

# 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: HB 1821

SPONSOR: Fiscal Responsibility Council

SUBJECT: State Retirement Contributions

DATE: April 30, 2001

REVISED: 05/01/01 \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Hendon</u>	<u>Wood</u>	<u>AP</u>	<u>Fav/1 Amendment</u>
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

This legislation establishes the retirement contribution rates for each class and subclass of the FRS defined benefit program at the normal cost as determined by the FRS's consulting actuary. However, this legislation reduces those rates by recognizing a portion of the excess actuarial assets of the FRS Trust Fund. These reductions are intended to fund the portion of the increase in normal costs attributable to the 1999 experience study and the 2000 Actuarial Valuation. In addition, the rates are reduced by 2.6 percentage points in order to reduce the overall personnel costs incurred by employers participating in the FRS. This 2.6 percentage point reduction includes the continuation of the 1.0 percentage point reduction from FY 2000-01.

This legislation sets the contribution rate to be paid into each SUS ORP participant's account at 10.43%, the rate applicable in FY 2000-01. Any modification of this rate would be required by general law, rather than shifting up and down with the normal cost of the Regular Class of the FRS defined benefit program.

The revenues flowing into the FRS Trust Fund will be reduced by approximately \$528.3 million in FY 2001-02. This reduction is the result of the across-the-board 2.6 percentage point contribution rate reduction authorized in this legislation. Of this \$528.3 million, state agencies will benefit by approximately \$131.6 million and local governments (counties, school districts, cities, special districts and community colleges) will benefit by approximately \$396.8 million.

## II. Present Situation:

Chapter 121, Florida Statutes, creates the Florida Retirement System (FRS) for the purpose of providing retirement benefits to employees and officers of the state, all counties, all school districts, and certain cities and special districts. To fund these retirement benefits, each

participating employer pays a contribution to the Florida Retirement System Trust Fund based on a statutory percentage of each employee’s gross monthly income.

In 1984, the Legislature enacted the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Act to provide a supplement to the monthly retirement benefit of retirees of the IFAS at University of Florida who receive a benefit under the Federal Civil Service Retirement System. The supplement is intended to compensate certain IFAS employees for the difference between their federal retirement benefit and the benefits an FRS employee receives. The contribution rates to be paid by the employer are set by statute to fund these supplements.

The FRS also has a defined contribution program for certain State University System employees. Rather than participating in the FRS defined benefit program, these employees participate in the SUS optional retirement program (SUS ORP). As an SUS ORP participant, these employees receive a contribution into their retirement accounts equal to the normal cost portion of the retirement contribution rate paid on behalf of Regular Class members of the FRS defined benefit program plus the amount paid for the Retiree Health Insurance Subsidy (HIS). For FY 2001-02, the normal cost of the Regular Class is 9.49%, and the HIS contribution is 0.94% of the employee’s gross monthly salary.

Based on the 2000 Actuarial Valuation of the Florida Retirement System, the normal costs of each class or subclass and the IFAS Supplemental Retirement Program are:

Regular Class	9.91%
Special Risk Class	22.07%
Special Risk Admin. Support Class	12.55%
Elected Officers’ Class – Judicial Subclass	20.61%
Elected Officers’ Class – Leg.-Atty.-Cab. Subclass	15.14%
Elected Officers’ Class – County	17.61%
Senior Management Service Class	11.73%
IFAS	6.96%

**III. Effect of Proposed Changes:**

This legislation establishes the retirement contribution rates for each class and subclass of the FRS defined benefit program at the normal cost as determined by the FRS’s consulting actuary. However, this legislation reduces those rates by recognizing a portion of the excess actuarial assets of the FRS Trust Fund. These reductions are intended to fund the portion of the increase in normal costs attributable to the 1999 experience study and the 2000 Actuarial Valuation. In addition, the rates are reduced by 2.6 percentage points in order to reduce the overall personnel costs incurred by employers participating in the FRS. This 2.6 percentage point reduction includes the continuation of the 1.0 percentage point reduction from FY 2000-01.

This legislation sets the contribution rate to be paid into each SUS ORP participant’s account at 10.43%, the rate applicable in FY 2000-01. Any modification of this rate would be

required by general law, rather than shifting up and down with the normal cost of the Regular Class of the FRS defined benefit program.

**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:

None

C. Government Sector Impact:

Article VII, Section 18, of the Florida Constitution, excuses local governments from complying with state mandates which impose additional fiscal burdens. Section (a) provides, "No county or municipality shall be bound by any general law requiring such county or municipality to spend funds or to take an action requiring the expenditure of funds" unless certain requirements are met. However, several exemptions and exceptions exist.

This bill requires participating cities and counties to expend additional funds because it will require them to make higher FRS contributions in FY 2002-03 and thereafter (absent other legislative action). However, subsection (a) contains an exception for laws which fulfill an important state interest and which apply to all persons similarly situated. This bill provides a determination and declaration of important state interest and treats all similarly situated FRS employers in the same manner. Thus, the bill meets the exception requirements of Art. VII, Section 18, of the Florida Constitution.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

#1 by Appropriations:

This amendment incorporates a general rate reduction in state retirement costs after adjustments for the actuarial experience study and implementation of the optional retirement program beginning in 2002. It changes the way the state recognizes those rates by shifting from a table format to a narrative statement. The rates charged member to the 800 FRS employers is reduced by 1.85%. The amendment also increases the retiree health insurance subsidy to maintain the required five months reserve amount. (WITH TITLE AMENDMENT)

---

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

---