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PUBLIC SECTOR QUARTERLY NEWSLETTER

JANUARY 2011

PUBLIC PENSION REFORM

Florida Retirement System - 2011 Legislative Session

FRS retirees and current FRS employees are anxiously waiting for this year's Florida Legislative Session to begin in March 2011. The 60 day session will, no doubt, bring several bills into consideration regarding the Florida Retirement System (FRS).

During 2010 Florida Legislative session, we saw several proposed bills, which if enacted into law, would have resulted in sweeping changes in the FRS. The majority of this proposed legislation did not pass. However, the so called "*double dipping*" issue was resolved - eliminating the FRS second career retirement. Additionally, revisions to the termination requirements for FRS retirees became effective July 1, 2010 (*CPS Public Sector Newsletter – July 2010*).

The prolonged economic downturn in the U.S. has resulted in declining federal, state and local government revenue and projected budget deficits.

Given the current "*political climate*" the overwhelming consensus is to significantly reduce spending at all levels of government.

Florida Tax Watch

In December 2010, Florida Tax Watch published their annual Government Cost Savings Task Force "*Report and Recommendations of the Florida Tax Watch Government Cost Savings Task Force for Fiscal Year 2011-12*".

This report presented 124 recommendations worth more than \$4 billion* (savings) in eight (8) core policy areas that span from pensions (FRS) to procurement and workforce optimization to health care reform. These recommendations, for the most part, focus upon reducing State of Florida and local government spending by eliminating and/or reducing programs and benefits.

Chapter 1: Pension Reform – Florida Retirement System recommends ten (10) specific pension reform actions by

2011 Florida Legislature. Those recommendations, if enacted into law, having an immediate impact on the FRS would be: the elimination of the retiree State Health Insurance Subsidy (HIS) and revisions to the methodology for calculating the COLA for retirees and DROP participants. Another major recommendation – revising the method for AFC calculation for active FRS employees - would dramatically reduce future retiree benefits.

Additional recommendations include but are not limited to: reform or elimination of the Deferred Retirement Option Program (DROP), consolidating all active FRS members into two (2) classes (Regular and Special Risk), limiting Special Risk Class membership, extending the normal retirement age for Regular Class to age 65 and Special Risk Class to age 58, increasing the vesting period to 10 years (pension plan), and last, but not least, require active FRS members to contribute a percentage of their salary to their retirement plans.

The stated goal of the 2010 Task Force report is to transition the FRS Defined Benefit Plan into a Defined Contribution Plan, which would eventually eliminate the “pension plan” for future FRS employees.

What Is Next?

Public Pension reform has become a “hot button” issue. Therefore, funding for government programs, in particular,

public pension plans at all levels of government are undergoing scrutiny.

No doubt, we will see significant changes in public sector retirement systems going forward. It is somewhat problematic as to what changes will in fact occur and their ultimate impact upon active FRS members and FRS retirees. Consequently, it becomes very challenging to “plan” for the future.

What Should You Do?

Notwithstanding the uncertain future of public sector retirement systems, your retirement benefit alone may not be sufficient to sustain your desired standard of living. Everyone has the individual responsibility to plan for their retirement. (CPS Public Sector Newsletter- July 2010).

You should take the time to contact your trusted financial advisor and discuss these important issues. Retirement/financial planning should be an ongoing process throughout your lifetime.

If you have any questions regarding these issues presented in this newsletter or Retirement Income Planning issues in general, please do not hesitate to contact me at CPS Investment Advisors at 863-688-1725, mlawton@cpalliance.com

Source: Florida Tax Watch - Government Savings Task Force “Report and Recommendations of the Florida Tax Watch Government Cost Savings Task Force for Fiscal Year 2011-12”

