

May 24, 2011

To: Faculty and Staff

From: Paula Varnes Fussell, Vice President for Human Resource Services

Subject: Legislative Benefit Changes

During its recent session, the Florida Legislature proposed various changes to retirement plans and health insurance. At the conclusion of the session, both the House and the Senate passed Senate Bill 2100, which impacts every active employee participating in the FRS Pension Plan, FRS Investment Plan, or Optional Retirement Program. Although the Senate Bill does not become law until after Governor Scott's review, it is expected he will approve the new legislation. A summary of the changes are provided below.

Health Insurance

With regard to employee health insurance, the Legislature did not approve changes to the existing employee insurance program for the upcoming year. Therefore, the cost to employees for individual and family coverage will remain the same. The only change related to health insurance is a reduction in the employer-paid premium for spouse coverage, which results in a slight decrease in premiums for part-time employees participating in the spouse program beginning in July 2011.

Retirement

The effective date of the changes provided below is July 1, 2011.

1) Current employees hired prior to July 1, 2011

All employees—except employees enrolled in DROP prior to July 1, 2011, or classified as reemployed retirees—will be required to contribute 3% of their gross eligible earnings to their respective retirement plans. This includes those employees in the Florida Retirement System (FRS) pension plan and investment plan as well as the Optional Retirement Program (ORP).

For example, an employee with an annual salary of \$40,000 will contribute \$1,200 annually toward his or her retirement plan. The 3% mandatory employee contribution is expected to be tax deferred but will not be included in the yearly maximum elective deferral limits established by the IRS.

Employer contributions to employees' investment accounts for the FRS Investment Plan and Optional Retirement Program will be decreased by the mandatory employee contributions.

- a) For participants in the FRS Investment Plan, the employee will contribute 3% and it is expected that the employer will contribute 6% to the employee's account.
- b) For participants in the Optional Retirement Program (ORP), the employee will contribute 3% and it is expected that the employer will contribute 7.42% to the employee's ORP account. Participants in the ORP who currently contribute on a voluntary basis will be required to reduce the voluntary percentage to a maximum of 7.42%.

2) Employees hired on or after July 1, 2011

In addition to the contribution of 3%, employees hired on or after July 1, 2011, who have no prior service credit in the Florida Retirement System will be subject to new provisions:

a) FRS Pension Plan:

- Vested upon completion of 8 years of creditable service
- Average final compensation (AFC) is the average of the 8 highest fiscal years of compensation
- Normal retirement
 - Regular class: age 65 and vested (8 years) or completion of 33 years of creditable service regardless of age
 - Special Risk class: age 60 and vested (8 years) or completion of 30 years of creditable service regardless of age

b) FRS Investment Plan:

- Vested upon completion of 1 year of creditable service (no change)
- Normal retirement
 - Regular class: age 65 and vested (1 year) or completion of 33 years of creditable service regardless of age
 - Special Risk class: age 60 and vested (1 year) or completion of 30 years of creditable service regardless of age

c) Optional Retirement Plan:

- No changes anticipated other than the 3% contribution required by employees

3) Employee Service Credit in FRS Pension Plan from July 1, 2011 - June 30, 2016

The legislation eliminates the cost-of-living adjustment (COLA) for service earned during this period of time for employees in the FRS Pension Plan. Subject to the availability of funding and the Legislature enacting sufficient employer contributions specifically for the purpose of funding the reinstatement of the COLA, the new COLA formula will expire effective June 30, 2016, and the current 3% cost-of-living adjustment will be reinstated.

For example: a member who retires effective July 1, 2012, with 30 years of service of which 29 years occurred before July 1, 2011: $29/30 = .9667 \times 3\% = 2.9\%$. This member will receive a 2.9% COLA each July. The formula for calculating the COLA is: $3\% \times (\text{Years of creditable service as of 7/1/2011}) / \text{Total Years of Creditable Service}$.

4) Current DROP Participants and Retirees

The Deferred Retirement Option Program (DROP) was retained, but FRS Pension Plan members who begin DROP participation on or after July 1, 2011, will earn an annual interest rate of 1.3% instead of the current percentage of 6.5% on their DROP account funds. Employees who are enrolled in DROP as of June 30, 2011, will continue to receive the 6.5% and will have no changes to retirement plans or benefits—including the COLA, vesting, average final compensation, and normal retirement age or years of service. In addition, DROP participants will NOT make mandatory employee contributions.

Benefits were not changed during the 2011 legislative session for current retirees; the annual FRS cost-of-living adjustment remains at 3%, and the Retiree Health Insurance Subsidy (HIS) benefit did not change.

A summary of the 2011 Retirement Legislation is now available on the Division of Retirement's web site, https://www.rol.frs.state.fl.us/forms/Legislation_2011.pdf.

Questions may also be referred to Mark Lacey, HRS assistant director for University Retirement, at (352) 273-1749 or retirement@ufl.edu.