Police & Firefighter Pension 2015 Legislation
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LLW | LEWIS LONGMAN WALKER

Chapters 175 & 185 - Overview

- **Revenue Sharing --** Chapters 175 & 185, F.S. provide a rebate of state excise taxes on property and casualty insurance premiums to cities that have firefighter and police pension plans.
- **Premium taxes are paid by City taxpayers.**
- Premium tax monies must be used exclusively for fire and police pensions.
- **Pension plan must comply** with the requirements of Chapters 175 & 185 to receive the money.

Ch. 175 & 185 – Old Rules

- "Excess" premium tax revenues (above 1998 amount) must be used for "extra benefits."
- If benefits are reduced below 1999 level, City loses eligibility for future premium taxes.
- Premium tax money that can be used for extra benefits is <u>first year dollar cost</u>. <u>As payroll grows, cost of extra benefits shifts to City.</u>
- If city joins FRS – it loses eligibility for premium taxes.

Ch. 175 & 185 – "Naples Letter"

- City is eligible for future premium tax revenues as long as Ch. 175 minimum benefits are met (can be less than 1999 benefits) – and can even go below minimums.
- If cost of Ch. 175 minimum benefits is more than "excess" premium taxes (i.e., taxes above the 1998 amount), <u>all</u> premium tax revenues may be used to reduce the City's required contributions.
- City and union can negotiate use of "excess" premium tax monies.

Ch. 175 & 185 – "Palm Beach Gardens Letter"

- City can join FRS and still be eligible for Ch. 175 & 185 premium tax revenues, as long as some current employees elect to continue participating in city pension plan.
- Premium tax revenues continue until all benefits are paid out or plan is "fully funded."
- Palm Beach Gardens interpretation <u>not affected by 2015 legislation</u>.

2015 Legislation: SB 172 Overview

- "Extra benefits" concept eliminated.
- Complicated default rules for use of premium taxes.
- But cities and unions can mutually agree to use premium tax revenues differently.
- New minimum benefit: 2.75% multiplier.
- Grandfather clauses for cities using "Naples Letter," existing share plans and multiplier below 2.75%.
- Supplemental "Share Plan" required to be created (but not necessarily funded).
- New budget and reporting requirements for pension boards.

SB 172 Default Rules – Annual PTR

- New **"Base Premium Tax Revenues" (2002 amount)** – must be used to fund existing benefits as determined by the city (i.e., to reduce city pension contributions).
- **2002 to 2012 Growth Amount** – must be used to fund benefits in excess of minimum benefits.
- So in many cases the **2012 amount** can be used to reduce city pension contributions (subject to actuarial confirmation).
- **Growth above 2012 amount**: 50/50 split (50% to reduce city contributions and 50% to share plan).

SB 172 Default Rules – Accumulated Excess PTR

- Accumulated premium tax revenues that have not been allocated to fund benefits in excess of the Ch. 175 & 185 minimum benefits -- must be split 50/50:
  - 50% to pay down unfunded liability
  - 50% to fund share plan

SB 172 – "Mutually Agreed Deviation"

- Rules on the use of premium tax revenues can be modified by mutual agreement:
  - "Mutual consent" of city and union, or
  - If no union – approval of a majority of plan members
- Existing benefits below the Ch. 175 & 185 minimums remain in effect until changed by mutual agreement, as long as all other minimums are met.
- Plans with share plans in place as of 12/1/2000, and plans created by special act of the legislature, are deemed to be mutually agreed deviations.

SB 172 – Practical Application

- Winners and Losers – city first needs to determine the result under the default rules.
- Then formulate negotiating strategy.
- Any "mutually agreed deviation" from the default rules is allowed. So collective bargaining impasse/imposition not allowed.
- If a mutual agreement on use of premium taxes or benefits below the Ch. 175 & 185 minimums is now in effect -- the agreement remains in place unless/until changed by mutual agreement.

SB 172 – Share Plans

- All plans must have a defined contribution plan component (“share plan”) in place by 10/1/15
- But share plan does not have to be funded, unless:
  - Mutually agreed or
  - Default rules provide funding
- A “Share Plan” is a defined contribution plan in which benefits are provided through individual member accounts in accordance with IRS rules, and limited to contributions made to members’ accounts and accumulated net earnings on the member’s account.

Special Rules for Existing Benefits Below the Ch. 175 & 185 Minimums

- **Current multiplier less than 2.75%** -- plans that comply with all Ch. 175 & 185 minimum benefits except multiplier is less than 2.75% -- not required to increase the multiplier, but:
  - Can't reduce multiplier.
  - If multiplier is increased to 2.75% or more -- cannot later be reduced.
  - Same rules apply to existing benefit caps.
- **Other Ch. 175 & 185 minimum benefits not met** – any minimums not met as of 10/1/12 may remain in place (but cannot be reduced) until changed by mutual consent.

Special Rule for Plans Created After 3/1/15

- All premium tax revenue split 50/50:
  - 50% to fund defined benefit plan
  - 50% to fund share plan

“Naples Letter” Grandfather Clause

Plans operating under “Naples Letter”:

- Includes cities that relied on “Naples Letter” interpretation for plan changes or made a proposal based on “Naples Letter” between 8/14/12 and 3/5/15.
- Plan provisions based on Naples Letter may remain in place until 10/1/18 or a collective bargaining agreement takes affect containing changes to the Naples Letter provisions, whichever occurs first.

Pension Benefit Reductions

Pension benefits in excess of the Ch. 175 & 185 minimum benefits may be reduced, as long as:

- The plan continues to meet the Ch. 175 & 185 minimum benefits and standards – including the 2.75% multiplier.
- The amount of premium tax revenues previously used to fund the benefits in excess of the Ch. 175 & 185 minimum benefits before the reduction must be split 50/50, with 50% used to reduce city pension contributions and 50% used to fund share plan benefits.
- Share plan benefits in effect as of 9/30/14 are not reduced (share plan funding may not be reduced below the amount distributed to the share plan for the 2012 calendar year).

Questions?

Jim Linn
Lewis, Longman & Walker P.A.
850.222.5702
jlinn@llw-law.com