

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: SB 2314
 SPONSOR: Senator Aronberg and others
 SUBJECT: Florida Retirement System
 DATE: March 10, 2004 REVISED: _____

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|----------------|------------------|------------|------------------|
| 1. | <u>Vickers</u> | <u>Krasovsky</u> | <u>MS</u> | <u>Favorable</u> |
| 2. | _____ | _____ | <u>GO</u> | _____ |
| 3. | _____ | _____ | <u>AGG</u> | _____ |
| 4. | _____ | _____ | <u>AP</u> | _____ |
| 5. | _____ | _____ | _____ | _____ |
| 6. | _____ | _____ | _____ | _____ |

I. Summary:

This bill would allow qualifying members of the Florida Retirement System to purchase credit for their prior military wartime service under more favorable repurchase conditions. Specifically, the bill would enhance the retirement benefits available to such members by enabling them to purchase up to 4 years of military wartime service under a previous repurchase formula discontinued by the Legislature in 1985. The bill will likely have a significant fiscal impact to the Florida Retirement System Trust Fund.

This bill substantially amends section 121.111 of the Florida Statutes.

II. Present Situation:

Under the Florida Retirement System (FRS) members are authorized to purchase credit for certain other types of service to increase their retirement benefits. The cost for additional credit depends on the type service claimed. Section 121.111, F.S., establishes requirements governing the purchase of credit for military service. Currently, there are three primary methods by which military service may be claimed:

Wartime Military Service – If an FRS member was first employed in a covered position before January 1, 1987, the member may purchase credit for up to 4 years of active duty wartime service with the United States Armed Forces or allied forces. The period of military service must fall within the definition of “wartime” period as established in s. 1.01(14), F.S. If one or more days of any period of active military service occurred during the dates identified as “wartime,” the member may claim credit for the entire period (not to exceed 4 years). The formula for purchasing credit under this provision is 4 percent of the member’s first year’s salary

under the FRS for each year of service, plus annual interest (4 percent prior to 1975, and 6.5 percent thereafter) from the first year of covered employment for each year of service credit.

Military Leave of Absence – A military leave of absence occurs when a member leaves covered employment to serve in the military. To receive service credit under this provision the member must be honorably discharged and entitled to return to work under the provisions of the Uniformed Services Employment and Reemployment Act. After the member returns to covered employment, he or she may receive credit for up to 5 years of active military service. If the military leave of absence occurs on or after December 3, 1974, the employer is responsible for payment of all employer contributions required during the period of absence.

Out-of-State Public/Federal Service - Under s. 121.1115, F.S., FRS members may elect to purchase credit for up to 5 years of out-of-state public employment. The service claimed must have been for periods of public employment in another state or for the federal government (including military service not otherwise creditable under the FRS). The formula for purchasing credit under this provision is 20 percent of the member's first year's salary under the FRS (a minimum of \$12,000), plus annual interest (6.5 percent) from the first year of covered employment for each year of service credit.

According to the Division of Retirement, the 1985 Legislature amended ch. 121, F.S., to provide that any member whose initial employment under FRS was on or after January 1, 1987, could no longer purchase active military service as creditable service. The rationale underlying this action was that the formula that determined the cost of purchasing this service did not fund the cost of the increased retirement benefit provided by including military service. Pursuant to Article X, Section 14 of the Florida Constitution, and ch. 112, F.S., retirement benefit improvements must be funded on an actuarially sound basis. Another consideration in the Legislature's decision to discontinue this repurchase option was a series of federal court rulings which increased the likelihood that the FRS would be required to subsidize both wartime and peacetime military service if either category was awarded.

In 1997, the Legislature revisited this issue and amended ch. 121, F.S., to allow FRS members to purchase their military service as out-of-state public service. The out-of-state cost formula is such that the purchase price covers the actuarial impact to the FRS of any service purchased under this provision, thereby transferring the cost from the retirement system to those members purchasing out-of-state service. However, the cost to purchase military service under the out-of-state provision is considerably higher than the cost to claim the service under the "wartime" provisions.

III. Effect of Proposed Changes:

The bill amends s. 121.111(2), F.S., to permit the purchase of wartime service as additional years of employment for members of the FRS employed after January 1, 1987. The bill effectively allows members to purchase up to 4 years of military service under the more favorable repurchase conditions of the "wartime" provision rather than the out-of-state provision. This would enable qualifying members to repurchase military service under the formula discontinued by the Legislature in 1985.

IV. Constitutional Issues:**A. Municipality/County Mandates Restrictions:**

This bill would likely require counties and municipalities to implement an increase in the retirement contribution rates paid by these entities. Similarly, the bill does not include a legislative determination and declaration that the provisions of this bill fulfill an important state interest as required under Article VII, Section 18, of the Florida Constitution. As a result, the bill appears to constitute a local mandate requiring a two-thirds vote by each house of the Legislature.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

This bill does not currently provide for the proper funding of this increased benefit and therefore does not comply with Article X, Section 14, of the Florida Constitution, requiring that any purchase in benefits must be funded on a sound actuarial basis.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

None.

B. Private Sector Impact:

This bill would enable an indeterminate number of qualifying FRS members to repurchase up to 4 years of prior military wartime service under more favorable conditions.

C. Government Sector Impact:

According to the Division of Retirement, the bill would require payroll contribution rate increases by the state and participating local entities to fully fund the benefit. In the absence of an actuarial impact analysis of this proposal, the fiscal impact of the bill is indeterminate.

VI. Technical Deficiencies:

See discussion under "Section IV: Constitutional Issues."

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
