

January 1, 1987 are eligible to purchase service credit for such military service under the wartime service provisions of s. 121.111(2), F.S.

Those service members whose initial date of FRS employment is January 1, 1987 or later are not eligible to purchase service credit under s. 121.111(2), F.S. However, they may be eligible to purchase service credit for such military service under the out-of-state/federal service provisions of s.121.1115, F.S.

The cost to the member to purchase credit for service under the wartime service provisions program in s.121.111(2), F.S., is much less expensive than the cost to purchase credit under the out-of-state/federal service provisions of s.121.1115, F.S.

To illustrate the difference, the Department of Management Services provided the following example:

A member hired on July 1, 1987, with an initial annual salary of \$21,000 and 4 years of wartime military service would be able to purchase FRS credit for such service for \$11,840 if computed using the wartime service formula.² Credit purchased under the out-of-state/federal service provision would cost the member \$59,196.³

Article X, Section 14 of the Florida Constitution requires that a governmental unit responsible for any retirement or pension system supported by any public funds shall not provide any increase in benefits unless provision has been made for funding the increase in an actuarially sound basis.

Section 112.61, F.S., expresses legislative intent to implement Article X, Section 14 by stating "...it is the intent of this act to prohibit the use of any procedure, methodology, or assumptions the effect of which is to transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers. Actuarial experience may be used to fund additional benefits, provided that the present value of such benefits does not exceed the net actuarial experience accumulated for all sources of gains and losses".

According to the department, the wartime service credit provision underwent repeated review between 1977 and 1985 because the cost to the member to purchase the benefit is not sufficient to fund the cost of the benefit. To help address the fiscal impact and to avoid litigation from future members, the 1985 Legislature⁴ amended section 121.111, F.S., to close this benefit for future members. This approach was taken in lieu of increased employer contributions and/or an increased member purchase formula to properly fund the benefit.

² The cost to purchase retirement credit for each year of wartime military service is 4% of the annual salary earned during the member's first year of creditable service plus interest at 6.5% compounded annually from the first year of membership in the FRS. A maximum of 4 years of military service can be purchased under this provision.

³ The cost to purchase retirement credit for each year of military service under the out-of-state provision of the FRS is 20% of the annual salary earned during the member's first year of creditable service or 20% of \$12,000, whichever is greater, plus interest at 6.5% compounded annually from the first year of membership in the FRS. A maximum of 5 years of military service can be purchased under this provision.

⁴ See chapter 85-220, Laws of Florida.

Current law allows members to purchase service credit under the FRS Pension Plan for up to 5 years of in-state or out-of-state public employment or federal employment under sections 121.1115 and 121.1122, F.S. This provision includes military service as eligible for purchase of service credit at a higher rate that is actuarially sound and meets the performance requirements of Chapter 121, F.S.

III. Effect of Proposed Changes:

The bill removes a provision of s. 121.111, F.S., which limits participation in the FRS credit for wartime military service buy-in to those persons whose initial FRS qualified employment began prior to January 1, 1987. The effect of this change will be to allow all qualified FRS Pension Plan members to purchase service credit for military service under the provisions of s.121.111(2), F.S. at a greatly reduced cost over the current provisions of s. 121.1115, F.S.

This bill provides for an effective date of July 1, 2007.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Unknown, the bill may cause local governments to have to increase the required employer contribution rate to maintain the actuarial soundness of the FRS.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

The increase in retirement benefits provided in this bill may violate the provisions of Section 14, Article X of the Florida Constitution relating to actuarial soundness. (See Government Sector Impact in this analysis.)

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

None.

C. Government Sector Impact:

The Department of Management Services’ consulting actuaries, Milliman Inc., completed an actuarial special study dated February 16, 2005, detailing the contribution rate increases associated with allowing the purchase of (1) military service for employees hired after December 31, 1986, and (2) service periods of hostility as established by the United States Department of Veterans Affairs. The study concluded that the change proposed in this bill would cause the required employer contribution rate to increase for all FRS membership classes.

The below table shows estimated additional employer cost to fund the proposed benefit.

Fiscal Year	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
State	\$7,067,000	\$7,350,000	\$7,644,000	\$7,949,000	\$8,267,000
Local	\$24,969,000	\$25,967,000	\$27,006,000	\$28,086,000	\$29,210,000
Total	\$32,036,000	\$33,317,000	\$34,650,000	\$36,035,000	\$37,477,000

Source: Florida Department of Management Services

According to the department, the member credit purchase rate under the wartime service provision of s. 121.111(2), F.S., is insufficient to offset the additional retirement benefit costs. Further, this bill does not contain an appropriation that would offset the additional cost. This may result in an unfunded mandate to state and local government employers to fund the benefit.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

Barcode 872360 by Military Affairs and Domestic Security Committee:

Increases employer contribution rates effective July 1, 2007 in order to fund the benefits provided by this act as follows:

Regular Class	0.11 percentage points
Special Risk Class	0.16 percentage points
Special Risk Administrative Support Class	0.21 percentage points
Judicial subclass of the Elected Officers' Class	0.20 percentage points
Legislative-Attorney-Cabinet subclass of the Elected Officers' Class	0.19 percentage points
County Officers' subclass of the Elected Officers' Class	0.22 percentage points
Senior Management Service Class	0.18 percentage points

Directs the Division of Statutory Revision to adjust the contribution rates as set forth in sections 121.052, 121.055, 121.071, Florida Statutes.

Provides a finding that the act provides an important state interest. (WITH TITLE AMENDMENT)