

The Florida Senate
BILL ANALYSIS AND FISCAL IMPACT STATEMENT

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

Prepared By: The Professional Staff of the Committee on Appropriations

BILL: PCS/SB 1356 (964084)

INTRODUCER: Appropriations Committee (Recommended by Appropriations Subcommittee on Education); and Senators Brandes and Stargel

SUBJECT: Employment After Retirement of School District Personnel

DATE: March 2, 2016

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Peacock</u>	<u>McVaney</u>	<u>GO</u>	<u>Favorable</u>
2.	<u>Sikes</u>	<u>Elwell</u>	<u>AED</u>	<u>Recommend: Fav/CS</u>
3.	<u>Sikes</u>	<u>Kynoch</u>	<u>AP</u>	<u>Pre-meeting</u>

Please see Section IX. for Additional Information:

COMMITTEE SUBSTITUTE - Substantial Changes

I. Summary:

PCS/SB 1356 amends section 1012.33, Florida Statutes, to clarify provisions relating to reemployment of retirees by district school boards as instructional personnel on a contract basis.

The bill has no impact on state funds.

The bill takes effect upon becoming a law.

II. Present Situation:

School District Instructional Personnel Contracts

In 2011, the Legislature passed the Student Success Act (act),¹ to require, among other things, the use of performance evaluations to assess performance. The evaluation system for administrative and instructional personnel differentiates among four levels of performance: highly effective, effective, needs improvement,² or unsatisfactory.³ The Commissioner of

¹ Chapter 2011-1, L.O.F.

² Section 1012.34(2)(e)3., F.S., provides that for instructional personnel in the first three years of employment, the evaluation may designate the performance as developing.

³ Section 1012.34(2)(e), F.S.

Education is required to consult with experts, instructional personnel, school administrators, and education stakeholders in developing the criteria for the performance levels.

Prior to 2011, instructional personnel with as little as three years of service could be granted a professional service contract, which provided for automatic renewal of the contract unless the superintendent charged the employee with unsatisfactory performance.⁴ For instructional personnel hired on or after July 1, 2011, the act, in effect, provides that professional service contracts and tenure may no longer be given to any instructional personnel who do not currently have a professional service contract.

Specifically, the act provides that employees hired on or after July 1, 2011, must be awarded probationary contracts for a period of one year upon initial employment in a school district.⁵ Probationary contract employees may be dismissed without cause or may resign without breach of contract.⁶ The district may not award a probationary contract more than once to the same employee.⁷ The school district may award an annual contract upon the successful completion of a probationary contract.⁸ An annual contract is an employment contract for a period of no longer than one school year, which the district school board may choose to award or not award at the end of the contract term without cause.⁹ Instructional personnel with an annual contract may be suspended or dismissed at any time during the term of the contract for just cause.¹⁰

In addition, the act links the renewal of a professional service contract, for those employees who have a professional service contract, to the employee's performance evaluation.¹¹ If an employee who holds a professional service contract is not performing his or her duties in a satisfactory manner, the act requires such an employee to receive notice and be placed on probation.¹² If the employee receives two consecutive annual performance evaluations of unsatisfactory, two annual performance evaluations of unsatisfactory within a three-year period, or three consecutive annual performance evaluations of needs improvement or a combination of needs improvement and unsatisfactory, the district may terminate or not renew the employee's contract.¹³

The Florida Retirement System

The Florida Retirement System (FRS) was established in 1970 when the Legislature consolidated the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund. In 1972, the Judicial Retirement System was added to the FRS, and in 2007, the membership of the Institute of Food and Agricultural Sciences Supplemental Retirement Program was included in the Regular Class of the FRS as a

⁴ See s. 1012.33(3)(e), F.S. (2010).

⁵ Section 1012.335(2)(a), F.S.

⁶ Section 1012.335(1)(c), F.S.

⁷ *Id.*

⁸ Section 1012.335(2)(a), F.S.

⁹ Section 1012.335(1)(a), F.S.

¹⁰ Section 1012.335(4), F.S.

¹¹ Section 1012.33(3), F.S.

¹² Section 1012.34(4)(b), F.S.

¹³ See ss. 1012.33 and 1012.34, F.S.

closed group.¹⁴ The FRS is a contributory system, with most members contributing three percent of their salaries.¹⁵

The FRS is a multi-employer, contributory plan, governed by the Florida Retirement System Act in Ch. 121, F.S. As of June 30, 2014, the FRS had 622,089 active members, 363,034 annuitants, 16,137 disabled retirees, and 38,058 active participants of the Deferred Retirement Option Program (DROP).¹⁶ As of June 30, 2014, the FRS consisted of 1,014 total employers and is the primary retirement plan for the employees and officers of state and county government agencies, district school boards, Florida College institutions, and state universities, as well as the employees and officers of the 186 cities and 262 special districts that have elected to join the system.¹⁷

The membership of the FRS is divided into five membership classes:

- The Regular Class¹⁸ consists of 537,993 active members, plus 5,402 in renewed membership;
- The Special Risk Class¹⁹ includes 68,593 active members;
- The Special Risk Administrative Support Class²⁰ has 84 active members;
- The Elected Officers' Class²¹ has 2,040 active members, plus 147 in renewed membership; and
- The Senior Management Service Class²² has 7,607 members, plus 184 in renewed membership.²³

Investment Plan

In 2000, the Legislature created the Public Employee Optional Retirement Program (investment plan), a defined contribution plan offered to eligible employees as an alternative to the FRS Pension Plan.

¹⁴ The Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2014, at p. 29. Available online at: https://www.rol.frs.state.fl.us/forms/2013-14_CAFR.pdf.

¹⁵ Prior to 1975, members of the FRS were required to make employee contributions of either four percent for Regular Class employees or six percent for Special Risk Class members. Employees were again required to contribute to the system after July 1, 2011. Members in the Deferred Retirement Option Program do not contribute to the system.

¹⁶ Florida Retirement System Annual Financial Report Fiscal Year Ended June 30, 2014, at 112.

¹⁷ *Id.*, at 146.

¹⁸ The Regular Class is for all members who are not assigned to another class. (Section 121.021(12), F.S.)

¹⁹ The Special Risk Class is for members employed as law enforcement officers, firefighters, correctional officers, probation officers, paramedics and emergency technicians, among others. (Section 121.0515, F.S.)

²⁰ The Special Risk Administrative Support Class is for a special risk member who moved or was reassigned to a nonspecial risk law enforcement, firefighting, correctional, or emergency medical care administrative support position with the same agency, or who is subsequently employed in such a position under the Florida Retirement System. Section 121.0515(8), F.S.

²¹ The Elected Officers' Class is for elected state and county officers, and for those elected municipal or special district officers whose governing body has chosen Elected Officers' Class participation for its elected officers. Section 121.052, F.S.

²² The Senior Management Service Class is for members who fill senior management level positions assigned by law to the Senior Management Service Class or authorized by law as eligible for Senior Management Service designation. (Section 121.055, F.S.)

²³ All figures from Florida Retirement System Annual Financial Report Fiscal Year Ended June 30, 2014, at 115.

Benefits under the investment plan accrue in individual member accounts funded by both employee and employer contributions and investment earnings. Benefits are provided through employee-directed investments offered by approved investment providers.

A member vests immediately in all employee contributions paid to the investment plan.²⁴ With respect to the employer contributions, a member vests after completing one work year of employment with an FRS employer.²⁵ Vested benefits are payable upon termination or death as a lump-sum distribution, direct rollover distribution, or periodic distribution.²⁶ The investment plan also provides disability coverage for both in the line of duty and regular disability retirement benefits.²⁷ An FRS member who qualifies for disability while enrolled in the investment plan must apply for benefits as if the employee were a member of the pension plan. If approved for retirement disability benefits, the member is transferred to the pension plan.²⁸

The State Board of Administration (SBA) is primarily responsible for administering the investment plan.²⁹ The SBA is comprised of the Governor as chair, the Chief Financial Officer, and the Attorney General.³⁰

Pension Plan

The pension plan is administered by the secretary of the Department of Management Services through the Division of Retirement.³¹ Investment management of the pension plan assets is handled by the State Board of Administration.

Any member initially enrolled in the pension plan before July 1, 2011, vests in the pension plan after completing six years of service with an FRS employer.³² For members enrolled on or after July 1, 2011, the member vests in the pension plan after eight years of creditable service.³³ Benefits payable under the pension plan are calculated based on the member's years of creditable service multiplied by the service accrual rate multiplied by the member's average final compensation.³⁴ For most members of the pension plan, normal retirement occurs at 30 years of service or age 62.³⁵ For members in the Special Risk and Special Risk Administrative Support

²⁴ Section 121.4501(6)(a), F.S.

²⁵ If a member terminates employment before vesting in the investment plan, the nonvested money is transferred from the member's account to the SBA for deposit and investment by the SBA in its suspense account for up to five years. If the member is not reemployed as an eligible employee within five years, then any nonvested accumulations transferred from a member's account to the SBA's suspense account are forfeited. (Section 121.4501(6)(b) – (d), F.S.)

²⁶ Section 121.591, F.S.

²⁷ Section 121.4501(16), F.S.

²⁸ Pension plan disability retirement benefits, which apply for investment plan members who qualify for disability, compensate an in the line of duty disabled member up to 65 percent of the average monthly compensation as of the disability retirement date for special risk class members. Other members may receive up to 42 percent of the member's average monthly compensation for disability retirement benefits. If the disability occurs other than in the line of duty, the monthly benefit may not be less than 25 percent of the average monthly compensation as of the disability retirement date. Section 121.091(4)(f), F.S.

²⁹ Section 121.4501(8), F.S.

³⁰ FLA.CONST. art. IV, s. 4.

³¹ Section 121.025, F.S.

³² Section 121.021(45)(a), F.S.

³³ Section 121.021(45)(b), F.S.

³⁴ Section 121.091, F.S.

³⁵ Section 121.021(29)(a)1., F.S.

Classes, normal retirement occurs at 25 years of service or age 55.³⁶ Members initially enrolled in the pension plan on or after July 1, 2011, have longer vesting requirements. For unreduced benefits for members initially enrolled after that date, most members must complete 33 years of service or attain age 65, and members in the Special Risk classes must complete 30 years of service or attain age 60.³⁷

Deferred Retirement Option Program

All membership classes in the Pension Plan permit enrollment in a Deferred Retirement Option Program (DROP) under which a participant may extend employment for an additional five years and receive a lump sum benefit at a fixed rate of interest for that additional service.³⁸ Certain instructional personnel in district school boards may participate in DROP for an additional 36 months.³⁹ Enrollment in DROP requires the participant to serve the employer with a deferred resignation from employment at the end of the period. Current law provides that members who reach their normal retirement date based on service before they reach age 62, or age 55 for Special Risk members, may defer participation in DROP to the 12 months immediately following the attainment of age 57, or 52.⁴⁰

Employment after Retirement

Section 121.091, F.S., governs the payment of benefits under the FRS. For the purposes of the pension plan, a “retiree” means a former member of the FRS or an existing system who has terminated employment and is receiving benefit payments from the system in which he or she was a member.⁴¹ For the purposes of the investment plan, a “retiree” means a former member of the investment plan who has terminated employment and taken a distribution of vested employee or employer contributions, except for a mandatory distribution of a de minimis account authorized by the state board or a minimum required distribution provided the Internal Revenue Code.⁴²

After retiring under the FRS, a retiree can work for any private employer, for any public employer not participating in the FRS, or for any employer in another state, without affecting their FRS benefits.

However, there are certain termination requirements and reemployment limitations that affect retirement benefits if a retiree is employed with an FRS-participating employer during the first 12 calendar months after the effective retirement date without DROP participation or after the DROP termination date. If a retiree returns to work during the first six calendar months of retirement or after the member’s DROP termination date, then the member’s retirement application is voided and all retirement benefits, including any funds accumulated during DROP participation, must be repaid to the FRS Trust Fund. This restriction applies even if the particular

³⁶ Section 121.021(29)(b)1., F.S.

³⁷ Sections 121.021(29)(a)2. and (b)2., F.S.

³⁸ Section 121.021(13)(a), F.S.

³⁹ Section 121.021(13)(b), F.S.

⁴⁰ Section 121.091(13)(a)2., F.S.

⁴¹ Section 121.021(60), F.S.

⁴² Section 121.4501(2)(k), F.S.

position held is not covered by the FRS. An FRS retiree cannot be reemployed by an FRS employer for a period of 6 months without voiding the member's retirement.

A retiree's benefit will be suspended if the retiree is hired by an FRS participating employer during the seventh through twelfth calendar months of retirement or after the DROP termination date. Beginning the thirteenth calendar month, the benefits are reinstated and no employment restrictions exist.

Suspended retirement benefits for the months a reemployed retiree is employed by an FRS employer during the reemployment limitation period are not payable to the retiree. The reemployed retiree and the employing agency are jointly and severally liable for repaying any retirement benefits the employee receives while working during this period.

There are no limits on working for an FRS employer after a retiree has been retired for 12 calendar months. If a retiree is re-employed with an FRS participating employer, the retiree will be required to sign a statement that the reemployment does not violate these provisions.⁴³

Prior to July 1, 2010, there were various exceptions to employment with FRS-covered employers during the reemployment limitation period. All reemployment limitation exceptions that were not specific to educational institutions were closed by passage of Ch. 2009-209, L.O.F., which also extended the termination period from 1 month to 6 months immediately after retirement during which a retiree could not be reemployed with any FRS employer without voiding his retirement.

Legal Ambiguity for Reemployment of Instructional Personnel

In 2011, two retired reemployed instructional personnel brought suit in Orange County, Florida to determine whether the county was required to issue professional service contracts after the employees' successfully completed three years of employment.⁴⁴ The Orange County Public Schools argued that s. 121.091, F.S., required the instructional personnel to be rehired on an annual contractual basis. The issue in the case centered on whether the FRS act required instructional personnel to be reemployed with an annual contract for the rest of the member's career, or whether the FRS act only pertained to the initial year of reemployment and such member may ultimately be given a professional service contract under s. 1012.33, F.S., which provided for such a contract after three years of service.

The circuit court found that the Legislature intended for retired teachers to be rehired on the same terms as newly hired teachers. At that time, newly hired teachers were placed on an initial annual contract and after serving three years in the district, received a professional service contract.

The Orange County School Board appealed the final judgment to the Fifth District Court of Appeal arguing that the trial court erred and that s. 121.091, F.S., precludes the school board

⁴³ The information in this section of the bill analysis comes from the FRS Pension Plan: Deferred Retirement Option Program Handbook, 2014 edition, located at <https://www.rol.frs.state.fl.us/forms/drop-guide.pdf> and the FRS Pension Plan member Handbook, 2013 edition, located at https://www.rol.frs.state.fl.us/forms/member_handbook.pdf. See also ss. 121.091(9), 121.122, and 1012.01(2), F.S.

⁴⁴ A copy of the circuit court decision is on file with the Senate Government Oversight and Accountability Committee.

from ever issuing a contract longer than an annual contract when employing retired instructional personnel.⁴⁵ The Fifth District Court of Appeal, however, agreed with the lower court and found that the limitations in s. 121.091, F.S., only apply at the time of the initial rehire.

III. Effect of Proposed Changes:

Section 1 amends s. 1012.33, F.S., to allow a district school board to reemploy a retiree as instructional personnel under a 1-year probationary contract. If the retiree successfully completes the probationary contract, such employee may receive an annual contract. The bill states that the retiree is not eligible for a professional service contract.

Section 2 provides that this bill takes effect upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The mandate restrictions do not apply because the bill does not require counties and municipalities to spend funds, reduce counties' or municipalities' ability to raise revenue, or reduce the percentage of a state tax shares with counties and municipalities.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Fiscal Impact Statement:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The private sector impact of PCS/SB 1356 is indeterminate.

C. Government Sector Impact:

The bill has no impact on state funds. The bill may have an impact on school districts since districts will not be required to provide professional services contracts for instructional personnel who are rehired after retiring from the FRS.

⁴⁵ *Orange County School Board v. Rachman and Schuman*, 87 So.3d 48 (Fla. 5th DCA 2012).

VI. Technical Deficiencies:

This bill uses the term “retiree” but does not define the term. It is unclear whether retiree is intended to include all retirees (private and public sector), retirees of the FRS pension plan, retirees of the FRS investment plan, or retirees from the particular school district. The effects of this legislation could be significantly different based on this definition.

VII. Related Issues:

None.

VIII. Statutes Affected:

This bill substantially amends section 1012.33 of the Florida Statutes.

IX. Additional Information:**A. Committee Substitute – Statement of Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

Recommended CS by Appropriations Subcommittee on Education on February 24, 2016:

The committee substitute:

- Specifically states that a reemployed retiree is not eligible for a professional service contract.
- Removes provisions stating legislative intent and the Legislature’s position on the opinion of the Fifth District Court of Appeal in *Orange County School Board v. Rachman and Schuman*, 87 So.3d 48 (Fla. 5th DCA 2012).
- Removes the provision stating that the bill does not void, or intend to void any professional service contract awarded to a retiree before the bill’s effective date.
- Removes direction for the Division of Law Revision and Information to replace the phrase “the effective date of this act” wherever it occurs in this act with the date the act becomes law

B. Amendments:

None.