SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

Date: January 6, 1998 Revised: ________ ________ ________ ________

Subject: Florida Retirement System

	Analyst	Staff Director	Reference	Action
1.	Lombardi	Wilson	GO	Favorable/CS
2.			WM	
3.				
4.				
5.				

I. Summary:

The committee substitute technically amends and clarifies member eligibility for participation in DROP under ch. 97-154, L.O.F. The committee substitute includes a grandfather provision for members exceeding the normal retirement date or for members exceeding the 60 month limitation period. The provision allows for a maximum 5 year, 60 month participation period in the DROP.

This act shall take effect upon the effective date of amendments to s. 121.091, F.S., pursuant to chs. 97-154 and 97-180, L.O.F.

This bill amends section 121.091, Florida Statutes, as amended by chapters 97-154 and 97-180, Laws of Florida.

II. Present Situation:

Chapter 97-154, L.O.F., provides for any member electing to participate in DROP within 12 months of reaching normal retirement age or date, to effectively retire. The bill will allow FRS members to retire and continue working and receiving a salary while accumulating an amount of money equal to up to 60 months of retirement benefits that can later be received as a lump-sum or in installments as an annuity. The retirement benefits are then credited to the DROP and deposited into the FRS Trust Fund to draw interest while the member continues to work. Originally, ch. 97-154, L.O.F, provided for a period of work not to exceed a maximum of 60 months following the date on which the member first reaches normal retirement age or date. Further, members with more than 30 years of service would be precluded from the full 60 month participation period and members with more than 35 years of service would be fully excluded. Positions that would have been vacated upon retirement will continue to be filled by the DROP participant for up to 60 months. Agency retirement contributions will be less for employers of members who elect to participate in the DROP.

The effective date means July 1, 1998, contingent upon the Division of Retirement receiving a favorable determination letter and a favorable private letter ruling from the Internal Revenue Service. On December 12, 1997, the Division of Retirement received a favorable letter of determination from the Internal Revenue Service.

Section 121.091(13)(a), F.S. - This section defines member eligibility for participation in the DROP plan. Participation is open to all FRS members with the exception of: membership in the Teacher's Retirement System (TRS), the State and County Officers' and Employees' Retirement System (SCOERS'), State Community College System Optional Retirement Program, Senior Management Service Optional Annuity Program, and the State University System Optional Annuity Program. The current law is silent as to whether a defined contribution member can participate in DROP.

Section 121.091(13)(a)1., F.S. - Optional service purchased by a member is currently counted as part of the total service credit used in establishing normal retirement and therefore, eligibility to participate in DROP. Member with dual retirement dates are required to elect participation in DROP within 12 months of attaining normal retirement date.

III. Effect of Proposed Changes:

Section 121.091(13)(a), F.S. - The section is amended to include those members of the Teacher's Retirement System (TRS) and the State and County Officers' and Employees' Retirement System (SCOERS') as eligible participants in DROP. Furthermore, language is added to restrict DROP participation only to those active members of FRS that are employed in regularly established positions and clarifies that members of the: State Community College System Optional Retirement Program, Senior Management Service Optional Annuity Program, and State University System Optional Annuity Program are also excluded from participating in DROP.

Section 121.091(13)(a)1., F.S. - This section is amended and renumbered to s. 121.091(13)(a)2., F.S., and clarifies that a member who has purchased optional service credit to establish the normal retirement date may choose to include or exclude the credit when establishing DROP eligibility. This would enable the member to fully participate in the DROP for the full 60-month period if so desired. Furthermore, a member with dual normal retirement dates will be able to participate in DROP within 12 months of attaining normal retirement date in either membership class.

Section 121.091(13)(a)3., F.S. - This section is amended and renumbered to s. 121.091(13)(a)4., F.S., and clarifies that a DROP participant may be simultaneously employed by other FRS employers.

Section 121.091(13)(a)5., F.S. - This section is added to allow participants in DROP to change employers provided the change takes place without a break in service. This section also outlines appropriate policy and procedure for employer changes and penalties associated with failure to timely terminate in DROP.

Section 121.091(13)(b)1., F.S. - This section is amended to specify that members may elect to participate in DROP for no more than 60 *calendar* months after reaching normal retirement, if in fact, the member's normal retirement date preceeded the effective date of the DROP. Special Risk Members exceeding normal retirement dates as of the effective date of the act and who have a total accrued value exceeding 75 percent of average final compensation as of his or her effective date of retirement may only participate in DROP for no more than 36 months.

Section 121.091(13)(c)1., F.S. - This section is amended to specify that on the effective date of DROP participation, the optional form of payment elected by the member shall be fixed, and that if the member dies before completing DROP, then the current beneficiary named to receives benefits under FRS shall also be the same to receive benefits payable under DROP.

Section 121.091(13)(c)2., F.S. - This section is amended to clarify that the effective date of DROP and the effective date of retirement are both the first day of the month following eligibility, provided written confirmation from the employer and approval by the Division of Retirement is established.

Section 121.091(13)(c)4.c., F.S. - This section is amended to delete language requiring distribution of DROP payment before the participant reaches age 70 years and 6 months.

Section 121.091(13)(c)4.d., F.S. - This section is amended to specify that the employer is responsible and financially liable for the employees timely termination from the DROP plan.

Section 121.091(13)(b)4.c., F.S. - This section is added to allow elected officers, including constitutional officers, who have reached normal retirement date during a term of office, to defer their election to participate in DROP. The election however, must be made within the first 12 months of the succeeding term.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Participating individuals electing to annuitize their DROP benefits will, no doubt, be approached by firms seeking their business. Unlike life insurance, which assumes the longevity of the contract holder, an annuity promises a stream of future income based upon a lump sum payment. Individuals exercising this option need to consider the costs and benefits of this approach relative to other retirement income and expenses and the significant plan fees and commissions that can be assessed early in the contract period. This becomes especially important for individuals, their beneficiaries, and their estates, who choose FRS Option 1 for annuity payments.

C. Government Sector Impact:

To administer this program the Division of Retirement needed 14 additional permanent employees, and two OPS employees on contract for 1 year. For budget year 1997-98 and 1998-99, $813,923 and $650,723, respectively, has been budgeted and appropriated from the FRS Trust Fund. These appropriation include salaries, benefits, and the standard expense and OCO package for employees, and increased annual computer resource charges at the Technology Resource Center.

Other than the costs to administer noted above there will be no fiscal impact on the FRS if this bill is enacted.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.