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.)

Prepared By: Governmental Oversight and Productivity Committee

BILL: SB 252

SPONSOR: Senator Fasano

SUBJECT: Florida Retirement System Benefits

DATE: January 31, 2005 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Herrin	Yeatman	CA	**Favorable**
2.	Rhea	Wilson	GO	**Favorable**
3.			WM	
4.				
5.				
6.				

I. Summary:

Currently, s. 121.182, F.S., permits counties to purchase annuities for employees with 25 or more years of creditable service who have reached age 50 and have applied for retirement under the Florida Retirement System. These annuities may not provide for more than the total difference in retirement income between the retirement benefit based on average monthly compensation and creditable service as of the member's early retirement date and the early retirement benefit. This bill extends the same option to cities for employees who meet the same criteria and places the same limitation on the annuity amount. The bill also authorizes cities to purchase annuities for employees for up to 5 years of validated out-of-state service, which counties also are currently authorized to do. The bill also permits cities to invest funds, purchase annuities, and provide local supplemental retirement programs for purposes of providing annuities for city personnel, which counties are authorized to do.

This bill amends section 121.182 of the Florida Statutes.

II. Present Situation:

The Florida Retirement System (FRS) is a multi-employer, non-participatory pension plan providing retirement income and disability benefits to the more than 600,000 employees and 225,000 beneficiaries of its more than 800 state, county, municipal, and independent district public employers. The default choice in the FRS is a defined benefit, or percent of final pay pension arrangement, in which a final benefit is calculated on the basis of service, retirement class factor, and the average of the best five years' salary. Since 2001 the FRS has permitted employees to select a defined contribution alternative in which employees own and actively manage the contributions to their individual account. Both choices are accompanied by equivalent disability benefits for service and non-service related illness or injury. Retirees from either plan are also permitted to receive a contribution from a separate account to subsidize payment of health insurance premiums.

A county may also purchase annuities for members of the Florida Retirement System who have out-of-state service which has been documented as valid by the county.[1] The term "annuity" refers to a fixed sum payable to a person at specified intervals for a defined period. The payments represent part of a capital investment plus a return on that investment.[2]

Current law allows counties to purchase annuities for county personnel with 25 or more years of creditable service who have reached age 50 and have applied for retirement under the Florida Retirement System.[3] The annuity may not be based on more than 5 years of service and cannot exceed the benefits payable to an employee under the Florida Retirement System. In effect, the annuity may cover the total difference between the employee's retirement benefit reduced for early retirement and the benefit without a reduction.

Further, counties are authorized to invest funds, purchase annuities, or provide local supplemental retirement programs in order to provide annuities for county employees.[4] All retirement annuities must comply with s. 14, Art. X of the State Constitution, which prohibits a governmental unit from increasing member benefits without making provision for the funding increase on a sound actuarial basis.

In addition to counties, district school boards and community college boards are also authorized in ss. 1012.685 and 1012.87, F.S., respectively, to provide annuities as a benefit to their employees with similar limitations.

III. Effect of Proposed Changes:

Section 1 of the bill amends s. 121.182, F.S., to allow cities to purchase annuities for their personnel with 25 or more years of creditable service who have reached age 50 and have applied for retirement. These annuities may not provide for more than the total difference in retirement income between the retirement benefit based on average monthly compensation and creditable service as of the member's early retirement date and the early retirement benefit. The bill also authorizes cities to purchase annuities for employees for up to 5 years of validated out-of-state service. The annuity may not exceed the benefits that would be payable under the FRS if credit for out-of-state service was authorized under the FRS. The bill also permits cities to invest funds, purchase annuities, and provide local supplemental retirement programs for purposes of providing annuities for city personnel.

Section 2 of the bill provides an effective date of October 1, 2005.

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[1] *See id.*
[2] *See* Black's Law Dictionary (1990), pg. 90.
[3] Section 121.182, F.S.
[4] *See id.*

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:

Depending on how many cities offer the annuities in this bill, private insurance carriers may benefit. Annuity contracts may be immediate or deferred and their underlying investments may also be fixed or variable. Investment management expenses, a term which embraces fees, costs, commissions, administration, and mortality and expense charges are customarily paid by the contract holder. Disintermediation fees, that is, fees attached to the termination of the contract prior to its minimum holding period of seven to ten years, are also paid by the participant.

C. Government Sector Impact:

The magnitude of the impact is a function of the difference between the normal, unreduced FRS benefit and the benefit with the penalty provided. The annuity is purchased by the employer and, since the employee is terminating employment, is likely to be the more expensive immediate annuity. There may be some minimal cost incurred by the Division of Retirement to determine the amount of the annuity. The FRS will not experience a negative fiscal impact as payments to early retirees are subject to a 5 percent penalty per year.

VI. Technical Deficiencies:

None.

VII. Related Issues:

There is a discount of 5 percent per year of service measured from normal retirement age for defined benefit participants who retire early. With the implementation of the Investment Plan in 2001, the discount per year of service for persons in the defined contribution alternative is

8 percent. A person in the Investment Plan seeking an immediate annuity likely will have a contract purchased that will be more expensive than a similarly situated defined benefit participant given these assumption differences.

These types of arrangements are used infrequently but can be a tool of an employer in workforce attrition. Under current law the district school boards of Alachua, Dade, Hernando, Hillsborough, Martin, Monroe, and Pasco have such early retirement programs. Annually funded early retirement programs not requiring an actuarial valuation are further provided by the school districts in Duval, Orange, Osceola, Pinellas and Polk Counties.[5]

[5] Division of Retirement, *Florida Local Government Retirement Systems: 2003 Annual Report*, Appendix H.

VIII. Summary of Amendments:

None.