MCTA
Martin County Taxpayers Association
P. O. Box 741 • Stuart, Florida 34995 • (772) 288-0474
Email: admin@mctaxpayers.org

February 16, 2012

Governor Rick Scott
State of Florida
The Capitol
400 S. Monroe St.
Tallahassee, FL 32399-0001
Email:

Dear Governor Scott,

The purpose of this letter is to advise you that the Board of Directors of the Martin County Taxpayers Association (MCTA), the oldest organization of its kind in the state, is unanimous in its desire to work with you and the Governor in creating effective and meaningful changes in the government of the State of Florida in order to maximize taxpayer's dollars. While we applaud some of the changes made in 2010, we believe you have not gone far enough.

Last year we wrote to you to encourage you to join the Governor in his efforts to reform the Florida Retirement System. While some changes have been made, they did not achieve the goal of dramatically changing the system and reducing the long term cost of the system. We believe that there are still important changes to be made in the FRS that will not only further reduce costs, but bring the state pension plan, and other related programs more in line with the private sector which should be your goal. In keeping with that objective, we recommend that you consider making the following changes in the FRS pension plan.

1. ***Change the plan from a defined benefit plan to a defined contribution plan including the specific consideration of a 401(k) plan as recommended by Governor Scott***.

This type of plan is not only far less costly, but provides the state with the flexibility that private sector employers have in terms of the level of benefits, the funding of the plan and a greater ability to control and manage the plan more effectively. This type of plan would also provide the state with the ability to make contributions that would not only insure the solvency of the plan, but also provide the state with the opportunity to adjust the state's pension contribution from time to time in order to recognize economic conditions. For example, when the pension plan is overfunded, the state can make a decision *not* to make an annual contribution and save hundreds of millions of dollars. Or, the state could even skip a year and make up the contribution in subsequent years. Although this is not advisable, it could be done to balance the budget or in the event of a fiscal emergency. Employees would also benefit by having the opportunity to make voluntary contributions to their own retirement, above and beyond the 3 percent they now contribute and thereby increase the value of their pension. The state could also design the plan to allow employees the flexibility of managing a portion of their investments through their own choices. It is important to note here that over 87 percent of private employers now have *defined contribution plans*. Many states are also either considering, or have already made such a change. Florida should do the same.

We recommend moving away from the current *defined benefit plan* for some additional reasons. Defined benefit plans primarily favor *high wage earners* such as senior management, fire and rescue, law enforcement and others who participate in more generous pay plans than do the majority of other state employees. We believe that in spite of the good financial standing of the FRS, we believe that the current plan is unsustainable, and must be changed in order to reduce long term costs and still provide competitive pensions. One only need look at the generous pensions being collected by some higher level state employees and special risk employees (see below) in order to recognize that some of these pensions are being padded, or "spiked" by those who amass huge amounts of overtime and/or unfunded liabilities in the form of banked sick time, vacations and the like. In essence, a defined contribution plan will level the playing field and at the same time, reduce costs and lead to a greater degree of sustainability of the plan.

According to the **James Madison Institute**, the false assumptions of the return on investment of the pension plan would double over the past 11 years in fact has created a shortfall that would take *"$11 billion by the state to put the FRS on solid financial ground."* This, according to the **National Bureau of Economic Research**, means the state would have to double its current contribution of $5.5 billion which in turn would mean an increase of $765 a year from each household in Florida. (Stuart News, February 3, 2012). To compound the problem, the governor recently stated that "the unfunded liability of the state FRS could reach 60 billion dollars." The NBER also recommends other fixes to the system that would reduce pension costs such as increasing the vesting period and raising the retirement age. We agree with these recommendations.

We realize that the legislature capped the overtime benefits last year, but spiking still exists and far too many public sector workers are retiring at near or over $100,000.00 and are not only bankrupting local government, but forcing layoffs, pay freezes and other unhealthy financial conditions that prevent the majority of government workers from receiving consideration for an annual performance increase. In short, the funding of public sector pension plans is a huge drain on the limited resources of the counties, cities, towns and the state government and requires increases in funding that damages the ability to provide a balance overall compensation plan including awards for meritorious performance.

Accordingly, we recommend not only the reform of the plan as noted above, but also the elimination of *all overtime pay, bonus, future funded benefits, and incentives or pay carried over into future years,* in computing pension benefits. ***Private sector pension are calculated on base***

pay alone. Therefore, the state should reconsider its approach to the philosophy of compensation and move toward more flexible and targeted concepts and plans that exist in the private sector. In short, the governmental view of the utility of pay and benefits is outmoded and should be brought up to date.

2. ***We again recommend that the DROP program be dropped***.

As we stated last year, there is no need for this plan. DROP only fosters double-dipping and other forms of abuse that only cost the state more and more money going forward. There are far too many cases of public sector officials enrolling in DROP, receiving interest on their funds while working, then retiring and accepting another government job, all of which creates a great deal of pressure on the future funding of the pension plan. The practice of "double and triple dipping" does not exist in the private sector mainly due to pension eligibility criteria that is based primarily on age and not years of service. We believe the same criteria should be included in any and all pension plans in the public sector.

It should also be noted that under *defined contribution plans* (an alternative to defined contributions plans) employees may retire at any time they are vested. If they leave before normal retirement age (usually 65) they would take with them all "earned" pension credits that are vested. Accordingly, pensions are *highly portable* and employees may leave at any time without regard to a career long dependency on a "back end loaded" pension plan. In today's private sector workforce, moving from job to job offers upward mobility and thus the portability of pensions appeals to most people to freely pursue their careers without being tied to a single employer. On average, employees today work for an average of 6-8 employers, or more, during a career. While there is value in a stable workforce with little turnover, most organizations encourage some turnover in order to energize the organization and employ new people with new ideas. In short, some turnover of state employees has its merits but more importantly, employees should be free to leave without jeopardizing their pensions. Being locked into a system that is rooted in a security and long term tenure is not a good strategy for the state.

3. ***Drop all Cola's***.

Cost of Living adjustments or COLA's are an insidious way of building in unnecessary costs. It would be nice to adjust health care benefits, base pay, etc. with a COLA, but when you do, history shows that this becomes a 'creeping' form of adding payroll costs and millions of dollars each year that is not tied to productivity – and does not act as an incentive for better performance. One only need examine the various forms of COLA's that exist in government programs at the local, state and federal level to understand how COLA's have put many of these plans in financial jeopardy. Private employers dropped COLA's decades ago. The state should do the same.

4. ***We join some of the other taxpayer associations in Florida in calling for the support of the proposed legislation, HB 365 or SB910 that calls for collective bargaining between cities and the unions to negotiate both basic and additional benefits***.

To quote the **Bradenton Herald**, *"since 1999, Florida cities have spent more than $460 million* *in extra pension benefits. Extra benefits range from receiving 13 month pay checks in one year to early retirement. The current law allows some police and firefighters to retire early and make more than $80,000.00 a year - before turning 50."* Give local communities the ability to negotiate for themselves. They are in a better position to judge what they can afford and what they cannot. Taxpayers should also be able to participate in these decisions as well.

5. ***We also support the recommendation by the Taxpayers Association of Indian River that the Special Risk Class retirement factor cost of 3.00 %, per year of service be reduced to 2.00%.***

For example, in the case of a special risk person starting at age 22 and after 38 years of service at age 60, this person would be eligible for 3 percent per year of service and receive 114 percent of their salary. The law caps pensions at 100 percent but this person could receive 99.9 percent of the last eight average years plus social security at age 62 or 65. In short, this pension is more than excessive. ***It is estimated that a reduction of one percent would save the State of Florida about $66,621,000 for every year in the future, plus an unknown amount when spiking in overtime is eliminated.***

According to a study conducted by the TAIRC, the cost of 253 *special risk staff* in the FRS was $2,882,307 in 2009-2010. If the special risk factor was reduced to 2.00 % the cost savings would be $960,769. The current cost for 348 sheriff's department personnel in 2009-2010 was $3,780,977. A rollback to 2.00 % would save $1,260,249. In Martin County, the FY2012 budgets include the following costs for special risk employees: IAFF - $3.1 million; Law Enforcement - $2.8 million; Corrections Staff - $1.4 million. A one percent reduction would save the county millions of valuable tax dollars each year. There is another reason for reducing the risk factor. The IRCTA study also includes some interesting and informative data to support a reduction for special risk employees.

> In a recent Wall Street Journal article entitled **"*Department of Labor statistics in 2009 listed the rate of fatal occupational injuries per 100,000 full time workers as - aircraft pilots and flight engineers 57.1; fishing workers 200, farmers and ranchers 38. 5, fire fighters 4.4, and police and sheriff patrol officers at 13.1.*"**
> (WSJ, February 13, 2010).

In summation, we do not seek to diminish the danger and risk factor of state and local employees who put their lives at risk for the public good on a daily basis. However, there is a need at all times to put such matters in proper perspective and to balance the need against a *reasonable* measure of protection. As such, we believe the state should consider adjusting the risk factor not just to save money, but to also make sure that the compensation awards/rewards are commensurate with the purposes and goals of the FRS, and to bring special risk employees' pensions more in line with all other state employees.

In addition to reforms in the FLS, we also recommend some additional reforms outlined below, that we believe will also will reduce costs and provide equity among state employees as well as bring them more in line with the private sector.

1. ***Reduce the cost of health insurance provided state employees.***

We agree with the Governor that all health care costs of those included in the state insurance plans be the same. Today there are significant differences in the level of employee contributions for health care coverage. That should be resolved. However, we would take this initiative one step further. The current cost sharing between the state and those employees covered by the plan is a travesty. Single employees can purchase a health care plan for about $50.00 a month and a family of four pays about $180 a month. *Both costs are far, far below what the cost of similar plans in the private sector*. The day of “free benefits” is over and employees should not expect employers (public or private) to assume most of the cost and all of the risk.

2. ***We also believe that the 25,000 managers and elected officials who participate in the state’s health care system should contribute the same as other state employees for their health care plans.***

The current contribution for managers and elected officials is $100.00 a year for single coverage and $360.00 for family coverage. This outrageous perk should be eliminated as soon as possible. The amount paid is an insult to the taxpayers of our state. Even retirees pay substantially more than current employees in the state plan. In short, *we call for an overall review of all health insurance costs that should be the same for all employees, not just some.*

In summary, the costs to the state should be reduced by requiring that all employees in the state’s health care plans pay the same and that premium sharing be substantially increased. We recommend at a minimum a 25–30 percent contribution by employees that is comparable to the private sector. (The average in the private sector is about 30 percent).

3. ***Another cost reduction tactic we recommend is to raise deductibles and co-payments in all benefit plans, as well as make some health care coverage optional but available to the employee at lower, employer negotiated rates.***

It should be noted that in many private sector companies, cost reductions strategies over the past several years have been to make plans such as dental and optical optional with voluntary participation at negotiated group rates. This is being done in order to preserve the primary benefit of health insurance as significant cost increases have become an annual event. We believe that it is only fair that employees should pay more of their share of these costs in order to preserve the health care benefit itself. Employees at all levels should be reminded that employers are not obligated to provide any benefits, but do so in order to attract good quality employees. Except for the instance of collective bargaining, the state is free to make the choice to offer benefits or not. Legislators sometimes forget that a key part of that decision-making process is the ability to make choices based on affordability and that taxpayers should not be considered a ‘default mechanism’ when it comes to the granting of pay and benefits in the State of Florida.

It should also be noted here that one of the more important decisions being made in the private sector of late, is the elimination of retiree health care benefits. A key reason for dropping retirees is the simple fact that health care costs of retirees are considerably more expensive than those of younger workers. Also, the cost of providing a full range of health care coverage for many years beyond normal retirement age is prohibitive. Some employers in the private sector are offering health savings accounts; others are simply allowing retirees to enroll in Medicare as their primary provider. These decisions are also being adopted by some public sector employers such as Martin County government. In 2010, the county canceled retiree health care benefits for all retirees and the state should also consider such an action for state retirees.

Employees are living longer and longer, and retiree health insurance costs may go on for decades and add unplanned millions of dollars in cost due to the increasing life span of more and more people. Also, the costs are even greater for those who retire early. Therefore, as the number of state retirees grows, so will the cost. It is our opinion that the legislature should act now to take action that will prevent, or at least abate the significant cost increases in retiree benefits before they happen. The lack of action now will only result in more unplanned increases in cost.

In summary, we believe that if our recommendations are adopted, *millions and eventually billions would be saved by the state and result in huge reductions in the annual operating budgets*. In the end, the goal here should be not to simply reduce benefit costs but to provide comparable and competitive health care and pension benefits similar to the private sector. Attracting and retaining talent is important. However, programs that encourage retention due to overly generous pay and benefit plans act as a growing obligation and increase costs dramatically. Further, promises made to state and local government employees many years ago are no longer sustainable and should be amended in order to save the benefit and retirement programs themselves. We recommend that the legislature consider making a transition to more employer-friendly programs and include all current employees - and not just new hires. Rhode Island has done this with great success. Florida should do the same.

4. ***The cost of college tuition in Florida (and in America) is a growing problem for students and their parents*.**

The cost of a college education in Florida is a serious problem that the legislature should address. A recent study indicated that the cost of college tuition has increased about 1,000 percent over the last 10 years in the United States. A report in the Palm Beach Post (February 1, 2012) stated the cost of tuition in 5 public universities in Florida has increased by 60 percent over the last four years. The other six colleges have increased tuition costs of about 45 percent. Further, there is a planned tuition increase of about 15 percent.

Currently, the cost of a college education is either at, or has exceeded the ability of many students to pay, even though Florida has lower costs than most states. Even with grants and college financial aid programs and other subsidies, the cost is becoming exorbitant. Add to that the burden of student loans and more and more students are being eliminated from the eligible college pool of Florida's high school graduates. Upon closer examination however, studies show that the increase in tuition is not occurring because of the pay and benefits of the instructional staff, or classroom education, but ***the significant increase in the size of administrative staffs that are almost in a 1:1 ratio with classroom instructors*. Add to that the frills and amenities that colleges are using to attract students and you find where cost increases are occurring in increasing amounts.**

To make the point, a recent PB Post article's research shows that there *are 2600 employees, mostly high-level administrators, who earn more than the governor's salary of $130,273.* A study should be conducted to determine the duties and responsibilities of these 2600 employees and how their performance contributes directly to the classroom. We agree with Governor Scott when he stated that "administrators' pay often is based on private foundation dollars in addition to taxes and tuition, but over the past year, those salaries have become a rallying point at campus protests." (Palm Beach Post, Sunday, February 12, 2012). We join those protests.

Many believe that the cost of a college education lies in the fact that college professors are drawing huge salaries for their work and that many do little teaching, spending most of their time engaged in writing research papers and consulting work. Some do. However, in spite of the belief that unions continue to protect college professors with tenure and some irrational bargaining, in relative terms, pay should be considerably higher than it is. In addition to the growing administrative costs, our other concern is that there should be more attention paid to the level of pay of our college presidents. For example, the total compensation package of John Hitt, the president of the University of Central Florida is reported to be $800,000 in 2009-2010, the fourth highest paid in the country. Other college presidents in Florida are not at that level, but also earn large six figure salaries plus generous perks. Even community college presidents in Florida are joining the "six figure club." This gambit is comparable to CEO's of private sector companies who demand more and more money for their work (often times based on a tenuous connection to actual results) and place more emphasis on their own ego needs than increasing stockholder value – and in this case, a return on investment to the taxpayers of our state.

Granted, the president of a college should be fairly compensated. However, in far too many instances, the position of college president is mostly a titular post and one that is almost totally engaged in fund-raising and building foundation resources. As a result, many are far removed from the day to day decisions made in educating students. We do not wish to single out, or denigrate college presidents, but *we propose that the pay and the generous benefits of these individuals should be reviewed and predicated on results and not on the size of the college budget, the number of students or even the number of degree programs.* In this instance, we believe that the number of students completing their degree in 4 years, the number who eventually graduate, the quality of the degree programs, the quality of the faculty, etc. are better measurements of performance and should be used to determine compensation, not what other college presidents earn.

The state is currently engaged in the process of developing performance assessment systems for public school teachers that could be used to determine pay among other factors. Accordingly, we question why a similar system of evaluation could not be developed to assess the performance in our colleges and universities? Many colleges and universities are placing heavy emphasis on Adjunct Professors, who are not a part of the permanent, tenured instructional staff, who for the most part, do not belong to unions and are generally underpaid and overused in many instances. However, Adjunct Professors contribute significantly to the learning process of students because they are usually active, working professionals who are bringing "real life" experiences to the classroom, something many tenured professors do not have. Why not consider the addition of more qualified Adjunct Professors in order to lessen the impact of the cost of a full, tenured faculty?

In summary, we propose that the Governor and the Legislature carefully and thoroughly review not only the role, responsibility and the pay of the college presidents, but also the staffing structure of each university in terms of the disproportionate ratio of administrative personnel and the cost of these positions, and the disproportionate number who earn over $100,000.00 a year as compared to the teaching staff as noted above. As in the private sector, administrative costs (overhead) should be kept as low as possible in order to reduce the overall cost of doing business. This business principal should be introduced by the state in the overall assessment of the support provided to every state funded college and university. But, in the end, the state should direct that its investment in a college or university be focused on the classroom and not the support activities that may have an indirect or tangential impact on the education of a student. If budgets were allocated in this fashion, we believe the quality of education would increase and the cost of education would be reduced in both the public school systems as well as in higher education.

We also recommend additional investment and support for institutions other than 4 year colleges and universities. For example, ***we recommend that the state place more emphasis on establishing an extensive community college network that focuses on teaching and training in the technical and vocational trades and job skills required by private sector employers*.** In the Carolinas, for example, the states have spent many years developing a community college network that is the best in the nation. It is no mystery that employers such as Kia, Hyundai, BMW, Honda, Volkswagen and Mercedes-Benz to name a few, have chosen to locate in these states. Tax reductions and other non-monetary inducements are certainly good reasons for locating there, but *the fundamental reason why these companies located in these states is the community college system*. The companies listed above are all companies that require competent and technically oriented employees to work in the sophisticated manufacturing plants and research facilities, thus, their attraction to the Carolinas. Florida should attempt to replicate this job creation strategy and invest more in two year colleges that would have great potential for attracting students interested in specialized training and the opportunity for better than average paying jobs. However, community colleges should not be considered "diploma mills" but directed to provide the educational focus on technical and specialized vocational training.

A recent study reported that *the single largest job need in the world is vocational training* in the traditional trades such as plumbers, pipefitters, electricians, millwrights, tool designers, etc. People in these trades are retiring in rapidly growing numbers all over the world, and their replacements are not being accommodated. One reason may be that some students seem reluctant to learn how to work with their hands rather than their minds. This is a misnomer because these trades require both manual and mental acumen and a journeyman (educational) requirement to work. In short, these and other trades should be a part of a mainstream program to guarantee jobs in the future and community colleges are an ideal place for such learning.

Another important reason for investing in community colleges is that not all students should attend a four year college. If given an opportunity for a less expensive alternative to a 4 year college and the prospects of a good paying job after 2 years, many students in Florida we believe would select this option. In turn, if more of this type of education were available, the result would be to take the pressure off of 4 year colleges and reduce the overall cost of advanced education for the state, our students, and our taxpayers. It is unfortunate that in order to pay for a 4 year college education, most students must burden themselves and their parents with loans that must be repaid, and in turn, forced to rely too heavily on colleges and universities to provide more and more financial assistance.

In keeping with our recommendation to invest more heavily in the classroom, we propose that 80 percent of the funds provided by the state to all public colleges and universities be invested in the classroom. In short, unless the legislature and the Governor pay more attention to how our colleges and universities are managed, tuition will continue to rise and fewer students able to attend college and the state will be held hostage to a shrinking pool of qualified people to meet the needs of employers. This is a deadly combination of failure that can and should be avoided at all costs. However, if a larger portion of the state's educational budget were targeted specifically at the classroom, rather than just toward "education" we would create an environment and a culture that fosters learning and not the "toots and whistles" that adorn the system. This approach should also be applied to public school education. This concept was proposed a few years ago by a former state legislator, Adam Hasner. We agreed with Senator Hasner then - and we agree with him now. Unless and until the state requires a central focus on the classroom itself, all other costs will rise and subvert the effort to make classrooms the place where real learning takes place.

Many private sector companies experience the same phenomenon. Hiring too many staff experts and administrators is sometimes required. However, the more 'overhead' you add to the system, the greater the opportunity for valuable educational dollars to be spent on support activities that are not directly related to classroom education. This should be avoided at all cost.

Summary and Conclusion

In closing, it is the position of the MCTA that the Governor and our legislative leaders focus on the issues we have outlined in this letter as a means of creating a more effective and less costly government that can still meet the overall objectives of the citizens, the taxpayers of Florida as well as state employees.

If you have any questions about our proposals, please feel free to contact us at any time. We would be happy to discuss them with you at your convenience.

Sincerely,

Ronald C. Pilenzo, PhD, SPHR
Vice President, MCTA

Richard Geisinger
President, MCTA

cc: Florida State Legislature