleges (formerly community colleges)

Optional:

- Municipalities
- Special districts

Active Membership by Employer



Membership Plans

FLORIDA RETIREMENT SYSTEM

Two Plan Options

- DEFINED CONTRIBUTION PLAN
 - Participants are guaranteed a certain level of contributions from their employers
 - Participants select how contributions will be invested
 - Participants bear the risk of their investment decisions
 - 97,782 (14.9%) active members
- DEFINED BENEFIT PLAN
 - Retirement benefit is a guaranteed formula-based payment that is funded by employer contributions
 - Employer bears the investment risk
 - 557,585 (85.1%) active members

Defined Contribution (DC) Plan

- Established by the 2000 Legislature to take effect in 2002
- State Board of Administration (SBA) is primarily responsible for administering the DC Plan
 - Comprised of the Governor as chair, Chief Financial Officer and Attorney General – commonly referred to as “Trustees”
 - Trustees delegate operational responsibilities to an Executive Director

DC Plan (cont.)

- SBA develops policy and procedures for selecting, evaluating and monitoring the performance of approved providers and investment products to which employees may direct retirement contributions
 - Investment options and products are considered based upon criteria established in law
- All benefits payable under DC Plan are paid to the individual participant's account
- Participants may rollover monies to and from qualified retirement plans

Defined Benefit (DB) Plan

- Division of Retirement in Department of Management Services administers DB Plan
- SBA invests DB Plan assets
 - Must follow fiduciary standards of care, subject to certain limitations, which are established in law
 - Current law provides a “legal list” of types of investments and percentages of the total fund that may be invested in each investment type
- Six-member Investment Advisory Council, appointed by the Trustees, provides independent oversight of the general objectives, policies and strategies for DB Plan investments

Legal Requirements

FLORIDA RETIREMENT SYSTEM

Actuarial Requirements

FLORIDA CONSTITUTION prohibits the state from providing any increased retirement benefits unless the state has made or concurrently makes provision for the funding of those benefits on a sound actuarial basis (Art. X, s. 14, Fla. Const.)

FLORIDA STATUTES implement the constitutional provision

- “Florida Protection of Public Employee Retirement Benefits Act” establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida (ss. 112.60 – 112.67, F.S.)
- Section 121.031(3), F.S., requires an annual actuarial study of the FRS

Contractual Obligations

FLORIDA CONSTITUTION prohibits the passage of any law impairing the obligation of contracts (Art. I, s. 10, Fla. Const.)

FLORIDA STATUTES provide that the rights of members of the Florida Retirement System are of a contractual nature, entered into between the member and the state, and such rights are legally enforceable as valid contract rights and may not be abridged in any way [s. 121.011(3)(d), F.S.]

Funding Methodology

FLORIDA RETIREMENT SYSTEM

Definitions

NORMAL COST is the amount needed to fund future benefits allocated to the valuation year

AMORTIZATION OF THE UNFUNDED ACTUARIAL LIABILITY (UAL) is the annual cost to eliminate the UAL within the amortization period

Funding Methodology

- Actuarial valuation is performed annually on DB Plan
 - Determines the actuarial funding status of DB plan as well as proposes employer contribution rates sufficient to fund the normal cost of the plan and amortization of the UAL, if any
- Blended Rate Study is performed subsequent to the actuarial valuation which 'blends' the Normal Cost rates with the DC plan deposit rates to establish a uniform employer contribution rate

Funding Methodology (cont.)

- Rates are established annually in a conforming bill
- *If* the legislatively adopted rates change from the previous year, the Legislature provides an appropriation for state entities (positive or negative) in the Administered Funds section of the General Appropriations Act
- Appropriations made in Administered Funds are allocated to state agencies by the Executive Office of the Governor by adjusting the Salary and Benefits Appropriation Category through the budget amendment process
- Legislature typically adjusts appropriations to account for changes in rates for the following entities as well:
 - Universities
 - Florida colleges
 - School boards (FEFP)

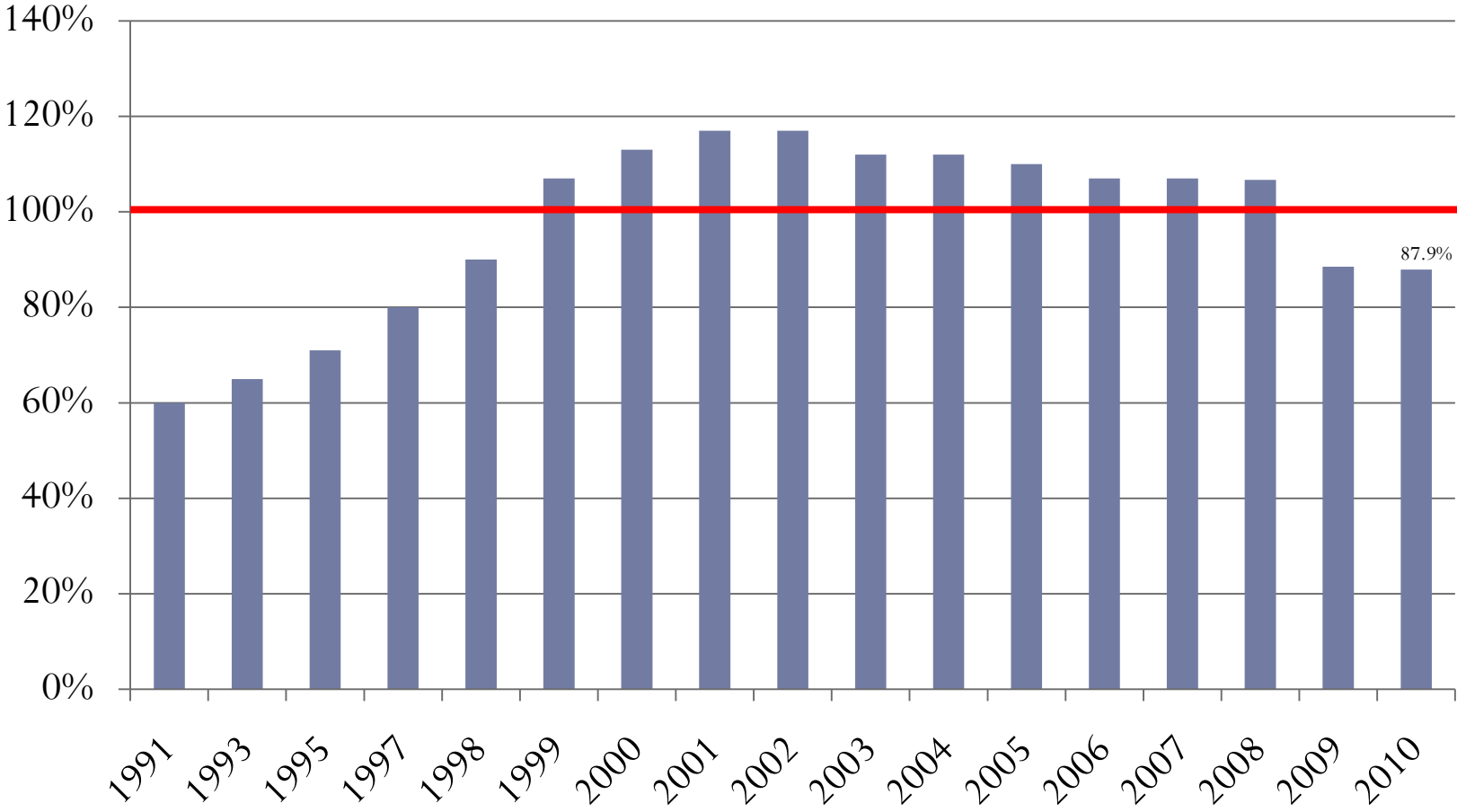
Actuarial Funding, DB Plan

FLORIDA RETIREMENT SYSTEM

Actuarial Funding Status

- As of July 1, 2010, DB Plan had an actuarial funding level of 87.9 percent
 - UAL of \$16.7 billion
 - Actuarial deficit is due to market declines in 2008 and 2009 and plan experience
- Historically, DB Plan has been rated one of the top three funded public retirement plans in the U.S.
 - As all retirement funds were affected similarly, Florida is expected to maintain a high ranking
- Industry experts consider an actuarial funding level of over 80.0 percent to be a well funded program
 - Most recent data regarding public pension plan funding indicates that over half of the states providing data have funding ratios below 80.0 percent

Historical Actuarial Funding Ratio



Employer Contributions and Funding Needs

FLORIDA RETIREMENT SYSTEM

Fiscal Year 2011-12

Projected Contributions, by Employer Group, Assuming Funding at Actuarial Normal Cost

Employer	Estimated Contribution Current Statutory Rates FY 2010-11	Projected Additional Funding Needs FY 2011-12	Projected Contribution Normal Blended Rates FY 2011-2012
State	\$659.3 million	\$8.6 million*	\$667.9 million
School boards	\$1,332.8 million	\$39.8 million*	\$1,372.6 million
Universities	\$120.9 million	\$4.0 million*	\$124.9 million
Florida colleges	\$92.7 million	\$2.4 million*	\$95.1 million
Counties	\$1,183.8 million	\$18.2 million	\$1,202.0 million
Participating cities/others	\$193.8 million	\$2.8 million	\$196.6 million
Total	\$3,583.3 million	\$75.8 million	\$3,659.1 million

* The State typically provides the additional funding needs for these entities. For FY 2011-2012, the total funding need for the State is \$50.7 million in GR and \$4.1 million in TF.

Fiscal Year 2011-12

Actuarially determined Annual Amortization of the UAL

Employer ¹	General Revenue	Trust Funds
State	\$101.7 million	\$93.2 million
School boards	\$308.5 million	
Universities	\$59.8 million	
Florida colleges	\$26.4 million	
Totals	\$496.3 million	\$93.2 million

¹ The state typically funds employer contribution rate changes for these employer groups.

Class Structure and Benefits

FLORIDA RETIREMENT SYSTEM

Class Structure

- REGULAR CLASS - Members who do not qualify for membership in other classes within the FRS
- SPECIAL RISK CLASS - Law enforcement officers, firefighters, correctional officers, correctional probation officers, paramedics, EMTs, certain professional health care workers within Department of Corrections and Department of Children and Family Services and certain forensic employees
- SPECIAL RISK ADMINISTRATIVE SUPPORT CLASS – Former special risk class members who are transferred or reassigned to an administrative support position in certain circumstances
- ELECTED OFFICERS' CLASS - Members who hold specified elective offices in either state or local government
- SENIOR MANAGEMENT SERVICE CLASS - Generally, high level executive and legal staff or as specifically provided in law

Employer Contribution Rates

Membership Class	Normal Cost Rates Defined Benefit Plan FY 2011-12	Defined Contribution Plan Rates	Employer Contribution 'Blended Rates' FY 2011-12
Regular Class	9.84%	9.25%	9.76%
Special Risk Class	22.34%	21.33%	22.20%
Senior Management Service Class	11.84%	11.21%	11.70
Elected Officers' Class:			
Leg-Atty-Cabinet	14.74%	13.81%	14.48%
Judges	19.42%	19.63%	19.43%
County/City	16.79%	16.61%	16.73%

DB Plan Benefit Summary

- Benefit Calculation:

- Years of Service X Accrual Rate X Average Final Compensation (AFC)
- 3 percent annual Cost of Living Adjustment is provided to retirees

Example*:

Class	Years of Service	Accrual Rate	Percentage Earned	AFC	Annual Benefit
Regular Class	30	1.60%	48.0%	40,000	19,000
Special Risk	25	3.00%	75.0%	40,000	30,000
Senior Management	30	2.00%	60.0%	40,000	24,000
Elected Officer - Judge	30	3.33%	100.0%	40,000	40,000
Elected Officer - Others	30	3.00%	90.0%	40,000	36,000

* Table reflects benefit calculated at Normal Retirement

Disability Benefits (minimum)

- Special Risk:

In-line-of-duty: 65 percent of AFC

Regular Disability: 25 percent of AFC

- Regular Class/Other Classes:

In-line-of-duty: 42 percent of AFC

Regular Disability: 25 percent of AFC

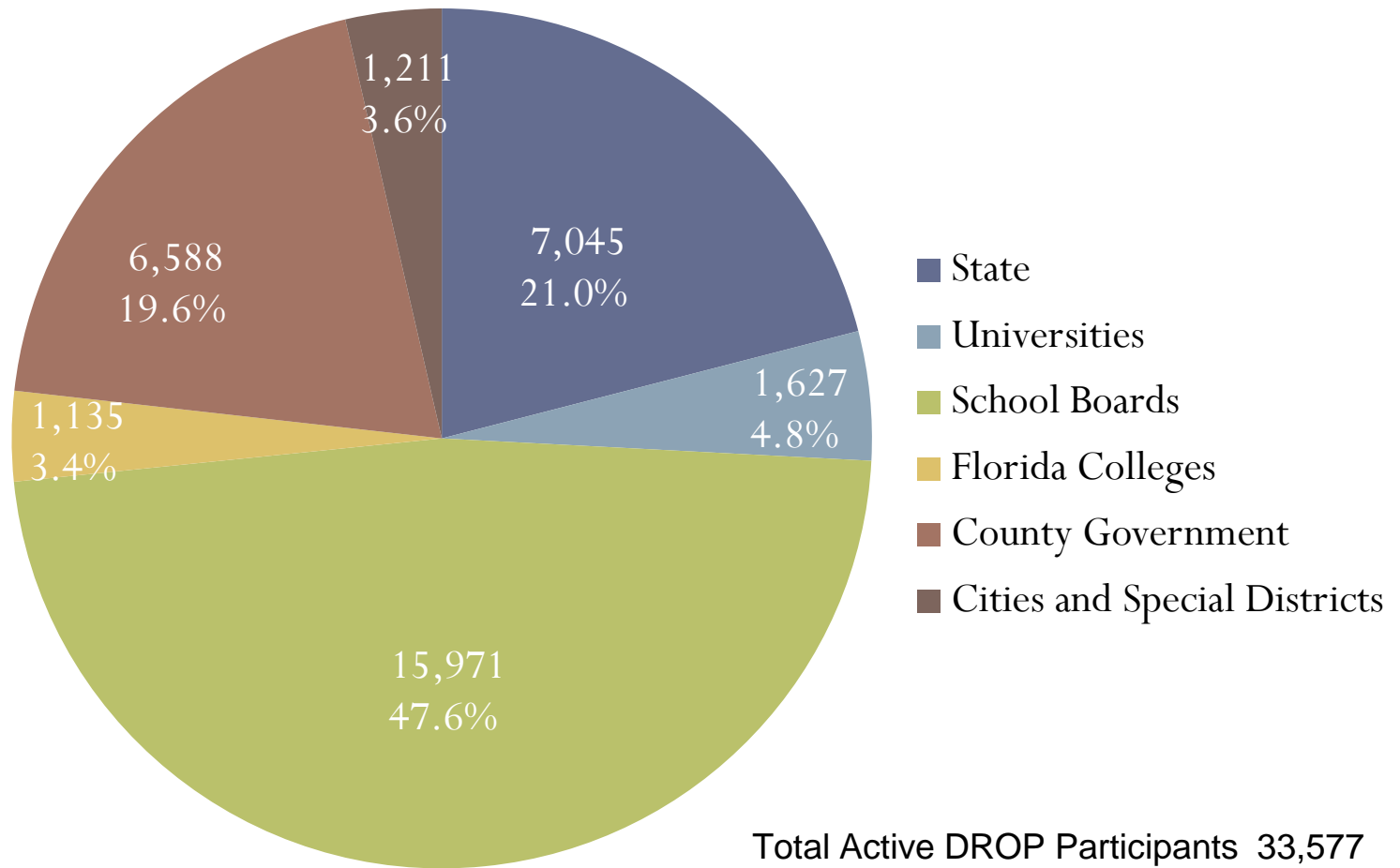
Deferred Retirement Option Program (DROP)

FLORIDA RETIREMENT SYSTEM

DROP

- Established in 1998
- Allows members to retire and continue working for up to:
 - 5 Years: Most members
 - 8 Years: K-12 Instructional Personnel
- Pension benefits accumulate in the FRS Trust Fund
 - Earn 6.5 percent interest, annually
 - Earn 3.0 percent Cost of Living Adjustment, annually
- Members must terminate FRS employment after completing DROP

Active DROP Participants by Employer



Legislative Changes

FLORIDA RETIREMENT SYSTEM

Effective July 1, 2010

- Members who retire or exit DROP:
 - Cannot be reemployed by an FRS employer within 6 months
 - No longer eligible to earn additional pension benefits
- DROP accounts for Elected Officials no longer earn interest when DROP participation ends, even if the term of office extends beyond the expiration date

Local Government Non-FRS Plans

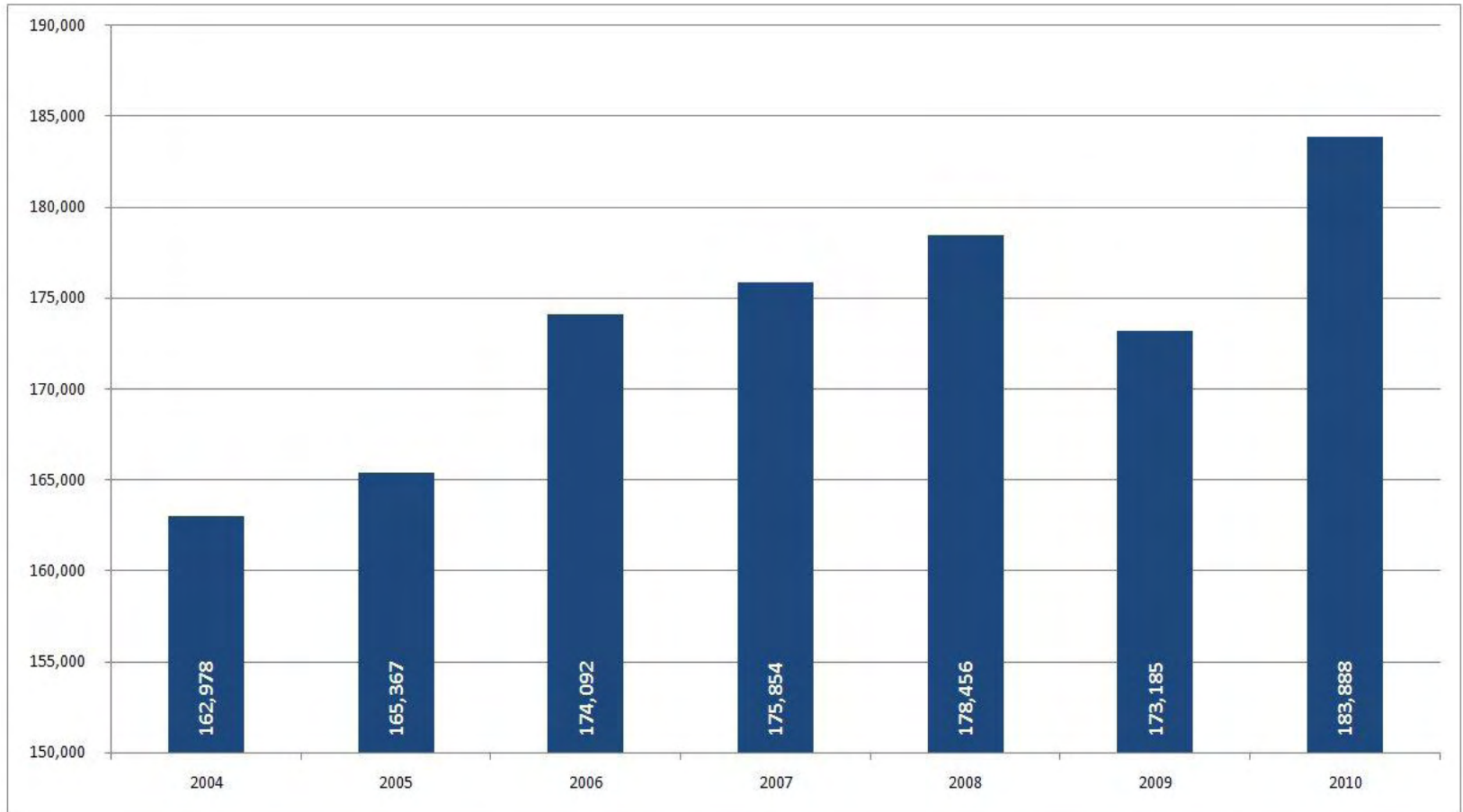
Local Government Options

- Plan Options
 - Florida Retirement System
 - Locally Based Plan, or
 - No Plan
- Participation in FRS
 - 182 Municipalities
 - 231 Special Districts
- Participation in Non-FRS Plans
 - 203 Municipalities
 - 46 Special Districts

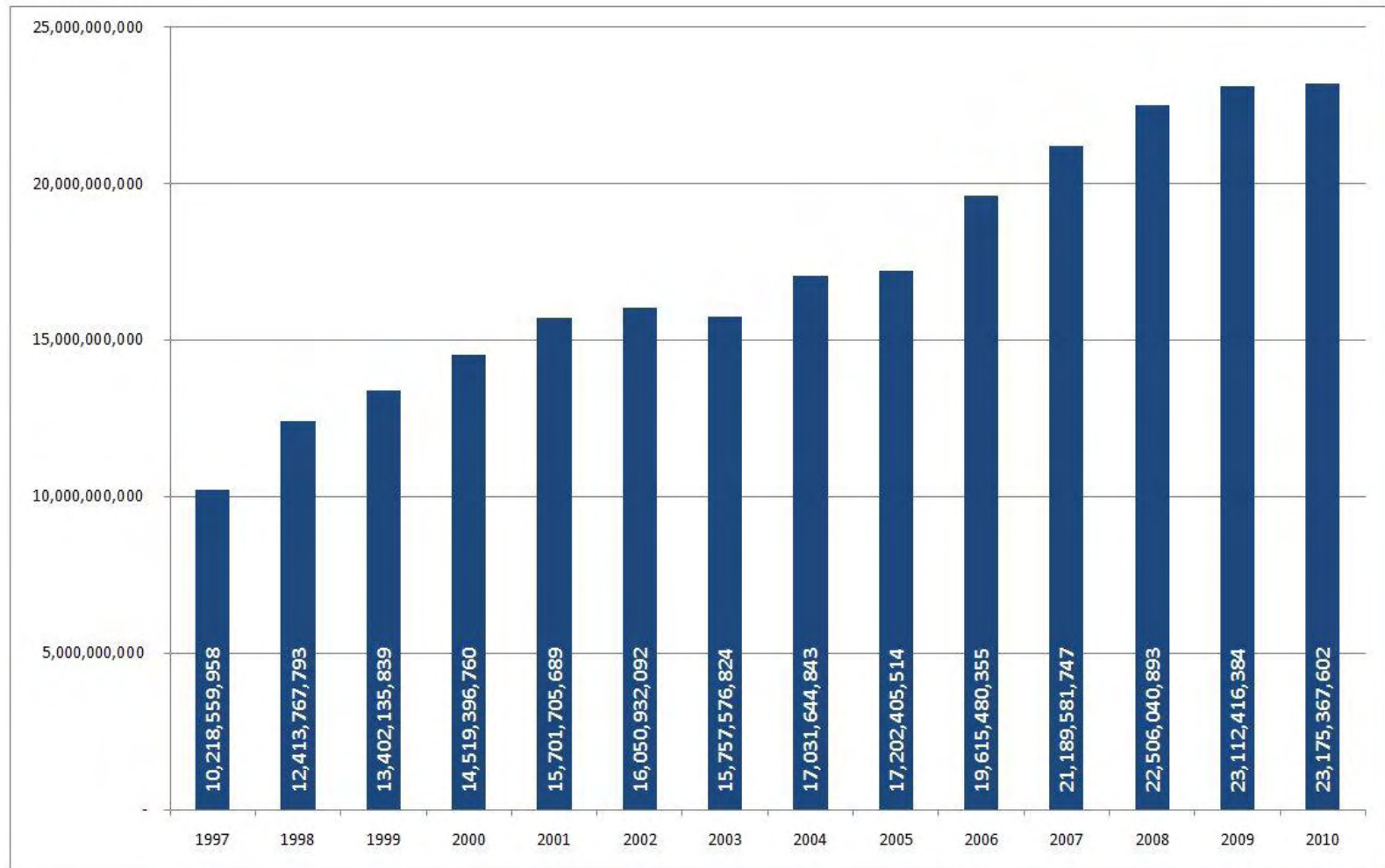
Types of Local Pension Plans

- 170 General Employee Plans
- 351 Police & Fire Plans
 - Firefighters' pension plans
 - Chapter law (Chapter 175, F.S.)
 - Local law
 - Police officers' pension plans
 - Chapter law (Chapter 185, F.S.)
 - Local law

Local Retirement Systems Membership History – Aggregate 2004 – 2010



Local Retirement Systems Market Value of Assets – Aggregate from 1997-2010



Local System Requirements

- **1975 – Constitutional amendment, Section 14, Article X**
Governmental pension plans funded in whole or part with public money may not increase plan benefits unless the cost of such increase is provided for on a sound actuarial basis.
- **1978 – Chapter 78-170, Laws of Florida (SB 14), the “Florida Protection of Public Employee Retirement Benefits Act”**
Established Part VII of Ch. 112, F.S., to enact the provisions of the constitutional amendment. Local government plans were required to submit actuarial reports to the Division of Retirement, but no monitoring or enforcement was established at the state level.
- **1979 – Chapter 79-183, Laws of Florida (HB 1046), the “Local Government Financial Responsibility Act”**
Established triennial actuarial reviews of local plans by the Division of Retirement and enforcement authority.

State Oversight of Local Plans

The Division of Retirement administers Part VII of Chapter 112, F.S., to ensure that affected retirement systems are:

- “managed, administered, operated, and funded ... to maximize the protection of public employee retirement benefits,” and to,
- “prohibit the use of any procedure, methodology, or assumptions the effect of which is to transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers.”

General Employee Pension Plans

- Plan provisions are established by the local government's legislative body, subject to negotiation between the local government and its employees.
- Plans are administered on a local level by the boards of trustees.
- There are no statutory requirements that address the composition of the board of trustees for general employee pension plans.

General Employee Pension Plans

- The Division of Retirement:
 - Reviews each of Florida's local government pension plans at least triennially for compliance with applicable statutes and rules,
 - Provides comments and technical assistance, and
 - Maintains an actuarial database of all plans to prepare an annual report for the Legislature on the Division's activities, findings and recommendations.

Police Officers' & Firefighters' Pension Plans, Chapters 175 and 185, F.S.

1939

- Municipal Firefighters' Pension Fund created by Legislature
 - Provided for creation of fund, specified funding sources, authorized insurance premium tax, created board, defined criteria & benefits for retirement
 - Cities with existing pension funds also authorized to use premium tax

1953

- Municipal Police Officers' Pension Fund created by Legislature
 - Similar to Firefighters' fund, but more reporting requirements involving the state; and benefit criteria varied
 - Certification of compliance required to access premium taxes
- Firefighters' Pension Fund amended to also require certification of compliance to access premium taxes

Police Officers' & Firefighters' Pension Plans: Historical Perspective

In response to concerns that plans were not actuarially sound and that state monies were not being used properly:

1959

- Police Officers' Retirement Fund
 - Significant amendments provide more options and reporting requirements
 - Must meet minimum standards to continue receiving tax
 - Two sets of standards established
 - Local plans created by ordinance or special act given less stringent minimum standards than funds established strictly under ch. 185, F.S.
 - Cities given until 1964 to comply with minimum funding level to fund actuarial deficiencies in order to receive state premium taxes

Historical Perspective (cont.)

1963

- Firefighters' Pension Plan
 - Significant changes made to more closely match Police Fund
 - Must meet minimum standards to continue receiving tax
 - Two sets of standards established
 - Local plans created by ordinance or special act given less stringent minimum standards than funds established strictly under ch. 175, F.S.
- Cities given until 1968 to comply with minimum funding level to fund actuarial deficiencies in order to receive state premium taxes

1986

- Minimum benefits were raised for local law plans above the 1959 and 1963 levels
- Minimum benefits for firefighters for chapter based plans also raised

Recent Changes to Chapters 175 and 185 Plans

1999

- Minimum standards for local law plans raised to same standard as chapter based plans and may not be diminished by local charter, ordinance, or resolution or by special act of the Legislature
- Premium tax funds to be used to bring plans up to standards or to provide extra benefits beyond those provided to general employees

2004

- Use of additional (post 1997 base year) premium tax linked to extra benefits beyond those provided to police or firefighters in 1999

Police Officers' & Firefighters' Pension Plans – Plan Administration

- Plan provisions are established by the local government's legislative body, subject to negotiation between the local government and its employees and the minimum requirements established in Chapters 175 and 185, F.S.
- Plans are solely administered on a local level by independent boards of trustees.
- The composition of the boards of trustees is stipulated in Chapters 175 and 185, F.S., to consist of five board members. Two members are elected members of the plan, two members are legal city residents appointed by the city or district, and a fifth member, elected by a majority of the other four.

Requirements and Minimum Benefits and Standards

Current law provides:

- Reporting requirements
- Minimum benefits and standards
- Funding requirements
- Insurance Premium Excise Tax
- Other provisions

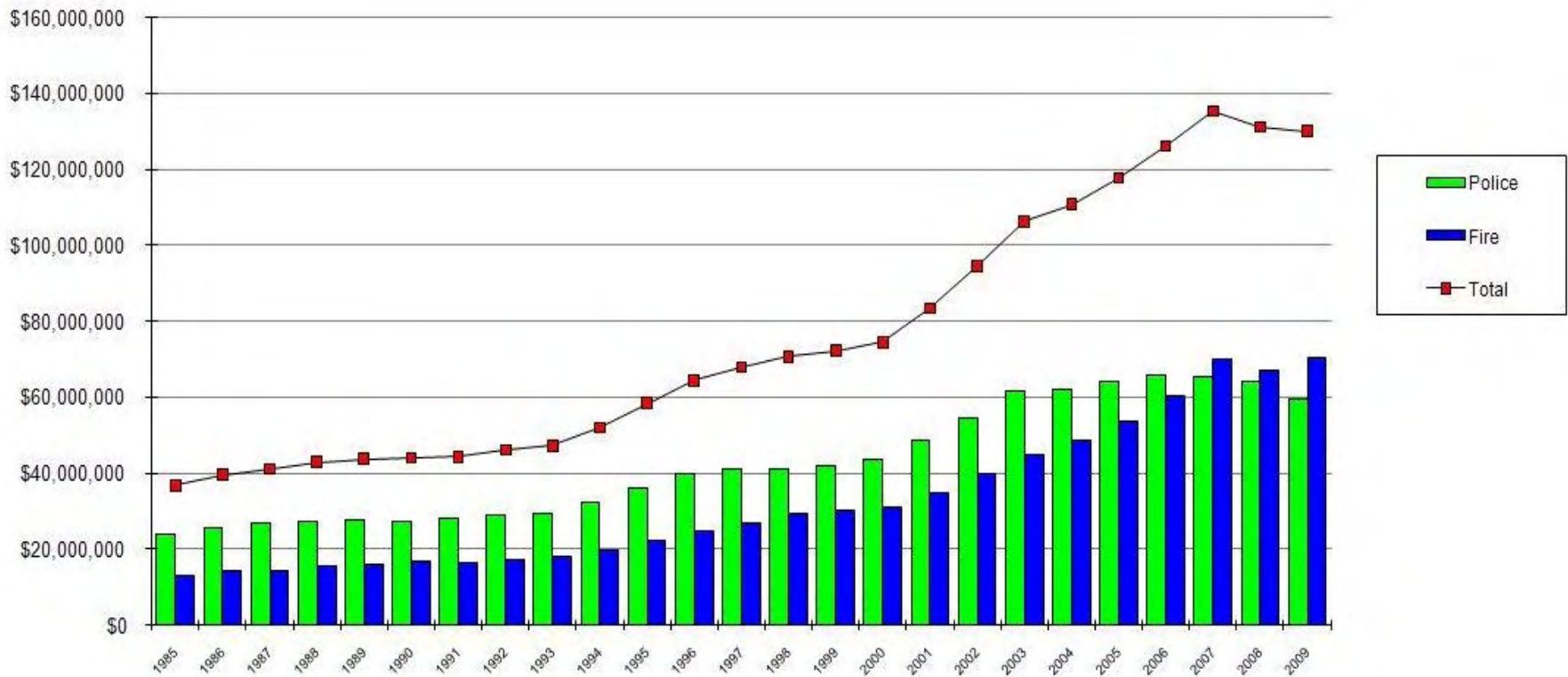
Funding

- Insurance Premium Excise Tax
 - 1.85% on property insurance premiums (firefighters)
 - 0.85% on casualty insurance (police officers)
- Member contributions
 - No less than one-half of 1 percent of salary, and not more than 5% of salary, unless increased by consent for additional benefits
- Municipality or special district contribution
 - Equal to the amount required to fund any actuarial deficiency
- Other sources to include fines, interest and gifts

Insurance Premium Excise Tax

- Improve benefits provided to firefighters and police officers
- Not a tax increase
 - Credit is given to payor for state tax obligation
 - State revenue is reduced accordingly
- Distribution in 2009 = \$131 million

Premium Tax Distribution History 1985 - 2009



Other Provisions relating to Firefighters' & Police Officers' Pensions

- Actuarial deficits are not state obligation
- Oversight
 - Governing boards are provided with information on actuarial impacts prior to approving changes to plan
 - Division of Retirement is responsible for:
 - Oversight and monitoring for actuarial soundness of plans
 - Compliance with statute
 - Enforcement

Municipal and Special District Pension Plans

- Local pension plans and the benefits provided are at the option of, and are the responsibility of, local governments
- If locals elect to use insurance premium tax funds for firefighter and police pensions, minimum state standards are provided
- All pension plans are reviewed for actuarial soundness

Questions?