STORAGE NAME: h0651.sa.doc
DATE: April 2, 2001

HOUSE OF REPRESENTATIVES
COMMITTEE ON
STATE ADMINISTRATION
ANALYSIS

BILL #: HB 651

RELATING TO: Retirement

SPONSOR(S): Representative(s) Bilirakis

TIED BILL(S): None

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

(1) STATE ADMINISTRATION
(2) FISCAL POLICY & RESOURCES
(3) FISCAL RESPONSIBILITY COUNCIL
(4)
(5)

I. SUMMARY:

Florida Retirement System benefits are calculated by a formula, where the member's years of service is multiplied by a value for each year – called the accrual value – multiplied by the average of the member's highest five years of salary (AFC).

The Special Risk Class accrual value was gradually increased from 2 percent to 3 percent per year over a 5-year period from 1989 to 1993. The 2000 Legislature passed a bill to increase the accrual value for Special Risk Class members to 3 percent from October 1, 1978, through December 31, 1992. This provision was effective July 1, 2000, for Special Risk Class and Special Risk Administrative Support Class members who retire on or after July 1, 2000.

This bill amends current law to extend the benefit calculation of 3 percent of AFC for all creditable years of service for Special Risk Class and Special Risk Administrative Class members that served between September 30, 1978, and January 1, 1993, who are retired, who are participants in the Deferred Retirement Optional Program, or who have terminated employment with vested rights before July 1, 2000.

This bill provides that the increases resulting from the repurchase of retirement accrual rates for Special Risk members will be funded from a lump sum of **$740 million** from the FRS Surplus. The Department of Management Services states that the bill provides for "the 'repurchase of retirement accrual rates' so it is assumed that the intent of the bill is to provide retroactive payments as well as a prospective increase in benefits to all retirees and DROP participants with such service." See "Fiscal Comments" section of the bill for further detail.

The provisions of this bill could set a precedent by changing the amount of a retirement benefit after a member has already retired. Recalculating the benefits of retired members and increasing their benefits, prospectively, as well as paying retroactive payments to upgrade benefits already received, has not been done in the past.

This bill does not appear to have a fiscal impact on local governments.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

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

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

B. PRESENT SITUATION:

Florida Retirement System

The Florida Retirement System (FRS) was created in December 1970 to consolidate then-existing state-administered retirement systems for state and county officers and employees, teachers, judges, and Highway Patrol officers. Today, the FRS is the fourth largest public retirement system in the United States, covering about 600,000 active employees, close to 185,000 annuitants (retirees and their surviving beneficiaries), and about 20,500 participants of the Deferred Retirement Option Program (DROP).[1] State employees (including university employees) make up about 25 percent of the FRS membership. Remaining members are employed by local agencies, including counties, district school boards, and community colleges, as well as cities and special districts that have opted to join the FRS.

The active membership of the FRS is divided into five membership classes: the Regular Class; the Special Risk Class, the Special Risk Administrative Support Class, the Elected Officers' Class, and the Senior Management Service Class. As of June 30, 2000, with 58,000 members, special risk employees made up about 9.7 percent of the active FRS membership.[2]

Special Risk

FRS benefits are calculated by a formula, where the member's years of service is multiplied by a value for each year – called the accrual value – multiplied by the average of the member's highest five years of salary. The Special Risk Class was established effective December 1, 1970, with an accrual value of 2 percent per year.[3] In 1974, it was increased to an accrual value of 3 percent per year, but the Legislature failed to fund the increase in an actuarially sound manner. To eliminate the increasing unfunded liability, the 1978 Legislature reduced the accrual value for members of the Special Risk Class from 3 percent per year to 2 percent per year, effective October 1, 1978.[4] This accrual value reduction accompanied a revision of membership eligibility for the Special Risk Class to remedy the underfunding of the benefits offered to this class.

---

[1] 2001 Bill Analysis on HB 149, Department of Management Services, February 27, 2001.
[2] *Id*. at 2.
[3] 2001 Bill Analysis on HB 651, Department of Management Services, March 1, 2001.
[4] *Id*. at 1-2.

The Special Risk Class accrual value was gradually increased from 2 percent to 3 percent per year over a 5-year period from 1989 to 1993.[5] The 2000 Legislature passed a bill to increase the accrual value for Special Risk Class members to 3 percent from October 1, 1978, through December 31, 1992. This provision was effective July 1, 2000, for Special Risk Class and Special Risk Administrative Support Class members who retire on or after July 1, 2000.

C. EFFECT OF PROPOSED CHANGES:

This bill amends s. 121.091(1)(a)2.i., F.S., to extend the benefit calculation of 3 percent of average final compensation for all creditable years of service for Special Risk Class and Special Risk Administrative Class members that served *between September 30, 1978, and January 1, 1993*, who are retired, who are participants in the Deferred Retirement Optional Program, or who have terminated employment with vested rights before July 1, 2000.

This bill provides that the increases resulting from the repurchase of retirement accrual rates for Special Risk members will be funded from a lump sum of **$740 million** from the FRS Surplus.

The Department of Management Services states that the bill provides for "the '*repurchase* of retirement accrual rates' so it is assumed that the intent of the bill is to provide retroactive payments as well as a prospective increase in benefits to all retirees and DROP participants with such service."[6] See also "Fiscal Comments."

This bill also provides that if there is an unfunded liability that results from the change in benefits that the employer contributions must "be increased by ____ percentage points, effective July 1, 2001." This appears to be a shell provision that the sponsor intends to complete by amending the bill at a later date. See "Fiscal Comments" for further detail.

This bill also provides a statement of a proper and legitimate state purpose.

D. SECTION-BY-SECTION ANALYSIS:

See "Effect of Proposed Changes."

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

See "Fiscal Comments."

---

[5] *Id.*
[6] *Id.* at 2.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

Special Risk Class

The Department of Management Services provides the following chart to demonstrate the retroactive increase in Special Risk Class accrual value by fiscal year as proposed by this bill for Special Risk Class members who have retired or who are DROP participants.[7]

Accrual Value Creditable Service between:	Current Law	Proposed Legislation
12/1/70 - 9/30/74	2.00%	2.00%
10/1/74 - 9/30/78	3.00%	3.00%
10/1/78 - 12/31/88	2.00%	3.00%
1/1/89 - 12/31/89	2.20%	3.00%
1/1/90 - 12/31/90	2.40%	3.00%
1/1/91 - 12/31/91	2.60%	3.00%
1/1/92 - 12/31/92	2.80%	3.00%
1/1/93 and thereafter	3.00%	3.00%

The benefit increase resulting from this proposed legislation for a Special Risk Class member who had service during the entire period is demonstrated in the following chart. This comparison assumes 25 years of Special Risk Class Service and an AFC of $60,000.[8]

Total Compensation Percentage	Option 1	Annual Benefit
Current Law	62.75%	$37,650
Proposed Legislation	75%	$45,000
Difference	12.25%	$ 7,350

[7] An eligible person employed during the entire period of October 1978 through December 1992 would receive an additional accrual value of 12.25 percent. *Id*.
[8] *Id*.

Milliman & Robertson, Inc., Consulting Actuaries for the Department of Management Services, prepared an estimate of the costs to provide this benefit based on the July 1, 1999 Valuation of the FRS:

Cost to Provide Increased Benefits		
Members	**Number of Members**	**Cost**
DROP Members	2,521	**$189,000,000**
Retired, Disabled, and Beneficiaries	9,759	**$372,000,000**
Cost to Provide Retroactive Payments for Above Members		**$179,000,000**
TOTAL	12,280	**$740,000,000**

Florida Retirement System Surplus

Section 121.031(3)(f), F.S., establishes a rate stabilization mechanism for the Florida Retirement System (FRS). It reserves a specific portion of any actuarial surplus to offset future unfunded liabilities and allows any excess actuarial surplus to be used to offset employer contributions or increase employee retirement benefits. For FY 2000-01, the excess surplus available to the Legislature was $660.7 million, which was used primarily for a retroactive benefit increase to certain special risk employees and for a reduction in the employer contribution rates.

During the 2000 session, the available surplus anticipated for the 2001 session, after considering the effects of the FY 2000-01 changes, was $520 million. The actual surplus available to the Legislature for the 2001 session is less than $420 million. The $100 million decrease is the result of the declining value of FRS assets in our present economy.

The House Appropriations bill anticipates the use of the entire $420 million in rate reductions to FRS employers. About $100 million of the surplus is used to offset a 2001 rate increase dictated by the actuarial experience study. The remainder reduces employer contributions below the current rates.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that counties or municipalities have to raise revenues in the aggregate.

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

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

The provisions of this bill could set a precedent of changing the amount of a benefit after a member has already retired. Recalculating the benefits of retired members and increasing their benefits, prospectively, as well as paying retroactive payments to upgrade benefits already received, has not been done in the past.

The Department of Management Services states that there will be a considerable workload for the Division of Retirement to recalculate the benefits of all affected retirees and DROP participants.[9] For the members whose service is not all special risk service or for those with past special risk service with a city or special district, the accounts would have to be re-audited by hand.[10] Depending on the number of accounts involved, this could require the additional services of a maximum of 3 Benefit Specialists (pay grade 20) and 1 Benefits Program Supervisor/Analyst (pay grade 22) for one year.[11]

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON STATE ADMINISTRATION:

Prepared by:	Staff Director:
Jennifer D. Krell, J.D.	J. Marleen Ahearn, Ph.D., J.D.

[9] *Id.*
[10] *Id.*
[11] *Id.*