

September 3, 2010

FLORIDA RETIRED EDUCATORS ASSOCIATION LEGISLATIVE INFORMATION

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The leaders of both the Florida House and Senate have indicated they will have a Special Session in November to address "budget concerns"; if both agree, then a session will be called. One possible legislative initiative that could be the most devastating of all is closing the "Pension" (Defined Benefit or DB) plan to all new employees forcing them into the "Investment" (Defined Contribution or DC) plan. This would remove all retirement security from the lives of young people entering education or other types of public service in Florida. It has already happened to many in the private sector. In 1975 some 88% of employees in the private sector nationwide were covered by pensions, but by 2005, only 33% were covered. Many factors contributed to the decline of pension plans in the private sector, but failure to adequately fund the plans in a timely manner caused some plans to become excessively costly as retirees began to draw benefits.

We need to help legislators, and people in general, to understand that public pension plans are not too expensive and are greatly needed in our society. Studies by the National Institute on Retirement Security, Washington, D.C., the Center for Retirement Research, Boston College, MA, and other institutions, have concluded that pension plans:

- 1) are a good deal for taxpayers. A group pension (DB) plan can achieve a target retirement benefit for 56% of what it would cost to achieve the target with a DC plan. This is because the pooling of longevity risks of large numbers of people means only having to accumulate funds to provide benefits for the average life expectancy for the group, and having the large fund allows taking advantage of enhanced investment earnings with a balanced portfolio over a long period of time. In 2007, a study of public pension funds over a 15-year period showed that 68 cents of every dollar paid to retirees as benefits came from investment earnings of the fund.

- 2) are better able to withstand drops in the economy than individual plans due to their prefunded status and large trust funds. This enables them to maintain constant income for retirees in troubled times which helps other sectors. There were some 367,490 senior citizens living in Florida in 2008 with public pensions averaging some \$17,617 in annual benefits. These retirees generated a total economic output of \$9.1 billion and generated some \$450.3 million in state and local tax revenue. Although pension trust funds are affected by economic downturns as experienced in 2008, due to the long term nature of funding, replenishing of funds can be done very gradually and therefore not be excessively costly in a depressed economy.

- 3) save governments money in reducing older citizens' need for public assistance. People without pension plans (including those with various individual retirement plans) are 6 times more likely to be in poverty than those with pensions.

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4) are able to retain capable and experienced employees in the public service work force when they would be enticed to leave by offers in the private sector due to their expertise. This may not be a value to many who wish to do away with pensions.

5) allow for people to be provided with lifetime benefits that will not be depleted as they each the later years. This allows them to retire earlier and make room in the job market for young people.

The bottom line is that DB pension plans are a critical lifeline not only to FRS retirees, but to more than 4.5 million public and 10 million private sector retirees in 2009. Keeping these vital systems healthy should be a goal for all of responsible decision makers so that pensions can continue to provide retirement income security for future generations.

As previously reported, undoubtedly the HIS (Health Insurance Subsidy) of the FRS (Florida Retirement System) will come under attack. We cannot defeat efforts to do away with the HIS through debate in committee meetings; legislators know that the HIS was given to us by previous legislative acts. Other features in the FRS will also be under legislative scrutiny when it meets to work on the budget, or later in regular session. The 3 percent COLA (Cost Of Living Adjustment) may be altered; retirement credit earned for each year of service (now 1.6 % for Regular class) has been mentioned as has raising the normal retirement age from 62 to a higher number. The DROP program and interest rate paid on savings in DROP accounts will also be under scrutiny. FRS is definitely going to come under attack as being too generous to retirees and too costly to taxpayers. We need to speak out that FRS is not too generous to most retirees. Although I've given out some information already, I've been asked to send out some facts about FRS in a chart form. Below are items taken from the FRS 2009 Annual Report and current web pages:

<i>Member Class</i>	<i>No. of Members</i>		<i>Credit Earned Per Yr Serv</i>	<i>Avr Benefit For 2009</i>	<i>Req. Contribution (cost to taxpayers)</i>
	<i>Employed</i>	<i>Retired</i>			
Regular (teachers, state workers, etc.)	582,568	253,872	1.60 %	\$15,036	9.63 % of salary
Special Risk (firemen, police, Jud.)	75,640	23,896	3.0	30,203	22.11
Special Risk Adm. Support	76	164	1.60	32,626	12.10
Elected Officials	2,303	2,048	3.0	40,863	15.20
Senior Management	7,725	2,007	2.0	40,918	11.14

This table shows where taxpayers are paying big and where big benefits are going; about 88 percent of us are in the Regular class. If we can get legislators to look closely at the data, we may be able to keep from changing the COLA and cutting retirement earnings in the Regular class. I hear a lot of talk about making employees contribute to their own retirement, and this will undoubtedly be a legislative issue.

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We have an uphill battle to save the HIS this year, but I believe it can be won if we work hard with enough people. **What can you do now?** Make personal contact with your senator and representative (and/or candidates running for either of those positions); spread the word to other retirees and persons nearing retirement - for example: call 5 people asking them to contact legislators and ask each to contact 5 people themselves. Personal visits to the legislators local office or the Capitol, phone calls, emails, or letters can be ways to make yourself heard. In your communications, remember that it is NEVER appropriate to make uncomplimentary comments or statements which threaten, demand, criticize or blame.