SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: CS/SB 546

SPONSOR: Governmental Oversight and Productivity Committee and Senator Pruitt

SUBJECT: Instructional Personnel/K-12/DROP

DATE: February 1, 2002 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wilson	Wilson	GO	Favorable/CS
2.	O'Farrell	O'Farrell	ED	Favorable
3.			AGG	
4.			AP	
5.				
6.				

I. Summary:

The bill extends from 60 months to 96 months the period of time a member of the Florida Retirement System may participate in the Deferred Retirement Option Program (DROP) and limits this extended participation period to public school instructional personnel in Kindergarten through Grade 12.

This bill amends section 121.09, Florida Statutes.

It also creates two additional undesignated sections of law providing a statement of important state interest and for conformity of its provisions with the Internal Revenue Code.

II. Present Situation:

The Florida Retirement System (FRS) is a multi-employer, non-participatory defined benefit pension plan providing a monthly annuity pension benefit for employees of 800 state, county, municipal, school board, and special district employers. At retirement employee-participants may choose to receive their accumulated benefits in one of four annuitized forms, with or without survivors' benefits. Beginning in mid-2002 employees may choose to exchange this benefit for receipt of a single cash payment for their accumulated service obligation through enrollment in a newly created investment plan fully owned by the participant.

In 1997 the Legislature created a deferred retirement option for the FRS in which employees reaching normal retirement age could retire without termination of employment. For up to five additional years of post-retirement service the accumulated pension benefit would be paid into an interest bearing account. At employment termination the proceeds of the account would be paid in full or partial lump sum or rolled over to a tax-qualified successor retirement plan. Employees lose one year of DROP enrollment eligibility for each year in excess of their age attainment of normal retirement, that is, age 55 for special risk and age 57, for all other classes.

In 2001 the Legislature amended the DROP statute, s. 121.091, F.S., to suspend the age enrollment limits for instructional personnel so that they would not lose one year of eligibility for each year in excess of their normal retirement age. That law change applied to all instructional personnel in the FRS, that is, to all such personnel in school board, community college, and university employers. These employers account for about one-half of the total FRS membership.

III. Effect of Proposed Changes:

Section 1. The bill amends s. 121.091, F.S., to permit an extended participation limit in the DROP program for public school instructional personnel in Kindergarten through grade 12.

Section 2. The bill provides a statement of important state interest as required by s. 18, Art. VII, State Constitution, and a statement of intended compliance with the full pension funding requirements of s. 14, Art. X, State Constitution.

Section 3. The act is effective July 1, 2002, but a contingency is provided for review of the bill's provision by the Internal Revenue Service so that it does not violate the tax exempt status afforded the FRS under federal law. The Division of Retirement in the Department of Management Services is directed to apply to the Internal Revenue Service for a favorable private letter ruling on the bill's changes. If a favorable letter ruling is received by July 1, 2002, the bill is effective for implementation on January 1, 2003. If a favorable letter ruling is not received, the act does not take effect.

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:

For each $1000 of monthly pension benefit at the end of the nominal 60-month DROP period each employee receives a benefit of $74,406. Adding an additional three years to this period will increase that final amount by more than 60 percent.

C. Government Sector Impact:

The DROP program is funded through a level 11.56 percent payroll cost assessment across all retirement classes. The effect of such a uniform assessment is to provide a positive subsidy to the classes with high retirement payroll costs (special risk and elected officers) and a negative subsidy to the Regular Class in which almost 90 percent of the employee participants are classified. The negative subsidy falls most heavily upon education employers where virtually all of the employees are members of the Regular Class.

By extending the participation period another three years, in addition to the deferral of the choice option for instructional personnel enacted by the 2001 Legislature in ch. 2001-47, Laws of Florida, the immediate financial effect is to increase the relative payroll expense to school employers, especially school boards, for retaining the affected employees. This expense will be further enhanced because these employees are at the upper end of their salary range and the 11.56 percent of payroll commands a greater share of employer expense.

The negative financial effect of the uniform assessment must be weighed against recognized difficulties in the recruitment and retention of instructional personnel in the primary and secondary grades. A recent policy commitment by the Florida Legislature to enhance education in part by reducing classroom size places a heavy burden on finding qualified instructional personnel to meet this expectation while still recognizing the supply problem created by the natural depletion of teaching ranks occurring from attainment of normal retirement eligibility.

By law the DROP account is credited with a fixed 6.5 percent interest. As of January 25, 2002, interest rates for several benchmark United States Government obligations were as follows:

10-year Treasury Note/Bond	5.11%
30-year Treasury Note/Bond	5.50%
10-year Treasury Inflation Protection Security	3.47%
30-year Treasury Inflation Protection Security	3.47%

Moreover, the overall rate of investment return for the FRS system trust fund has been a negative 7 percent for the preceding year. As a consequence the short term experience for DROP has been advantageous to the participant, relative to financial markets, but disadvantageous to the employer and the overall investment manager, the State Board of Administration.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The eligibility for DROP extends only to members of the Florida Retirement System. Employees enrolled in one of several optional annuity programs, and those employees electing to enroll in the forthcoming Public Employees Optional Retirement Program, are not afforded this choice.

VIII. Amendments:

None.