

STORAGE NAME: h1973.frc.doc
DATE: February 26, 2002

HOUSE OF REPRESENTATIVES
FISCAL RESPONSIBILITY COUNCIL
ANALYSIS

BILL #: HB 1973 (PCB FRC 02-09)
RELATING TO: Retirement
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 22 NAYS 0
 - (2)
 - (3)
 - (4)
 - (5)
-

I. SUMMARY:

This legislation establishes the retirement contribution rates for each class and subclass of the Florida Retirement System (FRS) defined benefit program. Beginning July 1, 2003, the respective rates are set at the normal cost as determined by the FRS's consulting actuary. However, for FY 2002-2003, the contribution rates are reduced below normal costs to reduce overall personnel costs by 5.05 percentage points for employers participating in the FRS. This rate reduction includes the continuation of the 3.02 percentage point reduction from FY 2001-02. This legislation directs the state actuary to recognize a portion of the excess actuarial assets of the FRS Trust Fund to fund these rate reductions.

The revenues flowing into the FRS Trust Fund will be reduced by approximately \$1,061.7 million in FY 2002-03. This reduction is the result of the across-the-board 5.05 percentage point contribution rate reduction authorized in this legislation. Of this \$1,061.7 million, state agencies will benefit by approximately \$257.6 million and local governments (counties, school districts, cities, special districts and community colleges) will benefit by approximately \$803.9 million.

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II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- | | | | |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

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

B. PRESENT SITUATION:

Defined Contribution Retirement Rates

Chapter 121, Florida Statutes, creates the Florida Retirement System (FRS) for the purpose of providing retirement benefits to employees and officers of the state, all counties, all school districts, and certain cities and special districts. To fund these retirement benefits, each participating employer pays a contribution to the Florida Retirement System Trust Fund based on a statutory percentage of each employee's gross monthly income.

The table below shows normal costs (the contribution rate necessary to fund the current benefits offered under the retirement plan) of each class or subclass as determined in the 2001 Actuarial Valuation of the Florida Retirement System and the contribution rates currently in law.

<u>Class</u>	<u>Normal Cost</u>	<u>Statutory Rate</u>
Regular Class	9.94%	9.91%
Special Risk Class	22.15%	22.07%
Special Risk Admin. Support Class	12.60%	12.55%
Elected Officers' Class – Judicial Subclass	20.64%	20.61%
Elected Officers' Class – Leg.-Atty.-Cab. Subclass	15.42%	15.14%
Elected Officers' Class – County	17.52%	17.61%
Senior Management Service Class	11.68%	11.73%

Recognition of Excess Actuarial Assets to Offset System Costs

Section 11 of ch. 2001-235, Laws of Florida, directed the state actuary to recognize excess actuarial assets of the Florida Retirement System to offset the costs associated with granting certain Special Risk Class retirees a 12% cost of living adjustment. For 2002-2003, the law requires that \$19.3 million of surplus assets of the Florida Retirement System (FRS) Trust Fund be recognized as the cost for the year. The state actuary has recommended that only \$15.1 million is necessary for FY 2002-03.

Public Employee Optional Retirement Program Costs

For FY 2000-01 and FY 2001-02, the State Board of Administration received a contribution from each employer participating in the FRS to fund the costs of implementing the Public Employee Optional Retirement Program (PEORP). This contribution was equal to 0.10% of each employer's gross payroll for the month. These contributions have generated roughly \$19 million each year.

C. EFFECT OF PROPOSED CHANGES:

This legislation establishes the retirement contribution rates for each class and subclass of the Florida Retirement System (FRS) defined benefit program. Beginning July 1, 2003, the respective rates are set at the normal cost as determined by the FRS's consulting actuary. However, for FY 2002-2003, the contribution rates are reduced below normal costs to reduce overall personnel costs by 5.05 percentage points for employers participating in the FRS. This rate reduction includes the continuation of the 3.02 percentage point reduction from FY 2001-02. This legislation directs the state actuary to recognize a portion of the excess actuarial assets of the FRS Trust Fund to fund these rate reductions.

This bill also imposes an additional contribution of 0.15 percent of payroll on all FRS employers to cover the educational and administrative costs associated with the implementation of PEORP. This additional contribution is estimated to generate a total of \$31.6 million from all FRS employers for FY 2002-03.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 amends s. 121.052, F.S., to set the FY 2003-04 contribution rates for the subclasses of the Elected Officers' Class to the respective normal costs as determined by the consulting actuaries of the FRS. For FY 2002-03, the rates are reduced below normal costs to implement a rate reduction for public employers participating in the defined benefit plan of the FRS.

Section 2 amends s. 121.055, F.S., to set the FY 2003-04 contribution rates for the Regular Class, the Special Risk Class and the Special Risk Administrative Support Class to the respective normal costs as determined by the consulting actuaries of the FRS. For FY 2002-03, the rates are reduced below normal costs to implement a rate reduction for public employers participating in the defined benefit plan of the FRS.

Section 3 amends s. 121.071, F.S., to set the FY 2003-04 contribution rate for the Senior Management Service Class to the respective normal costs as determined by the consulting actuaries of the FRS. For FY 2002-03, the rate is reduced below normal costs to implement a rate reduction for public employers participating in the defined benefit plan of the FRS.

Section 4 directs the state actuary to recognize a portion of the excess actuarial assets of the FRS Trust Fund to fund the cost of certain rate increases and certain rate reductions.

Section 5 amends s. 11 of Chapter 2001-235, Laws of Florida, to reduce the amount of excess actuarial assets to be recognized by the state actuary to pay for the costs of a 12% cost of living increase granted to certain Special Risk retirees in 2001.

Section 6 amends s. 121.571, F.S., to delay the imposition of a 0.10% charge against payroll for fund the administrative and educational expenses incurred by the State Board of Administration in implementing the optional retirement program.

Section 7 repeals s. 23 of chapter 2000-169, L.O.F., to eliminate a rate increase associated with the costs of offering the optional retirement program.

Section 8 imposes a charge of 0.15% of payroll on all FRS employees to fund the costs of education and administration associated with the implementation of the optional retirement plan.

Section 9 provides a legislative finding that the act fulfills an important state interest.

Section 10 provides that this act shall take effect June 1, 2002.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The revenues flowing into the FRS Trust Fund will be reduced by approximately \$1,061 million in FY 2002-03. This reduction is the result of the across-the-board 5.05 percentage point contribution rate reduction authorized by this legislation.

2. Expenditures:

Florida Retirement System Trust Fund

While the legislation does not expend additional funds from the FRS Trust Fund, the legislation does direct the state actuary to "recognize" a portion of the excess actuarial assets to offset the costs associated with the prior experience study, increases to benefits, and the 5.05 percentage point reduction in contribution rates. The total amount of surplus to be recognized to offset such costs is roughly \$1,235 million.

State Agency Funds

State agencies will enjoy a reduction in retirement costs associated with the 5.05 percentage point reduction. This reduction in retirement costs is estimated to be approximately \$257.6 million in state funding for FY 2002-03.

State agencies will also enjoy a cost savings of \$43.8 million in FY 2002-03 through the recognition of a portion of the excess actuarial assets of the FRS Trust Fund to offset the normal cost increases associated with the prior experience study and benefit increases.

State agencies will incur additional costs of \$2.9 million associated with the costs for PEORP implementation.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

Local governments (counties, school districts, cities, special districts and community colleges) will enjoy a reduction in retirement costs associated with the 5.05 percentage point reduction. This reduction in retirement costs is estimated to be approximately \$803.9 million in local funding for FY 2002-03.

Local governments will also enjoy a cost savings of \$136.6 million in FY 2002-03 through the recognition of a portion of the excess actuarial assets of the FRS Trust Fund to offset the normal cost increases associated with the prior experience study and benefit increases.

Local governments will incur additional costs of \$8.6 million associated with the costs for PEORP implementation.

C. **DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None.

D. **FISCAL COMMENTS:**

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

A. **APPLICABILITY OF THE MANDATES PROVISION:**

Article VII, Section 18, of the Florida Constitution, excuses local governments from complying with state mandates which impose additional fiscal burdens. Section (a) provides, "No county or municipality shall be bound by any general law requiring such county or municipality to spend funds or to take an action requiring the expenditure of funds" unless certain requirements are met. However, several exemptions and exceptions exist.

This bill requires participating cities and counties to expend additional funds because it will require them to make higher FRS contributions in FY 2003-04 and thereafter (absent other legislative action). However, subsection (a) contains an exception for laws which fulfill an important state interest and which apply to all persons similarly situated. This bill provides a determination and declaration of important state interest and treats all similarly situated FRS employers in the same manner. Thus, the bill meets the exception requirements of Art. VII, Section 18, of the Florida Constitution.

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 municipalities.

V. COMMENTS:

A. **CONSTITUTIONAL ISSUES:**

None.

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B. RULE-MAKING AUTHORITY:

This bill does not grant rule-making authority.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

FISCAL RESPONSIBILITY COUNCIL:

Prepared by:

Staff Director:

Joe McVaney

David Coburn