Florida labor unions say proposal will lead to 'disaster' for state worker pensions

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State, county and city workers and retirees are mounting a full-scale lobbying effort to block a Florida Senate proposal they say will bankrupt the pension fund in the Florida Retirement System (FRS).

The bill (SB 84) would prohibit most new hires from joining the traditional state pension plan and instead steer them into a private investment vehicle, like a 401(k) plan, subject to swings in the stock market. It could be heard on the Senate floor as early as Wednesday.

“The people making these decisions fundamentally do not understand how pensions work," AFL-CIO spokesman Rich Templin said. "And the actions they are taking will prove disastrous."

Templin said over the next few days public sector labor union members will call, text, email, and talk in-person to lawmakers about the dangers lurking in the bill.

The fear is by reducing the flow of income into the pension fund, it will become depleted as more than 644,000 current workers begin retiring. There are more than a million FRS members, including 433,000 retirees currently receiving benefits.

Two-thirds of retired and working FRS members are in what's called the defined benefit plan, or traditional pension, that lawmakers want to close off to new hires except for first responders.

The key indicator of a pension plan’s health is what is called the unfunded liability — the amount of extra money needed to pay benefits if all current working members retired at once. It's like if a five-year car loan suddenly came due in full the second year.

The gold standard, according to firms such as Moody’s Investor Services, is 80%. FRS is currently at 82%, or about $36 billion short of being fully funded.

Two separate audits, one by a private firm and the other by the Department of Management Services found that by investment standards the FRS is quite healthy.

Ash Williams manages the fund as head of the State Board of Administration. He told the governor and Florida Cabinet last month the plan’s unfunded liability is “very manageable relative to the size of our economy.”

Pension changes now a priority

But Republicans have eyed changes to the state's $163 billion pension fund since 2010. Numerous runs at switching to a 401(k)-style, or defined contributions, plan have died in the Senate.

This year's proposal has emerged in that chamber, with a House companion yet to be filed.

But it's a priority of Senate President Wilton Simpson, who mentioned the threat of a pension system going bankrupt in his opening speech of the 2021 legislative session.

The Senate bill is sponsored by Sen. Ray Rodrigues, R-Estero, who warns that other states have been turned into "fiscal basket cases" by their pension systems' unfunded liabilities.

"In 2000, Illinois was rated Triple A and was 75% funded, close to where we are right now," Rodrigues said. FRS was last fully funded in 2008 and has even posted surpluses of up to 118%.

The Legislature reduced the mandated employer contribution to help balance budgets in the wake of the Great Recession.

The reduction in income, and overly optimistic return-on-investment projections created the current unfunded liability – requiring annual payments to protect the state's credit rating that amounts to about 0.6% of the state budget.

Politics or policy?

One political scientist questions whether the move to close off the pension plan is based in politics more than sound fiscal policy.

The reason? "They would rather spend that money (to cover unfunded liability) on other things," said Charles Zelden, political science professor at Nova Southeastern University in Davie.

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Moreover, the bill would create a whole new Florida market of public sector employees for investment firms to court as clients to manage their pension investments.

"This well-run pension system is in jeopardy because some Wall Street gamblers want to play with our hard-earned retirement fund," said Maxie Hicks, who retired from the Department of Transportation after 35 years working for the state.

The brewing debate gave one lawmaker pause at a recent committee hearing.

"If this pension were really that unsound, Moody's (credit rating agency) would have an opinion," said Sen. Ed Hooper, R-Clearwater. "And that opinion would take away some of those Triple A (ratings). They have not done that."

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