



MEMORANDUM

TO: ALL FLORIDA PENSION CLIENTS

FROM: KLAUSNER & KAUFMAN, P.A.

RE: IMPORTANT AMENDMENTS TO FRS (SB 2100)

DATE: JUNE 1, 2011

Last week, on May 26, Governor Rick Scott signed into law a series of amendments which substantially revised the Florida Retirement System (hereinafter "FRS"). This memo will summarize the new law, Chapter 2011-68, which is also known as Senate Bill 2100. While many of our clients do not participate in FRS, nevertheless, it is useful to monitor the emerging retirement landscape across the State for those employers and employees who do participate in FRS. Prior memos from our office have summarized SB 1128 which pertains to municipal retirement systems in Florida, which has not yet been signed into law.

Consistent with the constitutionally protected status of retirement benefits under Florida law, Chapter 2011-68 does not reduce benefits for existing retirees.

Chapter 2011-68 amended FRS as follows for current employees and future members of FRS:

Employee Contribution: Effective July 1, 2011, all active FRS participants are required to contribute **3%** of pensionable earnings into FRS as a tax deferred "pick up" contribution. The mandatory employee contribution is automatically deducted by the FRS employer. DROP participants are not required to make employee contributions.

Eight Year Average: For employees initially enrolled on or after July 1, 2011, the definition of "average final compensation" will be based on the average of the **8** highest fiscal years of



compensation for creditable service prior to retirement. For current employees enrolled prior to July 1, 2011, the definition of “average final compensation” will remain the average of the 5 highest fiscal years of compensation.

Eight Year Vesting: For employees initially enrolled in the FRS defined benefit pension plan on or after July 1, 2011, vesting will be based on the completion of **8** years of credited service. Vesting for current employees as of July 1 will remain at 6 years of creditable service. Regardless of their date of employment, members are always 100% vested in their own contributions. By contrast, the vesting schedule applies to employer contributions and the underlying entitlement to a future FRS benefit.

Delayed Normal Retirement Age: For employees initially enrolled on or after July 1, 2011, the normal retirement age and years of service requirements are increased, as follows:

For Special Risk Class: increases normal retirement age for vested members from 55 to **60** years of age; and increases the years of creditable service from 25 to **30** years of Special Risk service.

For all other FRS classes (Regular Class, Management Service Class and Elected Officers' Class): increases normal retirement age for vested members from 62 to **65** years of age; and increases the years of creditable service from 30 to **33** years, regardless of age.

Existing employees are not impacted by the delayed retirement ages described above.

Lower DROP Interest Rate: Unlike prior version of the bill which would have phased out the FRS DROP, Chapter 2011-68 preserves the DROP program but lowers the DROP interest rate. For employees entering DROP on or after July 1, 2011 the interest rate will be reduced to **1.3%**. For current employees participating in DROP or entering DROP before July 1, 2011, the interest rate remains 6.5%.

Repeals COLA: For service earned on or after July 1, 2011, Chapter 2011-68 eliminates the FRS cost-of-living adjustment (COLA). In other words, as described by the Division of Retirement:

Members with an effective retirement date or DROP begin date before **August 1, 2011**, will not have a change in their 3% COLA.

Members with an effective retirement date or DROP begin date on or after **August 1, 2011**, will have an **individually calculated COLA** that is a reduction from 3% using the following formula:

The total years of service before July 1, 2011, divided by the total years of service at retirement. Multiply this number by 3% to get the retiree's COLA.

For example: a member who retires effective July 1, 2012, with 30 years of service of which 29 years occurred before July 1, 2011:

$$29/30 = .9667 \times 3\% = 2.9\%.$$

Such a member with 29 years of service prior to the effective date will receive a 2.9% COLA each July.

Lower Employer Contribution Rates: Based on the amendments summarized above, Chapter 2011-68 will result in a lower employer contribution into FRS.

Feel free to call our office with any questions or for copies of the new law or new contribution rates.