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ATTORNEYS AT LAW

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October 28, 2022

To: HR 136 Committee
From: Robert D. Klausner, Special Counsel
Re: Draft report

Attached you will find what I believe is a near final draft of the report reflecting the discussions and actions of the Committee.

Due to travel on November 9, 2022 and the uncertainty of airline schedules, it is possible that I may miss the meeting set for 3:00 PM, Central time. I will be available to attend the Board meeting virtually on November 10 and answer any questions concerning the report. To that end, I respectfully request that the Committee be recessed (as opposed to an adjournment) on November 9th in order to permit the Committee to reconvene if necessary on November 10.

As to the report itself, your attention is directed to the addition of an executive summary. It sets forth in three numbered paragraphs the current cost of the COLA; the cost of a one-time, ad hoc COLA to all retirees and eligible survivors in pay status for five (5) years; and the longer term need for a funding deposit account statute specific to the needs of FRS, but modeled after the recently adopted MPERS legislation.

The report then sets forth in greater detail, the significant (\$32.5M) present value of future benefits on the existing COLA legislation set forth in R.S. Section 11:2260 and why it has proven to be unsatisfactory both to retirees and to the Board in its fiduciary obligations to the System and its participants as a whole. That benefit

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would increase the actuarially determined employer contribution by an expected 1.17% of payroll, payable in perpetuity.

The Committee discussed various versions of an ad hoc COLA in the amount of \$2000 ranging from a "poverty level" pool of recipients at a cost of approximately \$650,000 to providing the benefit to 327 participants (mostly survivors) up to a "13th check" for all eligible retired participants at a cost of \$8,742,924. A \$2000 ad hoc payment to all 2,000 plus eligible retirees/survivors in pay status for at least one year has an expected cost of \$5,040,000. Following extended discussion, the Committee voted to recommend a one-time \$2000 ad hoc payment to all eligible retiree and survivors in pay status for five (5) years. This would affect 1,693 participants at a cost of \$3,386,000.

The Committee acknowledged that absent some other funding source, the cost of this payment would be borne by the employers. The report reflects the expected impact on the actuarially determined employer contribution for each of the ad-hoc examples discussed. The expected increase in the actuarially determined employer contribution for the poverty level class was undetermined due to its small size. A 13th check would have an expected impact of 0.31%; a \$2000 payment to all eligible participants in pay status for one year would have an expected impact of 0.18% of payroll; and the one time-payment to all eligible participants in pay status for five years would have an expected impact of 0.12%.

The Committee also voted to recommend the adoption of a funding deposit account statute modeled after the MPERS statute. Further discussion with the actuary led to phrasing that request as the development of a statute specific to the needs of FRS but still modeled after the MPERS statute. The reason for the explanation was that certain practical applications of the MPERS statute to their demographic would not directly translate to the needs of FRS.

The report also discusses the 2034 payoff of the frozen unfunded actuarial liability. This will result in a decline in the actuarially determined employer contribution of 23.4%, thereby creating the opportunity for the implementation of a more permanent cost-of-living adjustment.

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The report concludes and will have attached an appendix consisting of each of the actuarial studies performed; the existing statutes reviewed; draft language for the statutes recommended; and the most recent actuarial valuation of FRS.

The Committee is encouraged to carefully read the report and determine at the November 9 meeting if this can be finalized. It is the recommendation of the FRS staff and your professional advisors that the current draft is appropriate for final action.

