Subcommittee on General Government
Government Efficiency Task Force
401 Senate Office Building
April 11, 2012
1:30 p.m. – 4:00 p.m.

1) Call to Order

2) Roll Call

3) Recommendations on State Procurement

4) Q & A on the Division of Real Estate Development and Management, Department of Management Services
    Tom Berger, Director of the Division of Real Estate Development and Management, Department of Management Services

5) Presentation on State Retirement Plans
    Chantelle Carter-Jones, Gubernatorial Fellow, Government Efficiency Task Force

6) Q & A on State Retirement
    Sarabeth Snuggs, Director of the Division of Retirement, Department of Management Services

7) Q & A on State Retirement
    Ron Poppell, Senior Defined Contributions Programs Officer, State Board of Administration

8) Public Comment

9) Adjourn

Florida Government Efficiency Task Force

Subcommittee on General Government ***Draft Recommendations***

Subject Matter: State Procurement Draft Recommendations

Subcommittee Members: Pat Neal (Chair), Senator Mike Bennett, Ann Duncan, Larry Cretul, and Frances Rice

DRAFT RECOMMENDATIONS

- ***Increased utilization of state term contracts:***

  The workgroup recommends that statutory barriers be removed for full utilization of state term contracts. All exceptions to the competitive procurement process should be reviewed and those that are unnecessary should be repealed. By removing exemptions, there will be an increase in competition and ensure the best value for the State of Florida.

  The workgroup recommends that a process be created that gives the Department of Management (DMS) an approval role for non-state term contract purchases by agencies. Currently, when an agency is mandated by statute to purchase from a state term contract, there is no approval or enforcement mechanism. DMS should have an approval role for agency purchases when the purchase can be made on a state term contract and the agency wants to purchase elsewhere. This would aid DMS in collecting data regarding the effectiveness of the state term contract and also enforce utilization of the state term contract when appropriate.

- ***Increased utilization of MyFloridaMarketPlace:***

  The workgroup recommends that the 1% usage fee for MyFloridaMarketPlace (MFMP) be reviewed and changed to allow for the greatest utilization by state agencies and other eligible users. Users of MFMP are charged a 1% usage fee. The fee and funding structure of MFMP should be reviewed and changed to allow for the greatest utilization.

  The workgroup recommends that DMS measure full cycle utilization. There are significant savings to be realized by not printing and mailing out warrants to vendors. The hard costs alone (postage, paper, custom envelopes) are significant enough to justify adoption, but there are also significant soft costs in labor savings (reconciling payments, looking for an invoice, storing and filing paper). Agencies should utilize MFMP for payment to vendors.

  The workgroup recommends providing a public facing catalog solution. DMS establishes catalogs for all state term contracts in MFMP Buyer from which customers purchase. Current catalog types include line items, punch-outs (an interface between a supplier's online ordering portal and Buyer), and ordering instructions (general instructions to buyers on how to purchase). DMS is working to create a solution to make the MFMP catalog component available to other eligible users (OEUs), (e.g., cities, counties, universities, etc.). This enhancement will also allow users to create a shopping cart of various items for print view reference and will accept P-card payment functionality. This addition will support the goal of increasing spend visibility by capturing purchases from OEUs and making them reportable in MFMP analysis. This enhancement will better drive spend to state term contracts. Leveraging purchases across the entire State of Florida is a key component of strategic sourcing and will deliver better value to all Florida taxpayers.

The workgroup recommends Converting Florida commodity codes to the National Institute of Governmental Purchasing (NIGP) codes. The State of Florida currently leverages custom commodity codes. These commodity codes are maintained by the Division of State Purchasing (the Division) and are associated to a default object code (defined by DFS). DMS is interested in moving away from Florida customized commodity codes to a set of standard industry codes. Most OEUs utilize NIGP codes, so by the state adopting them as the State of Florida standard, it will be easier for the OEUs to utilize MFMP.

- ***Increased effectiveness of MyFloridaMarketPlace:***

The workgroup recommends a data analytics solution. MFMP should be modified to assist the state in gaining greater spend visibility for goods and/or services than is currently available. The goal should be Data Normalization at a minimum standard of 80 percent of the available dataset covering:

a. Suppliers – including but not limited to:
    i. Utilizing an external database to demonstrate parent-child relationships
    ii. Federal employer identification number (FEIN) validation
    iii. Physical location detail
b. Commodity code– Including but not limited to:
    i. Transition to National Institute of Governmental Purchasing commodity code
    ii. Validate commodity codes spend against vendor business class
c. Supplier business status validation from a vendor supplied database covering:
    i. Minority
    ii. Veteran
    iii. Small Business

The services should provide information that will support the shared services initiatives the state is currently undertaking and should provide greater visibility in expenditures made by state agencies. This enhancement provides the necessary data to support a Strategic Sourcing process for the State of Florida. The ability to access disparate data sources and normalize spend creates a benchmarking opportunity that allows agencies/users to evaluate procurement performance.

The workgroup recommends automating electronic posting of solicitations created in Sourcing to the Vendor Bid System (VBS). DMS developed and manages the VBS. Approximately 1,000 solicitations are posted to VBS each year. DMS also uses the Ariba Sourcing application to post solicitations and receive responses. One of DMS's goals is to roll-out the Ariba Sourcing application to all agencies. Currently all agencies use VBS and are required to manually post information in the system. DMS should create a solution to facilitate the automated posting of solicitation information in VBS form Ariba Sourcing to avoid manually entering data in both systems. This enhancement will reduce the duplication of efforts by state agencies as the Ariba Sourcing module is rolled out to other agencies in Florida.

The workgroup recommends that DMS automate the workflow between the Ariba Buyer and Ariba Sourcing modules. Buyers must manually create a requisition within MFMP Buyer when an electronic quote or sourcing event is awarded in the Sourcing tool. DMS should create a solution to automate the creation of requisitions in Buyer for electronic quotes awarded in Sourcing.

The workgroup recommends providing a public portal for contract information. DMS maintains all statewide agreement documents and contract information on the DMS website, as well as in the MFMP application. A best-in-class solution will provide a tool to maintain contract information within the MFMP application with a public portal for contract information, in order to prevent the duplication of data in multiple locations. This enhancement would replace the DMS state term contract website and would be available to other agencies in a shared solutions model to support transparency in Florida.

- ***Strategic Sourcing:***

The workgroup recommends utilizing the increased visibility and volume in spend achieved via increased use of state term contracts and MFMP to strategically procure commodities and services. If utilization of state term contracts and utilization of MFMP are increased, the state will achieve greater spend visibility and purchasing leverage. DMS should utilize these processes to strategically procure and achieve greater savings.

The workgroup recommends creating an incentive model that utilizes savings achieved by agencies to encourage participation in strategic sourcing. In order to encourage agency compliance with the utilization of state term contracts and MFMP, the state should adopt an incentive model that awards an agency for cost savings through strategic procurement.

Florida Government Efficiency Task Force

Subcommittee on General Government ***Background Brief***

Subject Matter: DMS: Division of Real Estate Development and Management

Subcommittee Members: Pat Neal (Chair), Senator Mike Bennett, Larry Cretul, Ann Duncan, and Frances Rice

ISSUE SUMMARY

- The Division of Real Estate Development and Management (REDM) is a division of the Department of Management Services (DMS).

- REDM oversees the construction of public buildings, the operation and maintenance and bond debt service of the Florida Facilities Pool (Pool), and administers public and private leasing for state agencies, including the coordination of parking activities.

- REDM consists of the following bureaus: Bureau of Leasing; Bureau of Operations and Maintenance; and Bureau of Building Construction.

- REDM manages construction projects for other agencies and serves as the state's lead real estate development consultant on state-administered construction projects.

- REDM has oversight of the procurement of all state agency leased space, but has the management responsibility for less than one percent of the more than 20,000 state-owned facilities.

- REDM is responsible for a diverse set of resources within the Pool, ranging from the Capitol and Historic Capitol to the high-performance Department of Revenue complex in Tallahassee and the Department of Law Enforcement laboratory in Orlando.

FULL ISSUE(S) ANALYSIS

A. DEPARTMENT OF MANAGEMENT SERVICES:

The Division of Real Estate Development and Management

The Division of Real Estate Development and Management (REDM) is a division of the Department of Management Services (DMS).[1] REDM manages the Florida Facilities Pool (Pool),[2] administers public and private leasing for state agencies, and coordinates parking activities statewide. REDM manages construction projects for other agencies and serves as the state's lead real estate development consultant on state-administered construction projects.

As of July 1, 2011, there are 104 facilities in the DMS REDM-managed Pool. By total, the facilities in the Pool represent less than one percent of the more than 20,000 facilities the state owns and manages. REDM is responsible for a diverse set of resources within the Pool, ranging from the Capitol and Historic Capitol to the high-performance Department of Revenue complex in Tallahassee and the Department of Law Enforcement laboratory in Orlando.

Of these 104 Pool facilities, 69 are revenue-producing (available to lease). The remaining 35 facilities in the Pool are special purpose properties such as the Historic Capitol, parking garages, and other structures that are not available for lease. As of July 1, 2011, DMS has 203 leases with state agencies in the 69 revenue-producing buildings. In addition, as of July 1, 2011agencies have entered into 971 leases with private landlords or federal and local government entities.

Facility Management

REDM operates and maintains more than 12.1 million gross square feet of space in Pool facilities, including adjacent grounds and parking facilities. Building oversight tasks include, but are not limited to: building supervision, engineering and technical support, energy management, electrical, heating, ventilation and air conditioning, renovation services, central maintenance, parking, grounds keeping, fire and life safety, Americans with Disabilities Act compliance, and environmental and custodial services.

Construction Management Oversight

Licensed professional staff within the Bureau of Building Construction provides project management oversight of public construction projects to help maintain the integrity of outsourced contracts with private providers.[3] In a process that often involves substantial tax dollars, this oversight (required by Florida Statute) protects the public trust by ensuring that project managers spend taxpayer funds in accordance with legislative intent. REDM works with each customer to ensure the building meets the customer's business needs within the legislatively appropriated budget.

Leasing Management and Parking

REDM is the landlord for tenant agencies that occupy the 69 revenue-producing Pool facilities. Under the state's partially decentralized leasing model, Bureau of Leasing staff oversees agency acquisition of private leased space, in concert with the state's three contracted tenant brokers, with the goal to ensure effective use of taxpayer dollars.

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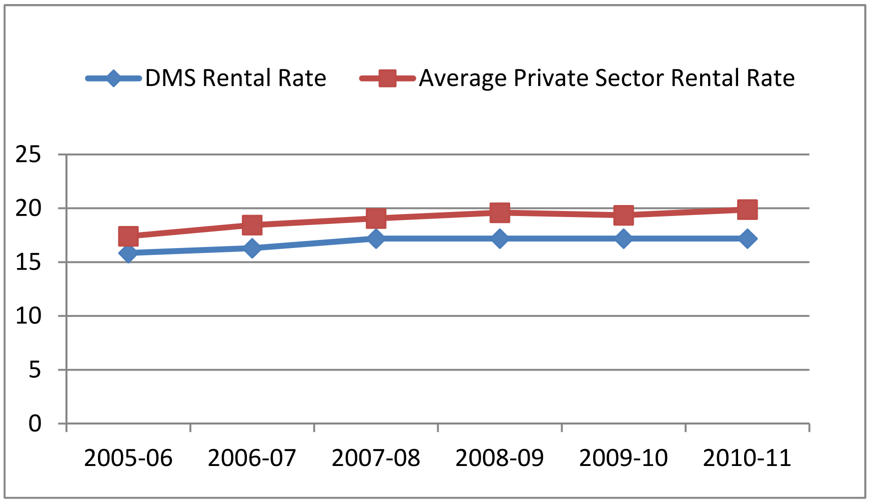
[1] REDM has statutory authority pursuant to Chapters 215, 216, 255, 272, 281, 287, 288 and 489, F.S. The Division has 298.5 positions with an operating budget of $59.5 million and fixed capital outlay of $46.5 million.
[2] See s. 255.506, F.S.
[3] See s. 255.31, F.S.

- Bureau of Leasing staff members oversee 1,174 leases (203 Pool leases and 971 private leases), accounting for more than 13.9 million square feet of space that houses the majority of the more than 120,000 State of Florida employees.

- Held at $17.18 per square foot for the last five years, the Pool rental rate is consistently below the market rate statewide.[4]

- DMS currently maintains a 96 percent occupancy rate for the Florida Facilities Pool.

- REDM provides parking for more than 29,000 users in 92 parking lots and garages statewide.



Continuing Initiatives

REDM continues to work on several major initiatives, including:

- Compiling and analyzing the inventory of all state-owned facilities, and collaborating with agencies that have accountability.

- Implementing strategy spelled out in the 2011 Strategic Leasing Plan and Master Leasing Report to reduce the state's lease costs.

- Managing numerous energy projects, including the American Recovery and Reinvestment Act.

- Coordinating with agencies to reduce lease costs by 20 percent over Fiscal Years 2011-12 and 2012-13.

- Reducing Pool operations costs through energy conservation measures and continued implementation of the State Energy Management Plan.

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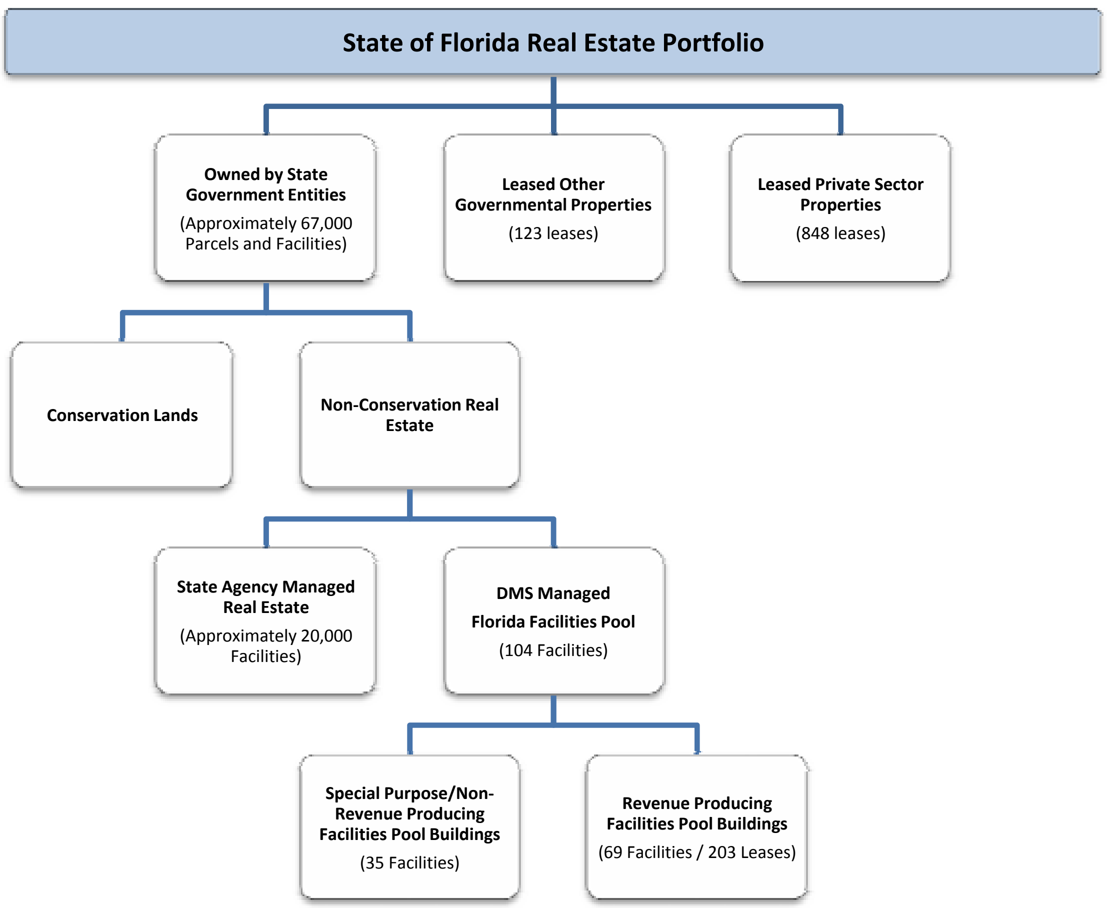
[4] The pool rental rate is established in the General Appropriations Act (GAA) each year. DMS annually submits a budget in accordance with s. 255.511, F.S. The rate accounts for the following factors: annual debt service, capital depreciation reserve deposits, tenant space improvement funding, Capitol Police, and expenditures related to the operation and maintenance of each facility in the pool.

Division of Real Estate and Development Highlights

The following projects/initiatives were provided by REDM to highlight current initiatives:[5]

- **Lease cost savings**: Governor Rick Scott directed DMS to secure a 20 percent reduction in lease cost savings over fiscal years 2011-12 and 2012-13, which equates to $24.2 million. DMS has coordinated with state agencies and the state's tenant brokers to renegotiate lease contracts for private office space in excess of 2,000 square feet. To date, renegotiations since July 1, 2011, will result in a reduction of lease costs of more than $15 million and a net reduction of the state's leased portfolio by more than 350,000 square feet. DMS has projected that it will exceed the Governor's expectations and timeline.

- **Energy consumption reduction**: Over the past five years, DMS has worked to improve the efficiency of energy plants and building automation systems to reduce energy consumption. Specifically at the Capitol Circle Office Complex, square footage has increased by 40 percent but energy consumption has only risen 10 percent. Across the DMS portfolio, energy costs have been reduced by more than 15 percent, despite a 5 percent increase in square footage.



[5] At the March 28, 2012, meeting of the Subcommittee on General Government, Chairman Neal directed staff to contact the Division of Real Estate Development and Management to provide the subcommittee with information on current savings initiatives. The initiatives were provided by Tom Berger, Director, Division of Real Estate Development and Management, Department of Management Services.

Florida Government Efficiency Task Force

Subcommittee on General Government ***Background Brief***

Subject Matter: Florida Retirement System

Subcommittee Members: Pat Neal (Chair), Senator Mike Bennett, Larry Cretul, Frances Rice, and Ann Duncan

ISSUE SUMMARY

- The Florida Retirement System (FRS) is a compulsory multi-employer plan that provides retirement benefits to 643,680 active members, 319,689 retired members and beneficiaries, and 45,092 members of the Deferred Retirement Option Program (DROP).

- In addition to state and county governments, state universities, and state colleges, the FRS also serves as the retirement plan for participating employees of 185 cities and 243 special districts.

- There are currently two main retirement programs an employee may participate in: The Florida Retirement System Pension Plan (defined benefit or "DB plan") or the Florida Retirement System Investment Plan (defined contribution or "DC plan"). The employer assumes the investment risk in the DB plan while the employee assumes the investment risk in the DC plan. In addition, select employees may participate in the State University System Optional Retirement Program or the State Senior Management Optional Annuity Program.

- There are 540,635 active members in the DB plan and 103,045 in the DC plan.

- As of February 29, 2012, the market value in the pension fund was $126.125 billion and $7.067 billion in the investment plan.

- Since the pension retirement benefits are guaranteed by the state, there is the potential for the pension fund to have a shortfall if the investment earnings are low or negative over the long term or if actuarially required contributions are not made.

- A 100% funding ratio indicates that the pension fund is able to meet its liabilities as of the valuation date for current retirees and current members who retire in the future. The pension plan's funding ratio over the last twenty-five years has been at a high of 118.1% to a low of 54.3%. Most industry experts consider a funding ratio of greater than 80% to be actuarially sound.

- The economic downturn has shown that state pension funds are vulnerable to market downturns.

FULL ISSUE(S) ANALYSIS

I. BACKGROUND

A. Florida Retirement System:

Florida Retirement System

The Florida Retirement System ("FRS") was established in 1970 when the Legislature consolidated the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund.[1] The Florida Retirement System Act[2] governs the FRS, which is a multi-employer plan that provides retirement benefits to 643,680 active members,[3] 319,689 retired members and beneficiaries, and 45,092 members in the Deferred Retirement Option Program (DROP).[4] FRS is the primary retirement plan for employees of state and county government agencies, district school boards, community colleges, and universities.[5] Participation in the FRS is compulsory for most state employees.[6] The FRS also serves as the retirement plan for participating employees of 185 cities and 243 special districts.[7]

The membership of FRS is divided into five membership classes:

- Regular Class:[8] 561,126 (87.1%)
- Special Risk Class:[9] 72,675 (11.3%)
- Special Risk Administrative Support Class:[10] 63 (0.01%)
- Elected Officers' Class:[11] 2,218 (0.34%)
- Senior Management Service Class:[12] 7,598 (1.2%)[13]

There are currently two retirement programs that a member of the Florida Retirement System may participate in: The Florida Retirement System Pension Plan (defined benefit or "DB plan") or the Florida Retirement System Investment Plan (defined contribution or "DC plan").

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[1] *The Florida Retirement System Annual Report*, 7/1/10- 6/1/11, pg. 10 https://www.rol.frs.state.fl.us/forms/2010-11_Annual_Report.pdf (last visited 2/28/12). In 1972, the Judicial Retirement system was also consolidated into the FRS.
[2] See Ch. 121, F.S.
[3] Information provided by the Department of Management Services, Division of Retirement (information on file with Government Efficiency Task Force staff). Current as of 2/1/12.
[4] *The Florida Retirement System Annual Report* at 22 (as of 6/1/11).
[5] As of June 2011, there were 67 school boards, 28 community colleges, 396 county agencies and 55 agencies of the state participating in the FRS, *The Florida Retirement System Annual Report* at 38.
[6] Section 121.051, F.S.
[7] *The Florida Retirement System Annual Report* at 38 (as of 6/1/11).
[8] See s. 121.021(12), F.S., Regular Class "consists of all members who are not in the Special Risk Class, Special Risk Administrative Support Class, Elected Officers' Class, or Senior Management Class."
[9] See s. 121.0515, F.S., members of this class include law enforcement officers, firefighters, correctional officers, correctional probation officers, paramedics, emergency medical technicians, certain professional health care workers within Department of Corrections and the Department of Children and Family, and certain forensic employees.
[10] See s. 121.0515(8), F.S., Members are former members of the special risk class who are transferred or reassigned to an administrative support position in certain circumstances.
[11] See s. 121.052, F.S., Members are those who hold specified elective offices in either state or local government.
[12] See s. 121.055, F.S., Members are generally high level executive and legal staff or as specifically provided in law.
[13] Information provided by the Department of Management Services, Division of Retirement (Information on file with Government Efficiency Task Force staff). Current as of 2/1/12.

FRS Pension Plan

The FRS DB Plan was created in 1970 and is administered by the secretary of the Department of Management Services through the Division of Retirement. Investment management is performed by the State Board of Administration. The DB plan also serves as the default retirement plan membership for all FRS participants. Starting July 1, 2011, all active FRS members are required to contribute three percent of their gross salary towards their retirement plan.[14]

A member vests in the pension plan after six years if initially enrolled before July 1, 2011 or after eight years of employment with an FRS employer if initially enrolled July 1, 2011 and after and becomes eligible for lifetime pension benefits.[15] The benefits payable are calculated based on the years of service times the accrual rate times the average final compensation.[16] As of February 29, 2012, the market value of the pension fund was $126.125 billion.[17]

FRS Investment Plan

In 2000, the Legislature created the FRS Investment Plan (or DC plan), a defined contribution plan offered to eligible employees as an alternative to the pension (DB) plan. The earliest any member could participate in the investment plan was July 1, 2002.

The plan is similar to private sector 401(k) plans. Benefits under the investment plan accrue in individual member accounts funded by employee and employer contributions.[18] Benefits are provided though employee directed investments offered by approved investment providers.[19] As of February 29, 2012, the total amount of funds in the investment plan was $7.067 billion.[20]

Employer and Employee Contributions

Section 121.71, F.S., provides employee and employer contributions to the Florida Retirement System. For FY 2011-12, all active FRS members are required to contribute three percent of their gross compensation, with the exception of members of DROP.[21] The contribution rates to fund normal cost benefits by employers for each membership class for FY 11-12 are:

- Regular Class: 3.28%
- Special Risk Class: 10.21%
- Special Risk Administrative Support Class: 4.07%
- Elected Officers' Class:[22] 7.02%
- Elected Officers' Class:[23] 9.78%
- Elected Officers' Class:[24] 9.27%
- Senior Management Class: 4.81%
- DROP: 3.31%[25]

[14] See s. 121.71(3), F.S.
[15] See s. 121.021(45)(b), F.S. (The eight-year vesting period applies to employees covered under the FRS plan hired after July 1, 2011. The vesting period is six years for employees hired prior to July 1, 2011.).
[16] See s. 121.091, F.S.
[17] See http://www.sbafla.com/fsb/ (last visited 3/5/12).
[18] Section 121.4501(7), F.S., (Prior to July 1, 2011, the member accounts were only employer funded).
[19] Section 121.4501(9), F.S.
[20] See http://www.sbafla.com/fsb/ (last visited 3/5/12).
[21] Section 121.71(3), F.S.
[22] Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, and Public Defenders.
[23] Justices and judges.
[24] County elected officials.

Section 121.71(5), F.S., also provides for employer contributions in order to address unfunded actuarial liabilities of the FRS Pension Plan. The contribution rates for employers for each membership class for FY 11-12 are:

- Regular Class: 0.49%
- Special Risk Class: 2.75%
- Special Risk Administrative Class: 0.83%
- Elected Officers' Class:[26] 0.88%
- Elected Officers' Class:[27] 0.77%
- Elected Officers' Class:[28] 0.73%
- Senior Management Class: 0.32%
- DROP: 0.00%[29]

Employer and employee contributions are contributed monthly to the Division of Retirement, which is initially deposited in the Florida Retirement System Contributions Clearing Trust Fund.[30] Allocations to investment plan member accounts are established pursuant to section 121.72(3), F.S., by membership class. For FY 11-12, the allocations for the investment plan members are:

- Regular Class: 9.00%
- Special Risk Class: 20.00%
- Special Risk Administrative Class: 11.35%
- Elected Officers' Class:[31] 13.40%
- Elected Officers' Class:[32] 18.90%
- Elected Officers' Class:[33] 16.20%
- Senior Management Class: 10.95%[34]

After making the allocations required by statute,[35] the remaining balance in the Florida Retirement System Contributions Clearing Trust Fund is transferred to the Florida Retirement Trust Fund to pay the costs of providing pension plan benefits and plan administration.[36]The disability coverage for Investment Plan members is administered by the Division of Retirement and the funding specified in s. 121.71(3), F.S. is transferred to the Florida Retirement System Trust Fund to pay the cost of this benefit.

Employee Participation

At the time of initial employment, a member of the FRS may choose to either participate in the pension plan or investment plan. If the member does not choose, the default choice is the pension plan. A

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[25] Section 121.71(4), F.S.
[26] Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, and Public Defenders.
[27] Justices and judges.
[28] County elected officials.
[29] Section 121.71(5), F.S.
[30] Section 121.71(2), F.S.
[31] Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, and Public Defenders.
[32] Justices and judges.
[33] County elected officials.
[34] Section 121.72(4), F.S. House Bill 5005, passed during the 2012 session, reduces the contribution levels by approximately 30%. See http://www.flsenate.gov/Session/Bill/2012/5005/BillText/er/PDF
[35] The allocations include investment member account funds (121.72, F.S.), member disability coverage (121.73, F.S.), and administrative and educational expenses (121.74, F.S.).
[36] Section 121.75, F.S.

member has one additional choice before termination or retirement to change retirement plans. The charts below reflect the current membership of the FRS by class and by retirement plan.[37]

	Class	Members in Pension Plan	Total Salary	Members in Investment Plan	Total Salary
FRS	Regular	472,198	$18,585,083,221	88,928	$3,439,293,624
	Senior Management	5,430	$453,933,974	2,168	$145,877,359
	Special Risk	61,280	$3,315,508,794	11,395	$624,543,868
	Special Risk Admin. Support	45	$2,070,774	18	$796,462
	Elected Officer	1,682	$142,579,733	536	$26,073,922

The vast majority of FRS members participate in the pension plan (84%) versus the investment plan (16%). The percentage breakdown per class is as follows:

- Regular Class: 84.2% (Pension Plan) and 15.8% (Investment Plan)
- Senior Management Class: 71.5% (Pension Plan) and 28.5% (Investment Plan)
- Special Risk Class: 84.3% (Pension Plan) and 15.7% (Investment Plan)
- Special Risk Admin. Support Class: 71.4% (Pension Plan) and 28.6% (Investment Plan)
- Elected Officer Class: 75.8% (Pension Plan) and 24.2% (Investment Plan)

The member choice of plans has been consistent over the last three fiscal years. The chart below shows new employee choice of retirement plans.[38]

Participant Election Data			
	New Employee Elections		
	****Default to Pension**	**Pension Plan**	**Investment Plan**
FY 09-10	21,501 (55.5%)	8,158 (21.1%)	9,071 (23.4%)
FY 10-11	21,049 (52.6%)	9,042 (22.6%)	9,960 (24.8%)
FY 11-12*	6,317 (51.4%)	2,782 (22.7%)	3,179 (25.9%)
Total	48,867 (53.7%)	19,982 (21.9%)	22,210 (24.4%)

*** Percentages are shares of FY Totals as of 12/31/11**
**** Based on focus group and survey data, up to 45% of defaulters use this option as their active plan election choice to the pension plan**

Funding

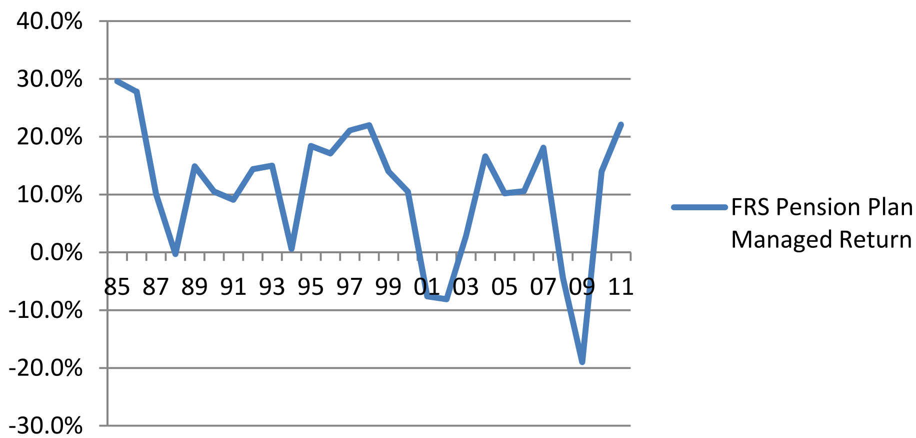
The pension plan is funded through a combination of employee and employer contributions and investment earnings. Since the retirement benefits are guaranteed by the state, there is the potential for the pension fund to have a shortfall if the investment earnings are below the projected returns for

[37] Information was provided by the Department of Management Services, Division of Retirement (current as of 2/28/12 and on file with Government Efficiency Task Force staff).
[38] State Board of Administration of Florida, *Monthly Performance Report to the Trustees*, 12/31/11, pg 13 (available with Florida Government Efficiency Task Force).

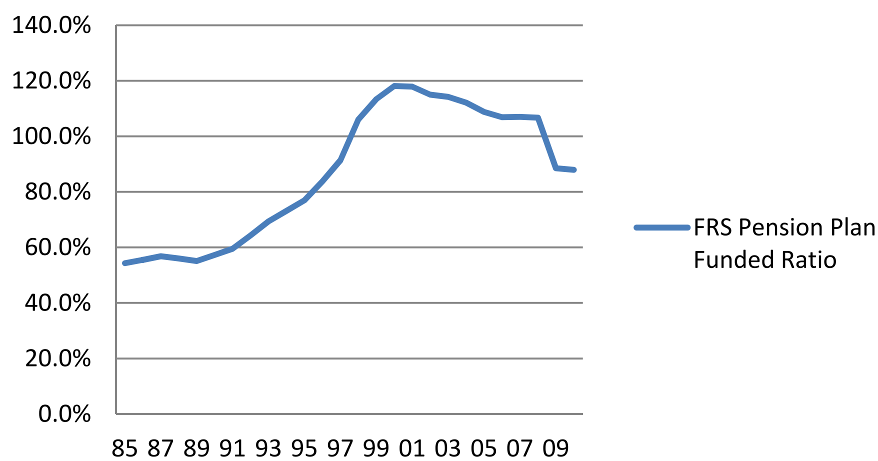
the long term, or if the actuarially required contributions are not paid to the system by employees and/or employers.

The pension fund's funding ratio[39] over the last twenty-five years has had a high of 118.1% and a low of 54.3%.[40] A 100% funding ratio indicates that the pension fund is able to meet its liabilities as of the valuation date for current retirees and current members who retire. In 2009, the funding ratio was 88.5%, 87.9% in 2010, and 87.5% in 2011.[41] Experts generally consider public pension plans with funding ratios at or above 80% to be fiscally sound.[42] The economic downturn has shown that state pension funds are vulnerable to market downturns. The funding levels and returns over the last 25 years are below.

FRS Pension Plan Managed Return



FRS Pension Plan Funded Ratio



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[39] A funding ratio is a comparison of a pension's assets to its liabilities (current and future).

[40] See State Board of Administration, *Pension Portfolio Overview as of 6/30/11*, pg. 2 (Copy on file with Government Efficiency Task Force staff).

[41] *Id*. Also see https://www.rol.frs.state.fl.us/forms/Asset_Liability_Chart.pdf. The funding ratio represents assets versus liabilities at a given point in time. The percentages were calculated as of June 30th of that year.

[42] U.S. Government Accountability Office (GAO), *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*, Report No. 07-1156 (11/07) (Copy on file with Government Efficiency Task Force staff).

Florida Government Efficiency Task Force

Subcommittee on General Government — **Background Brief**

Subject Matter: State Pension Programs: Various Approaches and Legislative Changes

Subcommittee Members: Pat Neal (Chair), Senator Mike Bennett, Ann Duncan, Larry Cretul, and Frances Rice

ISSUE SUMMARY

- There are three main categories of retirement systems that states utilize:
  - *Defined Benefit (DB)*: commonly referred to as a pension plan
  - *Defined Contribution (DC)*: 401k style plan
  - *Hybrid plan (HP)*: a combination of the DB and DC plans
- The vast majority of states (thirty-six) only operate a DB plan.[1] Eight additional states, including Florida, have a DB plan as the default program, but give employees the option to enroll in a DC or HP.
- Washington, DC and two states, Alaska, and Michigan, have adopted DC plans as their primary pension vehicle for new employees. Eight additional states, including Colorado, Florida, Indiana, Montana, North Dakota, Ohio, South Carolina, and Utah, offer employees the option of enrolling in a DC versus a DB or HP.
- Four states, Georgia, Indiana, Oregon, and Rhode Island, operate mandatory HPs. Three states, Ohio, Utah, and Washington, offer optional HPs.
- In 2011, Rhode Island became the most recent state to switch to a hybrid retirement plan. Rhode Island was facing an unfunded pension liability of $7.3 billion, which equated to a 48.4% funding ratio.
- Rhode Island estimates that the switch to a hybrid plan will decrease the state's unfunded pension liability to $4.3 billion (approximately 41% decrease) and raise the funding ratio to 59.8%.
- Major pension legislation was enacted in 43 states between 2009 and 2011. The majority of legislation focused on restructuring benefits and cost-sharing versus changing plan types. Some of these changes included: requiring or increasing employee contributions, and eliminating or reducing cost of living adjustments (COLAs).

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[1] National Conference of State Legislatures (NCSL). *Checklist of State DB, DC and Other Retirement Plans*. January 2012. http://www.ncsl.org/issues-research/labor/checklist-of-state-db-dc-other-retirement-plans.aspx (last visited 3/29/12).

FULL ISSUE(S) ANALYSIS

I. BACKGROUND

A. STATE PENSIONS:

Government Retirement Systems

There are three main categories of retirement systems that states utilize:

- **Defined Benefit (DB)** – The traditional public pension structure in which the state (employer) assumes the risk of return and guarantees the employee's payments. The size of the employee's pension is based on a pre-defined equation that includes the employee's duration of service and salary. DB plans use final or greatest salary averages to determine an employee's pensionable salary. As such, the greatest portion of employer liability is accumulated during the latter years of employment.

- **Defined Contribution (DC)** – Similar to the private sector's 401(k) plan. The employee and/or the employer pay a portion of wages into an individual retirement savings account that is invested per the employee's direction. The eventual retirement benefits are determined by the value of the account. Investment risk is borne entirely by the employee.

  Cash Balance (CB) plans are also categorized as DC plans. These combine some elements of DB and DC in that the employer bears the risk of return, but the contributions are made into individual retirement accounts.

- **Hybrid Plans (HP)** – These combine DB and DC plans and can be parallel or stacked. Stacked HP plans offer DB benefits on a prescribed level of income (usually set at no more than the average salary) and enrolls employees in an additional DC plan. Employee and employer contributions to the DC portion of the plan can be optional or mandatory. Parallel HPs give the employee the option to save for retirement with a DC plan.

Distribution of DB, DC & Hybrid Plans[2]		
	State Employees	***Teachers***
DB Only	36	43
DC Only	4	2
Hybrid Only	4	5
DB + Optional DC	6	1
DB + Optional Hybrid	1	
DC + Optional Hybrid	1	1
DB + Optional DC + Hybrid	1	1

[2] NCSL. *Checklist of State DB, DC and Other Retirement Plans*. January 2012. http://www.ncsl.org/issues-research/labor/checklist-of-state-db-dc-other-retirement-plans.aspx (last visited 3/29/12).

State Pension Plans

Defined Benefit (DB)

The vast majority of states (thirty-six) operate a DB plan.[3] Eight additional states, including Florida, have a DB plan as the default program, but give employees the option to enroll in a DC or HP.[4] Advantages of DB plans include:

- DB plans are managed by professional money managers rather than employees, which tends to generate higher investment returns;[5]
- Investment costs tend to be lower for large public plans (DB plans) due to economies of scale;[6] and
- Retirement benefits are normally greater than other plans and provide more stability for long-term career employees.[7]

Disadvantages of the DB plans include:

- The employer assumes the risk and guarantees the benefit;[8] and
- Most accruals are not transferable, so an employee who has not vested does not receive a benefit. An employee who has vested may not transfer the benefit to another employer's retirement program.[9]

The most noted disadvantage is the possible funding imbalance. A 100% funding ratio indicates that the pension fund is able to meet its liabilities as of the valuation date for current retirees and current members who retire. Experts generally consider public pension plans with funding ratios at or above 80% to be fiscally sound.[10] The funding ratio[11] of Florida's pension fund has had a high of 118.1% and a low of 54.3% over the last twenty-five years.[12] In 2009, the funding ratio was 88.5%, and in 2010 it was 87.9%.[13] Other states' funding ratios vary from 51% to 101%, based on FY 2009 statistics.

Defined Contribution (DC)

Washington, DC and two states, Alaska, and Michigan, have adopted DC plans as their primary pension vehicle for new employees. Non-vested employees were also given the option of transferring to

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[3] NCSL. *Checklist of State DB, DC and Other Retirement Plans*. January 2012. http://www.ncsl.org/issues-research/labor/checklist-of-state-db-dc-other-retirement-plans.aspx (last visited 3/29/12).
[4] *Id.*
[5] See OPPAGA, *FRS Defined Contribution Plan Costs Are Typically More Predictable; The Fiscal Impact of Requiring New Employees to Enroll in the Plan Is Influenced by Many Factors*, pg. 4, March 2010. Report No. 10-29. http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1110rpt.pdf (last visited 3/29/12).
[6] *Id.*
[7] *Id.*
[8] *Id.*
[9] *Id.*
[10] U.S. Government Accountability Office (GAO), *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*, Report No. 07-1156 (11/07) (Copy on file with Government Efficiency Task Force staff).
[11] A funding ratio is a comparison of a pension's assets to its liabilities (current and future).
[12] See State Board of Administration, *Pension Portfolio Overview as of 6/30/11*, pg. 2 (Copy on file with Government Efficiency Task Force staff).
[13] *Id*.

the DC plan. Eight additional states, including Colorado, Florida, Indiana, Montana, North Dakota, Ohio, South Carolina, and Utah, offer employees the option of enrolling in a DC versus a DB or HP. In all cases new and non-vested employees have the option to elect the DC plan. If they do not make an election they are defaulted into the DB or HP. Employees also have the option of switching plan enrollment on a limited basis. For example, Florida allows employees to move from one plan to the other once after the initial election is made.

Nebraska operated a DC plan between 1967 and 2002. The state moved to a Cash Balance plan in 2003 as a result of data demonstrating its employees were retiring with inadequate retirement funds due to lower investment returns.

	Primary		Optional						
	Alaska	**Michigan**	**Colorado**	**Florida**	**Indiana**	**Montana**	**Ohio**	**South Carolina**	**Utah**
Employer Contributions	5-7%	3% + maximum 4% match	10.15-12.85%	6-17%	Same as DB Plan	7.37%	8.73%	5%	10% - 12%
Employee Contributions	8%	Up to 12%	8-10%	3%	3% paid by EE	7.17%	9.90%	6.50%	Optional

Benefits of DC plans include:

- The vesting period tends to be shorter than a DB plan, allowing the employee to transfer his or her accruals to another plan;[14]
- The employee assumes the investment risk, thus the employer does not accrue any liability;[15] and
- The investment is employee directed, allowing more flexibility in options and giving the employee more control over level of risk and returns.

Disadvantages to DC plans include:

- Investment costs tend to be higher because individual accounts must be managed and do not benefit from economies of scale;[16]
- Employees assume the risk, so poor investment performance may result in reduced or inadequate retirement benefits;[17] and
- Returns, on average, trend lower because employees tend to pick low-risk, low-return investments.[18]

[14] See OPPAGA, *FRS Defined Contribution Plan Costs Are Typically More Predictable; The Fiscal Impact of Requiring New Employees to Enroll in the Plan Is Influenced by Many Factors*, pg. 4, March 2010. Report No. 10-29. http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1110rpt.pdf (last visited 3/29/12).
[15] *Id.*
[16] *Id.*
[17] *Id.*

DC plans tend to be more attractive to short term employees because the plan allows the employee to transfer accrued benefits to a different employer's 401K plan or another IRS acceptable account. Many states have been disinclined to switch to a mandatory DC plan because DC plans do not alleviate any current liabilities. DC plans may also have additional administrative expenses and may underperform DB investments, which may result in lower retirement income for beneficiaries.

Hybrid

Four states, Georgia, Indiana, Oregon, and Rhode Island, all operate mandatory HPs. Three states, Ohio, Utah, and Washington, offer optional HPs. States have taken different approaches as to administering the different elements of the plans. Some administer the DB portion themselves but outsource the DC element, whereas others administer both elements. Generally, the employer makes the vast majority, or even all, of the contributions required for the DB portion of the plan, while the employee is required to make a specified contribution to the DC portion.

State Hybrid Plans[19]

	DB Formula	DB Funding	DC Funding (Employer)	DC Funding (Employee)
Georgia	1.0% x years of service x final average salary (highest 2 years)	EE contributes 1.25% and ER contributes remainder	100% ER match on EE's 1st 1% of salary and 50% match on next 4% of salary for a maximum ER contribution of 3%	EE auto enroll at 1.0% of salary contribution but may vary contribution rate up or down
Indiana	1.1% x years of service x final average salary (highest 5 years)	ER funds DB benefit	None	3% of salary
Oregon	Varies depending upon date of hire and EE enrollment in one of three DB plans	ER funds DB benefit	None	6% of salary
Rhode Island	Varies depending on date of hire and service class	EE contributes 3.75%	100% ER match on 1st 1% of salary	5% of salary
Ohio	1.0% x up to 30 years of service x final average salary + 1.25% x years in excess of 30 x final average salary (highest 3 years)	ER funds DB benefit	None	10% of salary
Utah	1.5% x years of service x final average salary Public Safety ='s 2.0% (highest 5 years with cap)	ER pays up to 10% of pay, 12% for public safety (+ 5% to amortize DB unfunded liability) EEs only pay into DB if the normal cost of the plan exceeds maximum ER contribution	ER contributes 10% (12% for public safety); if DB cost is more, EE must pay but if less, the difference is applied to EE's DC account	EE contributions optional
Washington	1.0% x years of service x final average salary (highest 5 years)	ER funds DB benefit	None	5% to 15% of salary depending on EE

[18] *Id.*
[19] NASRA Issue Brief: State Hybrid Retirement Plans. November 2011. http://www.nasra.org/resources/HybridBrief.pdf (last visited 4/2/12).

Advantages of hybrid retirement plans include:

- Provides a guaranteed benefit to the retiree;
- Provides some portability through a DC plan; and
- The benefit liability of the state is lessened since the benefit level tends to be lower.

Disadvantages of hybrid plans include:

- Employees tend to have a lower guaranteed benefit than a traditional DB plan; and
- It may be more expensive to administer dual plans as compared to one plan.

Rhode Island Hybrid Plan

Rhode Island is the most recent state to switch to a hybrid retirement plan. Rhode Island was facing an unfunded pension liability of $7.3 billion, which equated to a 48.4% funding ratio.[20] In 2011, the state adopted a stacked hybrid plan that includes a smaller DB plan with a DC plan. The main difference between Rhode Island and other states is that Rhode Island has enrolled most current employees as well as new employees.

Rhode Island estimates that the switch to a hybrid plan will decrease the states unfunded pension liability to $4.3 billion (approximately 41% decrease) and raise the funding ratio to 59.8%.[21] The pension plan is projected to achieve 80% funding by 2030 for Rhode Island state employees.[22]

Recent Legislative Changes

43 states enacted significant pension reform legislation between 2009 and 2011.[23] The majority of legislation focused on restructuring benefits and cost-sharing versus changing plan types. Only three states enacted fundamental restructuring of plan types offered.[24] Plan adjustments focused on reducing future liabilities or offsetting a portion of costs to employees.

Trends in recent state pension reforms include:

- Establishing or increasing employee contributions. Ten of the 30 states that increased employee contributions reduced employer contributions by an equivalent or lesser amount; although in some instances the shift was described as temporary.
- Eliminating or reducing Cost of Living Adjustments (COLAs). Florida eliminated COLAs for service earned after July 2011. Other states froze COLAs for 3-5 years, required fund

[20] Ron Snell, *Lessons from Rhode Island: Bold Changes to its Pension Plan Have Caught the Attention of Other States*, National Council of State Legislatures (NCSL), February 2012. http://www.ncsl.org/issues-research/labor/lessons-from-rhode-island.aspx (last visited 4/3/12).
[21] Paul Burton, "Rhode Island Makes Reform Happen," *The Bond Buyer*, December 14, 2011. http://www.bondbuyer.com/issues/120_239/rhode-island-pension-1034196-1.html (last visited 4/3/12).
[22] *Id.*
[23] NCSL. *State Pension Reform 2009-2011*. March 2012, pg. 1. http://www.ncsl.org/issues-research/labor/state-pension-reform-2009-to-2011.aspx (last visited 4/2/12).
[24] *Id*, p. 5-6.

performance measures to be met before COLAs would be applied, or reduced benefit multipliers to account for COLAs.

- Requiring elevated fund returns (often in excess of 10%) before future changes can be made to increase benefits, reduce vesting, or reduce retirement periods.

- Raising retirement age and service requirements. Illinois' retirement age of 67 with 10 years of service is among the most stringent requirements. Florida requires a retirement age of 65 with 8 years of service.

No. of States That Made Legislative Changes 2009-2011[25]			
	2009	***2010***	***2011***
Increased Employee Contributions	6	12	17
Increased Age and Service Requirements	5	11	8
Reduced COLAs	17	17	10
Changed Benefit Calculations	1	8	11
Reduced Benefits	3	9	10
Returning Employee Restrictions	0	9	6
Fundamental Restructuring	0	2	1
*Includes Florida			

[25] NCSL. *State Pension Reform 2009-2011*. March 2012, pg. 2. http://www.ncsl.org/issues-research/labor/state-pension-reform-2009-to-2011.aspx (last visited 4/2/12).

A Presentation for the

Florida Government Efficiency Task Force

State Pension Programs: Various Approaches and Legislative Changes

April 11th 2012

Pension Plan Types

- Defined Benefit (DB)
  - Traditional approach. Employer bears risk of return.

- Defined Contribution (DC)
  - 401(k) style investment based plan. Employee bears risk of return.

- Hybrid Plan (HP) – Stacked or Parallel
  - *Stacked* – Combines a reduced HP benefit on the lower portion of income, and a mandatory supplemental DC plan.

  - *Parallel* – DB plan + optional DC

Defined Benefit Plans

- 36 states only offer DB plans
- 8 others (incl. Florida) offer DC or HP – employees default into DB plan
- Advantages:
  - Higher rate of return
  - Lower management costs
  - Greater, more stable retirement benefits
- Disadvantages:
  - Employer bears risk and guarantees benefit – funding imbalance
  - Non-transferable

Defined Contribution Plan

- Alaska, Michigan, and Washington, DC operate primary DC plans
- 8 states (incl. Florida) offer optional DC plans
- Open to new and non-vested employees in all cases
- Nebraska closed its DC plan in 2002 after finding employees were retiring with inadequate funds

Defined Contribution Plan Cont.

	Primary		Optional						
	Alaska	Michigan	Colorado	Florida	Indiana	Montana	Ohio	South Carolina	Utah
Employer Contributions	5-7%	3% + maximum 4% match	10.15-12.85%	6-17%	Same as DB Plan	7.37%	8.73%	5%	10% - 12%
Employee Contributions	8%	Up to 12%	8-10%	3%	3%	7.17%	9.90%	6.50%	Optional

Defined Contribution Plan Cont.

- Advantages:
  - Shorter vesting period and transferable
  - Eliminates risk to employer
  - Increases employee flexibility and control over investment
  - Attractive to short-term employees

- Disadvantages:
  - Higher administration costs
  - Reduces employee retirement security
  - Tend to produce reduced returns

Hybrid Plans

- Georgia, Indiana, Oregon and Rhode Island operate mandatory HPs
- Ohio, Utah and Washington operate optional DC plans (default into DB)
- Florida created an HP in 2002, but did not operate after 2003
- Employer can administer the entire plan or outsource the DC portion

State Hybrid Plans

	DB Formula	DB Funding	DC Funding (Employer)	DC Funding (Employee)
Georgia	1.0% x years of service x final average salary (highest 2 years)	EE contributes 1.25% and ER contributes remainder	100% ER match on EE's 1st 1% of salary and 50% match on next 4% of salary for a maximum ER contribution of 3%	EE auto enroll at 1.0% of salary contribution but may vary contribution rate up or down
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Washington	1.0% x years of service x final average salary (highest 5 years)	ER funds DB benefit	None	5% to 15% of salary depending on EE

Hybrid Plans Cont.

- Advantages:
  - Level of retirement stability for the employee
  - DC portion transferable
  - Reduces state's long-term liability

- Disadvantages:
  - Reduces guaranteed benefits for the employee
  - Increased administration expenses

Rhode Island Hybrid Plan

- Adopted a stacked HP plan in 2011
- $7.3 billion deficit, 48.4% funding ratio
- Switch estimated to reduce unfunded liability by $4.3 billion and raise funding ratio to 59.8%
- Projected to reach 80% funding threshold by 2030
- Notable difference in Rhode Island's initiative – ALL employees were moved to the plan

Trends in Legislative Changes 2009-2011

- 43 states enacted significant pension reform during this period

- Primary focus was to reduce benefits and offset cost to the employee

No. of States That Made Legislative Changes 2009-2011			
	2009	2010	2011
Increased Employee Contributions	6	12	17
Increased Age and Service Requirements	5	11	8
Reduced COLAs	17	17	10
Changed Benefit Calculations	1	8	11
Reduced Benefits	3	9	10
Returning Employee Restrictions	0	9	6
Fundamental Restructuring	0	2	1
*Includes Florida			

Rick Scott
Governor

DEPARTMENT OF MANAGEMENT
SERVICES

Scott Stewart
Interim Secretary

GOVERNMENT EFFICIENCY TASK FORCE
GENERAL GOVERNMENT SUBCOMMITTEE
APRIL 11, 2012

Department of Management Services, Division of Retirement

The Division of Retirement was established to administer the Florida Retirement System (FRS), which was created in December 1970 to consolidate existing state-administered retirement systems. Since its creation, the Division of Retirement's responsibilities have expanded to include:

MAJOR RESPONSIBILITIES

Administer:

1. The defined benefit programs of consolidated Florida Retirement System (Chapter 121, Florida Statutes).
2. The Investment Plan disability program (section 121.591(2), Florida Statutes).
3. The State University System Optional Retirement Program (section 121.35, Florida Statutes) and the Senior Management Service Optional Annuity Program (section 121.055, Florida Statutes).

Process and Maintain Investment Plan payrolls and cost transfers between plans, validation of member plan elections, member enrollment and plan determination, and invoicing of employers.

Monitor Florida's 486 local government public retirement systems covering 106,541 employees and six school board early retirement programs covering 8,613 school board employees for compliance with Part VII of Chapter 112, Florida Statutes.

Oversee municipal and special district firefighters' and municipal police officers' pension plans (Chapters 175 and 185, Florida Statutes).

Administer the Health Insurance Subsidy Program for Pension Plan and Investment Plan retirees of the Florida Retirement System (section 112.363, Florida Statutes).

Administer the Social Security Coverage Program for Florida public employees under Chapter 650, Florida Statutes (the Division of Retirement is not responsible for Social Security benefits).

Ensure Compliance with Article X, section 14, of the Florida Constitution, which requires concurrent funding of benefit increases on a sound actuarial basis, and with section 112.61, Florida Statutes, the Florida Protection of Public Employee Retirement Benefits Act.

COMPARISON OF PUBLIC RETIREMENT SYSTEMS (WITH MORE THAN 500,000 MEMBERS)

The Florida Retirement System is the fourth largest public retirement system in the United States. Despite continued growth of members and retirees (including Deferred Retirement Option Program members); the Florida Retirement System remains one of the most economical systems with respect to administrative costs for services provided.

FISCAL YEAR 2010-11	FLORIDA* FRS	CALIFORNIA* CalPERS	TEXAS* TRS	NEW YORK* SLRS	CALIFORNIA* CalSTRS	OHIO* PERS
Active Members, Annuitants and Deferred Retirement Option Program Participants	1,008,395	1,639,660	1,316,566	1,057,754	682,641	536,299
Ratio of Members to Staff	5198:1	757:1	3196:1	1253:1	869:1	901:1
Administrative Cost per Member	**$17.81**	**$186.86**	**$61.73**	**$95.80**	**$192.84**	**$132.45**

The above data for all states was obtained by direct contact.

**For FRS, effective date is 6/30/11; for CalPERS, 6/30/11; for Texas TRS, 8/31/11; for NY SLRS, 3/31/11; for CalSTRS, 6/30/11; and for Ohio PERS, 12/31/10.*

SURVEYS

The Division of Retirement performs annual satisfaction surveys of employers, active members, recently retired members (within the last two years), and other retired members. The chart below shows the overall 2011 Florida Retirement System Satisfaction Survey results:

Survey Group	Overall Satisfaction with Information	Overall Satisfaction with Service
Employers	100.0%	100.0%
Active Members	96.2%	94.5%
Recent Retirees	96.0%	96.0%
Other Retirees	98.9%	98.7%

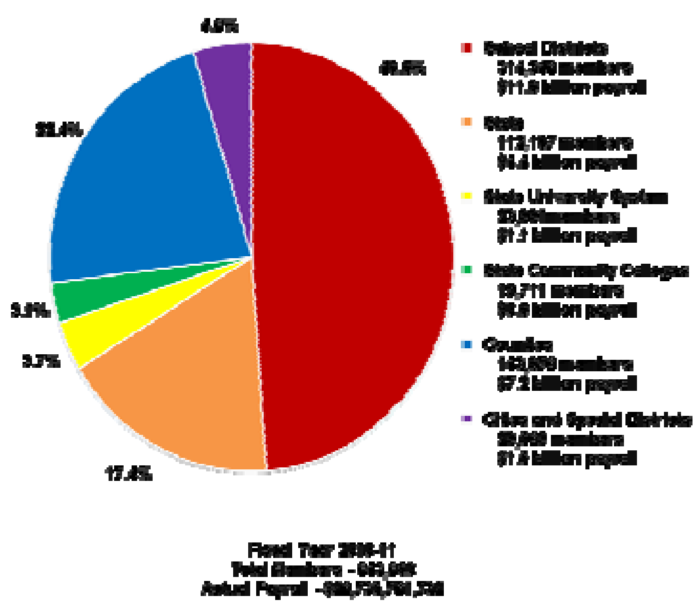
MEMBERSHIP

The Florida Retirement System had 992 state and local employers as of June 30, 2011, with employees participating in five different membership classes:

Active Florida Retirement System Members by Class

Membership Class	Count
Regular Class	551,896
Special Risk Class	72,675
Special Risk Administrative Support Class	63
Elected Officers' Class	2,014
Senior Management Service Class	7,310
Renewed Membership:	
Regular Class	9,230
Elected Officers' Class	204
Senior Management Service Class	288
Total:	**643,680**

Membership by Employer Type



STAFFING

The responsibilities of the Division of Retirement have grown over the years to include the administrative support provided to the Investment Plan, which is administered by the State Board of Administration. Leveraging technology and reallocation of staffing allowed these expanded duties to be provided without requiring additional positions. The systems staff for the Division of Retirement was outsourced in 2000, resulting in a reduction of 31 positions. Four additional positions were added in 2011 for the additional workload resulting from the Florida Retirement System becoming a contributory plan effective July 1, 2011. Effective July 1, 2012, there will be a five position reduction for the Division of Retirement taking total staff down to 193. The following chart provides staffing and workload between 1999 and 2011:

FISCAL YEAR	1999	2002	2005	2008	2011
Active Members	590,850	611,171	648,264	683,696	643,680
DROP Participants	17,369	28,389	31,457	31,253	45,092
Retired Members	172,117	199,185	237,730	275,495	318,881
Total Members	780,336	838,745	917,451	990,444	1,007,653
Staff	249	202	194	194	198

MAJOR WORKLOAD STATISTICS

Highlights of the major workload of responsibilities of the Division of Retirement described in the opening of this document for the past two fiscal years are noted below. The Division’s website and Online Services available to employers and active and retired members helps to manage some of the growth in the demand for services but the workload increases.

Highlights of Work Performed	2010-11	2009-10
Estimates Provided	89,087	83,112
Service Retirements Completed	11,648	10,148
DROP Retirements Completed	13,817 [1]	10,870
Number of Benefit Payments Issued	3,820,234	3,629,962
Total Amount of Benefit Payments Paid	$6,473,375,648	$6,228,818,155
Incoming Mail	299,003	322,315
Outgoing Mail	273,082	265,247
Public Records Requests Completed	1,007	683
Members Individually Counseled at the Division	3,094	2,932
Members Attending Workshops Held at the Employer’s Location	4,490	9,616
Incoming Telephone Calls	449,159	405,871
Outgoing Telephone Calls	204,093	210,977

1. Does not include 8,202 DROP retirement applications received with an effective date before July 1, 2011.

WEBSITE

The Division maintains a robust and user-friendly website providing information and tools to both members and participating employers. Members and employers can find electronic versions of forms and publications, frequently asked questions, and targeted pages for employers, active members, and retirees. Announcements are provided from the main page and/or the targeted pages. Information about proposed and passed legislation, public records, and links to other state and federal resources are available. Website activity varies throughout the year. There were 187 pages viewed 189,475 times during the month of March 2012; this compares to 203 pages viewed 185,593 times in February 2012 and 193 pages viewed 218,810 times in January 2012.

ONLINE SERVICES FOR EMPLOYERS AND MEMBERS

The Division of Retirement's website is also the access point for "Online Services," a secure web environment which provides flexibility and access for both members and employers to find information about retirement and provide information to the Division of Retirement. Employers report their monthly payroll reports, get reports about their active and retired employees, and provide assistance to their Florida Retirement System members. Active members can view their account information, project estimates of benefits, and update beneficiary designations. Retirees and surviving beneficiaries can view benefit information and other data.

Account Roles Established in Online Services as of February 2012	
Active Members	286,111
DROP Participants	33,389
Retirees	176,966

Note: All employers have established roles in Online Services.

<u>Online Services for Employers</u>

Implemented to facilitate required electronic reporting of payroll reports by participating employers, the features and information are expanded to allow an employer to:

- View lists of their active members, Deferred Retirement Option Program (DROP) participants, retirees, and active members who need to file a beneficiary designation for their Pension Plan account.
- View outstanding and paid employer invoices and print or download an invoice report.
- Report member terminations and leaves of absence without having to submit revised historical payroll reports.
- Submit electronic forms that verify final earnings and payouts at retirement, periods of workers compensation, verify compensation by reporting period, and verification of termination.
- View employee plan choice information for current employees.
- Determine if a prospective employee has retired from a state-administered retirement system and when the retirement was effective.
- View their active employees' Online Services account information and project benefit estimates.
- Maintain their agency contact, address, and authorized signer information.
- Assign and control access by their employees to the various reporting and member information modules to assist their employees, research information needed by the employer, and report payroll information to the Division of Retirement.

- Report the death of an active or retired member.
- Sign up to participate in payroll deduction of employer-sponsored post-retirement insurance premiums or submit reports of insurance premium payments paid directly to employers by retirees to determine the Health Insurance Subsidy tax exclusion for their retirees' 1099-R each year.
- Print, view, or download financial summary reports and historical contribution rates.

Online Services for Active Members

Online Services provides members access whenever it is most convenient for them to:

- Review their account information and reported compensation and service credit.
- View, download, or print their most recent member annual statement.
- Project future estimates of benefits based on assumed age or service credit at retirement.
- Create and maintain their beneficiary designation.
- Establish and maintain their delivery preferences for information and publications sent by the Division of Retirement and receive important notices in their message center. Members are encouraged to select electronic delivery to limit printing and distribution costs of publications.

Online Services for Retired Members and Surviving Beneficiaries

Online Services for retirees and surviving beneficiaries provides access that expedites getting the information and reduces the administrative cost of the program. Whenever needed, retirees and surviving beneficiaries can:

- View, print, or download their monthly benefit payment stubs and the deduction details for each monthly benefit payment. This information is available for the past two years.
- View, print, or download their Internal Revenue Service Form 1099-R for the most recent tax year. Form 1099-R is available by tax year back to 2000.
- View, print, or download a Pension Income Verification letter.
- Change their mailing address online or obtain the address change form if they prefer to mail the address change information.
- View their tax withholding history on their benefit payments.
- Calculate and change their federal income tax withholding deduction using an online calculator for future benefit payments.
- Establish and maintain delivery preference for communications such as Form 1099-R or FRS Retiree Newsletter from the Division of Retirement and view notifications in their message center as well as getting e-mail notification. Electronic notification and delivery reduces the Division's costs for providing these publications based on the delivery preference selected.
- View their Pension Plan beneficiary designations and obtain the form needed to make a beneficiary change if the retiree chose Option 1 or 2. Retirees who chose Option 3 or 4 (provides a lifetime benefit for the surviving beneficiary) are provided contact information for the Survivor Benefits Section to get information about the potential impact of the beneficiary change, provide estimates, and get the form to change their beneficiary.
- Determine if they are receiving the Health Insurance Subsidy benefit and obtain the application form if not receiving this benefit and meet the eligibility requirements.

Expansion of Educational Tools

In addition to the publications provided in print and electronic formats, the Division of Retirement creates and provides video clips to enhance the experience for visual learners with short targeted information and provide assistance during hours when the offices are closed. The videos vary in length from four minutes to 11 minutes and cover the following topics:

- Accessing Employer Online Services
- How to Log In to Online Services (for active and retired members)
- Online Services for Retirees
- 2011 Legislation Changes (for Pension Plan members)
- Reemployment After Retirement (explanation of termination, reemployment limitations, and renewed membership changes effective July 1, 2010)
- Retirement Without Deferred Retirement Option Program Participation
- Deferred Retirement Option Program Retirement
- Deferred Retirement Option Program Termination Process
- Benefit Payment Options
- Beneficiary Designation Before You Retire
- Beneficiary Designation After You Retire

New video clips are developed based on member and employer feedback.

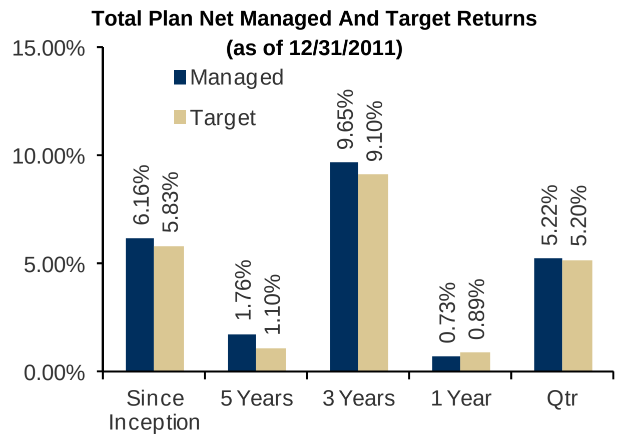
GOVERNMENT EFFICIENCY TASK FORCE
GENERAL GOVERNMENT SUBCOMMITTEE
April 11, 2012

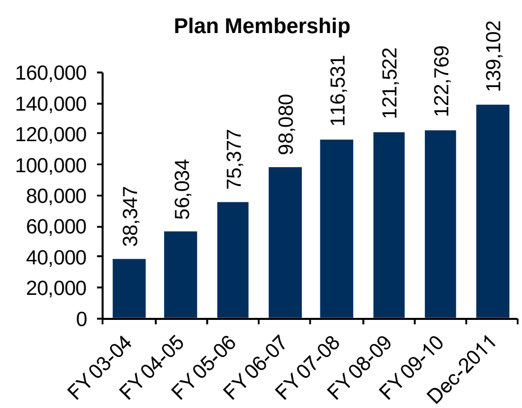
Florida Retirement System Investment Plan

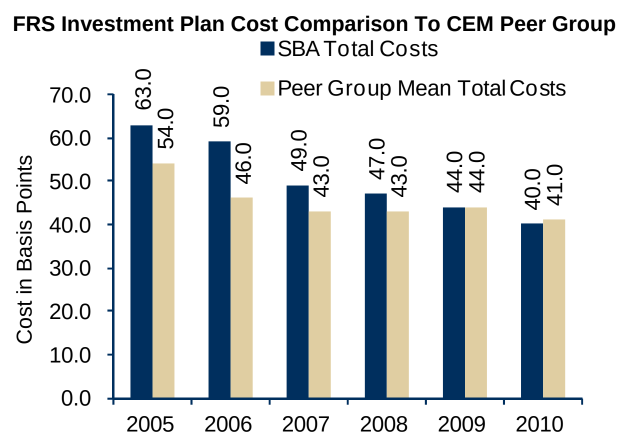
The Florida Retirement System (FRS) Investment Plan was established by the Legislature in 2002 to provide Florida's public employees with a portable, flexible alternative to the FRS traditional defined benefit plan (FRS Pension Plan). Since opening its first employee account in July 2002, the FRS Investment Plan has become one of the largest optional public-sector defined contribution retirement plans in the U.S., with over 139,000 active accounts and $6.6 billion in assets as of December 31, 2011.

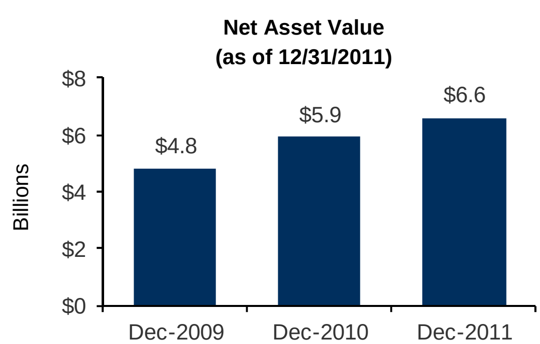
The 2002 legislation creating the Investment Plan directed that the State Board of Administration (SBA) would administer the plan and that the plan would be run by private sector service providers. The Executive Director/CIO of the State Board of Administration is responsible for selecting, evaluating, and monitoring performance of the service providers and investment options, with a focus on maximizing returns within appropriate risk constraints. The FRS Investment Plan has a diverse offering of 20 low-cost institutional and mutual fund investment options within 5 public market asset classes. Three risk-targeted balanced funds are available, consisting of optimized mixes of existing investment options.

PLAN CHARACTERISTICS (as of 12/31/2011)	
Average Participant Balance	$47,751
Average Quarterly Contribution	$785
Total Participants With Balances	139,102
Total Active Participants With Balances	105,703
Inactive Participants With Balances	33,399
Distributions Paid Out To Members Since Inception	$4,544B
Rollovers Into The Investment Plan From Other Accounts	$180M
Investment Plan Expense Ratio	.23%
Peer Expense Ratio	.27%









Cost Effectiveness Measurement ("CEM") maintains a global database of detailed cost information provided by public and corporate investment plans. The SBA's 2010 CEM Peer Group included 20 plan sponsors with assets from $1.9 billion to $12.4 billion.

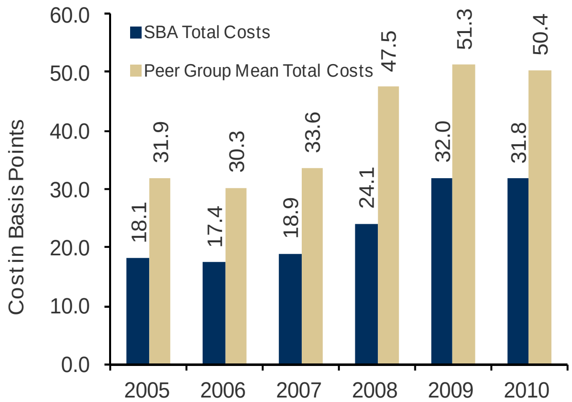
SBA total costs include a more extensive education program than provided by peers (6-8 BPS vs. 1 BPS).

Florida Retirement System Pension Plan

The State Board of Administration is responsible for investing and reinvesting the assets of the Pension Plan, with direction from our Trustees (Governor, Attorney General, and Chief Financial Officer), and oversight and guidance from a nine member Investment Advisory Council, who are investment experts appointed by the Trustees. The FRS Pension Plan portfolio is the SBA's largest of the over 30 investment mandates being managed. The investment objective for this fund is to earn on average over the long term a compounded rate of return of 5% plus inflation per annum. The Plan serves a working and retired membership base of nearly one million people. Historic performance, with returns from 28 of the past 36 years being positive and typically in the double digits, has resulted in approximately 65% of today's Pension Plan benefit payments being funded by investment gains. The FRS Pension Plan Trust Fund is not immune to short-term market volatility, but over the long-term, the fund has produced steady positive results.

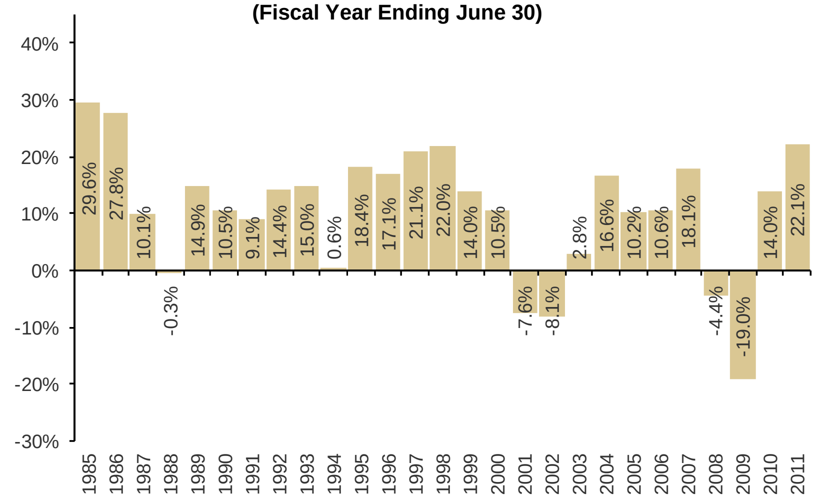
History shows that while the magnitude and duration of bear markets vary, there is always a recovery. Additionally, the SBA has achieved excellent investment performance in managing the assets of the Pension Plan in a very low cost efficient manner relative to our peers as compared by CEM (Cost Effectiveness Measurement).

FRS Pension Plan Cost Comparison To CEM Peer Group

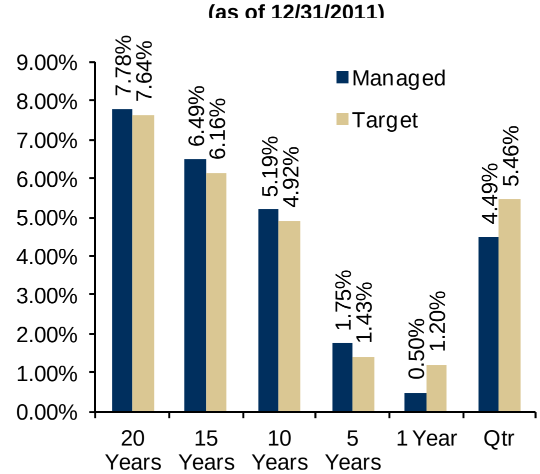


Cost Effectiveness Measurement ("CEM") maintains a global database of detailed cost information provided by public and corporate pension plans. The SBA's 2010 CEM Peer Group included 16 plan sponsors with assets from $22.5 billion to $225.6 billion.

FRS Pension Plan Managed Returns By Fiscal Year (Fiscal Year Ending June 30)



FRS Pension Plan Net Managed And Target Returns (as of 12/31/2011)



FRS Pension Plan Net Asset Value (Fiscal Year Ending June 30)