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DATE: January 25, 2002

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
STATE ADMINISTRATION
ANALYSIS**

BILL #: HB 807
RELATING TO: Florida Retirement System
SPONSOR(S): Representative(s) Fasano

TIED BILL(S):

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

- (1) STATE ADMINISTRATION
 - (2) FISCAL POLICY & RESOURCES
 - (3) FISCAL RESPONSIBILITY COUNCIL
 - (4)
 - (5)
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I. SUMMARY:

The Public Employee Optional Retirement Program (PEORP), is an optional defined contribution retirement program, within the Florida Retirement System (FRS). The plan is non-contributory, meaning the employer pays the full cost of the retirement benefit. Public employees have the opportunity to choose to participate in either the defined benefit retirement program or the defined contribution program.

This bill creates a disability retirement benefit for a participant in the PEROP and sets forth the requirements for claiming disability under this plan, for computation of the benefit and for the payment of benefits. The bill adjusts the contribution rates for employers with participants in the plan.

The bill also creates a death benefit under the PEROP.

The bill is estimated to cost FRS state government employers \$ 11.2 million in fiscal year 2002-2003. The bill is estimated to cost FRS local government employers \$ 29.5 million in fiscal year 2002-2003.

The bill is effective July 1, 2002.

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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:

The Public Employee Optional Retirement Program (PEORP)

Chapter 2000-169, L.O.F., created s. 121.4501, F.S., which regulates an optional defined contribution retirement program, the Public Employee Optional Retirement Program (PEORP), within the Florida Retirement System. The plan is non-contributory, meaning the employer pays the full cost of the retirement benefit. Public employees have the opportunity to choose to participate in either the defined benefit retirement program or the defined contribution program.

The PEORP is administered by the Trustees of the State Board of Administration (SBA).

Unlike the defined benefit retirement program, the PEORP offers retirement payments that are not fixed for a lifetime. Rather, a participant may elect to receive the benefits in a lump-sum, in a lump-sum distribution that is rolled over to another qualified investment, or in periodic distributions. However, both plans are specifically regulated under the Internal Revenue Code.

Chapter 2000-169, L.O.F., provides a phase-in schedule for current employees to elect participation in the optional program. Employees of state entities are given the option to join the optional program between June 1, 2002, and August 31, 2002; employees of education-related employers between September 1, 2002, and November 30, 2002; and, other local government employees between December 1, 2002, and February 28, 2003.

Disability Retirement Benefits

Regular Disability is granted for an illness or injury from natural causes or an accident not related to employment. Currently, to be eligible for regular disability, a member must complete 5 to 8 years of creditable service to be entitled to a monthly disability. The minimum annual regular disability benefit is 25 percent of average final compensation for the benefit that is payable to the member during his or her lifetime.

Disability in line of duty is defined under s. 121.021(13), F.S., as "an injury or illness arising out of and in the actual performance of duty required by a member's employment during his or her regularly scheduled working hours or irregular working hours as required by the employer." Unlike regular disability, a member is eligible for in-line-of-duty disability benefits from the first day of

employment. Special Risk Class members receive a minimum annual in-line-of-duty disability benefit of 65 percent of average final compensation for the benefit that is payable to the member during his or her lifetime. For members of other classes of FRS, the minimum in line of duty disability benefit is 42 percent of average final compensation.

C. EFFECT OF PROPOSED CHANGES:

This bill synchronizes the employer contribution deposit dates for contribution to PEROP employee accounts with those contribution dates for employees in the FRS.

This bill creates a disability retirement program for those in the PEROP. This bill creates a death benefit regime for the survivors on an employee in the PEROP. These two benefit programs are analogous to the existing disability and death benefit programs for employees in the FRS.

D. SECTION-BY-SECTION ANALYSIS:

Section one. Amends s. 121.052(7) F.S., relating to the elected officers class of the FRS to clarify that contributions from employers of members of this class are due and payable no later than the 5th working day of the month immediately following the month during which the payroll period ended.

Section two. Amends s. 121.055(3) F.S., relating to the senior management class of the FRS to clarify that contributions from employers of members of this class are due and payable no later than the 5th working day of the month immediately following the month during which the payroll period ended.

Section three. Restructures and amends s. 121.071(5), F.S., to clarify due dates for employer contributions. Restructures the subsection to provide ease of reading. Creates s. 121.071(5)(a)1. F.S., and establishes that effective October 1, 1978, contribution dues under this section are due by the 25th day of the month immediately following the month during which the payroll period ended. Creates s. 121.071(5)(a)2, F.S., to provide that contributions due under s. 121.071(1) [retirement contribution rates] and (4) [retiree health insurance subsidy contribution rates] are due no later than the 5th working day of the month immediately following the month during which the payroll period ended. Creates s. 121.071(5)(b), F.S., that addresses circumstances of delinquent contribution payments.

Section four. Amends s. 121.4501, F.S., relating to the PEROP. Amends 121.4501(2) F.S., to define "average monthly compensation" to mean one-twelfth (1/12) of average final compensation, and to define "covered employment" to mean employment in a regularly established position as defined in s. 121.021(52), F.S. That section provides that a regularly established position for a state agency is paid pursuant to or authorized by Chapter 216, F.S., or for a local agency a position in existence for a period beyond 6 consecutive months.

Amends s. 121.4501(3)(c)2, F.S., to provide fixed estimate dates to determine estimated creditable service and estimated average final compensation under the defined benefit program for purposes of determining the present value of employees accumulated benefit obligation for purposes of enrolling the PEROP. For state employees, the initial estimate will be made as of midnight, June 30, 2002; for district school board employees, midnight, September 30, 2002; and for local government employees, midnight December 31, 2002.

Additionally, for employees that have creditable service and are hired by an employer after the window for that employee group has opened, the estimated value of the accumulated benefit

obligation is set as of midnight on the last day of the month before the employee's enrollment date in the PEROP.

Finally, amends other portions of this subsection to conform references to estimating date to these fixed dates.

Amends s. 121.4501 (7) and (16) , F.S., to provide that retirement benefits under the PEROP and disability benefits under the PEROP are to be paid in accordance with s. 121.591, F.S. (created in section 6 of this bill).

Section five. Amends s. 121.571 (3) F.S., to adjust contribution rates for contributions to disability accounts of employees in the PEROP. Provides that these contributions are to be deposited in the disability account of the Florida Retirement System Trust Fund and are to be separately accounted for and to be used to provide disability coverage for participants in the PEROP. The rates for disability contributions, effective July 1, 2002, for the retirement member classes are as follows:

- Regular Class: 0.25%
- Special Risk Class: 1.33%
- Special Risk Administrative Support Class: 0.45%
- Elected Officers Class:
 - Legislators 0.41%
 - Governor, Lt. Governor & Cabinet Officers 0.41%
 - St. Attorneys & Public Defenders 0.41%
 - Justices & Judges 0.73%
 - County Elected Officers 0.41%

Amends s. 121.571(7), F.S., to provide that contributions made pursuant to this section are paid no later than the 5th working day of the month immediately following the month during which the payroll period ended.

Section six. Creates s. 121.591, to provide for the payment of benefits under the PEROP. Provides the payment of normal (retirement) benefits, disability retirement benefits, and death benefits under the PEROP. Benefits may be paid out in one of three ways: in a lump-sum distribution to the participant; in a lump-sum amount payable to an eligible retirement account of the participant; and in periodic distributions (as it would under the defined benefit plan).

Creates s. 121.591(1) to provide for the payment of normal benefits. Creates subsection (2) to provide for the payment of disability retirement benefits. This subsection provides the eligibility requirements for claiming a disability retirement benefit; establishes how benefits are to be computed; and addresses the event of a participant recovering from a disability. This paragraph also provides for the disability of a justice or judge pursuant to the provisions of Art. V of the Florida Constitution. Creates subsection (3) to provide for the payment of death benefits under the PEROP. Creates subsection (4) to provide for limitations on legal process to attach the benefits payable to a participant in the PEROP.

Section seven. Provides for the Legislative determination of an important state interest.

Section eight. Provides an effective date of July 1, 2002.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

See expenditure description, below.

2. Expenditures:

The Division of Retirement estimates that costs to state government employers for funding the disability benefit program as follows:

<u>FY 02-03</u>	<u>FY 03-04</u>	<u>FY 04-05</u>
\$ 11.2 million	\$11.8 million	\$12.4 million

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

See Expenditure description, below.

2. Expenditures:

The Division of Retirement estimates that costs to state government employers for funding the disability benefit program as follows:

<u>FY 02-03</u>	<u>FY 03-04</u>	<u>FY 04-05</u>
\$ 29.6 million	\$ 31.1 million	\$ 32.6 million

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill requires local governments to expend funds. However, this bill may meet an exception to the constitutional mandate provisions because there is a Legislative statement of important state interest and the bill requires similarly situated persons to comply.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The 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:

The 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:

The Department of Management services is authorized to adopt rules to implement the bill provisions creating the disability retirement benefit and death benefit programs for participants in the PEROP.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON STATE ADMINISTRATION:

Prepared by:

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