

THE FLORIDA RETIREMENT SYSTEM (FRS)  
An Overview by Larry Carmichael - February, 2005

The Florida Retirement System was created in 1970 (see FS 121.011) and is now one of the largest pension (defined benefits) retirement systems in the US. Various sources rank it number 4 or 5 behind California, the Federal and New York plans. Currently FRS has some 860,000 plus members with about 225,000 of these receiving retirement benefits. Although as subsequent text will show FRS is “governed” very much by the Florida Legislature, it is operationally run by two separate agencies. (1) The State Board of Administration (SBA) under the Board of Trustees (Governor, Chief Financial Officer and Attorney General) is responsible for managing assets of the FRS Trust Fund (Fund) and other state trust funds. The SBA is a 200 employee organization headed by Executive Director, Coleman Stipanovich. (2) The Division of Retirement (Division) is responsible for maintaining individual employment records on all members, collecting employer contributions to the Fund, and serving as payroll department to the 225,000 retirees. This 210 employee agency is headed by Director Sarabeth Snuggs who reports to the Secretary of the Department of Management Services.

Although a few members remain in programs that existed prior to 1970 and make individual contributions, FRS is almost totally funded by employer contributions and the returns from investing activity by SBA. Retiree benefits and operating costs for both SBA and the Division all come from the Fund. By Florida law (FS 121.30) and Federal law (ERISA), this trust fund can only be used to pay retiree benefits and for administration costs. Every legislative session, the legislature receives a report from actuaries hired by the Division (FS 121.135) who recommends specific contribution rates for employers (FS 121.71). It is significant to note that in 2003 – 04 the contributions received from employers around the state amounted to \$1.9 B, which was some \$1.76 B less than the \$3.66 B paid out to retirees that year. The independent investigative agency of the legislature, OPPAGA (Office Of Program Policy Analysis & Governmental Accountability), also conducts annual audits of FRS operations to insure compliance with laws and policies (FS 112.658).

Among retirement systems around the country, FRS is considered to be a very attractive retirement system primarily because it is securely funded and benefits to retirees “grow” each year with a 3 percent COLA (Cost Of Living Adjustment). This COLA (FS121.101) is accumulative meaning that it is computed on the prior year’s benefits, not the year of retirement. In many states, any increase must be the result of legislation; in some states a COLA is only computed on the base or the retirement year benefit, and in other states, the COLA is tied to some cost of living index. Although not really a part of FRS, another plus for member retirees is the Health Insurance Subsidy (HIS) which will be discussed later. An important fact regarding the HIS and COLA is that these were “given” to FRS retirees by the legislature, and “what the legislature giveth, it can also take away”. This is not the case with pension benefits earned while employed; these represent a contractual relationship between employee and employer. Although FRS was inadequately funded when first created, the Fund’s assets only amounted to 20 percent of its actuarial liabilities (promised benefits), it has been 100 percent funded since 1998. Today it has actuarial liabilities of something over \$96 B with assets in excess of \$106 B (these are July, 2004 numbers); the \$10 B surplus is why the legislature would set contributions lower than expenditures.

Membership in FRS is separated into four classes: (1) Regular, (2) Senior Management, (3) Elected Officials and (4) Special Risk. The Elected Official class is subdivided into three categories: (a) Cabinet and Legislature, (b) Justices and Judges and (c) County Elected Officials FRS Overview, (FS 121.052). The Special Risk class also contains special risk Administrative Support as well as those persons considered to be in special risk occupations, primarily fire department and police department personnel. The membership “class” is important because each class earns different retirement percentage credit for year of service, and the employer must contribute to the Fund on the basis of employee class. The table below illustrates these differences:

CLASS	EARNING PERCENT	CONTRIBUTION RATE (04-05)	CONTRIBUTION RATE (05-06)*	NUMBER IN CLASS
Regular	1.6	6.20	9.98	558,200
Senior Mgt.(Superintendents, City/ County Mgr., State Sr. Mgt., JC Pres)	2.0	8.18	11.64	6,310
Elected Officials				1,990
- Gov., Cabinet, Legis., States Atty.	3.0	11.30	15.82	
- Justices, Judges	31/3	17.46	20.78	
- County Elected	3.0	14.04	17.73	
Special Risk	3.0	17.34	22.16	66,860
-SR Admin. Support	1.6	8.78	12.55	92

\*These figures are from FS 121.71. Although this is established for next fiscal year, I would be surprised if the 2005 Legislature leaves it the way it is now.

**The Health Insurance Subsidy (HIS)**

This benefit for retirees was created by the Kirkland Bill in 1986 (now FS 112.363) and it has its own HIS Trust Fund (112.363(5)). Although administered and managed by the Division and SBA the same as FRS, this benefit is an entirely separate financial entity funded by a separate employer contribution that is currently set at the rate of 1.11 percent of employees’ salaries (112.363 (5) (f)). The HIS Trust currently has around \$130 M in assets; it has no actuarial liability and is more of a revolving fund. In fiscal year 2003 – 04, employers contributed \$264.5 M to this trust and \$248.3 M was distributed to retirees. The HIS provides retirees \$ 5.00 for each year of credible service every month up to a maximum of \$150 per month. It can only be used for health insurance premiums, and it is not considered income for IRS purposes if the Division has certification that it has been used for premiums. In most situations the Division makes monthly payments directly to insurance companies using the earned HIS (up to \$150) and deducting any extra amount necessary from pension benefit when the premium exceeds the HIS.