

VIRGINIA RETIREMENT SYSTEM 2002 Fiscal Impact Statement

1. Bill Number SB351

House of Origin	<input checked="" type="checkbox"/> Introduced	<input checked="" type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron Reynolds

3. Committee Finance

4. Title **Purchase of** Creditable Service Under VRS

5. Summary/Purpose:

This bill authorizes any locality (i) in which the civilian labor force equals less than 90 percent of the civilian labor force in the locality in 1993, as determined by the Virginia Employment Commission, and (ii) that is participating directly in the Virginia Retirement System, to purchase up to five years of creditable service for any of its employees, concurrently with the termination of the employee's employment by the locality. Creditable service may be purchased only for employees whose position is terminated in the implementation of a plan to reduce the locality's workforce. The plan must be filed with the Virginia Employment Commission. For each year of service purchased, the locality shall pay the sum of the member contribution charged pursuant to § 51.1-144 plus the employer contribution charged pursuant to § 51.1-145, both as in effect at the time of purchase. The locality may not rehire the employee until a period of at least two years has expired subsequent to the employee's termination.

6. No Fiscal Impact for the Commonwealth.

7. Budget amendment necessary: No

8. Fiscal implications: This bill allows a purchase of service by a locality for certain terminating employees. The bill states that the cost to the locality for purchasing services shall be the sum of the 5% member contribution and the locality's employer contribution rate. Depending on the locality, the cost could range from 5% to 30% of annual salary of the employee for each year purchased. The true actuarial cost of a year of service, on average, is 15%. The minimum actuarial cost is 5% and the maximum cost is determined by the member's age and service, i.e. the proximity in time to when the member may retire. In addition, the infusion of service credits could create a change in the retirement patterns of employees in the locality. Given these implications, the purchase cost as stated in the bill would probably not cover the true actuarial cost of the service, thereby creating an unfunded liability that would cause future contribution rates to rise in a locality that is affected by this bill because of fiscal stress caused by economic and demographic factors. The cost of the unfunded liability is passed on to future taxpayers and creates an intergenerational inequity.

9. Specific agency or political subdivisions affected: VRS and political subdivisions meeting the eligibility criteria stated in the bill.

10. Technical amendment necessary: No

11. Other comments: This bill allows certain localities to purchase what IRS calls "nonqualified service." Such service is service not rendered under the retirement plan by the member. Allowing only certain employers to purchase nonqualified service for their employees may have implications related to IRS qualification. The substitute places this provision in an enactment clause and provides an effective date after the VRS obtains a favorable ruling from the IRS.

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