

## PUTTING STATE PENSION COSTS IN CONTEXT:

# FLORIDA

PUBLIC PENSION COSTS HAVE BEEN A contentious issue in Florida in recent years. Last year, there was an effort in the state legislature to force new government employees into a 401(k)-style defined-contribution plan instead of the more secure defined-benefit coverage that current employees receive. Proponents of the shift to defined contributions say they will resume their campaign this year.

While many numbers are bandied about, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Florida, that means the Florida Retirement System. Its most recent report indicates total employer normal costs of about \$905.6 million a year.<sup>1</sup>

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

Florida has been willing to spend large amounts to promote private-sector development. In the 2000s the state approved a series of huge giveaways for biotech research, including \$545 million to the Scripps Research Institute and \$233 million to the Burnham Institute for Medical Research.<sup>2</sup> Last year, Hertz got an \$84 million state-local package in connection with the relocation of its headquarters from New Jersey to Lee County.<sup>3</sup>

In addition to these special deals, Florida has programs that give away tens of millions of dollars each year to numerous companies in the name of job creation. The most expensive of these subsidies is the Qualified Target Industry Tax Refund, which in FY2012 cost \$58 million.<sup>4</sup> The Quick Action Closing Fund costs about \$28 million, the Economic Development Transportation Fund \$14 million and the Enterprise Zone program \$10 million.

Florida provides other lucrative tax breaks for business. Preferences relating to the corporate income and emergency excise tax alone cost more than \$1.3 billion a year.<sup>5</sup> Preferences relating to the premium tax paid by insurance companies cost \$783 million. An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs about \$60 million a year.<sup>6</sup> In 2011 the legislature enacted a law at the urging of the giant restaurant company Darden (owner of Red Lobster, Olive Garden and other chains) that will allow it to apply unused corporate income tax credits against its sales tax liabilities, though only after 20 years.<sup>7</sup>

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Another way Florida loses corporate income tax revenue is through its failure to adopt a reform known as combined reporting, which is designed to make it more difficult for large companies to export a substantial portion of their Florida profits to passive investment companies in Delaware or Nevada, thereby shielding that income from taxation. Florida's tax expenditure report estimates that the adoption of combined reporting would increase annual revenue by about \$486 million.<sup>8</sup>

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013, the U.S. PIRG

Education Fund published a report in which it calculated the impact on this practice on each state. For Florida the estimated cost was \$979 million.<sup>9</sup>

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than \$3.8 billion per year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Florida public employees belonging to the main state administered public pension systems is only 24 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

Qualified Target Industry Tax Refund	\$58,063,500
Quick Action Closing Fund	\$28,413,000
Economic Development Transportation Fund	\$14,830,795
Enterprise Zone Program	\$10,934,474
Innovation Incentive Fund	\$6,600,000
Brownfield Redevelopment Bonus	\$5,982,500
Capital Investment Tax Credit	\$5,578,022
Corporate Income and Emergency Excise Tax preferences	\$1,371,600,000
Insurance premium tax preferences	\$783,400,000
dealer collection allowance (vendor discount)	\$60,000,000
failure to adopt combined reporting	\$486,500,000
Revenue loss from corporate use of offshore tax havens	\$979,000,000
<b>TOTAL</b>	<b>\$3,810,902,291</b>

### NOTES:

- 1 Derived by multiplying the payroll figure on page 22 of the Annual Report of the Florida Retirement System (July 1, 2011-June 30, 2012) at [http://www.dms.myflorida.com/human\\_resource\\_support/retirement/publications/annual\\_reports](http://www.dms.myflorida.com/human_resource_support/retirement/publications/annual_reports) by the employer normal cost rate at [http://www.myfrs.com/imageserver/pdf/2013\\_Legislation.pdf](http://www.myfrs.com/imageserver/pdf/2013_Legislation.pdf)
- 2 Scripps: <http://www.goodjobsfirst.org/subsidy-tracker/fl-scripps-research-institute>. Burnham: <http://www.goodjobsfirst.org/subsidy-tracker/fl-burnham-institute-medical-research-0>
- 3 <http://www.goodjobsfirst.org/subsidy-tracker/fl-hertz>
- 4 The figures in this paragraph come from [http://www.eflorida.com/IntelligenceCenter/download/ER/BRR\\_Incentives\\_Report.pdf](http://www.eflorida.com/IntelligenceCenter/download/ER/BRR_Incentives_Report.pdf), with the exception of the Enterprise Zone amount, which comes from <http://www.eflorida.com/IntelligenceCenter/download/EZ/2012%20Florida%20Enterprise%20Zone%20Annual%20Report.pdf>

- 5 The figures in this paragraph are from: 2013 Florida Tax Handbook, p.34; online at <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2013.pdf>
- 6 <http://www.frf.org/index.php/government-affairs/legislative-issues/taxes/retention-of-sales-tax-collection-allowance>
- 7 [http://articles.orlandosentinel.com/2011-04-28/business/os-darden-tax-break-20110427\\_1\\_tax-credits-darden-spokesman-rich-jeffers-darden-restaurants](http://articles.orlandosentinel.com/2011-04-28/business/os-darden-tax-break-20110427_1_tax-credits-darden-spokesman-rich-jeffers-darden-restaurants)
- 8 <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2013.pdf>
- 9 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); <http://uspig.org/reports/usp/hidden-cost-offshore-tax-havens>