

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.)

BILL: SB 128

SPONSOR: Senator Brown-Waite

SUBJECT: Special Risk Class Member Disability Benefits

DATE: April 15, 1999 REVISED: 4/20/99 _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Lombardi</u>	<u>Wilson</u>	<u>GO</u>	<u>Fav/1 amendment</u>
2.	<u>Hendon</u>	<u>Hadi</u>	<u>FP</u>	<u>Favorable</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The bill increases the minimum in the line of duty disability benefit for Special Risk Class members from 42 percent to 65 percent of average final compensation (AFC) for an option 1 selected benefit.

This bill takes effect January 1, 2000.

This bill amends section 121.091, Florida Statutes.

II. Present Situation:

The Florida Retirement System (FRS) is an employer-funded pension plan which promises vested members a retirement benefit based on a formula determined by years of service, average final compensation, and member classification accrual rates. It includes five membership classes: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected State and County Officer's Class, and Senior Management Service Class. This type of pension plan is commonly known as a defined benefit plan and since 1975 FRS members have not been required to contribute to receive a pension benefit. The formula, in combination with up to 500 hours of annual leave yields the base retirement benefit which is then adjusted annually for inflation at three percent. To receive the full retirement benefit, members must first reach their "normal retirement date" based on membership classification and age and/or length of service.

All member classes of the FRS are eligible for disability benefits. Members whom become permanently and totally disabled in the line of duty currently receive a minimum disability benefit of 42 percent of AFC. Those members who become permanently and totally disabled other than in the line of duty receive a minimum disability benefit of 25 percent of AFC. Members who are permanently and totally disabled in the line of duty have vested rights to their disability retirement benefit immediately upon employment and membership in the FRS. Members becoming

permanently and totally disabled, other than in the line of duty, must have 10 years of creditable service before being eligible to receive disability retirement benefits.

III. Effect of Proposed Changes:

The bill increases the minimum in the line of duty disability benefit for Special Risk Class members from 42 percent to 65 percent of AFC for an option 1 selected benefit.

The bill requires an increase in contribution rates for Special Risk Class and Special Risk Administrative Support Class membership. The increase is .13 percent and .21 percent of gross payroll, respectively, for each class.

This bill takes effect January 1, 2000.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The bill imposes a mandate requiring local governments to expend additional dollars above the \$1.4 million threshold by increasing the in the line of duty disability benefit for Special Risk Class membership in the FRS. Art. X, s. 14, State Constitution, provides that retirement or pension systems supported by public funds must make provisions for funding of increased benefits on a sound actuarial basis. However, a mandate issue may be exempted if: the Legislature finds that the bill serves an important state interest; all employers participating in the FRS are required to comply for similarly situated persons within the Special Risk Class; and two-thirds of the membership of each house votes in support of the bill.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

Unlike normal retirement benefits, disability benefits are exempt from federal income taxes. Increasing disability benefits also increases the amount of dollars exempted from federal income taxation.

B. Private Sector Impact:

None.

C. Government Sector Impact:

The bill requires an increase in contribution rates for Special Risk Class and Special Risk Administrative Support Class membership. The increase is .13 percent and .21 percent of gross payroll, respectively, for each class. The following table expresses the budgetary increase in dollars needed to fund the benefit:

FISCAL IMPACT			
Fiscal Year	7/99 - 6/00 (6 months)	7/00 - 6/01 (12 months)	7/01 - 6/02 (12 months)
State	\$416,000	\$874,000	\$917,000
Local	\$985,000	\$2,069,000	\$2,172,000
Total	\$1,401,000	\$2,943,000	\$3,089,000

Source: Actuarial Special Study 1995-3, Milliman and Robertson

VI. Technical Deficiencies:

None.

VII. Related Issues:

Under the provisions of s. 440.15(10), F.S., Social Security benefits under this section may be offset by workers' compensation benefits to the extent that total compensation does not exceed 80 percent of the employee's average weekly salary. More recently, the Florida Supreme Court ruled that workers' compensation benefits may be offset to the extent that the total of workers' compensation, disability retirement, and Social Security disability benefits exceed 100 percent of the employee's average weekly wage (*Escambia County Sheriff's Department v. Thomas Grice*, 692 So.2d 896 (Fla. 1997)).

Under the average weekly salary equation for benefits compensation, an increase in the FRS disability benefit would offset workers' compensation benefits potentially lowering the employer's cost for workers' compensation coverage. The trickle down effect is that workers' compensation benefits will play a lesser role in the formula for benefit compensation resulting in greater Social Security benefit payments.

Raising the minimum in the line of duty disability benefit to 65 percent of AFC is equivalent to a normal retirement benefit for Special Risk Class members with 21.66 years of creditable service, assuming a 3 percent per year benefit accrual rate. Currently, the normal retirement benefit for a Special Risk Class member with 14 years of creditable service, assuming a 3 percent per year benefit accrual rate, is greater than the in the line of duty disability retirement benefit. When members are eligible for permanent and total disability benefits, they may receive the greater of the disability retirement benefit or the normal retirement benefit.

VIII. Amendments:

#1 by Governmental Oversight and Productivity:

Provides that the bill serves an important state interest and provides contribution rate changes to fund the increase in retirement disability benefits. (WITH TITLE AMENDMENT)

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
