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DATE: April 18, 2001

HOUSE OF REPRESENTATIVES
FISCAL RESPONSIBILITY COUNCIL
ANALYSIS

BILL #: HB 1947
RELATING TO: Disability Insurance
SPONSOR(S): Fiscal Responsibility Council and Representative Lacasa
TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) FISCAL RESPONSIBILITY COUNCIL YEAS 19 NAYS 0
 - (2)
 - (3)
 - (4)
 - (5)
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I. SUMMARY:

Chapter 2000-169, Laws of Florida, directed the Department of Management Services to study the potential options for disability coverage for participants of the Public Employee Optional Retirement Program, including self-insurance and commercial coverage, the alternative methods of administering disability benefits, and the fiscal impacts on the employees and employers, and to make recommendations to the Legislature by January 15, 2001. This bill implements the recommendations of the Department of Management Services.

This bill provides the disability benefits available under the Public Employee Optional Retirement Program. A member suffering a disability may opt to receive normal retirement benefits rather than disability retirement benefits.

The rules and procedures for determining disability under the Public Employee Optional Retirement Program are identical to the rules and procedures under the defined benefit program.

If the member has no credit under the defined benefit program of the Florida Retirement System or has transferred the accumulated balance to the Public Employee Optional Retirement Program account, the member's account balance will be transferred to Public Employee Disability Trust Fund. If the member has retained retirement credit under the defined benefit program, the actuarial present value of such credit will be transferred to the Public Employee Disability Trust Fund.

The benefit afforded the member will be payable monthly during the member's lifetime. The amount of the benefit will be computed in the same manner as a normal retirement benefit is computed but will be based on disability option actuarial equivalency tables. If the disability occurred in the line of duty, the monthly benefit will be a minimum of 42% of the member's average monthly compensation or 65% if the member is a Special Risk Class member. If the disability occurred other than in the line of duty, the monthly benefit will be a minimum of 25% of the member's average monthly compensation.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- 1. Less Government Yes No N/A
- 2. Lower Taxes Yes No N/A
- 3. Individual Freedom Yes No N/A
- 4. Personal Responsibility Yes No N/A
- 5. Family Empowerment Yes No N/A

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Disability Benefits under the Public Employee Optional Retirement Program

Subsection 121.4501(16), F.S., provides:

For any participant in the optional retirement program who becomes totally and permanently disabled, as defined in s. 121.091(4)(b), the participant shall be entitled to receive those moneys that have accrued in his or her participant account. It is the intent of the Legislature to design a disability benefit for participants of the optional program similar to those disability benefits afforded defined benefit program members. The department is directed to study the potential options of such coverage, including self-insurance and commercial coverage, the alternative methods of administering such benefits, and the fiscal impacts on the employees and employers, and to make recommendations to the Legislature by January 15, 2001.

Section 121.571, F.S., requires employers of participants of the Public Employee Optional Retirement Program to contribute funds to the Public Employee Disability Trust Fund. These funds will be used to provide disability coverage for participants in the optional retirement program. The statutory contributions are based on the participant's gross monthly compensation and are noted below:

Regular Class	0.39%
Special Risk Class	1.25%
Special Risk Administrative Support Class	0.73%
Elected Officers' Class	
Legislators	0.61%
Governor, Lt. Governor, Cabinet	0.61%
State Attorneys, Public Defenders	0.61%
Justices, Judges	1.45%
County Elected Officers	0.86%
Senior Management Service Class	0.50%

Mercer Study of Disability Benefits

The Department hired William M. Mercer, Inc. (Mercer) to conduct the disability study and to make recommendations. The Mercer recommendations were published in "Study of Disability Benefits Per HB 2393" and are summarized below:

1. In order to assure that equitable disability benefits are provided to all participants, the account balance transferred for the Florida Retirement System defined benefit plan should be used first to pay benefits to disabled PEORP participants.
2. The state should administer PEORP and the FRS defined benefit plan on an internal basis to realize substantial savings over the cost of external administration.
3. The state should continue to self-insure the disability retirement program, thus avoiding insurance company risk, profit loads and state premium taxes.
4. The state should fund PEORP through a new Disability Benefit Trust, which offers the benefits of self-insurance and plan asset protection.

Disability Benefits under the Defined Benefit Program

Generally

The Florida Retirement System defined benefit program protects the accrued benefits of participants who become totally and permanently disabled during active employments. Participants may be eligible for either regular disability or in-line-of-duty disability.

A participant is eligible for regular disability upon completing 10 years of creditable service in the FRS; however, effective July 1, 2001, a participant must complete 8 years of creditable service to be eligible for the regular disability benefit. The benefits available under regular disability cannot be lower than 25% of the participant's average final compensation (the average of the five highest years of salary while in covered employment). This benefit can be higher if the participant has accrued a higher service credit.

A participant is eligible for in-line-of-duty disability on the first day of covered employment. Generally, the minimum benefit for in-line-of-duty disability is 42% of the participant's average final compensation; however, for Special Risk Class and Special Risk Administrative Support Class members retiring after July 1, 2001, the minimum benefit is 65% of the average final compensation.

Benefit Payout Options

If a member is approved for disability retirement benefits, the members is permitted to choose one of four benefit options. These options include:

Option 1 – a monthly benefit payable for the member's lifetime and continued disability. Upon the member's death, the monthly benefit will cease and the beneficiary is entitled to receive a refund of any contributions the member paid which exceed the amount received in benefits. This option maximizes the lifetime benefit.

Option 2 – a reduced monthly benefit payable for the member's lifetime and continued disability. If the member dies after 10 years of retirement, no benefits are payable to the beneficiary. If the member dies within 10 years of retirement, the beneficiary continues to receive the monthly benefit until completion of the 120-month period.

Option 3 -- a reduced monthly benefit payable for the member's lifetime and continued disability. Upon a member's death, the member's joint annuitant, if living, receives a lifetime monthly benefit in the same amount as the member had received. Special rules apply if the joint annuitant is not the member's spouse.

Option 4 -- a reduced monthly benefit payable while the member is disabled and both the member and joint annuitant are living. Upon the death of either the member or the joint annuitant, the monthly benefit is reduced to 2/3 of the monthly benefit received while both were living. Special rules apply if the joint annuitant is not the member's spouse.

C. EFFECT OF PROPOSED CHANGES:

This bill provides the disability benefits available under the Public Employee Optional Retirement Program as recommended by Mercer. A member suffering a disability may opt to receive normal retirement benefits rather than disability retirement benefits.

The rules and procedures for determining disability under the Public Employee Optional Retirement Program are identical to the rules and procedures under the defined benefit program.

If the member has no credit under the defined benefit program of the Florida Retirement System or has transferred the accumulated balance to the Public Employee Optional Retirement Program account, the member's account balance will be transferred to Public Employee Disability Trust Fund. If the member has retained retirement credit under the defined benefit program, the actuarial present value of such credit will be transferred to the Public Employee Disability Trust Fund.

The benefit afforded the member will be payable monthly during the member's lifetime. The amount of the benefit will be computed in the same manner as a normal retirement benefit is computed but will be based on disability option actuarial equivalency tables. If the disability occurred in the line of duty, the monthly benefit shall be a minimum of 42% of the member's average monthly compensation or 65% if the member is a Special Risk Class member. If the disability occurred other than in the line of duty, the monthly benefit shall be a minimum of 25% of the member's average monthly compensation.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 amends s. 121.4501, F.S., to define "average monthly compensation" and "covered employment". The benefits offered under the Public Employee Optional Retirement Program are moved from subsection (7) to a new section 121.591, F.S.

Section 2 amends s. 121.571, F.S., to modify the employer contributions paid for the disability benefits offered under the Public Employee Optional Retirement Program, based on the actuary's recommendations.

Section 3 creates s. 121.591, F.S., to provide the normal retirement benefits, survivor benefits and the disability benefits offered under the Public Employee Optional Retirement Program.

Section 4 provides a finding that the bill fulfills an important state interest.

Section 5 provides that this bill is effective July 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

This bill reduces the overall contributions paid by state public employers for disability coverage under the Public Employee Optional Retirement Program.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

This bill reduces the overall contributions paid by local public employers for disability coverage under the Public Employee Optional Retirement Program.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The contribution rates for disability coverage under the Public Employee Optional Retirement Program will be modified as follows:

	<u>Current Law</u>	<u>New Rate</u>
Regular Class	0.39%	0.25%
Special Risk Class	1.25%	1.33%
Special Risk Administrative Support Class	0.73%	0.45%
Senior Management Service Class	0.50%	0.26%
Elected Officers' Class		
Legislators	0.61%	0.41%
Governor, Lt. Governor, Cabinet	0.61%	0.41%
State Attorneys, Public Defenders	0.61%	0.41%
Judges, Justices	1.45%	0.73%
Elected County Officers	0.86%	0.41%

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill will not require cities and counties to spend money or take an action to expend funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the revenue raising authority of cities and counties.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties and cities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

This bill provides rule-making authority to the Department of Management Services regarding implementation of disability benefits and procedures under the Public Employee Optional Retirement Program.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

FISCAL RESPONSIBILITY COUNCIL:

Prepared by:

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