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Defined Benefit versus Defined Contribution

There is still a great deal of discussion and interest in moving the Florida Retirement System from a defined benefit to a defined contribution plan. There continues to be assertions that a defined contribution plan is less costly to administer, and therefore, the advocates have been using that as a reason for such change.

Interestingly, those advocates have completely ignored the information, in the form of testimony before committees of the State Board of Administration and the Division of Retirement, whose opinions are contrary.

The Division of Retirement has been requested to conduct or contract for an actuarial study on the subject. The study should be complete sometime in April. Let's hope the study is not complete until April 30th, which is the last day of the 2010 Regular Legislative Session.

Florida Retirement System

Based on the FRS unfunded liability and the potential of increased employer contributions for 2010-2011, there are a number of actuarial studies which have been requested. Listed below are the subjects of each of the studies:

- Currently the FRS has a 6 year vesting period, it would be changed to 8 years
- The Average Final Compensation is currently calculated using the highest 5 years, it would be changed to the highest 8 years
- There is currently no required FRS employee retirement contribution, that would be changed to a minimum of a 1%, or possibly a percent or two higher
- The accrual rate for all classes of positions would be reduced by 10%, as an example, the special risk class would be reduced from 3% to 2.7%
- The current minimum requirements of 25 years or 55 years of age for special risk and 30 years and 62 for regular class members would be changed to 30 years and age 60 for special risk members and 33 years and age 65 for regular class members
- The minimum investment return for participants in the DROP program is currently 6.5% that would be changed to 1.3%
- The annual cost of living increase for FRS retirees is currently 3%, it would be changed to reflect the annual CPI or at a maximum 3%

Remember that these are topics or subjects that have been requested and do not represent subjects or provisions of a piece of legislation, YET.

175/185 Local Pension Plans

When will I learn not to trust the statements of the folks representing the Florida League of Cities? Although they had reported that they were unsuccessful in finding sponsors for their legislation, that ends up not being true. As of this date, there has not been a House Bill that has surfaced, however, the deadline in the House for filing bills is March 2nd at 12:00 noon.

Senate Bill 1902 by Senator Bennett makes sweeping changes to the local pension plans and takes us back to the pre 1999 days. It was during that era that the cities used the premium tax revenue for every other purpose that what they were intended to do.

It seems that every time I go back through the bill I find something else, and so accordingly, I will subsequently report on the specifics at a later date. Senator Bennett chairs the Senate Community Affairs Committee and he indicated at last week's committee meeting that the pension bills would be combined into one. The Senate Community Affairs Committee is the first committee of reference in the Senate.

2010 Regular Legislative Session

The 2010 Regular Session of the Florida Legislature begins next Tuesday, March 2nd. As noted in the above comments or subject areas, it will indeed be an interesting 60 days.