Memorandum

MIAMI-DADE COUNTY

Date: November 13, 2007

B&F
Supplement to
Agenda Item No. 2(I)

To: Honorable Chairman Bruno A. Barreiro
and Members, Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Report Related to purchase of Florida Retirement System (FRS) Credit

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This report has been prepared in response to a request by the Budget and Finance Committee on Tuesday, October 9, 2007 for the financial impact of the resolution sponsored by Commissioner Rolle allowing for the purchase of up to five years of Florida Retirement System (FRS) credit. FRS has referred to this as "airtime" since it does not require the time be for creditable service. Current FRS provisions allow members to purchase "creditable service" in order to increase their FRS benefit. Creditable service includes:

1. Prior Service - Employment with an agency participating in a state-administered retirement system in Florida for which the member either paid no contributions or withdrew their contributions.
2. Past Service - Employment with a city or district before it joined FRS; a local entity or function that was transferred to, merged with, or assumed by a state or local government agency, resulting in the employee becoming a member of FRS; The Cuban Refugee Assistance Program; or a Multiple Offender Project supervised by the State Attorney's office, not covered by FRS.
3. Military Service - up to four years of service credit for wartime service, or if the member left covered employment to join the military and returned to covered employment afterwards, or as federal service under provisions relating to out of state service.
4. Leave of Absence without Pay - up to two (2) work years of approved leaves.
5. In-State Service - up to five years of in-state public employment or nonpublic employment in certain schools or colleges.
6. Out-of-State Service - up to five years of out-of-state public employment or federal employment.

There are a few other categories as well, including time out due to workers compensation, periods of suspension without pay, and dismissal and reinstatement. The cost for the additional retirement credit depends on the type of service. In most cases, the member pays the full cost.

At this time, the fiscal impact of this action cannot be fully determined. If the proposed change is made, FRS would then determine the amount of contributions required by the employer and/or employee. To do so, they would evaluate current participants, their ages, years of service, and the potential liability to the FRS system based on anticipated participation.

When a similar recommendation was discussed at the State level (House Bill 73) in 2005, FRS commissioned an actuarial study to determine the impact. Milliman Consultants and Actuaries presented a report dated April 19, 2005 which quantified two options. The first option provided for the cost of purchasing the time to be shared by the employee and the employer. The cost to the employee (member) would equal 20 percent of the highest plan year salary at time of purchase for each year of eligible service purchased. The purchase of non-qualified service under this formula would require an increase in the employer contribution rates to offset the cost not covered by member contributions. An overall increase in contributions of 0.18 percent (of payroll) would be required for the total system (all employers participating in the FRS system). Based on the County's current annual payroll of approximately $1.9 billion, this increase represents approximately $3.5 million in the first year. This cost would continue to rise as payroll costs increase. The report indicated this 0.18 percent increase would be required for the next 30 years.

Alternatively, the study provided the cost of purchasing the service time if the employee (member) paid the full cost. The member contribution would be increased to 59 percent of pay per year of service purchased. Pay was again defined as the participant's highest plan year salary at time of purchase in full.

Since any change in FRS benefits would apply to all participants in the program and would not be exclusive to an individual employer, the study projected the overall increase in actuarial liabilities to the plan to be $721.4 million, based on an assumption that only 10 percent of those with eligible service were assumed to purchase 100 percent of their eligible service. If all eligible members purchased five years of non-qualified service in order to reach unreduced retirement eligibility the projected increase in actuarial liabilities is $12.581 billion. Under this scenario, the increase in contribution levels to employers is 3.36 percent of payroll.

Staff cannot confirm with certainty what the fiscal impact would be on the County should there be an employer contribution. The study that was done in 2005 was based on the relevant information at that time and may no longer be valid in determining the cost.

Director
General Services Administration