

A Call for Public Pension Reform for Florida's Local Governments: Priorities and Options
Presented by the Florida City and County Management Association (FCCMA)
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Executive Summary:

As Florida enters a new decade, county and municipal pension programs have varied fiscal health, but most face similarly critical issues. In 2010, the Florida Legislature considered, but did not pass, several reform-minded bills related to these public retirement programs. As a result of Florida's changing fiscal conditions, pension law changes over the past forty years, and pension law interpretations through Florida's Division of Retirement, and because pension-related issues will dominate county and municipal financial planning throughout the next ten or more years, the statewide association for professional local government management has prepared this paper. The need for statutory reform is clearly demonstrated; the process for statutory reform will require tremendous intergovernmental commitment; the cost of continuing the systems as they currently exist are too great for Florida's counties and municipalities to do otherwise.

The recommendations are being shared with Florida House of Representatives and Florida Senate leadership, key committee staff directors within the Florida Legislature, local government associations and the Center for Florida Local Government Excellence at FSU.

Historically, the Florida City and County Management Association (FCCMA) has worked closely with the Florida Association of Counties (FAC) and the Florida League of Cities (FLC) on legislative issues, especially as a resource for issue research and to respond to proposed legislation for its impact upon Florida's general-purpose local governments. The FCCMA has most recently prepared discussion papers on annexation and community redevelopment agencies, and has assisted with providing information to the Legislature through the now-defunct Legislative Committee on Intergovernmental Relations (LCIR) for decades. The FCCMA was founded in 1946 and has over 550 members representing the 45-plus commission-manager county governments and 260-plus council-manager municipalities, and some special districts. The FCCMA is an affiliate of the International City/County Management Association (ICMA).

Pension Histories:

Counties:

Florida's counties are required, by Statute, to be part of the Florida Retirement System (FRS), and have been such since 1971. The FRS is a 100% employer-contribution system: employees currently contribute nothing toward their retirement. The Legislature has had reports made to it (example: Office of Program Policy Analysis and Governmental Accountability #10-15) indicating opportunities to reform the FRS based upon current state funding concerns and future pension-need forecasts.

Municipalities:

Florida's cities, towns and villages have historically had their own pension programs for employees. Prior to the 1960s, these often consisted of life insurance policies for long-term employees, deferred compensation accounts or other limited offerings.

As Florida grew, and municipalities also grew in their unionized employees, pension programs also developed into more sophisticated entities. Under current law, municipalities may voluntarily participate in the FRS for various classes (general employee, special risk: police officers and firefighters, senior management, or elected officials) or create their own pension programs. Municipal employees make up less than five percent of the FRS membership. Municipalities may also operate a defined benefit pension plan for their police officers or fire fighters and receive insurance premium tax revenues to help pay plan costs, as long as the plan abides by stringent state laws. In the 1940s and 1950s, the Legislature created the Insurance Premium Tax revenue source and other plan requirements to encourage cities to provide pension programs for their police officers and firefighters.

Current Concerns and Recommendations:

FRS:

The Florida Legislature controls all aspects of the FRS: benefit levels, retirement qualifications, plan costs and expenses, etc. Government employers in the FRS are simply told on a yearly basis how much they have to contribute for each employee in the FRS. Employers do not have the ability or option to place employees in different retirement plans, such as a defined contribution plan, or a blended defined benefit-defined contribution plan. The FRS does have options available to the individual employee, such as participating in a defined contribution plan, but that choice is not made available to the employer for its respective classes of employees.

Recommendations:

1. Provide flexibility to local governments in the FRS by allowing them to either retain a standard defined benefit plan, or at the employer's option move to a different retirement plan, such as a hybrid or modified "defined benefit/defined contribution" plan. This will provide flexibility to local governments in the FRS to decide at the employer level which pension plan to provide to its employees. The goal would be to reduce long term tax payer impacts and provide a reasonable pension plan with economic diversification for plan members.
2. Require that determinations of average final compensation in FRS defined benefit pension plans include salary only, and do not include pay for overtime, unused leave times, or any other additional payments.
3. Set a maximum annual accrual rate and full term retirement payout for FRS defined benefit pensions.
4. Provide proper actuarial oversight to ensure that defined benefit pension plans are sufficiently funded.

5. Provide for a single, uniform class with the same benefit structure for all participants in the FRS.
6. Review and revise appropriate age levels and vesting standards, under actuarial review, for retirement.
7. Remove statutory requirements for public employers to offer other post-employment benefits to retirees or former employees, such as subsidized health, hospitalization and other insurance coverages.

Non-FRS:

Municipalities receiving insurance premium tax revenues to help pay for police officers' or firefighters' defined benefit plans must operate the plans under stringent state laws. One of these laws, adopted in 1999, states that all "additional insurance premium tax revenues" over a base amount must be used only to provide new or extra pension benefits to police officers or firefighters. Since 1999, this has resulted in municipalities having to provide over \$400 million in new or extra pension benefits to police officers and firefighters. Stated differently, city taxpayers have had to fund \$400 million in pension costs, while at the same time an additional \$400 million in tax proceeds was required to be spent on new or extra benefits for police officers and firefighters.

Recommendations:

1. Allow recipients (cities and special districts) of insurance premium tax revenues under Chapters 175 or 185, Florida Statutes, (fire and police defined benefit pension plans) to use these funds to pay for current plan costs and to lower required plan contributions from the plan sponsor (city or special district). This would remove the current state law mandate that specified insurance premium tax revenues be used only for "new or extra" pension benefits for fire fighters and police officers.
2. Allow local governments to reduce defined benefit pension levels within all plans if it is determined to be actuarially appropriate in order to stabilize the plan's funding and keep the plan financially solvent.
3. Provide flexibility to local governments to structure hybrid or modified "defined benefit/defined contribution" plan options that will reduce long term tax payer impacts and provide a reasonable pension plan with economic diversification for plan members.
4. Set a maximum annual accrual rate and full term retirement payout for defined benefit pension plans. There are accrual rates ranging from 1.6% to more than 4% annually, with many pensions paying up to 100% of average final compensation (typically an average of 3 – 5 years).
5. Allow cities and special districts to convert fire fighter and police defined benefit pension plans operating under Chapters 175 or 185, Florida Statutes, to the FRS without losing insurance premium tax revenues.
6. Allow cities and special districts desiring to place their public safety officers (police and fire) into the Special Risk Class of the FRS the opportunity to purchase past credit service at an up to 3% annual accrual rate rather than the current up to 2%. This will remove a practical barrier to convert plans to the FRS.

7. Require 30-year cost projections on any proposed benefit increase to a defined benefit pension plan.
8. Require that determinations of average final compensation in defined benefit pension plans include salary only, and do not include pay for overtime, unused leave times, or any other additional payments.
9. Restrain the Division of Retirement's non-rule based administrative activities and restrict the Division's broad interpretations of the provisions in Chapters 112, 175 and 185, Florida Statutes, that result in increased costs to pension plan sponsors (cities and special districts).
10. Change the governance structure of pension boards of trustees to move away from having plan participants serve on the boards. Consider using bankers, financial planners, etc.
11. Remove statutory disability presumptions from pension (and workers' compensation) determinations for public safety officers.
12. Remove statutory requirements for public employers to offer subsidized health, hospitalization and other insurance coverages to retirees.

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