

# 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: CS/SB 1950

SPONSOR: Governmental Oversight & Productivity Committee and Senators Campbell and Fasano

SUBJECT: Florida Retirement System

DATE: March 10, 2004      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Fav/CS</u>
2.	_____	_____	<u>AGG</u>	_____
3.	_____	_____	<u>AP</u>	_____
4.	_____	_____	<u>RC</u>	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

**I. Summary:**

The bill adds forensic technical personnel employed by a law enforcement agency or a medical examiner’s office to the Special Risk Class of the Florida Retirement System.

This bill substantially amends the following section of the Florida Statutes: s. 121.0515.

**II. Present Situation:**

The Florida Retirement System (FRS) is a multi-employer, non-participatory pension plan providing retirement income benefits to the more than 625,000 active and 210,000 retired members and beneficiaries of its more than 800 employers. Originally established in 1970 as the successor to the Teachers’ Retirement System and the State, and County Officers’ and Employees’ Retirement System, the FRS is today a combination of four previously separate pension plans. Benefit payments are administered by the Department of Management Services through its Division of Retirement while investment management is undertaken by the Board of Administration. Established as a 401(a) government plan under the Internal Revenue Code its benefits are exempt from federal taxation until received by the employee.

As a defined benefit plan the FRS “Pension Plan” provides retirement income expressed as a percent of final pay. Participants accrue retirement credits based upon their eligibility in one of several membership classes. Years of creditable service multiplied by average salary multiplied by the accrual rate for the membership class, plus up to 500 hours of annual leave, yields a monthly benefit at normal retirement. The accrual rates range from 1.60 percent for the Regular Class to 3.33 percent for Justices and Judges. For most membership classes normal retirement occurs at the earlier of thirty years’ service or age 62. For public safety employees in the Special Risk Retirement Class, normal retirement is the earlier of age 55 or twenty-five years’ service.

Members seeking early retirement receive a five percent reduction in the benefit for each year below their normal age threshold. All membership classes permit enrollment in a Deferred Retirement Option Program (DROP) under which a participant may extend employment for an additional five years - eight years for instructional personnel in district school boards - and receive a lump sum benefit at a fixed rate of interest for that supplemental service. Enrollment in DROP nominally requires the participant to serve the employer with a deferred resignation from employment at the end of the period. The defined benefit plan includes a fixed, annual cost-of-living adjustment of three percent.

The 2000 Legislature enacted sweeping changes to the FRS by creating the Public Employees Optional Retirement Program (Part II of ch. 121, F.S.), an alternative defined contribution or "Investment Plan" for its members. While a defined benefit plan provides an annuitized monthly benefit expressed as a percent of final pay, a defined contribution plan gives members an equity interest in their employer's payroll contributions and their earnings, although it does not assure a guaranteed result. All new FRS-covered employees were given the option to enroll in the new plan and existing employees were provided a once-in-a-lifetime opportunity to change their current enrollment. Generally, a defined benefit plan rewards career employment as its annuitized benefits become more generous with longer service. A defined contribution plan works best for those who value public service for only short employment experiences or who prefer to manage their own investments. DROP enrollment is unavailable for the Investment Plan due to the incompatibility of plan designs.

All state employees are provided with the enrollment opportunity within the first thirty days of retirement to receive post-retirement health insurance coverage and, along with it, a financial stipend to cushion the premium burden. That health insurance subsidy is a five dollar per year of service stipend paid monthly to each retiree. The upper limit is 30 years' service or \$150 a month. Florida law requires all members seeking to keep their health insurance benefits during their retirement to pay the full, active employee premium, unreduced by employer contribution.

The Special Risk Retirement Class is principally composed of law enforcement, correctional and correctional probation personnel. In recent years this class has been augmented through the addition of emergency medical personnel and state correctional system employees whose work requires them to spend their official duties within the security perimeter of a state correctional or forensic facility. Elected officials with law enforcement responsibilities have the option of choosing membership in the Elected Officers' Class or the Special Risk Class.

### **III. Effect of Proposed Changes:**

**Section 1.** The bill adds forensic personnel employed by law enforcement agencies or medical examiners' offices to the Special Risk Class. It requires the affected members to maintain membership in a standards-setting organization specializing in forensic sciences.

**Section 2.** The bill contains a statement of important state interest in compliance with s.18, Art. VII, State Constitution.

**Section 3.** The bill takes effect October 1, 2004.

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

While there is little firm data on the numbers of positions affected it is believed that some of these positions are employed by units of local government, principally counties. In that sense there is greater likelihood that the net additional payroll contribution rate adjustment will exceed \$1.6 million on a statewide basis.

**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:**

From the employees' standpoint, the change in classes will result in an increase in retirement benefits from the current forty-eight percent to seventy-five percent of average final compensation. Normal retirement is reduced from thirty years to twenty-five years.

Florida law requires service of twenty-five years in the Special Risk Class for normal retirement eligibility in that class. Split service is governed by a normal service length of thirty years or age 62.

**C. Government Sector Impact:**

The personnel in question are currently members of the Regular Class and have a normal benefit career of 30 years or the attainment of age 62. The change contemplated by the bill has the financial effect of increasing the employer payroll contribution rate from 6.18 percent to 17.32 percent based upon rates now in effect through June 30, 2004. Each employer is responsible for the net difference in contributions.

The bill is prospective in its application.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

This bill represents the first instance of unsworn, or non-first responder, or personnel constrained by a security perimeter being made members of the Special Risk Retirement Class. That class was designed a number of years ago to provide enhanced benefits and a shorter career only for those personnel whose physically demanding skills naturally deteriorate over time.

While it is assumed that affected personnel may choose the defined benefit alternative following the change in classes, there is no specific requirement that they do so. Individuals may also choose the Investment Plan and, in that case, will receive an employer contribution to their separate accounts of 17.32 percent.

The terms used to define the personnel may pose some definition problems among local law enforcement agencies. State employees in similar classifications are concentrated in the Department of Law Enforcement but may also be present in the Department of Environmental Protection, the Department of Agriculture and Consumer Services, the State Fire Marshal's Office, and the Department of Business and Professional Regulation. The broadband personnel classification system adopted by the Legislature some years previously and administered by the Department of Management Services contains four classifications for forensic technicians.<sup>1</sup> The occupational description provides that personnel in those classifications perform

. . .work collecting, identifying, classifying, and analyzing physical evidence related to criminal investigations or the natural environment. Incumbents perform tests on weapons or substances, such as fiber, hair, and tissue to determine significance to investigation. Incumbents may testify as expert witnesses on evidence or crime laboratory techniques and may serve as specialists in area of expertise, such as ballistics, fingerprinting, handwriting, or biochemistry.

**VIII. Amendments:**

None.

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

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<sup>1</sup> Job Family 19-0000: Life, Physical and Social Science, Occupational Group 19-4090: Science Technicians.