

# 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: CS/SB 688

SPONSOR: Governmental Oversight and Productivity Committee and Senator Lynn

SUBJECT: FRS/Community College Employees

DATE: March 9, 2005                      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Woodruff	O'Farrell	ED	<b>Fav/1 Amendment</b>
2.	Rhea	Wilson	GO	<b>Fav/CS</b>
3.	_____	_____	WM	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

## I. Summary:

The committee substitute permits a senior management service class employee who has withdrawn from the Florida Retirement System one opportunity to elect to participate in either the defined benefit program or the Public Employee Optional Retirement Program (PEORP), effective the period of January 1, 2006, through June 30, 2006. If the employee elects the PEORP, membership is prospective from that election. Alternatively, if the employee elects the defined benefit program, the employee will receive service credit for prior service based upon the time during which the employee had withdrawn from the system, but only upon payment to the system trust fund of an amount representing the actuarial accrued liability for the affected period of service.

This bill substantially amends subsection 121.055(1) 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.

Section 121.055(1) (b) 2, F.S., provides that in lieu of participation in the Senior Management Service Class, members of such class may withdraw from the Florida Retirement System altogether. The decision to withdraw shall be irrevocable for as long as the employee holds such a position.

The United States Internal Revenue Service prohibits any person from participating in two retirement plans at the same time for the same work experience.

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

The committee substitute permits a senior management service class employee who has withdrawn from the Florida Retirement System one opportunity to elect to participate in either the defined benefit program or the Public Employee Optional Retirement Program (PEORP), during the period of January 1, 2006, through June 30, 2006. If the employee elects the PEORP, membership is prospective from that election. Alternatively, if the employee elects the defined benefit program, the employee will receive service credit for prior service based upon the time during which the employee had withdrawn from the system, but only upon payment to the system trust fund of an amount representing the actuarial accrued liability for the affected period of service.

The actuarial accrued liability cost is to be calculated using the discount rate and other relevant actuarial assumptions that were used to value the Florida Retirement System defined benefit plan liabilities in the most recent actuarial valuation. The calculation is to include any service already maintained under the defined benefit plan in addition to the period of withdrawal. The actuarial accrued liability attributable to any service already maintained under the defined benefit plan must be applied as a credit to the total cost resulting from the calculation.

The Division of Retirement is required to ensure that the transfer sum is prepared using a formula and methodology certified by an actuary.

The effective date of the bill is July 1, 2005.

### **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:**

If the employee elects the defined benefit plan, and contributions in the prior retirement plan are not sufficient to create a net zero fiscal impact on the state retirement plan when those funds are transferred to the state, the employee is responsible for paying the difference. The employee will be required to supplement the transferred funds with additional private funds unless such additional funds are paid by the employer on behalf of the employee.

**C. Government Sector Impact:**

None. Should a senior management class employee choose to move to the Florida Retirement System defined benefit plan during the period authorized by the bill, there must be a net zero fiscal impact upon the state retirement system. If the funds transferred from the employee's prior retirement account are not sufficient to pay the amount due to the Florida Retirement System to join the defined benefit plan, the employee must supplement the transferred funds with additional private funds.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.



## **VIII. Summary of 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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